Development Report 2011

Prospects for South Africa's future

DBSA

Development Bank
of Southern Africa

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of Southern Africa

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Overview

Foreword

Since 1994, South Africa has made tremendous progress in achieving a number of developmental objectives, including building democratic institutions, maintaining macroeconomic stability, decreasing non-income poverty and inequality through increasing access to basic services and, more recently, improving trends in levels of crime and health. At the same time, however, many challenges remain. For example, the nature and form of economic growth and job creation have not been sufficient to address high levels of poverty and inequality, and the effectiveness of the South African state is still hampered by significant capacity gaps – even after more than a decade of reform. In addition, contestation about the nature of the transition has increased amid growing community frustration and protest, while ongoing efforts to unite South Africans behind a common national agenda have yet to bear fruit.

These internal trends have also been affected by a world in transition. Growing concerns about climate change have brought issues of sustainability to the fore, while the ongoing global financial crisis has heralded shifts in global economic dominance and the future geopolitical landscape. These events, amid the dawn of the 'Arab Spring', growing social unrest in Europe and protests in the United States, have led to calls for a fundamental redesign of the values and systems that drive our social coexistence.

South Africa's ability to realise an inclusive and sustainable development path will be influenced by these internal and external trends, as well as the driving forces behind them. While many of our developmental objectives are only likely to be realised in the long term, their achievement will depend on the choices that we make today. Improving the quality of our choices will require us to understand the nature of South Africa's current trajectory and its implications for the future. Changing this trajectory will require an understanding of the key driving forces that shape it, which in turn will help us identify the right levers of change, i.e. the interventions required to bring about the changes we desire.

Hence, this *Development Report* seeks to focus on the core, critical interventions that will be needed if South Africa's development objectives are to be met. It draws on the Development Bank of Southern Africa's own experience and that of our partners to put forward practical and workable solutions that we believe will have a significant positive impact on South Africa's future trajectory.

In so doing, this report seeks to provide a useful set of perspectives to inform and complement strategic planning processes undertaken by government leaders and policymakers, other development finance institutions and donor agencies, as well as the private sector. It is also hoped that the *Development Report* will be useful to, and enjoyed by, researchers and academic institutions with an interest in development planning, as well as members of the general public with an interest in shaping South Africa's future. In this way, we hope that this report will serve as a practical and thoughtful contribution to ongoing debates about South Africa's growth and development path.

Andrew Boraine

Chairperson
Development Planning Committee

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South Africa's ability to realise an inclusive and sustainable development path in the long term will be determined by the choices that we make today.

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Editor's note

A great many people have contributed to the development of this report, from within the Development Bank of Southern Africa as well as external experts. Key contributors have been:

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Ravi Naidoo, Group Executive, Development Planning Division
Mxolisi Notshulwana, Research Unit Coordinator and Project Manager for the *2011 Development Report*.

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South African Millennium Node

Michael O'Donovan

Peer reviews

A number of other specialists and experts have generously given of their time to review this work and provide very useful and thought-provoking comments, namely Prof. Maxi Schoeman, Chris Botha, Dr Phillip Spath, Dr Anthony Turton, Smangele Mgquba and Adj. Prof. Mike Muller.

Publications team

This report could not have been produced without the hard work of the publications team, who oversaw the editing, typesetting and printing process. The members of this team are Marié Kirsten, Lyn Sumners and Rose Ngwenya.

I would like to take this opportunity to thank all the people cited above for their sterling insights and contributions to this *Development Report*.

Sinazo Sibisi

Divisional Executive: Planning
Editor: *2011 Development Report*

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Abbreviations

AIDS	acquired immune deficiency syndrome
ANC	African National Congress
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BEE	black economic empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BUSA	Business Unity South Africa
CO_2e	carbon dioxide equivalent
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
dbsaMDM	DBSA Municipal Differentiation Model
EAC	East African Community
EIA	environmental impact assessment
EPWP	Expanded Public Works Programme
FET	Further Education and Training
GDP	gross domestic product
HIV	human immunodeficiency virus
ICT	information and communications technology
IDP	Integrated Development Plan
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IRP	Integrated Resource Plan
JIPSA	Joint Initiative on Priority Skills Acquisition
MDG	Millennium Development Goal
MEC	Member of the Executive Council
NEDLAC	National Economic Development and Labour Council
NEET	not in education, employment or training
NEPAD	New Partnership for Africa's Development
NERSA	National Energy Regulator of South Africa
OECD	Organisation for Economic Co-operation and Development
REFIT	Renewable Energy Feed-In Tariff
SADC	Southern African Development Community
SARS	South African Revenue Service
SME	small and medium enterprise
SMME	small, medium and microenterprise
SPV	Special Purpose Vehicle
UNRISD	United Nations Research Institute for Social Development
WMA	Water Management Area

Photo: Sasol, MediaClubSouthAfrica.com

A better life for all is within our grasp,
but to achieve it we must act now,
act together and act differently.

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Introduction

The Medium-Term Strategic Framework developed by the South African government identifies a number of priorities for the period 2009–2014, namely:

1. Improve the quality of basic education.
2. Live long and healthy lives.
3. Ensure that South Africans are and feel safe.
4. Ensure decent employment for people by facilitating and contributing to inclusive economic growth.
5. Develop skills and capabilities to support an inclusive growth path.
6. Promote rural development with a focus on former homeland areas.
7. Create sustainable human settlements and improve the quality of household life.
8. Create stable and well-serviced communities with well-planned and managed local governments.
9. Protect and enhance our environmental assets and natural resources.
10. Create a better Africa and a better world – make our contribution to global relations.
11. Promote a strong, fair and inclusive citizenship.
12. Create public sector capacity that is efficient, effective and worthy of a developmental state.

However, many of these priorities will only be achieved in the long term and, as the National Planning Commission points out, 'to date, the lack of a coherent long term plan has weakened [the South African government's] ability to provide clear and consistent policies, to mobilise all of society in the pursuit of our developmental objectives, to prioritise resource allocations and to drive the implementation of government's objectives and priorities'.[1]

Thus, the purpose of this *Development Report* is to provide an independent perspective on South Africa's potential long-term development path from the point of view of the Development Bank of Southern Africa (DBSA). It is hoped that this report will contribute to the work of key national departments, the National Planning Commission and other critical role players by:

- Providing evidence-based projections of South Africa's current path and its strategic implications in terms of meeting the government's stated objectives, including best and worst case scenarios;
- Highlighting the priority areas that need to be addressed if a sustainable and inclusive development path is to be attained; and
- Suggesting possible areas of focus and associated programmes to set South Africa on a new trajectory.

In so doing, this report aims to identify and focus on the **most important** constraints to South Africa's development and what needs to be done to address those constraints.

Hence, the report is structured in five parts:

- Part One outlines key challenges and trends in South Africa's current growth path and highlights the constraints that must be overcome to set the country on a new, inclusive and sustainable growth trajectory.
- Part Two highlights challenges and opportunities with regard to energy and water security, looking at the measures that need to be taken to improve performance in future.
- Part Three assesses the factors that have prevented progress in improving the performance of the education system – from basic to further and higher education – and what can be done to turn the situation around. It also looks at challenges in the health sector and the main interventions required to address them.
- Part Four begins with an outline of spatial projections up to 2025 and the implications for economic, environmental and spatial development in South Africa. This is followed by a discussion on how to change South Africa's spatial trajectory, including urban and rural development, as well as the role of housing and connective infrastructure.

Photo: Chris Kirchhoff, MediaClubSouthAfrica.com

- **Part Five** outlines the institutional factors that have influenced South Africa's current development in terms of the state, as well as the relationship between the state and civil society. It then discusses ways to increase the performance and impact of key institutions in the state and civil society in the short term, while laying the foundation for longer-term institutional change.

Changing South Africa's current trajectory will require decisive leadership and focus. It will also require developing innovative solutions to overcome institutional weaknesses and creating effective partnerships to mobilise the talents of all South Africans. As a development finance institution, the DBSA has a critical part to play in supporting such initiatives, not just from a financial perspective but also in terms of all our roles as an advisor, integrator, convenor and implementer. We are already involved with many partners in national, provincial and local government, as well as other development finance institutions, to provide collective solutions to common problems. We hope this *Development Report* serves as a further contribution towards helping South Africa fulfil its potential, today and tomorrow.

Paul Baloyi

Chief Executive Officer
Development Bank of Southern Africa

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Ultimately, South Africa's success will depend on our ability to execute the plans we make.

1. South Africa's current trajectory: Key challenges and trends

South Africa's long-run growth path has been volatile, with growth accelerations in 1960 to 1964, 1971 to 1974, 1977 to 1980 and 2004 to 2009. None of these accelerations were sustained beyond five years and, with the exception of 7.9% growth in the gross domestic product (GDP) in 1964, growth was not sufficient for a fundamental transformation of the economy. In 2009, the economy contracted because of the global economic recession. Whether or not the growth path would have been sustained in the absence of the global economic crisis is unclear. South Africa's demand-driven growth path had already been seen as unsustainable before the impact of the global recession was felt. In essence, growth was consumption-driven: consumption exceeded production and investment was higher than savings. South Africans consumed more than they produced and filled the gap through imports and portfolio inflows on the capital account. Thus, since the 1990s, South Africa's saving rate has been lower than that of other emerging economies (see Figure 1).

GDP growth to date has been volatile and potentially unsustainable.

A recent *South Africa economic update*, compiled by the World Bank,[3] argues that the primary driver behind low savings is a low household savings rate, driven by the country's exceptionally high unemployment rate. In addition, South Africa's domestic fixed investment rate has also not been on par with that of other emerging economies (see Figure 2). Public investment fell in the 1990s and rose only marginally in the 2000s. Private investment, which has largely tracked public investment, has been surprisingly low, despite real returns to capital rising sharply since the early 1990s. Some of the primary reasons put forward for low private

Figure 1: Savings rate: South Africa and other emerging economies, 1980, 1990s and 2000s[2]

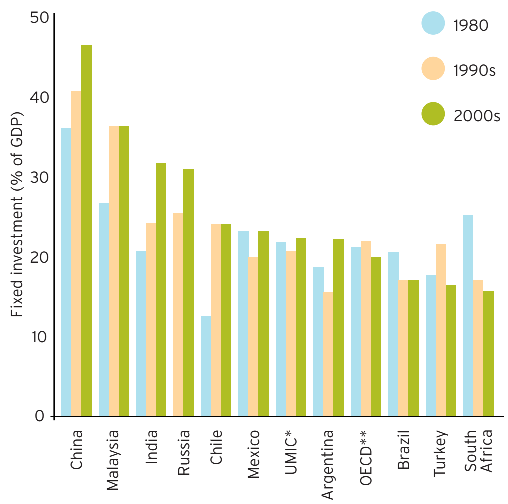
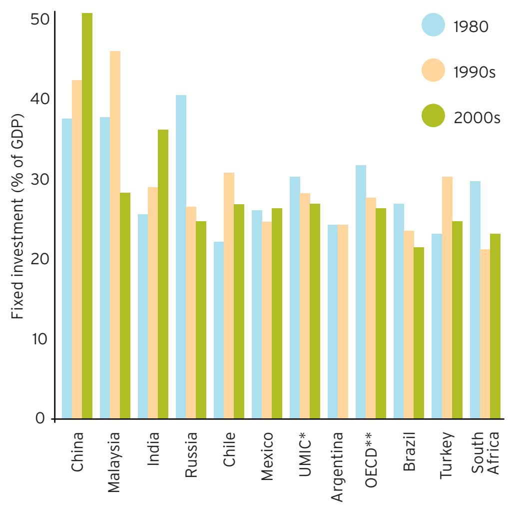


Figure 2: Trends in the domestic fixed investment rate, 1980, 1990s and 2000s[4]



*Upper middle-income countries
**Organisation for Economic Co-operation and Development

investment include barriers to entry in a weak competitive environment, the lack of requisite skills, a contentious labour relations climate and low savings rates.

Economic output has shifted from the primary to the tertiary sector as mining stagnates.

With regard to sectoral trends, since 1994, the contribution of the primary sector (mining and agriculture) to aggregate GDP has declined substantially, while that of the secondary sector (manufacturing; electricity, gas and water; and construction) declined marginally. The contribution of the tertiary sector (trade, catering and accommodation; transport, storage and communication; finance, insurance, real estate and business services; and community, social and personal services) grew from 49% in 1994 to 57% in 2009.

These growth trends illustrate that between 1994 and 2009, primary output grew very slowly (averaging 0.8% a year), while tertiary output showed a significant increase (averaging 8.5% a year and more than doubling during this period). The secondary sector grew at a relatively solid pace (averaging 5.3% a year), but contracted in 2009 because of the global recession.

The stagnation and then contraction of the mining sector explain much of the relative contraction of the primary sector's contribution to GDP. A further disaggregation of the mining sector reveals a secular decline in gold mining between 1996 and 2009, alongside very slow growth in coal mining. Growth in 'other mining' (which includes platinum, iron ore and non-precious stones) was robust until 2007, but contracted in 2008 and 2009.

In a context of high international demand for minerals, it is difficult to explain the poor performance of the mining sector. Some have argued that it is because mining exports depend on state-owned transport infrastructure (primarily rail and ports), which acts as a bottleneck to growth owing to a lack of investment by Transnet. Investment in South Africa's logistics system has long been inadequate, and the national road and rail grid is still distorted by old bantustan boundaries. The major corridors for the movement of goods are Gauteng–Durban and Gauteng–Cape Town, with almost 40% of all corridor movement. This results in higher transportation costs between Gauteng and the coastal cities, while the inefficient distribution of goods movement between road and rail increases costs even further. The inefficiency of the logistics system affects not only the mining sector but also all the other sectors in the economy. It also affects South Africa's ability to maximise productivity through spatial agglomeration and specialisation. The Minister of Transport recently held an investors conference to try to address critical gaps in the sector. The Development Bank of Southern Africa (DBSA) is also developing an Integrated Transport Investment Plan, in consultation with the main stakeholders in the sector.

Another suggested reason is that the 'introduction of a new mining law (associated with a redistribution of ownership and control rights between the state and the industry) and the BEE [black economic empowerment] requirements have contributed to a decline in investment and output at a time when the industry has been facing very high international prices and when investment has been rising elsewhere.'[5] The mining sector has also been affected by institutional challenges within the state, such as the poor management of mining licences. Thus, in 2010, stakeholders in the mining industry came together to develop a *Strategy for the Sustainable Growth and Meaningful Transformation of South Africa's Mining Industry*.[6] The Declaration relating to the Strategy cites infrastructure inadequacies, the paucity of requisite skills, the regulatory framework, low levels of exploration, as well as low investment in research and development as some of the key constraints affecting the industry. In the Declaration, the parties commit to working together to address these constraints, as well as issues relating to transformation, beneficiation and sustainable development. Given that the mining sector has been identified as one of the priority labour-absorbing sectors in the New Growth Path, rectifying the underlying causes of contraction in this sector is a critical imperative.

In addition, growth trends in the agricultural sector have been volatile, with an average annual growth rate of 3.6% during 1994 to 2009. The agricultural sector is particularly open to global markets, and there are few subsidies to the farming sector. International trade (imports and exports) constitutes a large proportion of total production, and trade has been substantially liberalised. Farmers' incomes are, therefore, highly dependent on movements in the exchange rate and on global economic conditions. Combined with factors such as decreasing soil quality and changing weather patterns, this has contributed to a decrease in agricultural production, a higher volume of food imports and an increase in the use of genetically modified crops. There has also been an increase in scientific and technology-driven farming practice, larger average farm sizes and a decrease in the number of commercial farmers. This, in turn, has affected the number of successful new entrants into the agricultural sector. Again, this is cause for concern, considering that the New Growth Path sees the agricultural sector as a major contributor to job creation and rural development.

In many developing countries, such as India, China and Tanzania, the small-farming sector is a dynamic part of food production and rural local economies. Subsistence agriculture provides a safety net when employment opportunities fail. In South Africa, however, this role has been severely constrained by the legacy of apartheid, which drove the destruction of the small-farming sector and the 'de-agrarianisation' of former bantustan areas, while dispossessing the African majority of their land and land rights. While the post-1994 period has seen a strong emphasis on land and agrarian reform, the impact of these redress measures has been limited. Land reform has moved at a very slow pace – only 5% of commercial farmland has been redistributed over the past 15 years, against a target of 30% – while the level of support for the new, small, cash-strapped farmers who were settled on this land has also been extremely limited. Hence, the failure rate of new land reform projects is estimated as being as high as 50%. Moreover, the nature of the land rights process has led to a number of delays and disputes.

The expectation that agrarian reforms would bring a transformation of agriculture, with greater variability in farm sizes and, thus, a reduction in the stark differences between commercial and 'traditional' agriculture has also, by and large, not yet been realised. There seems to have been both an absolute and a relative loss of access to land, particularly for households with very small land parcels. It can, therefore, be concluded that smallholder agriculture has declined over the past ten years. Binding constraints faced by these farmers include agronomic factors, such as disease and adverse climatic conditions, coupled with a lack of adequate information on how to manage these events; institutional factors, such as insecure land tenure and access to production credits to purchase inputs; as well as declining agricultural support services, such as research and the provision of extension services. Hence, for most of the 1.3 million rural households with access to land for farming purposes, farming production makes only a limited contribution to their livelihood. Rather, their most important sources of livelihood are social grants and remittances, while farming often serves as a coping strategy when other livelihood sources fall away. Thus, the significance of agricultural income as an asset for poor rural households is also declining.

These developments, combined with growing concerns about food security, have led to calls for a significant review of current policies on land reform and restitution; a review of approaches to agrarian reform, including the role of commercial agriculture, value chains and strategies to target smallholders; and better integration between land reform and use, agrarian reform, commercial agriculture and economic development. The recently published Green Paper on Land Reform seeks to address some of these elements, such as a single land tenure framework and a common land management system through a proposed Land Management Commission. However, the extent to which the Green Paper effectively addresses other critical elements, such as building strong linkages between land reform and economic development, and improving post-settlement support and extension services, is open to question. In this context, the splitting of rural development/land reform and agriculture functions between two ministries is cause for concern.

In addition, both the mining and agricultural sectors have been affected by an increase in political contestation about nationalisation and land restitution, which has increased policy uncertainty in these areas. Over and above the impact on investor confidence, should this policy uncertainty persist, it is likely to have a significant impact on any real attempts to increase the competitiveness and job absorption potential of these sectors in the short to medium term.

Food security challenges in South Africa

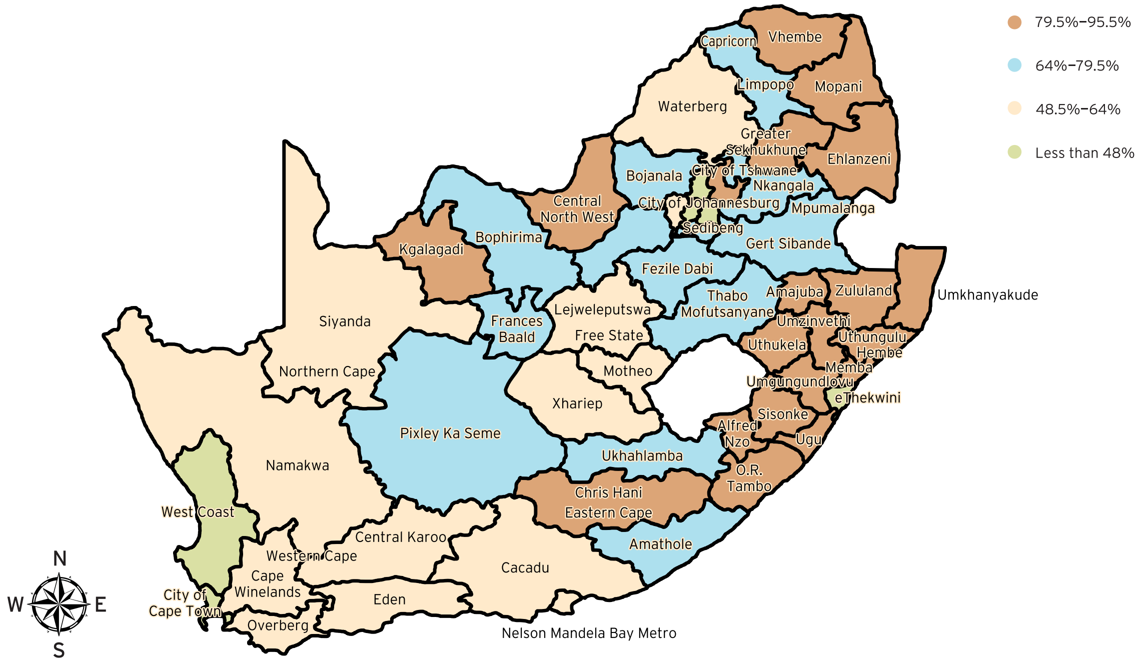
The United Nations Food and Agriculture Organization defines food security as being when 'all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life'.[7] The majority of South African households are food insecure. Estimates range from 50%–80%, depending on the criteria and survey data used, such as undernutrition or undernourishment, and income and expenditure, general household or national food consumption surveys.[8] The drivers of household food insecurity include food prices; the amount of household income available for purchasing food, mediated by household size; the effectiveness of agricultural production as a source of food and/or income, mediated by access to land, soil quality, access to credit and markets; as well as access to basic services, which affects health and nutritional requirements, food safety and the household income available for food instead of other livelihood costs, such as transport. DBSA estimates of household food insecurity in South Africa at a district level are depicted in Figure 3.

The Department of Agriculture has developed an Integrated Food Security Strategy, which identifies five priority areas of intervention: increasing household food production, increasing food trade and distribution, increasing income opportunities, improving nutritional status, and enhancing institutional support networks.[9] However, implementation of this Strategy requires the support of other important departments and spheres and, in the context of weaknesses in government coordination and institutional capacity, driving such an integrated approach remains a challenge. Moreover, while the private sector can make a significant contribution to food security by helping to educate consumers through proper food labelling, maximising efficiencies to decrease food prices, supporting smallholder farmers to improve productivity and market access, as well as integrating small and medium enterprises (SMEs) into supplier and distribution value chains, progress to date has been limited. Furthermore, the monopoly structure of the economy means that almost every single staple in South Africa is already produced by large manufacturers that can produce it at better quality and lower cost than the average smallholder enterprise or cooperative. This then fundamentally undermines the development of local markets, where local small-scale producers sell to their local community. This situation is exacerbated when local spaza shops are displaced by established retailer franchises, since the profits made from these enterprises are then drawn out of the community rather than

(Food security challenges in South Africa continued)

circulated within it. In this context, South Africa needs to develop a food economy that not only sells to the poor but also works for the poor through developing local, community-level food systems that allow for local markets and local beneficiation.

Figure 3: Food insecurity by district municipality[10]



With regard to the manufacturing sector, the updated Industrial Policy Action Plan (IPAP 2) identified a number of value-added sectors with high employment and growth multipliers (see Figure 4).

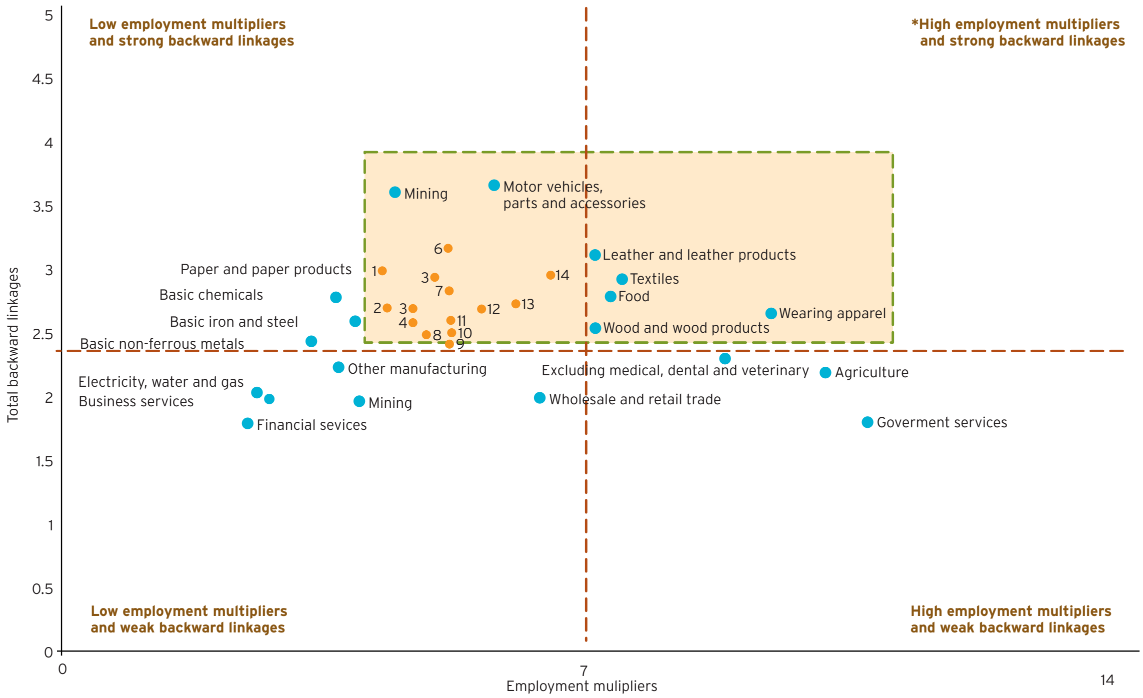
However, since 2008, this sector has been performing significantly worse than other sectors in the South African economy (see Figure 5).

According to Business Unity South Africa (BUSA), setting South Africa on an industrial growth path will require significant structural change:

> The South African economy is service-driven as in the case of Brazil, Chile and Poland and would require major structural overhaul in order to follow a manufacturing growth path as in the case of Malaysia. This would be very difficult given current low labour productivity and the low levels of socio economic development which underpin the quality of the labour force. It would also require unprecedented focus on seizing opportunities in the global manufacturing value chain in which countries in the Far East have massive competitive advantages.[11]

Concerns have also been raised about the overall efficiency of sectoral planning processes. For example, BUSA comments that '[m]any Customised Sector Plans (CSPs) have been drawn up in consultation with industry. However as is the case with IPAP 2, these initiatives tend to involve a wish list of sectors and industries, without the capacity or the resources to

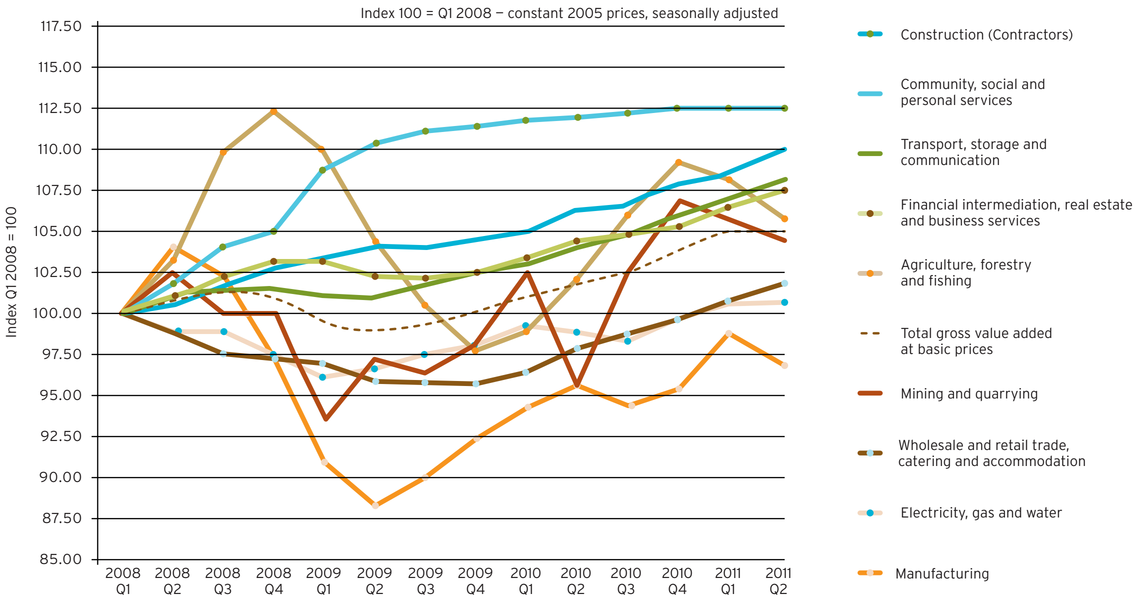
Figure 4: IPAP 2 sectoral analysis[12]



***High employment multipliers and strong backward linkages**

1. Other chemicals and man-made fibres
2. Furniture
3. Plastic products
4. Television, radio and communications equipment
5. Electrical machinery and apparatus
6. Paper and paper products
7. Rubber products
8. Non-metallic minerals
9. Beverages
10. Glass and glass products
11. Professional and scientific equipment
12. Metal products excluding machinery
13. Machinery and equipment
14. Footwear

Figure 5: South African sectoral activity, 2008–2011[13]



make a meaningful impact'.[14] This points to weaknesses in the government's and the private sector's ability to develop meaningful sector strategies that are both practical and achievable.

In addition, the structural transformation from the non-tradable to the tradable sector is hampered by disincentives to the search for products that can profitably be produced in the tradable sector, because it is difficult to recoup the investment in research and development. The path dependency of a resource-based economy such as South Africa makes structural transformation difficult without forceful state intervention. While there has been an increase in research and development expenditure in recent years, it is still below international norms, and there are still too few 'triple helix' partnerships between business, academia and the government.

While technology transfer through foreign direct investment and developmental trade partnerships can help South Africa to leapfrog the skills and technological constraints in the manufacturing sector, relatively high input costs could impede progress. These constraints will need to be addressed if South Africa is to succeed in reindustrialising, with the long-term intent of moving towards a knowledge-based economy.

The growth trends discussed above suggest a clear delineation between the growth drivers of the apartheid era and the democratic era. While growth was driven by the resource base or minerals-energy complex during the apartheid era, the democratic period has seen indications of a potential structural transformation, with the relative contributions of mining, agriculture and manufacturing declining, alongside a significant expansion of the services sector.

An inefficient logistics system and challenges in energy and water security act as constraints to growth.

Another important factor that affects economic growth in South Africa is the security of the supply of energy and water. With regard to electricity, one of the challenges relating to capacity additions is timing. A major consideration in this respect is the time difference between demand growth and the addition of new capacity, resulting in periods of overcapacity (where capacity additions outpace demand growth) or unreliable supply or load shedding (where demand growth outpaces capacity additions). One of the measures used to indicate a system's vulnerability is the reserve margin, which expresses the 'spare' generation capacity as a percentage of the system peak demand. Since 1994, South Africa's reserve margin has dropped significantly from a high of 45% to a low of 5.9% in 2004 and 2005. Although it improved to around 12% in 2009, it is generally accepted that the economic downturn was the main reason for this improvement, as it dampened demand. In this context, Eskom has embarked on an extensive build programme to enhance its generation and transmission capacity. However, challenges in accessing finance seem set to delay progress. In addition, the efficiency of the conversion of coal to electricity has been of particular concern in recent years. Overall thermal efficiency has dropped steadily from a high of 34.5 in 1996 to 33.1 in 2010. Hence, over time, Eskom has been increasing the amount of coal burned per unit of electricity output or, conversely, producing less electricity for the same amount of coal burned.

With respect to electricity distribution, the two main concerns relate to the investment backlog in that sector, as well as the extent of the so-called non-technical losses (i.e. electricity consumption additional to normal technical losses), including the widespread theft of electricity. According to the Department of Public Enterprises, the investment backlog was estimated at R32 billion by end-2010, and losses resulting from equipment and electricity theft were estimated at R4.4 billion a year. There were claims in municipal circles that uncertainty about the status and direction of the restructuring of the electricity distribution industry contributed to this backlog. However, the extent of the investment backlog suggests that the failure, particularly by municipalities, to maintain distribution infrastructure is endemic and prevailed long before the distribution industry process was mooted. The November 2010 announcement that the government would discontinue the restructuring of the distribution industry owing to concerns about municipal finances means that this issue will remain unresolved, resulting in a further deterioration of the security of supply at the customer interface. All the efforts to strengthen generation and transmission capacity will be compromised should this weak link in the electricity supply chain be allowed to remain.

With regard to water security, South Africa is characterised by water scarcity and extreme variability of rainfall distribution. To compound this situation, the country is located in a semi-arid region and its climate varies from desert to semi-desert. The country's average rainfall of about 450 mm a year is well below the world average of about 860 mm a year. The predominantly hard rock nature of the country's geology means that only about 20% of groundwater is collected in major aquifer systems that allow it to be utilised on a large scale. To facilitate the management of South Africa's water resources, the country has been divided into 19 Water Management Areas (WMAs). Table 1 below summarises the water requirements in all 19 WMAs, as reported in the 2004 National Water Resource Strategy, and the attendant reconciliation of water requirements and availability scenarios.

Table 1 shows shortages that may occur in 2025 should resource development not be implemented. Nine WMAs were reported to be substantially in deficit, since more water was being used than was reliably available from both surface and groundwater sources. This was possible only because a number of the WMAs, notably the Crocodile West, received water transfers from those with a surplus.

The development of South Africa's economy around mineral resources that are far from the main water resources poses a further problem: the dominant pattern of settlement and economic activities is largely out of line with water availability (see Figure 6).

With economic expansion, the risk of polluting existing water resources has also increased, especially owing to increased domestic and industry effluents that do not comply with effluent standards. Hence, the management of water quality in water resources and distribution systems remains a huge challenge. Recent cases of acidic water from disused mines (commonly known as acid mine drainage) have highlighted the pollution problems. In order to address these challenges, the Department of Water Affairs is developing a National Water Investment Framework in partnership with the DBSA, linked to the review and updating of the National Water Resources Strategy. In addition, the Department has embarked on an institutional and legislative review process to increase the efficacy of water services delivery.

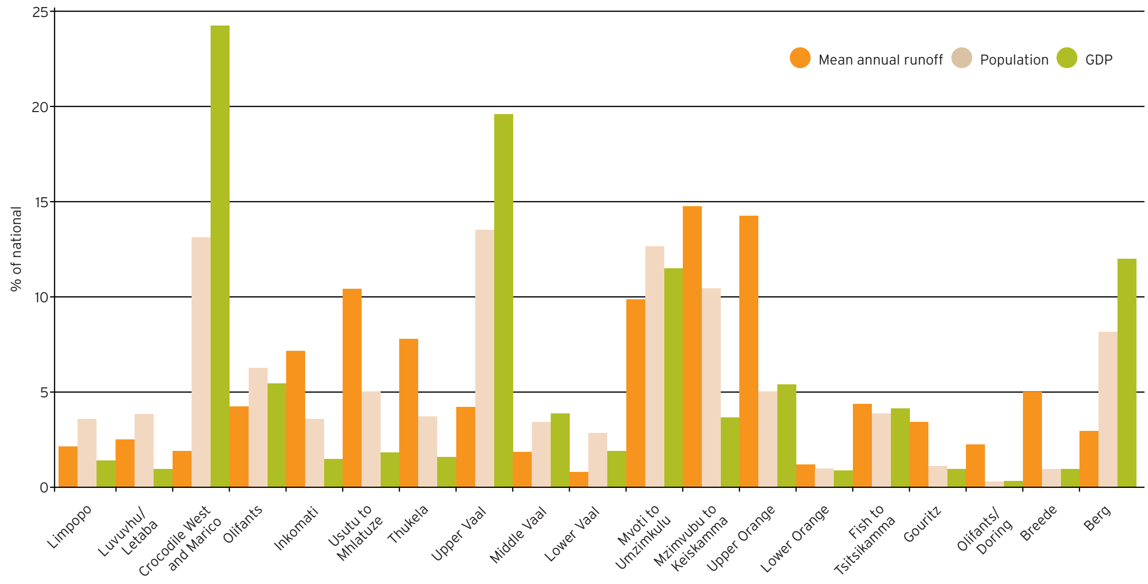
Security of supply concerns regarding energy and water are strongly linked to rising prices. South Africa has historically enjoyed low electricity prices because of overcapacity in the generation sector and access to 'cheap' coal. This has, however, been reversed, as generation capacity declined relative to demand and there were disruptions in the supply of 'cheap' coal. Between 1997 and 2010, the annual changes to average prices have been in the following ranges:

Table 1: National water reconciliations and potential for development in South Africa (million m^3/year)

	Local yield	Local requirements	Balance	Potential for development
2000 Reconciliation	13 227	12 871	186	–
2025 Base scenario	14 166	14 230	(234)	5 410
2025 High scenario	14 940	16 814	(2 044)	5 410

Note: Figures in brackets are negative.

Figure 6: Mean annual runoff, population and economic activity (GDP) per WMA[15]



- Residential customer segment: 10% to 21%
- Industrial customer segment: 7% to 26%
- Mining customer segment: 6% to 32%

In all cases, the steepest price increases occurred between 2008 and 2009, because of the national utility's colossal funding requirements, which were approved by the National Energy Regulator of South Africa (NERSA). However, despite the substantial increases since 2009, the slowdown in GDP growth means that any dampening effect these price increases may have had on consumption cannot readily be determined at this stage.

The South African economy is also vulnerable to international movements in petroleum prices. Local reserves are insufficient to meet the country's transport energy requirements, forcing South Africa to rely on crude oil imports, mainly from the Middle East. The increase in the international oil price to a peak of US$147 per barrel in June 2008 saw a corresponding spike in local prices. Following the global recession, oil prices plummeted, resulting in lower local petroleum product prices. However, oil prices are expected to remain volatile. Moreover, water prices are also expected to rise in the medium to long term. Hence, better and more sustainable resource use and management will become increasingly necessary to support future growth.

Imports continue to outstrip exports, and new emerging market opportunities will be difficult to realise.

With regard to trade, South Africa's exports are low relative to those of other middle-income countries. In the 44 years between 1960 and 2004, the real value of exports grew by only 34% (about 0.7% per year). By contrast, export growth was 169% in Argentina, 238% in Australia, 1887% in Botswana, 385% in Brazil, 387% in Canada, 390% in Chile, 730% in Israel, 1192% in Italy, 4392% in Malaysia, 1277% in Mexico and 120% in New Zealand. Since 1994, South Africa has imported more than it has exported, with the trade deficit rising sharply from 2004.

Minerals and metals dominate the merchandise export basket, with motor vehicles and parts contributing significantly. Exports to Africa consist mostly of manufactured goods (machinery and electrical exports, footwear and processed agricultural products), while exports to Europe, Asia and the Americas are mostly minerals, metals and mineral products. With regard to imports, petroleum is one of the most significant: between 1995 and 2010, crude oil constituted between 7% and 17% of total imports. Other significant imports include motor vehicles and parts, electrical equipment and machinery, mostly from Asia, Europe and the Americas. From 1990 to 2009, the European Union was the dominant trading partner, but its importance has begun to decline in favour of Eastern Asia.

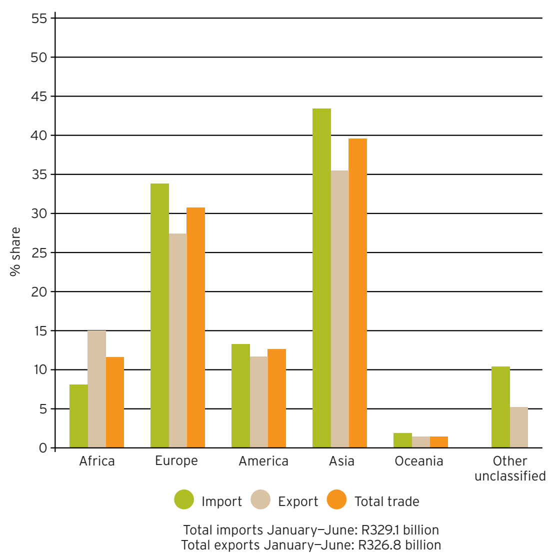
Within this context, a new Trade Policy and Strategic Framework[16] has been adopted, which sets out the principles, approaches and main elements that should shape South Africa's strategy for integration into the global economy. The proposed interventions include tariff reform to improve trade performance and new tariff policies for agriculture, which aim to balance export growth with the need for value addition and employment generation. It also proposes the adoption of a 'strategic integration' approach that aims to preserve South Africa's ability to pursue national objectives while leveraging the benefits of more integrated regional and global markets. Finally, it proposes the negotiation of more nuanced Preferential Trade Agreements, measures to address non-tariff trade barriers, and the expansion of Free Trade Areas.

Building on this Framework, the recently published White Paper on South Africa's Foreign Policy states that 'South Africa's economic diplomacy will therefore be focused on providing guidance to government and the business sector on economic developments and markets, pursuing market access for South African products, attracting investments and tourism, removing barriers to trade, and supporting the development of larger markets in Africa'.[17] The White Paper emphasises the need to take advantage of opportunities to position Africa as a significant player in the changing global economy through accelerating continental and regional integration, including transformation of the South African Customs Union.

However, trade among African countries in 2011 continues to be far less than trade with countries beyond the continent (see Figure 7). Hence, South Africa has been negotiating more Free Trade Area agreements with other African countries and regions in order to boost intra-continental trade and support the economic agenda of the African Union and the New Partnership for Africa's Development (NEPAD). The agreement on the Southern African Development Community (SADC) Free Trade Area was signed in 2010. At the June 2011 SADC-Common Market for Eastern and Southern Africa (COMESA)-East African Community (EAC) Tripartite Summit, a roadmap for the establishment of a Tripartite Free Trade Area was agreed upon. It is founded on the three pillars of market integration, infrastructure development and industrial development as a step towards the 'ultimate goal of an economic community of Africa'.[18]

While regional integration has begun to gain momentum, many hurdles still need to be overcome. For example, while the Trade Protocol with the SADC aims to encourage member countries to remove all tariffs on 85% of traded commodities, in practice the SADC Free Trade Area has faced a number of challenges, the chief one being full reciprocity of duty-free access among members. In addition, the White Paper on South Africa's Foreign Policy notes that the challenges of accelerating regional integration include 'harmonising policies, addressing overlapping memberships, developing cooperative sovereignty, and the asymmetrical nature of the South African economy in comparison

Figure 7: Distribution of South African trade, January–June 2011[19]



with that of the region',[20] as well as strengthening governance and institutional capacity. Furthermore, the White Paper warns that – while Africa has benefitted from the demand for its natural resources – existing trade paradigms will need to be altered through restructuring African economies to support value addition, industrialisation and intra-African trade to avoid the continent simply remaining a supplier of raw materials. 'This transformation', argues the White Paper, 'can only be achieved through the development of common trade and industrial policies, as well as strategies to build production value chains across all member states, underpinned by regional infrastructure development programmes'.[21]

With regard to accessing new emerging markets, at the end of 2010, South Africa was invited to become a member of the BRICS (Brazil, Russia, India, China and South Africa) nations (see Table 2). It formally accepted the invitation in April 2011. This move will see the country formalising trade relations with other economically advanced emerging economies. According to the World Bank, the BRICS association should also strengthen South Africa's economic and political influence in the global arena (see Table 2). The BRICS nations as a bloc are demanding a more meaningful voice at multilateral institutions such as the United Nations and the World Bank, as well as major reform of the International Monetary Fund (IMF).

However, problems in advanced economies, linked to the Eurozone sovereign debt crisis and the fiscal imbalances in the United States and Japan, have moderated emerging market growth. This has not only hampered South Africa's own economic recovery but also affected the ability of emerging markets to step into the gap and create the demand required to power the global economy. For example, China is facing the impact of weaker growth in important trading partners in Europe and America, while inflation pressures, the threat of asset bubbles, high levels of local government debt and worsening inequality challenge attempts to boost domestic demand. Hence, South Africa's transition from the European Union as its major trading partner to Africa and other emerging markets may take longer than anticipated.

Table 2: Key BRICS indicators, 2009[22]

Indicator	Brazil	Russian Federation	India	China	South Africa
Population (million)	194	142	1.155	1.331	49
Gross domestic product (GDP) in purchasing power parity (PPP) terms	2 017	2 690	3 778	9 091	507
GDP per capita, PPP (current international $)	10 412	18 963	3 270	6 828	10 278
Land area (million km^2)	8.5	19.4	3	9.3	1.2
Urban population (percent of total)	86	73	30	44	61
Under-five mortality rate (per 1000)	21	12	66	19	62
Gross savings rate (percent of GDP)	14.6	22.7	33.6	53.6	15.4
Ores and metal ores exports (percent of GDP)	1.7	5.7	6.2	1.2	29.3
Ores and metal ores imports (percent of GDP)	2.9	1.6	5.6	13.5	1.3
Portfolio inflows, net ($ billions)	37.1	3.4	21.1	28.2	9.4
Agriculture (percent of GDP)	6.1	4.7	17.1	10.3	3
Manufacturing (percent of GDP)	14.8	15	15.9	33.9	15.1
Carbon dioxide emissions (kg per PPP $ of GDP)*	0.2	0.6	0.5	0.9	0.9
Energy use (kg of oil equivalent per capita)	1 239	4 730	529	1 484	2 784
GDP per unit of energy use (PPP $ per kg of oil equivalent)*	7.9	3.6	5.4	3.7	3.6

*Data for 2007

South Africa's global competitiveness is becoming increasingly dependent on the sustainability of its growth path.

Globally, there have also been significant moves to invest in green innovation and technology, partly in response to the introduction of a global carbon economy driven by concerns over climate change. Based on the work of the Intergovernmental Panel on Climate Change (IPCC), it is now broadly accepted that increases in the global temperature need to be restricted to as far below 2°C as possible to avoid triggering runaway, irreversible and catastrophic climate change. The move towards green economies in dominant trading nations will increasingly dictate the competitiveness of all economies (and their products and services), as new forms of consumer demand are created by regulatory interventions, market forces and cultural change. These factors all point to a future where the competitiveness and sustainability of growth in South Africa will be intimately linked to the sustainability of its growth path.

Even though South Africa is currently responsible for only about 1% of the world's total emissions (ranking it 11th in the world), it is among the most carbon-emissions-intensive countries due to its energy-intensive economy and high dependence on coal. Its per capita emissions are higher than those of many European countries and more than three and half times the average for developing countries. In addition, South Africa is by far the largest emitter in Africa, responsible for 39% of the continental total. Almost all sectors of the South African economy contribute to the emission of greenhouse gases. Energy supply and consumption accounted for 78.9% of emissions, with smaller contributions from industrial processes (14.1%), agriculture (4.9%) and waste (2.1%).

In this context, Cabinet decided in 2007 that South Africa's greenhouse gas emissions should peak then plateau in 2020 to 2025, begin to decline in absolute terms around 2030 to 2035, and then fall to 300 million tons of carbon dioxide equivalent (CO_2e) by 2050 to 2060. This trajectory presumes that most large planned infrastructure projects, including additional coal-fired power stations, coal-to-liquid plants, refineries and other large industrial facilities, would still be built. In addition, there would be a significant and proactive drive to decarbonise the national energy system and increase investment in energy efficiency in all sectors. This would be accompanied by a sizeable increase in the amount of renewable and nuclear energy in the energy mix, and a substantial switch in modal transport to low-carbon and public transportation. A fiscal and economic framework that supports carbon reduction would also be needed, and new low-carbon technologies would have to come on stream on a commercial basis. In addition, the current fiscal and regulatory framework would have to be reviewed to incentivise efficiency and renewable energy, and penalise those who produce excess carbon. More recently, South Africa has committed to reducing emissions by 34% by 2020 and 42% by 2025, subject to adequate financial and technical support.[23]

In terms of the current energy mix, the energy sector is dominated by coal, which contributed 72% of South Africa's total primary energy supply in 2007. This is followed by crude oil at 13% and traditional biomass (renewable combustibles and waste) at 10%. The contribution of modern renewable energy sources such as hydro (0.1%), geothermal, solar and wind energy (0.02%) remains below the targets set in the Renewable Energy White Paper of 2003.

Lack of skills and technological, financial and institutional constraints are likely to impede the achievement of renewable energy and green economy targets.

The 2010 Integrated Resource Plan (IRP 2010) of the Department of Energy proposed a reduction in the contribution of coal to total generation capacity from 83% in 2010 to 48% by 2030. However, coal-fired plants are expected to dominate new capacity addition for some time to come. This is because of the expected requirement for new capacity to replace the ageing coal-fired plants that will be decommissioned within the planning period. Additions to the coal generation capacity include the effect of Eskom's return-to-service programme (e.g. the continuing de-mothballing of Grootvlei and Komati), as well as the Medupi and Kusile power stations, which were committed to as part of the previous Integrated Resource Plan (IRP 1) promulgated in January 2010. This assumes that uncertainty about the funding arrangements for Kusile will be resolved early enough for the short-term generation capacity plans to be realised.

The IRP 2010 indicates that renewable energy technologies (e.g. wind and solar) will account for the next largest contribution to new capacity addition, followed by nuclear energy. However, note that, due to its inherent intermittency, the contribution of wind is less recognised from a capacity perspective (i.e. in terms of MW) than it is from an energy perspective (i.e. the production of energy in MWh). Hence, there is a proposed increase in the open cycle gas turbine capacity allocation. Depending on the extent to which such a backup service is required, there could be an unintended consequence of increasing costs due to the integration of the electricity and world liquid fuels markets (e.g. diesel prices). An important variable in this respect will be the load factor of the envisaged open cycle gas turbine plant. In addition, while solar power is usually seen as the most viable renewable energy alternative, delays in finalising the regulatory framework for solar water heaters and challenges with the financing of Eskom's Renewable Energy Feed-In Tariff (REFIT) programme have delayed implementation.

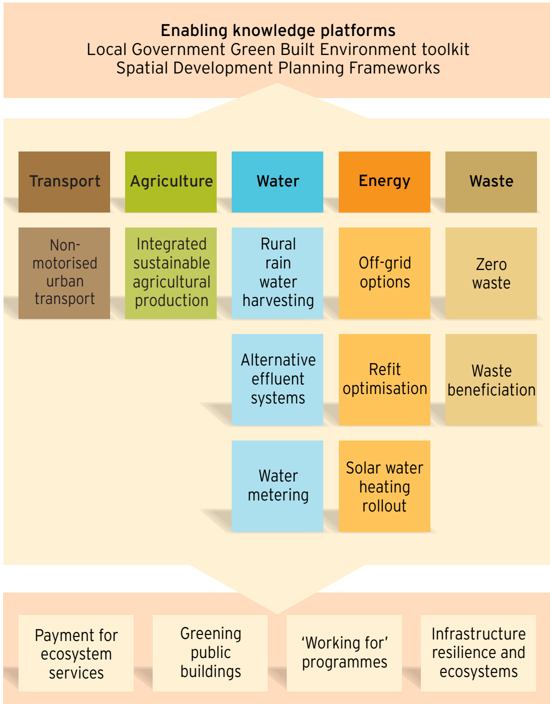
Furthermore, the feasibility of the potentially ambitious nuclear programme depends on a number of factors. These include the availability of funding, the ability to negotiate a potentially arduous regulatory approval process (e.g. environmental impact assessment (EIA), the electricity and nuclear licencing processes, and any public fallout that might accompany the decommissioning of the continent's first nuclear power plant), as well as the procurement process for acquiring the new capacity. The estimated capacity addition allocations are based on a cumulative capacity of 85 241 MW by 2030.

Over and above moves towards a low-carbon economy, from the mid-2000s, the government has also developed a variety of policies and laws to promote sustainable development, including the introduction of a carbon tax, accompanied by an increasing focus on sustainability issues within government programmes. The impact of these initiatives (and their conscious integration with economic policy) has been mixed, with some focusing purely on environmental conservation, while others have been impeded by weak institutional capacity and poor coordination within government. At the same time, the relationship between the transition to a low-carbon economy versus a green economy have tended to be unclear, with the exact definition of the latter remaining a matter of debate.

Hence, a Green Economy Summit was held in 2010, which initiated the process of identifying flagship programmes to demonstrate green economic activity. Following further consultations with the Departments of Economic Development and Environmental Affairs, the Industrial Development Corporation and the Economic Cluster, several programmes and enabling platforms have been tentatively identified (see Figure 8).

A Green Economy Mechanism has also been proposed 'as an engagement platform between public and private financing institutions to advance the national green economy agenda and support the priority programmes'.[24] However, the most critical constraint in transitioning towards a green economy is the lack of skills, both governance and technical. The 2011 Global Change Grand Challenge of the Department of Science and Technology suggests that considerable skills development is required to facilitate this transition. A similar conclusion was reached in a report that assessed the implementation of environmental technologies for sustainable human settlements.[25] If this is not addressed, it is likely that opportunities in the South African and African green economy will be taken up by foreign manufacturers who already have an established footprint in these technologies, thereby undermining localisation efforts. In addition, sourcing the requisite private sector

Figure 8: Potential green economy programmes and enabling platforms[26]



investment to drive growth in these industries will require a high level of market certainty through clear policy direction, comprising 'robust policy frameworks with clearly defined national targets and strong economic incentives'.[27] However, government policy and practice in this area continues to be piecemeal and fragmented.

Employment rates have been insufficient to address high levels of poverty and unemployment, while the global financial crisis has resulted in further job losses.

With regard to economic participation, the majority of the population are still excluded from the formal labour market. The overall participation rate declined by 6.2 percentage points (or 10.2%) between 2001 and 2010. Participation rates are substantially lower for Africans than for other racial groups. They are also markedly lower for women and extremely low for African and Indian women. Against a backdrop of low participation rates, unemployment rates are very high: 25.2% in 2010 in terms of the 'official'[28] definition and 35.9% in terms of the 'wide'[29] definition. In absolute terms, the number of officially unemployed increased from 1.99 million in 1994 to 4.31 million in 2010. Notably, unemployment declined and then levelled out between 2006 and 2009 because of the faster growth since 2004. Between 2009 and 2010, some 833 000 jobs were lost, reversing what appeared to be a long-term decline in the unemployment rate.

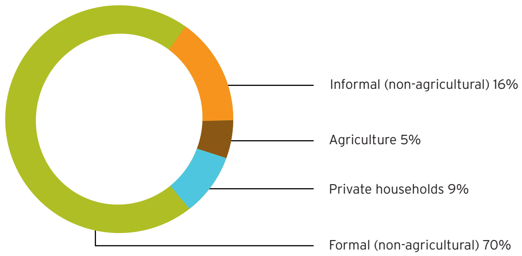
The formal sector (excluding agriculture) accounts for 70% of employment, with community and social services, trade, finance and manufacturing comprising the bulk of formal employment. In aggregate, the formal services sector constitutes 71% of total formal sector[30] employment (see Figure 9).

In terms of the growth and contraction of employment by sector, Figure 10 illustrates changes in employment between 2001 and 2010. In relative terms, there have been significant job losses in agriculture and mining: in the last decade, employment in the mining and agricultural sectors contracted by 191 000 and 309 000 respectively. Employment in construction grew substantially, as did employment in financial services and community and social services. However, with the global economic recession, a significant number of jobs were recently lost in manufacturing, trade and finance. Job losses in the informal sector and the personal household sector were also substantial.

Furthermore, in contrast to other countries with high unemployment rates, the informal sector accounts for a very small proportion of employment – a mere 16%. The combination of economic marginalisation and spatial marginalisation has resulted in a highly skewed distribution of assets (land, capital and human capital), which limits the productive capability of the majority and their ability to capitalise on potential opportunities. This has been further entrenched by the monopoly structure of South Africa's core economy, which reduces the scope for new job creation, new ventures, SMEs and even the most survivalist subsistence activities.

Figure 9: Distribution of employment by sector, 2010[31]

All sectors



Formal sector

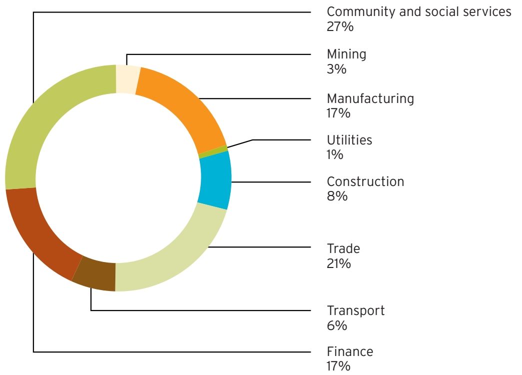
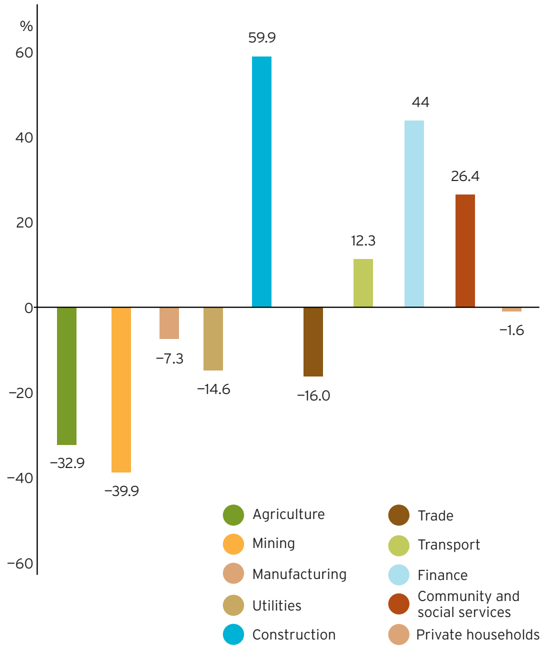


Figure 10: Change in employment by sector, 2001–2010 [32]



Given that expenditure on education has increased during the democratic era, unemployed youth have higher educational qualifications than older age cohorts in employment. Hence, 'the fact that better-educated young people remain poor suggests that the labour market has not been playing a successful role in alleviating poverty and that the education system is not delivering the skills needed in the labour market'.[33]

A dysfunctional education system, combined with mismatches in supply and demand, constrains growth and exacerbates unemployment.

With regard to basic education, key challenges include poor school management, inappropriately trained teachers, insufficient time spent on teaching, and a lack of critical learning resources and infrastructure in poor schools. However, poor educational outcomes are also driven by historical and current inequalities. For example, 62.5% of white Grade 6 learners can do mathematics compared with only 0.1% of black Grade 6 learners. Parent education and socioeconomic status are strong predictors of educational outcomes, thus reducing intergenerational social mobility. This often results in a power differential between poor parents and teachers, limiting accountability and the effective functioning of school governing bodies. Apartheid also left a legacy of differential access to teacher education in terms of the level and quality of education, in both content knowledge and pedagogy. Areas that are poor and rural also experience greater difficulties in attracting qualified teachers. In addition, the structures that different provinces inherited, particularly those that had to integrate homeland governments, seem to have affected provincial performance. Hence, the education performance of the Western Cape and Gauteng seems to reflect their historic privilege. In contrast, the poor educational performance of Limpopo, the Eastern Cape and Mpumalanga could be argued to reflect not only their current relative poverty but also the complexity of the apartheid infrastructure they inherited. At the same time, marked differences in performance, not only within the same province but also within districts, suggest that effective school management can make a huge difference to educational outcomes.

The underperformance of the education system has resulted in poor educational outcomes in science, mathematics and basic literacy, combined with high dropout rates from Grade 9. This affects the development of important economic skills, such as engineering. South Africa has approximately 30 engineers per 100 000 people, as against 255 in the United States and 340 in Australia. The Department of Basic Education recently released the *Action Plan to 2014: Towards the realisation of schooling 2025* for public comment. However, many areas in the framework for improving schools are still underdeveloped and much needs to be done to identify implementable activities that will have an impact. In addition, goals related to the teaching and learning process, enabling conditions and school climate — on which the whole enterprise crucially depends — are underdeveloped. If the Action Plan is to be successful, the institutional capacity within provinces and districts will need to be significantly increased and the role of the national department in enforcing minimum standards will need to be enhanced.

With regard to higher and further education, as an economy changes, the shape of its skills needs also changes. In the transition from a developing economy to an industrialising economy, the following underlying shifts are commonly manifested:

- Increased demand for highly skilled professionals;
- Increased demand for intermediately skilled associate professionals and technicians;
- Lower demand for workers with basic skills; and
- Sharply lower demand for unskilled workers.

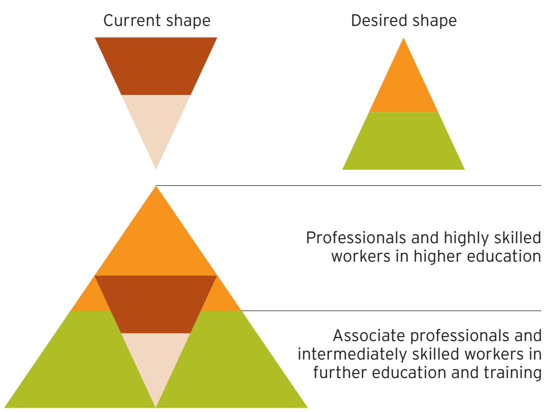
Enrolment in higher education and further education and training (FET) institutions and the production of graduates should reflect the shape of the demand for labour. The desired distribution of the proportions between highly skilled, intermediately skilled and technical workers is given in Figure 11 (the normal triangle). It reflects the need for higher proportions of intermediately skilled workers relative to highly skilled workers.

The current situation in South Africa is depicted by the inverted triangle, showing that the proportion of enrolment in higher education is larger than enrolment in the FET sector. This shows that the current shape of the main post-school institutions is not configured to respond to the huge population of youth not in employment, education or training (NEETs). While South Africa is short of both high and intermediate skills, the shortage of intermediate skills is perceived to be more acute.

FET colleges also have weaker links to employers, affecting the quality of teaching and the employability of FET learners. Previously, FET (technical) colleges worked in tandem with employers on vocational training, and employers sponsored students. This link has weakened since the 1990s and FET colleges now struggle to find placements for learners. In turn, employers raise concerns about the quality and relevance of FET qualifications. Hence, graduates of FET colleges have about a 30% chance of getting a job. The poor performance of the vocational training system has been exacerbated by confusion over the status of apprenticeship training, with the result that, from 2001 to 2006, South Africa produced on average 5600 artisans per year, as against the need for 12 500.

With regard to higher education, while access has increased, student readiness and the quality of skills produced remain cause for concern. After 1994, the primary focus was on significantly increasing the enrolment of black students at higher education institutions — white students had a 75% participation rate in the 18–25 age group, but the rate for black students was only 5%. The number of institutions was

Figure 11: Enrolment in higher education and FET institutions in South Africa



reduced from 36 to 23. This was combined with increased capital investment in historically black institutions, as well as attempts to improve financial management. Despite these initiatives, urban universities still dominate. In addition, although black student numbers have increased from 473 000 in 1994 to 737 000 in 2005, enduring social and economic inequalities still result in asymmetrical patterns of access to higher education. Hence, in 2006, enrolment in public higher education institutions substantially favoured white students: 59% of the relevant age group were enrolled in higher education, as against only 12% of African students. Of the entire cohort of black children entering school in any one year, the education system can only convey approximately 5% to graduation, that is, from Grade 1 to the completion of an undergraduate degree. This contrasts starkly with the fortunes of white children, who have almost a 60% chance of graduating from university. Overall dropout rates remain high (50% in the first two years), and only 22% of students finish a three-year degree in three years. While greater focus on academic support programmes to compensate for schooling deficiencies will assist in improving throughput rates, this problem can only really be addressed by increasing schooling efficiencies in the medium to long term. From an employment perspective, those with incomplete secondary education have a 75% chance of being unemployed, those with matric 66%, those with a diploma 50% and those with a degree 17%.

In addition, the quality of higher education outcomes remains inadequate in important social sectors (e.g. teacher development and nursing), as well as economically important high-end skills such as engineering. There is growing evidence that the curricula taught in important sectors are increasingly out of step with the needs of the market. For example, one of the constraints in the country's ability to convert innovative ideas into economic growth is that many innovators are not taught business skills while learning about their primary discipline. The Department of Science and Technology also estimates that, in order for South Africa to move towards a knowledge-based economy, it will need to increase its rate of PhD production by a factor of five over the next 10 to 20 years.[34] The lack of partnerships between business and academia also affects growth in research and development, limiting the rate at which the economy moves up the productive value chain.

The Department of Higher Education and Training has embarked on various reform initiatives. These include a review of the sector education and training system, an assessment of student finance mechanisms and the development of a 10-Point Plan for Higher Education and Training in partnership with the DBSA. However, many of these initiatives have not been fully operationalised. Moreover, the challenges of youth unemployment and the poor performance of the further and higher education system require a multi-departmental and multi-stakeholder response. For example, aligning educational outputs with the needs of the economy requires the development of an industrial strategy with a coherent long-term perspective that describes the envisioned macro shape of the economy. This should be augmented by sectoral (e.g. mining) or cluster (e.g. boat building) plans, each with a skills plan based on committed interaction between the key players – government, industry and education. Joint commitments among the partners would hopefully generate the trust necessary for businesses to invest in expansion, for education institutions to develop programmes to generate new kinds of skills, and for the government to put in place the incentives. The Department of Higher Education and Training's Strategic Plan sets out its responsibility to anticipate needs, facilitate institutional linkages, provide a policy and resource environment in which providers are supported and accountable to be efficient and effective, and establish and manage incentives that enable the system to be responsive and relevant to the complex dynamics of demand. The extent to which this new department can sustainably source, recruit and retain the required skills over the long term will affect the outcome of its plans.

Income inequality has increased but non-income inequality and poverty have declined.

With regard to inequality, income inequality, as measured by the Gini coefficient, grew between 1996 and 2009.

A decomposition of income by decile for 1993, 2000 and 2008 reveals that the income accruing to the richest decile increased, while that of the remaining nine deciles either declined or remained stagnant. Inequality also has a racial dimension, as demonstrated by changes in the per capita incomes of Africans, coloureds and Indians relative to that of whites from 1917 to 2008 (see Figure 12).

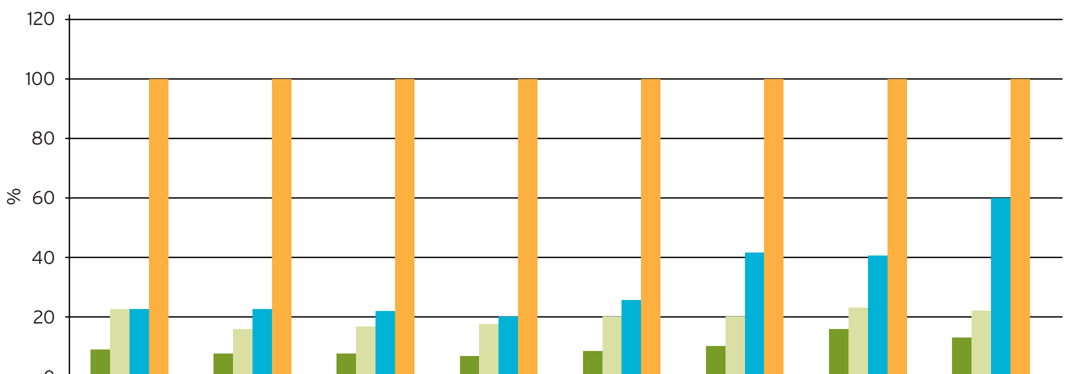
In 1917, the per capita income of black South Africans was 9.1% of white per capita income. For coloureds and Indians, it was 22%. In 2008, per capita incomes (as a percentage of white per capita incomes) were 13% for Africans, 22% for coloureds and 60% for Indians. Consequently, 'at any poverty line, Africans are very much poorer than Coloureds, who are very much poorer than Indians/Asians, who are poorer than whites'.[35] However, evidence also suggests that, with the impact of black economic empowerment (BEE), income inequality *within* racial groups is also growing.

At the same time, non-income inequality has declined in the democratic period, owing to the rollout of basic services and housing. This has to some extent mitigated the negative impact of income inequality. However, 'while the African population has benefitted significantly from the increase in the provision of basic services since 1994, a large share of the African population remains without access to water, electricity, housing and sanitation'.[36]

Institutional, financial and spatial challenges continue to impede infrastructure delivery.

With regard to electrification, the annual increase in the number of electrified households between 1999 and 2000 was 6%, while the average change in electrification from 1999 to 2009 was even lower at 4%. The reduction in the rate of electrification can be attributed to the difficulty of electrifying urban areas because of the substantial growth in informal settlements, which makes service delivery more challenging. The high cost of connecting households in remote and/or rural areas is another contributing factor to this reduction in electrification rates. According to the Department of Energy's Strategic Plan for 2010/11, the amounts required for electrification for the years ending March 2011 and 2012 are R7.47 billion and R7.67 billion respectively. There is no indication of the number of annual connections linked to these funding requirements. However, only R2.7 billion and R2.97 billion were allocated for 2010/11

Figure 12: Annual per capita personal income by race as a proportion of white levels, 1917–2008[37]



	1917	1936	1956	1970	1980	1993	2000	2008
African	9.1	7.6	8.6	6.8	8.5	10.9	15.9	13.0
Coloured	22.0	15.6	16.9	17.3	19.1	19.3	23.0	22.05
Indian	22.1	23.1	21.9	20.2	25.5	42.0	41.0	60.0
White	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

and 2011/12 respectively. If the allocated budget is meant to address the goal of achieving universal electrification by 2012, based on the shortfall, it is unlikely that this target will be reached.

In terms of water and sanitation, although South Africa has already attained the Millennium Development Goals (MDGs) for access to water and sanitation services, some water services backlogs still exist: three million people are without access to basic water supplies and 12 million are without access to basic sanitation services. Water services backlogs persist in rural areas and informal settlements. In addition, with the focus on addressing access backlogs, less attention has been given to maintaining infrastructure. This resulted in new backlogs in the effective operation and sustainable maintenance of old and new infrastructure.

With regard to housing and human settlements, a recent discussion document entitled *'Framing a finance strategy for human settlements'* identified six core challenges, namely:

- *Scale:* It has become increasingly clear that the current rate of housing delivery cannot keep up with demand. This not only suggests that the backlog eradication target of 2014 will not be met but also that informal settlements will continue to persist, given current patterns of migration and population growth and future trajectories. This has contributed to increasing frustration, sometimes resulting in service delivery and housing protests and labour strikes.
- *Affordability:* Approximately 20% of South Africa's population (about 2.3 million households) earn between R3500 and R9000. They are too rich to be eligible for a subsidy but too poor to buy new housing. At the same time, the 'specs applied to a government subsidised house price the next level up out of the affordability of the target market'.[38]
- *Sustainability:* Even if the problems of scale could be overcome, the budgetary capacity to meet the current backlog and address new family formation is insufficient. If the government were to combine the housing and infrastructure subsidies and provide land free of charge, a budgetary shortfall would still exist. In addition, reports of poor quality housing continue to emerge, while the expansion of low-density housing raises additional challenges of transport and service delivery.
- *Infrastructure finance:* The integration of bulk service delivery with housing delivery is critical, but there is a lack of alignment between the funding streams. This has also had a detrimental impact on the level of private sector investment in the housing market.
- *Current economic climate:* Job losses, declining productivity and reduced revenue suggest that public sector budgets are unlikely to grow in the short term and that allocations will be tighter than anticipated. At the same time, banks now require higher deposits, which, combined with the National Credit Act, severely hamper access to credit.
- S*outh Africa's housing finance system and institutions:* The current subsidy regime does not adequately respond to the challenges of scale, affordability and sustainability. Meanwhile, development finance institutions in the housing sector seem either to have inadequate financial capacity or not to use their capacity effectively to address the main challenges at hand.
- *State capacity:* State institutions seem to lack the capacity to respond to the demand for services and the envisioned scale of delivery. This is exacerbated by the fact that the roles and responsibilities of provincial and local government in the delivery of housing and human settlements are unclear.

In general, progress has been made in the delivery of basic services infrastructure. However, delivery continues to be dogged by poor planning and management, including inadequate maintenance. This is largely due to institutional weaknesses in individual government bodies, the lack of effective coordination and accountability mechanisms across the state, and the fact that infrastructure investments are not spatially referenced in terms of a clear national spatial development plan that articulates the growth path. Moreover, while delivery agreements have been developed for all the main infrastructure sectors, the indicators in these agreements reflect continued fragmented planning. The Presidential Review of State-Owned Enterprises, the Presidential Infrastructure Commission and initiatives to develop a 10-Year Integrated Infrastructure Plan are thus welcome within this context. However, the level and extent of institutional failure across all three spheres of government make turning the situation around a daunting task.

Poverty remains high but crime and the high burden of disease are decreasing.

With regard to poverty, empirical evidence suggests that while income poverty remained relatively stagnant, non-income poverty (i.e. access to services, housing, education and health) declined between 1994 and 2010. That said, more than 20 million people are living in poverty and the distribution of poverty across racial groups remains symptomatic of the apartheid era: in 2009, Africans accounted for 93% of poor households, coloureds for 6.1%, Indians for 0.7% and whites for a negligible 0.2%. Overall, 49.5% of Africans, 29.4% of coloureds and 11.5% of Indians were living below the poverty line in 2009.

High levels of poverty and employment are often accompanied by high levels of crime; South Africa is no exception. However, crime statistics have shown a steady decrease in recent years. For example, the 2010/11 crime statistics reveal a decline in all types of 'contact crime', including murder, rape, assault with intent to do serious bodily harm, common assault, aggravated robbery and common robbery. Murder was down by 6.5% and sexual offences by 3.1%. Assault with intent to do serious bodily harm dropped by 4.5%, while robbery with aggravating circumstances was down by 12%. The biggest improvement was in bank robberies, which fell by a massive 58.1% — just 39 cases were recorded in 2010/11, down from 93 in the previous year. While much still needs to be done, these trends have been attributed to systematic improvements in visible policing, crime detection and response; steps by business to improve security; as well as partnerships with communities.[39]

High levels of poverty have also contributed to a high burden of disease. South Africa has a quadruple burden of disease associated with the epidemiological transition between diseases of poverty and lifestyle-related diseases, malnutrition and diarrhoea. In addition to poverty-related conditions and the growing burden of non-communicable diseases, the 'third' burden relates to premature deaths from violence and injuries, largely attributable to the high crime rate and motor vehicle accidents. The 'fourth' burden, human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS), has been described as the greatest one, accounting for nearly 40% of lives lost to premature death. South Africa has the highest number of people living with HIV (approximately 5.5 million), posing significant challenges for the health system. HIV and AIDS largely affect women, the poor and unemployed, and children. The disease also tends to strike victims during their most economically active years, with grave implications for growth and development.

To make matters worse, South Africa reportedly has the 7th highest incidence of tuberculosis in the world, with a prevalence rate that has increased from 260 cases to 720 cases per 100 000 people.[40] This has been exacerbated by the outbreak of multi-drug-resistant tuberculosis and extreme drug-resistant tuberculosis, which has a very high case fatality rate. The country also has low cure rates, owing to socioeconomic factors and HIV, among others. The high co-infection rate of HIV and tuberculosis does not appear to have been well managed, further extending the health system and driving (especially poor) households into strife and poverty.

The government has demonstrated a renewed commitment to and has made significant investments in antiretroviral therapy, the prevention of mother-to-child transmission and tuberculosis programmes. However, reports of inefficient management of financial resources, resulting in limited access to comprehensive care and in preventable fatalities, reflect institutional issues that are great cause for concern. Hence, South Africa will struggle to achieve the health-related MDGs (reducing child mortality; improving maternal health; and combating HIV and

AIDS, malaria and other communicable diseases). For example, infant mortality increased from an average of 45.5 deaths per live births between 1993 and 1998 to 69 in 2005. Maternal mortality is also increasing at an alarming rate, from 200 per 100 000 live births in 2000 to 400 per 100 000 in 2008. However, more recent data suggests that government interventions are beginning to have a positive effect on health outcomes.

In addition, large numbers of poor people are unable to access sufficient health services in many parts of the country because of a lack of public health infrastructure and the unaffordability of private health care. This is due to historical and current inequities in the health system. The public sector struggles to provide reasonable access to healthcare for 85% of the population on a budget of R99 billion, while the private sector has grown its financial resources to R93 billion but caters for only about 15% of the population, based on 2011/12 projections. There is also an acute maldistribution of health workers between the public and the private health sectors. The bulk of the health workforce is located in the private health sector, with a bias towards urban areas. Poor conditions of service in the public health care system, combined with the globalisation of healthcare, have also contributed to the loss of critical skills from the public health sector. Weaknesses in the district health system and in hospital management have led to a poor quality of care in some hospital facilities.

To address some of these challenges, the Department of Health has embarked on a programme to accelerate health infrastructure delivery, improve hospital management, increase the quantity and quality of health professionals, and develop a National Health Insurance scheme. The latter has the following objectives:

1. Provide improved access to quality health services for all South Africans, irrespective of whether they are employed.
2. Pool risks and funds so that equity and social solidarity will be achieved through the creation of a single fund.
3. Procure services on behalf of the entire population and efficiently mobilise and control key financial resources. This will obviate the weak purchasing power that is a major problem for some of the medical schemes, resulting in spiralling costs.
4. Strengthen the under-resourced and strained public sector, and improve health systems performance.

The Green Paper will form the basis of consultations that will eventually result in the promulgation of the National Health Insurance Act. It is envisaged that by April 2012, the piloting of National Health Insurance will commence in ten selected districts, and it is anticipated that National Health Insurance will be rolled out over a 14-year period. However, the Department of Health has emphasised that National Health Insurance will only succeed if the quality of service in public hospitals is significantly improved and the pricing of healthcare in the private sector is seriously addressed.[42]

The state is central to driving change but institutional reform efforts to date have met with limited success.

It is clear that the nature of South Africa's institutions – not just in health but also in all the areas discussed above – has been an important factor influencing the country's current trajectory. A democratic state that is proactive and strategic, and intelligently intervenes to 'create the conditions that support constructive endeavours for people-centred growth',[42] is crucial to overcoming poverty, inequality and underdevelopment.[43] In all successful *developmental* states – the model many East Asian nations pursued after World War II to modernise their economies rapidly – the ruling party has managed to put together a social pact. This pact sets out the country's developmental goals and the commitments and compromises that important social actors (government, business, labour, communities and other stakeholders) will make to achieve them. These goals are normally very clear and have specific timeframes.

Since 1994, the South African government has introduced a number of initiatives aimed at creating an effective and, later, a developmental state. These reforms have been extensive, involving policy reforms, organisational change (e.g. structures, systems and processes; centralisation and decentralisation; a range of service delivery models; and labour relations frameworks), as well as human resource and performance enhancement (competency frameworks, skills and capacity development, new performance management systems and talent management). However, the success of these initiatives has been mixed. The state has developed a number of areas of institutional strength (e.g. a respected judicial system; a strong Reserve Bank, Treasury and Revenue Service; as well as pockets of excellence in different national and provincial departments and some municipalities). However, it continues to lack significant capacity in critical areas (e.g. policy stability and coherence, policy enforcement and regulation, integration and coordination, and operational and service delivery capacity). Clearly, therefore, the state has struggled to lock in the changes it has sought.

Reasons for this include weaknesses in evidence-based policymaking, which have sometimes resulted in a lack of realism. The challenges related to sectoral planning in the manufacturing sector have already been noted above. Another notable example relates to the failures of outcomes-based education: the 2008 Organisation for Economic Co-operation and Development (OECD) *Review of national policies for education: South Africa* noted that the vision of the National Curriculum Statement did not match the reality of the average South African school.[44] Another example is the Local Government Turnaround Strategy, which had little impact, among other reasons because municipalities with a long history of dysfunctionality were suddenly expected to have the capacity to formulate their own turnaround strategies.

This lack of realism has also sometimes been driven by paradigms and ideologies that are out of step with their context. Hence, one of the primary reasons why spatial development policy and praxis since 1994 have done little to address historical and current challenges in the space economy is that these initiatives have been dominated by inappropriate paradigms that fail to recognise the structural and systemic factors that drive South Africa's spatial trajectory. Traditional approaches to spatial inequality have sought to ensure that economic growth is more spatially balanced by attempting to control migration and the growth of cities. Attempts to control internal migration tend to be more frequent in less developed than in more developed regions. Alternatively, countries have sought to sustain lagging areas through territorial development programmes that were meant to bring jobs to the people living there. These spatial targeting programmes have tended to focus on subsidising manufacturing industries to establish factories in 'growth points' within deprived areas or those regions experiencing economic setbacks. At the same time, rural development strategies have largely been informed by pro-poor growth strategies and sustainable livelihoods, as well as concepts of rurality (e.g. poor, subsistence-farming women in a poverty-wracked agricultural landscape). While these frameworks had some systemic elements, in practice pro-poor interventions have tended to be conceptualised separately from broader growth and development strategies. As a result, rural pro-poor interventions have often focused only at the micro or community level.

However, internationally, attempts at inhibiting migration have largely failed, while the impact of spatial targeting programmes has been mixed. In addition, the impact and efficacy of traditional pro-poor approaches have been increasingly criticised. For example, in 2010, the United Nations Research Institute for Social Development (USRISD) issued a report on Combating poverty and inequality. The report criticised poverty reduction approaches that treat the poor as a category that requires discrete policies, and argued that where countries have successfully improved the well-being of the majority, they focused on long-term processes of structural transformation, rather than poverty reduction per se.[45] These processes involved promoting growth and structural change that generate productive employment, social policies aimed at universal coverage, and redistributive policies to tackle inequality. This has been accompanied by a growing recognition that there are a number of rural worlds, and the nature of rurality may differ between countries where agriculture is the major source of growth and highly urbanised countries. In turn, this has highlighted the importance of:

- Taking a nuanced view of the definition and imaginaries of rural livelihoods;
- Taking into account the nature of a country's socioeconomic transition and its potential evolutionary path(s); and, in particular,
- Taking cognisance of the cyclical nature of transitions: for example, many highly developed and urbanised countries are now going through a process of reverse migration.

These developments have led to a growing recognition that spatial development is as much about linkages (global, regional, national and sub-national) as it is about distinctions (the needs and specificities of different settlement types). According to the 2009 *World Development Report*, international experience suggests that, in order to promote economic development and spatial integration, the provision of universal basic services (municipal and social) is critical to increasing human capabilities and decreasing spatial disparities in living standards *in the short term*. Effective transport and communications infrastructure and services are key drivers of spatial integration, economic productivity and, thus, income levels in the medium to long term. Similarly, the OECD points out that:

> [A] simple concentration of resources in a place is not a sufficient condition for sustained growth. The key appears to be how assets are used, how different actors interact and how synergies are exploited. Evidence of this is provided by analysis of the factors that drive growth: for example, infrastructure investment is effective when combined with other forms of investment, notably in education and skills [which in turn promote innovation]...[46]

The *World Development Report* further argues that, in terms of spatial integration, distance and density are critical. Hence, countries need to deal with macro spatial inequalities by reducing the distance between areas where economic activity is concentrated and lagging regions – through transport, telecommunications, and the like – as a means of increasing linkages and resource flows. In addition, they need to get density at local level right by, inter alia, harnessing market forces to encourage concentration and promote convergence in living standards between villages, towns and cities, while minimising the negative impacts of rapid urbanisation.

This suggests that South Africa needs to shift from a *primary* focus on spatial targeting to incorporate other factors that play a critical role in enabling economic integration. This would require complementary interventions at different levels and scales (see Chapter 8). There have been consistent attempts from mid-2000 to shift the way in which the South African state conceptualises and engages with spatial inequality, economic competitiveness and sustainability at different spatial scales to take into account emerging good practice. However, traditional pro-poor and spatial targeting paradigms continue to prevail, resulting in a significant lack of coherence in terms of policy and praxis at national and sub-national levels.

Another reason for limited institutional progress is a lack of capacity within the state to manage reforms. As noted, the South African state faces significant skills challenges. For example, in 2006, Cabinet commissioned a study[47] to assess whether the public sector had the capacity to execute the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) policy. It found that there were skills and capacity gaps across the three spheres of government, mismatches in the supply of graduates between the skills the public administration needed and what higher education institutions produced, huge disparities between the remuneration of professionals and senior management, and significant salary discrepancies between the technical professions in the public and private sectors.

Attempts by the public service to upgrade skills have generally been disappointing. Internal surveys have partially blamed the fact that remuneration was 'not flexible enough to attract and retain scarce skills'.[48] The vacancy rate in the public service is also disturbingly high. A 2007 Public Service Commission survey[49] estimated the vacancy rate at national level at 23%. As a result, there is an extreme dependence on consultants, without adequate capacity being built to sustain the reforms undertaken. High vacancy rates, accompanied by high levels of churn, also serve to undermine institutional memory, with a detrimental impact on policy coherence, continuity and stability within the state. The poor management of transformation and political leadership change processes within the state has also contributed to significant churn among public officials and the consequent loss of institutional memory. Hence, the South African state remains in a continuous state of transformation without ever reaching its destination or building institutional depth.

These bureaucratic challenges have been accentuated by a decentralised state structure, with each sphere having its own constitutionally enshrined powers and functions. This makes it more difficult to intervene to address capacity gaps in the different spheres. In addition, the 'corporatisation' of state entities (influenced by New Public Management trends in public sector reform), without a concomitant increase in contract management skills and central capacity to coordinate and integrate delivery, has also contributed to state fragmentation.

The state also faces significant cultural and ideational challenges born out of the apartheid legacy. The apartheid state left a legacy of delegitimised state institutions, where many black staff were alienated from the system in which they worked, while communities felt justified to bend or ignore rules imposed by an unjust government. At the same time, the system of patronage and partiality that was at the centre of the apartheid state resulted in a corrupted value system. In combination, these factors have produced a post-apartheid state weakened by contradictory ideational and cultural influences, and without a common understanding of the 'rules of the game'.

For example, the former Chairperson of the Public Service Commission noted that 'a particularly worrying factor, from where we sit, is our own public service's understanding of a "developmental state" as a meaning a state of underdevelopment in terms of performance, or groping in the dark in an infant state to fulfill its functions; implying mediocrity, weakness, ineptitude and a lack of cognizance to "raise the bar" on service delivery'.[50]

This has contributed to an environment where skill is ambiguous and contested, and 'like skill, the illegitimacy and racism of historical authority structures and practices … have left a legacy of uncertainty about, and contestation over, legitimate management and supervisory practices'.[51] This contestation of the supervisory relationship and the parallel authority role of union site structures in some administrations have created an environment where it becomes 'impossible to raise or acknowledge pervasive institutional failure and poor performance and these problems are denied. The bureaucracy becomes unable to recognise problems in the system, account for them, or try to solve them, and senior managers become more concerned with reputation and the preservation of "face" than what happens in the system.'[52]

This has resulted in 'contradictory rationalities' in many parts — but not all — of the state. Some of these contradictions emanate from within the system, such as those relating to poor delineation of roles and responsibilities. Others are driven by influences from the wider system, such as those that relate to identities (i.e. public servant versus 'rightful' citizen), to whether transformation should be driven purely by redress imperatives or by redress and merit, or to perspectives of the state as the primary vehicle of black social mobility versus an independent, impartial bureaucracy, and so forth.

These factors may have contributed to the apparently growing prevalence of hard and soft corruption in post-apartheid South Africa. Hard corruption occurs when public officials bend the rules to channel patronage to relatives, friends and cronies, or accept bribes, or when private agents bribe public officials to give them exclusive advantages or rights. Soft or 'quiet' corruption occurs when public servants deliberately neglect their duties to provide public services or goods. Quiet corruption may not involve an exchange of money, but involves providers of public services, such as teachers, nurses or other officials, bending the rules for their own private interests. This includes, for example, public servants not turning up for work when they should. These two forms of corruption are mutually reinforcing – soft corruption paves the way for hard corruption, while hard corruption 'legitimises' quiet corruption. However, others argue that it is not so much that corruption is on the increase but rather that the democratic state has taken stronger steps to monitor, report and stem corruption, resulting in a higher level of media exposure. Either way, perceptions suggest that corruption is on the increase. In 2007, Transparency International accorded South Africa a Corruption Perceptions Index score of 4.7. As a high score points to lower perceived levels of corruption (the highest possible score is 10), this score was significantly worse than the 5.2 accorded in 1998. In 2010, South Africa's score was 4.5, signalling a further deterioration in perceptions of corruption.

The functioning of the democratic state has also been influenced by the structure of the relationship between party and state. Developmental interventions, especially in societies with deep systemic and structural challenges, often take time to have an impact. They require consistent implementation over a long period, withstanding changes in the ruling party or political leadership. This, in turn, necessitates a stable bureaucracy that has enough institutional depth to follow through on a long-term reform agenda, even if bureaucratic or political leaders change from time to time. Countries with a high level of political instability – because of changes in the ruling party or between factions within the same party – which translates into a high level of bureaucratic instability, often struggle to sustain a long-term reform agenda. This negatively affects their ability to make significant progress on their developmental objectives. Thus, the main imperative is to structure an appropriate relationship between the party and the state, whereby the ruling party has sufficient control over the state to carry out its policy agenda, while the bureaucracy has sufficient autonomy to retain the administrative stability and institutional memory necessary to sustain its ongoing functions. In order to achieve this balance, exercising party control over the state is usually done through a combination of contractual instruments – such as performance contracts or delivery agreements – and ensuring congruence between political terms of office and the contract period of senior public officials (who then use normal organisational instruments to lead and manage the bureaucracy beneath them).

Such a system requires the political ability to set out the administrative outputs required to meet political and developmental objectives, the ability to determine if and when those outputs are met, and the ability to enforce performance consequences – negative or positive – to drive adherence to desired behaviours. These abilities, in turn, require high levels of leadership and managerial acumen. In the absence of such acumen, political leaders tend to fall back on non-contractual instruments of exerting control over the bureaucracy, such as linking access to public service employment to party affiliation. In instances where political leaders wish to use their term of office to pursue not just party objectives but also personal agendas, the primary mechanism of control shifts from an emphasis on being loyal to the party and the office to an emphasis on personal loyalty to the politician in question. So, even if the ruling party stays the same, changes in the political heads result in changes in the administrative heads, which can cause high levels of bureaucratic instability.

In South Africa, where the apartheid state had to be fundamentally transformed from one which was designed to serve a few and oppress the majority to one that used new forms of governance to serve the whole nation, finding the appropriate balance between party-driven transformation and bureaucratic stability has not been easy. Having inherited a state dominated by National or Democratic Party bureaucrats, restructuring it to create greater synergy between the ruling party and top officials within the bureaucracy was a clear imperative. More recently, however, changes in bureaucratic leadership have largely been driven by changes in particular political heads rather than in the ruling party per se. New administrative leaders, in turn, have sought to change the composition of critical layers of management beneath them, resulting in wave after wave of restructuring. Moreover, as the relationship between the party and the state becomes increasingly blurred, political contestation within the ruling party all too often spills over into the workings of the state. For example, the Deputy Minister of Cooperative Governance and Traditional Affairs recently stated that:

> For municipalities to perform better, the [African National Congress-led] movement needs to be stronger and more stable. Some of our internal political tensions get transferred to municipalities and serve to create divisions that undermine municipal service delivery and development.[53]

This points to the fact that the nature of the relationship between party and state is also driven by the modus operandi of the ruling party, which is in turn driven by the social context. In democratic societies with highly educated and empowered citizens, a similarly high quality of political leadership is demanded, which is often drawn from the ranks of those who have been successful in other sectors of society. Power is also diffused across a variety of institutions within the broader state, as well as across a variety of civil society groupings. These institutions and groupings are then able to exercise influence over the manner in which political parties function and the processes or mechanisms that enable citizens to exert a high level of accountability over those they elect to lead them. In societies where citizens are not highly educated and empowered, people also identify with political leaders that are similar to them. Moreover, in post-colonial societies where the majority of the population had been disenfranchised and where access to political power after independence or democracy has not brought significant increases in economic participation and control, all too often the state becomes the primary vehicle for social mobility for the previously disadvantaged majority. Likewise, access to political power becomes the primary vehicle for control of the state. The drivers for attaining political office and the quality of political leadership born out of elective processes within the party and the country are shaped by this social context.

South African society has a hybrid of these characteristics, born out of apartheid but also out of more than 15 years of social change. These influence different political parties in different ways. However, if current trends of slow economic transformation and high levels of poverty and inequality continue, these social pressures may shape the extent to which political parties are used as vehicles of social mobility rather than social change. This, in turn, will affect the nature and quality of political leadership and the level of contestation for access to political office, affecting the quality and stability of political governance.

> The slow rate of economic transformation has been exacerbated by inappropriate models and unintended consequences.

With regard to the relationship between the state, business and labour, the fault lines between the government and labour on the one hand and traditional business elites on the other are still largely structured along historical racial and political lines. Since 1994, attempts to bridge this gap have centred around two core strategies — building social coalitions through tripartite or bilateral arrangements, and bringing about the transformation of ownership and management within the economy and workplace. This transformation was not only imperative to redress the apartheid legacy but it was also hoped that it would increase the commitment of the private sector to a broader national agenda. This would, in turn, foster a greater level of connectedness between the government and business elites. Both of these strategies have had only a limited impact.

As for the transformation of ownership and management, policy interventions have centred on increasing employment equity and reducing discrimination in the workplace on the one hand, while seeking to increase economic participation and black ownership of capital on the other. While some progress has been made in increasing workplace diversity and the number of women and people of colour in leadership and management positions, far more has been achieved in the public sector than in the private sector. Recent reports by the Employment Equity Commission suggest that progress in the private sector continues to be very slow.[54] In addition, even where significant changes in leadership have been brought about in the private sector, this has not necessarily resulted in radical changes in the modus operandi, leading some commentators to raise concerns about the 'embourgeoisement' of black elites. However, the challenge is that strong, established institutions tend to have very effective socialisation processes, whereby those who succeed in the institution are those who fit in with the established culture. Radical institutional change is seldom brought about through incrementalism or 'growing people from within' but almost always requires bringing in leadership from outside to turn the institution around. In the absence of radical leadership changes – which have to driven from within by Boards or shareholders – the continued institutionalised racism in many private sector companies is not surprising. Proposals to increase the penalties for organisations that fail to comply with the Employment Equity Act are only likely to change this situation if the penalties are significant. However, if the penalties are too high, they may negatively affect investment decisions. Finding the right balance will not be easy. In addition, such penalties will only work if they are effectively enforced and – as has been shown – the enforcement capacity of the state is not always what it should be.

With regard to BEE, the number of successful black entrepreneurs has risen after 1994 but the situation is still far from ideal. In addition, while the government has set a target of 25% black ownership of companies listed on the Johannesburg Stock Exchange, a recent study found that black South Africans owned 18% of the top 100 companies but only 8% of stocks if treasury stocks, indirect ownership, state-held shares and stakes of overseas companies owned by South African firms are included.[55] Furthermore, the financing structure of many BEE deals means that statistics on black ownership are not so much a reflection of actual capital ownership but rather of debt. It has been argued that the emphasis on capital reform in the initial conceptualisation of BEE was misplaced. For example, Moeletsi Mbeki states that:

> BEE is not a developmental model. It is a wealth redistribution model. But the problems of South Africa are not wealth distribution but wealth creation, and job creation in particular. BEE handicaps entrepreneurship ... it takes the brightest amongst the black people who – instead of devoting their energies to creating new companies, to creating new products, to providing and creating employment – tend to spend most of their time, if not all of their time, looking for redistributing mechanisms to get shares in existing companies. So what you are getting is that the best and brightest black people in the country, instead of creating wealth, building up their own companies, are becoming second fiddle players to existing companies. My core criticism is that we need to be focusing our energies on entrepreneurial development.[56]

As for the state's efforts to support entrepreneurs, concerns have been raised about the extent to which grants reach their intended beneficiaries. For example, attempts to increase the number of black commercial farmers have tended to result in an increase in joint ventures, strategic partnerships and BEE deals, while existing smallholder farmers – some of whom managed to survive even in the harshest of homeland conditions – struggle to get access to finance and support.[57] Progress continues to be made in the use of government procurement processes to promote local and black business. However, concerns have also been raised regarding the extent to which these processes are increasingly subject to abuse by 'tenderpreneurs' who use their political contacts to get access to lucrative state contracts, while having no demonstrable expertise in any particular area of business.[58] Hence, the culture of racial patronage and party affiliation that shaped South African business before 1994 has continued into the democratic era.

These trends have resulted in a complex black business landscape:

- A growing number of black professionals but no radical institutional change (i.e. there may be more black people in charge but they are not necessarily in control);
- A small number of very successful black entrepreneurs within the context of a much larger number of small, struggling black entrepreneurs and smallholders; and
- Those who are not engaged in new wealth creation or genuine entrepreneurship but simply seek to enrich themselves by capitalising on relationships with the state or with established businesses that want to access the state.

At the same time, ownership of capital and *control* of the South African economy largely continue to rest in white hands. If these trends persist, there is a real danger that the short-term interests of individuals or sections within important elements of political, business and even labour leadership may coalesce around a co-optive model of economic transformation. This could significantly undermine ongoing attempts to bring about fundamental economic transformation based on value creation and productive activity, as well as efforts to build social compacts based on a broader national agenda. Within this context, the recent revision of BEE codes to de-emphasise ownership in favour of broad-based approaches centred on skills development and entrepreneurship is welcome.

Social partners have found areas of agreement but an overall national compact remains illusive.

In terms of building social compacts, there have been a number of successful joint initiatives between all or some of the main social partners since 1994. These include the launch of the Business Trust in 2000, the Joint Initiative on Priority Skills Acquisition (JIPSA), the joint Framework on South Africa's Response to the International Economic Crisis, and multi-stakeholder cooperation around the 2010 World Cup, to name but a few. However, attempts to build a national social compact between the government, business and labour continue to be bedevilled by high levels of distrust. Thus, the Minister of Finance recently commented that:

> Unless we do something spectacularly different, unless we can demonstrate the same boldness that we showed with the World Cup ... we are not going to meet both the social and economic targets that we have set for ourselves. But achieving that goal will require a 'humongous national effort' and development of a social compact involving labour, business, the social sectors and government. We have got to now get the minds to meet ... [so as] to determine a national intent.[59]

However, a point that is often missed regarding the ability to extend the successes of 2010 is that the World Cup was predicated on an externally enforced contractual regime that had significant consequences for failure. In the absence of such binding mechanisms and consequences, parties too easily revert to interest-based or ideological positions within negotiating forums, rather than building on areas of agreement to arrive at a higher level of consensus. Hence, while business and labour have respectively been able to take a united stance on certain critical issues (e.g. wage settlements or business incentives), strong fault lines remain with regard to economic and workplace transformation. Tripartite relationships have also been affected by differential levels of unity within labour and business formations. For example, Solidarity's views on workplace transformation are in sharp contrast to those of the Congress of South African Trade Unions (COSATU). There have also been growing tensions between black and white business formations, with the recent suspension of participation in BUSA by black business formations due to 'BUSA's lack of commitment to transformation' being a case in point.[60] Moreover, the mechanism for holding parties accountable when they fail to fulfil tripartite agreements is unclear. This has led to questions about the efficacy and impact of tripartite forums such as the National Economic Development and Labour Council (NEDLAC).[61]

In some cases, there has been more success in the implementation of sector-specific compacts, but these pacts have also had limitations in terms of driving individual business choices or receiving the necessary support from critical government departments and spheres. Moreover, as noted, these agreements are not always practical and realistic, suggesting that the quality of economic stewardship within both government and business needs to be improved.

The relationship between labour and the ruling party has also been complex, with COSATU raising ongoing complaints about the effectiveness of the Alliance and the extent to which the African National Congress (ANC) pays attention to the views of its labour and socialist counterparts.[62] In turn, the ANC has at times accused the trade union movement of supporting narrow 'workerist' interests at the expense of broader national objectives, as seen in its opposition to the youth wage subsidy, its role in pushing up public sector salaries, and its possible contribution to dysfunctionality in health and education. At the same time, the relationship between different union affiliates within COSATU as well as between COSATU and other members of the Alliance has been influenced by growing political contestation and debates about the nature of the progressive movement and its management of the transition.

State-community relations seem to be deteriorating amid rising frustrations over service delivery.

Lastly, with regard to the relationship between the state and communities, while several mechanisms have been introduced since 1994 to encourage public participation and engagements, including participative processes around Integrated Development Plans (IDPs), ward committees, Izimbizo, satisfaction surveys and presidential hotlines, these have not been as effective as hoped. It has been argued[63] that this is partly due to misconceptions about the nature of collective action and association, and the extent to which forms of social capital can be 'harnessed' in building relationships with the state. This situation is exacerbated by poor participatory practices either because political representatives are not sufficiently rooted in their communities or because participation is seen as an 'instrumentalist tool' rather than building community empowerment and 'social citizenship'. Thus, during elective or participatory processes, some politicians make promises to communities that they cannot possibly keep, and they later find it difficult to go back to the communities to explain why these promises have not been kept. While Izimbizo were put in place inter alia to try and offset some of these local weaknesses, in 2009, the Public Service Commission noted that the 'critical challenge … [of Izimbizo was] that there [was] usually no feedback loop for communities to track whether their concerns [were] addressed or not'.[64]

International experience suggests that failure to promote genuine social dialogue on issues that affect the lives of most people tends to encourage undemocratic means of pressing claims and the delegitimisation of representative institutions. Hence, it is particularly important in new democracies for the policymaking and implementation processes to be sufficiently inclusive to induce major political actors to participate in representative institutions, rather than seeking to sidestep or subvert the democratic order, with negative consequences for political stability and economic development as a whole.[65] In South Africa, since 2004, public confidence in government has decreased

Figure 13: Trust in government institutions, 2004-2009[66]

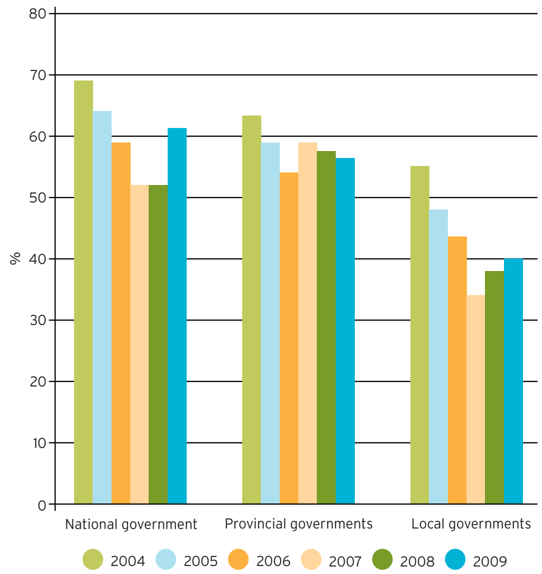
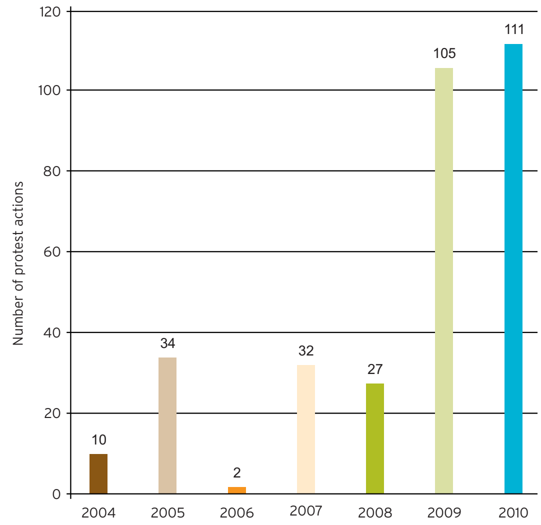


Figure 14: Service delivery protests, 2004-2010[67]



across all three spheres, with the greatest decrease being in the local government sphere (see Figure 13). At the same time, the number of service delivery protests has increased significantly (see Figure 14).

Many of these protests relate not just to municipal performance but also to national and provincial functions, such as housing delivery. They suggest that communities are increasingly losing faith in formal representative and participatory governance processes, believing that protesting is a more effective way of achieving their demands. This is clearly a very dangerous trend. Thus, the Public Service Commission recently noted that the upsurge in community protests 'should come as a signal to government that effective communication and public participation must remain a fundamental priority'.[68]

Into the looking glass

Foresight involves seeking to anticipate possible alternative futures and their potential consequences. Since the future is unknown and full of unintended consequences and unforeseen events, foresight processes are simply a mechanism to stimulate thinking about the future to enhance the quality of present day decision-making. They are not, nor are they intended to be, predictive. While there are a number of foresight methodologies, the best known is scenario analysis. In essence, scenarios are plausible stories of different pathways to the future, based on the potential interplay of different variables or driving forces within a system. The scenario development process is usually intuitive and not data-driven, i.e. scenarios are based on plausibility and not calculations of probability. However, in some instances, this intuitive process needs to be complemented by more data-driven techniques, such as trend analysis. Within the South African context, examples of intuitive scenario-building processes include the 2006 Live the Future Scenarios, focusing on how HIV and AIDS could shape South Africa's future up to 2025,[69] the 2025 Scenarios developed by the Presidency in 2008[70] and the Dinokeng Scenarios developed in 2010.[71] In contrast, the Employment Scenarios to 2024 developed by the Human Sciences Research Council in 2007[72] were strongly data-driven, calculating different potential impacts of different GDP growth rates, labour force participation rates, sector growth

(Into the looking glass continued)

rates, and the like. The foresight methodologies used for this *Development Report* were a combination of data-driven and intuitive approaches. The data-driven process consisted of compiling baseline linear projections based on historical time series data for variables in the following areas: the economy, energy, water, health, education, human settlements, security, social capital and governance. While attempts were made to gather as much data as possible, baseline projections could not be done in certain areas given the lack of adequate time series data, such as the green economy, matric pass rates and FET throughput. This process was complemented by three Delphi processes, where South African experts from a number of fields were invited to provide their informed opinions on the probabilities of certain trends occurring. With regard to the intuitive scenario-building process, key driving forces were identified, which in turn led to the identification of a set of change levers. Their probability of success and time to impact were then used to craft a set of scenarios. This section focuses on baseline projections, which are not meant to be predictive but are simply pointers to a possible future. The outcomes of the scenario process are outlined in later sections below.

2. Future implications of current trends

The New Growth Path suggests that South Africa will require GDP growth of 4%–7% if it is to create five million jobs in ten years, or 500 000 jobs per year. It estimates that this will result in an unemployment rate of 15% by 2020. In terms of current global economic forecasts by the IMF, it appears that South Africa will struggle to achieve 4% GDP growth in the next few years (see Table 3). Moreover, given that the European sovereign debt crisis and its contagion of the global economy could still get significantly worse, South Africa may well continue to experience relatively low growth rates for some time to come. In addition, in relation to the employment intensity of growth, calculations by the DBSA suggest that GDP growth of not less than 10% per year (as opposed to 4%–7%) may be required to create half a million jobs per year for the next ten years.[73]

Thas, the challenges cited above and the ongoing job losses in important labour-absorbing sectors prioritised by the New Growth Path suggest that the job creation targets are unlikely to be achieved in the short to medium term. Should trends in the unemployment rate stay the same, based on 2010 calculations, South Africa is likely to have an unemployment rate of around 20.9% by 2025,[74] which is only a marginal change from current rates. Should the economy deteriorate even further, unemployment will obviously rise. With regard to poverty, in 1994, over half (53%) of the population lived on less than US$2 per day. By 2010, this percentage had dropped to 49%. However, baseline projections suggest that it will rise again to 53.4% in 2020 and 59.2% in 2025.

In terms of educational output, the total number of graduates has almost doubled since 1994. In 2008, there were 115 000 graduates, and baseline projections suggest that this number will continue to rise from 122 600 in 2010 to 178 400 in 2025. However, it is estimated that only 9100 people graduated with degrees in mathematics and engineering in 2010, and baseline projections indicate that this number will increase to only 14 000 by 2025. The New Growth Path has set a target of at least 30 000 additional engineers by 2014. As for research and development, the proportion of the national budget spent on these increased to 1.3% in 2010. Nevertheless, this expenditure is well below the international norm of 2%. Still, baseline projections suggest that this norm will be reached by 2016 and exceeded (at 3.5%) by 2025, should current trends continue.

With regard to health, approximately 60 of every 1000 babies born in 2010 died in infancy. However, the expansion of primary health care, better control

Table 3: IMF global economic outlook, September 2011[75]

Year-on-year % change	2007	2008	2009	2010	2011	2012
World output	5.2	2.8	–0.6	5.1	4.0	4.0
Advanced economies	2.7	0.2	–3.4	3.0	1.6	1.9
United States	2.1	0.0	–2.6	2.9	1.5	1.8
Euro Area	2.7	0.5	–4.1	1.8	1.6	1.1
United Kingdom	2.6	–0.1	–4.9	1.3	1.1	1.6
Japan	2.3	–1.2	–6.3	4.0	–0.5	2.3
Emerging and developing economies	8.3	6.0	2.6	7.4	6.4	6.1
Developing Asia	10.6	7.7	7.0	9.6	8.2	8.0
China	13.0	9.6	9.2	10.3	9.5	9.0
India	9.4	6.4	5.7	10.4	7.8	7.5
Middle East and North Africa	6.2	5.0	1.8	4.4	4.0	3.6
Sub-Saharan Africa	7.0	5.5	2.8	5.1	5.2	5.8
South Africa	5.6	3.6	–1.7	2.8	3.2	3.4

of the HIV and AIDS pandemic, and a declining total fertility rate should allow this number to fall markedly over the next decade. A simple linear extrapolation of recent trends suggests a precipitous drop in infant mortality rates. A rate typical of developed countries (10 deaths per 1000 live births) is possible by 2020. Baseline projections of recent trends also indicate that the decline in life expectancy has stopped, and life expectancy will stabilise in future.

In terms of access to services, between 1994 and 2010, the proportion of households with both mains electricity and water piped to their stand or dwelling increased from 51% to 66%. Baseline projections suggest that this will increase to 84.9% by 2025. This is still short of the government target of universal access by 2014. With regard to housing, between 1997 and 2009, the proportion of households living in informal settlements increased from 11% to 13%, despite massive state housing programmes. This increase is attributable to population growth, immigration and the unbundling of households into ever-smaller units. Should these trends continue unchecked, baselines projections suggest that the percentage of households living in informal housing will increase from 14.3% in 2010 to 18.2% in 2025. In addition, while the proportion of the population living in metropolitan areas has increased only slowly since 1994, there has been a marked increase in the rate at which metropoles have grown in recent years. Baseline projections indicate that the 38.4% of the population living in metropolitan areas in 2010 will rise to 43.5% in 2025.

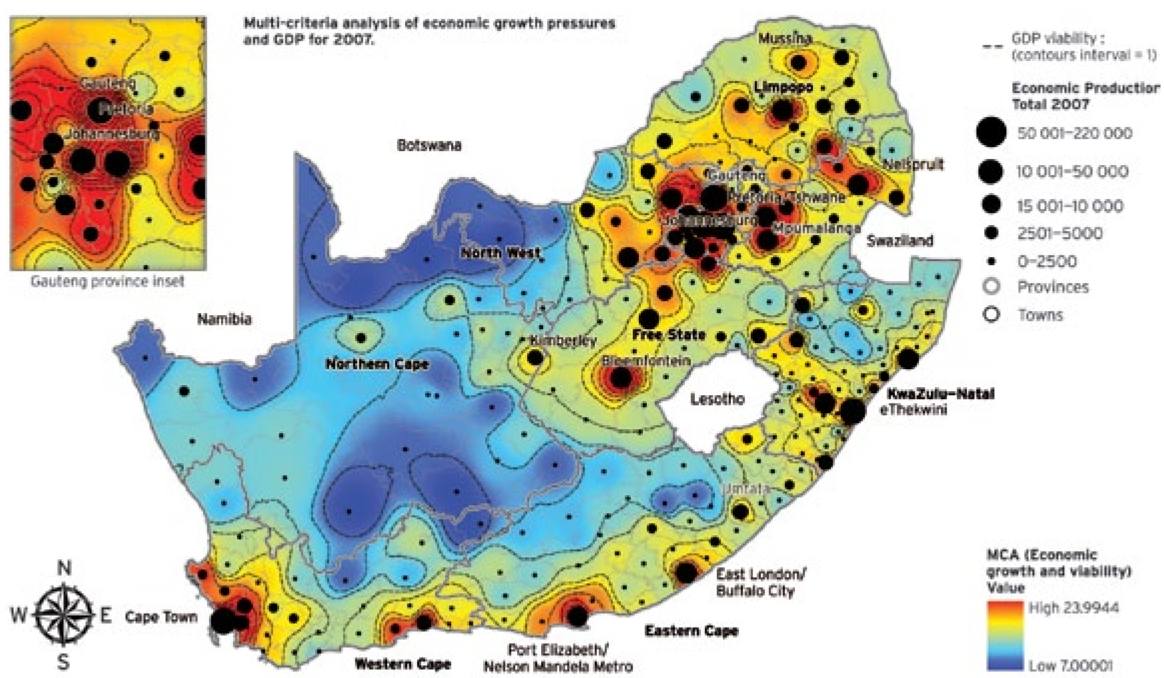
Lastly, with regard to levels of social capital, the proportion of eligible voters participating in elections has declined steadily since 1994. In the last national elections in 2009, only 58% of the population of voting age took part. This is a significant decline from the 94% participation rate in 1994. The linear projection of recent trends shows that, by 2020, the voter participation rate in national and provincial elections could drop as low as 32%. Similarly, membership of a religious group — which, within the context of limited data, is often used as a proxy for the general social fabric of a society — has also been in decline. In 1999, 94% of adults said they belonged to a religious grouping; by 2006, this had fallen to 81%. The baseline projection indicates that religious group membership will drop to 57% by 2020, denoting a continued loss in this dimension of social capital. Trade union membership is another aspect of belonging to groups and, like church membership, denotes higher social capital. Although membership figures have oscillated in recent years, a simple projection of recent trends suggests a continued but marginal growth in union membership, from 3.5 million in 2010 to 3.8 million in 2020.

In terms of 2025 spatial projections, the areas that would most likely act as attractors of economic development in future, should current trends continue, are typically centres of economic agglomeration that are attractors of people (spanning income, skills and age groups), are highly accessible and have an ability to diversify and adapt their economies (see Figure 15).

The areas highlighted as of importance, given the critical indicators of regional and uneven development, are:

- The southern and eastern coastal regions, including the Cape Town region, Saldanha, Paarl, Stellenbosch and surrounds;
- Knysna and Plettenberg Bay and surrounds;
- Nelson Mandela Bay metropolitan area and surrounds;
- Buffalo City and surrounds, and the Hibiscus Coast up to eThekwini and north to Richards Bay;
- The Durban–Gauteng corridor from eThekwini-Pietermaritzburg to the Harrismith and Bethlehem areas;
- The resource and agriculture-rich northern parts of the country, from the extended Gauteng region towards Nkangala District in the east, Bojanala District in the west, Mmabatho in the North West province, and Lephalale and Polokwane in the north; and
- Resource-rich areas within the network of cities and towns, for example in the north-eastern and northern part of the country around Polokwane, Thohoyandou, Tzaneen and Thabazimbi in Limpopo; Mbombela (Ehlanzeni area) and Komatipoort in Mpumalanga; and Kroonstad, Bloemfontein and Kimberley.

Figure 15: Areas likely to be key attractors of the economy in the next decade, and possibly up to 2025, given current trends[76]



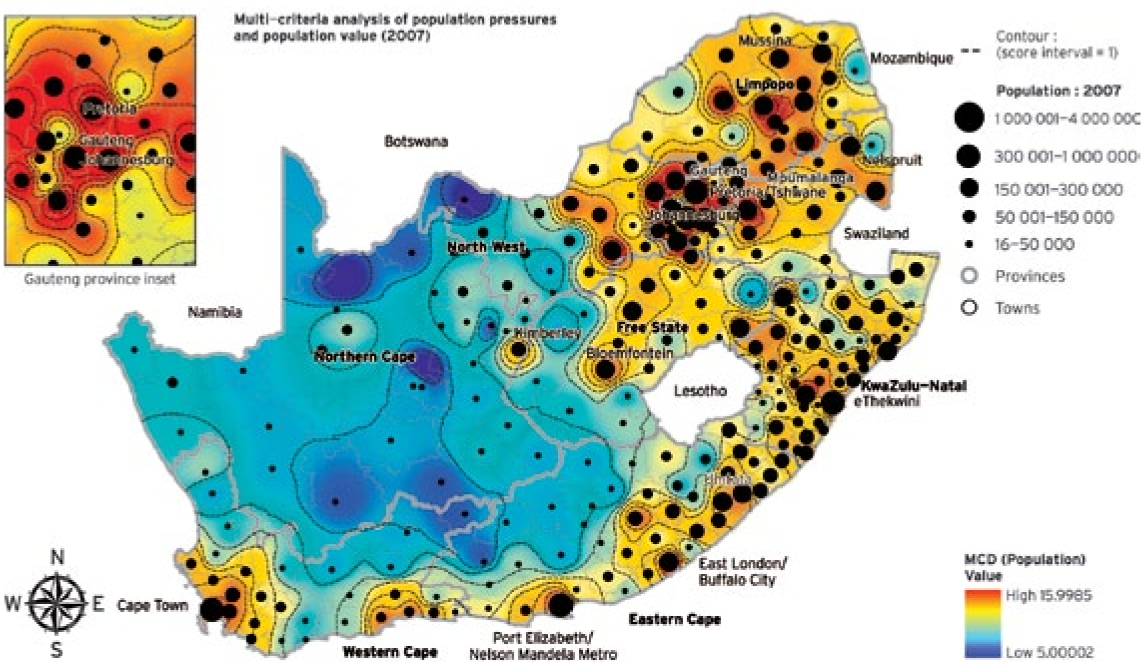
The areas that would most likely act as attractors of high population densities and settlement growth in future (see Figure 16), given current trends, are typically centres of existing population concentrations. These are marked by high natural growth rates, internal (and probably also external) migration, and opportunities to make a living (e.g. formal and informal employment, and access to economically active people and grant incomes).

The areas would include:

- The southern coastal regions, including the Cape Town region, Saldanha, Paarl, Stellenbosch and surrounds, Knysna and the Plettenberg Bay area and surrounds;
- The Eden district area, with towns such as Plettenberg Bay and Knysna, and the Nelson Mandela Bay metropolitan area and surrounds;
- Buffalo City and surrounds, as well as the coastal strip and inland areas of the densely settled former bantustan areas of Transkei and Ciskei;
- The densely settled KwaZulu-Natal coastal and inland areas, with higher densities in the more economically viable coastal towns to the south and the north;
- eThekwini and surrounds, and the network of towns around the corridors to Gauteng and Mpumalanga;
- The northern parts of the country, extending from the Gauteng region towards the densely populated areas of Bushbuckridge and Ehlanzeni in the north-east, and the Thohoyandou, Giyani and Polokwane areas in the north; and
- Around towns and regional centres such as Mmabatho in the North West, Kimberley in the Northern Cape, and Motheo and Kroonstad in the Free State.

The patterns also indicate persistent uneven development, with many areas and municipalities, especially the arid and less accessible Northern Cape and central parts, showing continued low economic activity. These areas are, however, also sparsely populated and likely to remain so. More alarming is the mismatch between

Figure 16: Areas likely to be characterised by high population densities up to 2025, given current trends[77]



projected economic activity in the densely populated areas of the Eastern Cape and KwaZulu-Natal, where high-density former bantustan areas are foreseen to experience further population growth despite evidence of outmigration, especially among the youth.

In addition, spatial projections indicate that, by 2025, the water situation in most areas of the country may be dire if the necessary investments in development are not made.

Areas of major concern are the eThekwini-Pietermaritzburg region, the western and southern parts of the Cape and the (already) densely settled central and northern parts of the country. While this map could look very different should investments in development be undertaken – especially for potentially water-rich areas such as the eThekwini-Pietermaritzburg area – the ongoing lack of sufficient investment is cause for concern.

Moreover, the areas that may well face the most pressure for high-density development by 2025 are also the areas with:

- The highest mining potential – the central and northern parts of the country;
- The highest agricultural capacity, with serious implications for food security – the central parts of the country and the northern parts of the Free State; and
- Water-rich areas (highest mean annual water runoff), where future water sources have to be protected through appropriate land management and farming practices – typically the high-density settlements in KwaZulu-Natal and the Eastern Cape (see Figure 17).

Clearly, trade-offs will have to be made between potential for future economic activity, current considerations in terms of other developments in these areas, and a recognition of the importance of natural assets for future generations, especially those that will determine water availability and food security.

Figure 17: The relationship between projected water availability scenarios – without development – and population estimates for 2025[78]

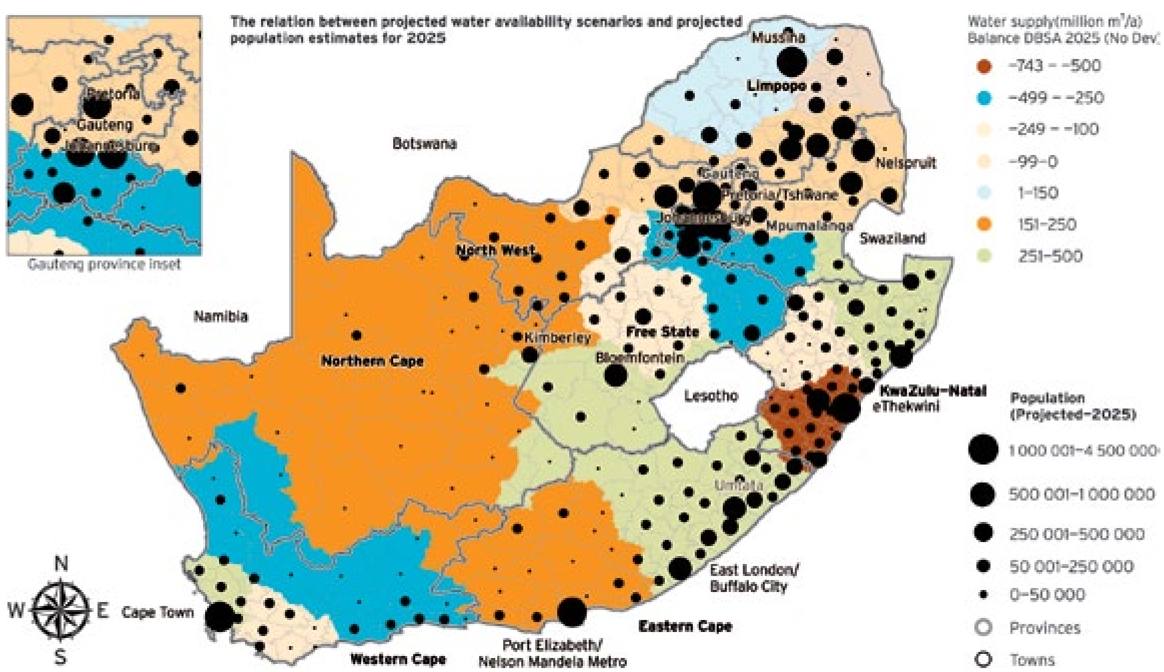
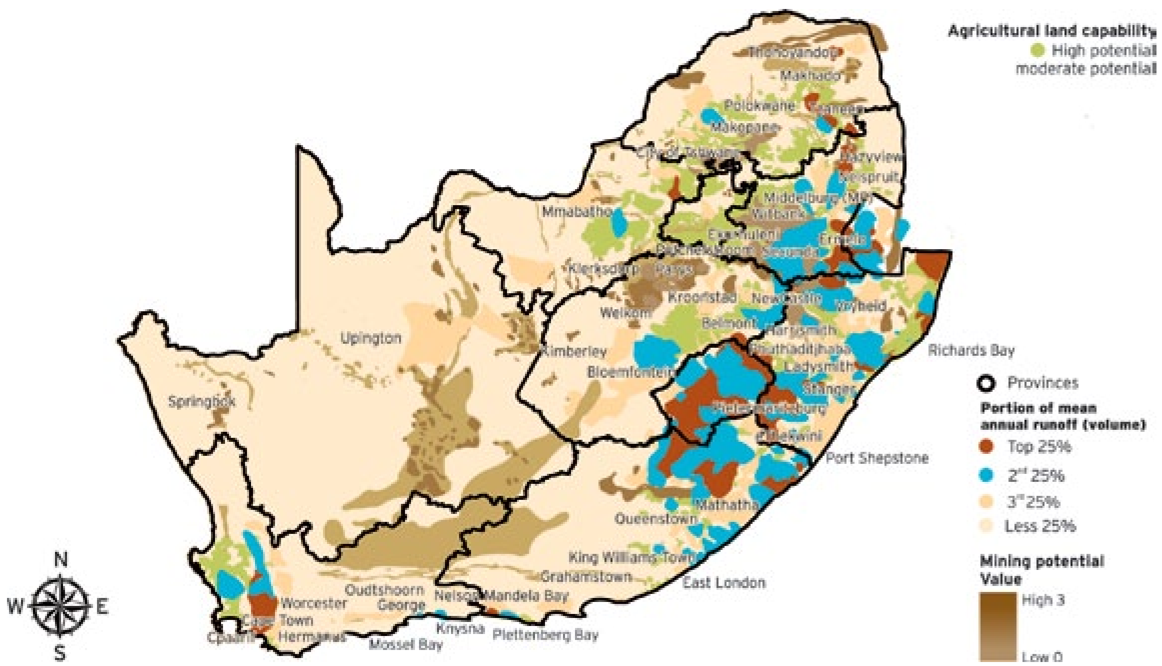


Figure 18: The relationship between projected resource-rich regions and areas that act as ecosystem lifelines[79]



3. Key driving forces

It is clear from the above analysis that South Africa's current trajectory is affected by a confluence of different forces. These forces relate to path dependency arising out of the legacy of apartheid, changes in the global environment, broader geo-structural factors, the efficacy of the state and the relationship between the state and civil society. These driving forces include:

- Globalisation
  - Changes in the global economy and geopolitics
  - Climate change and global sustainability concerns
- Geo-structural factors
  - The space economy
  - Prevalence and spread of natural resources
- Apartheid legacy
  - Enduring inequalities
  - The structure of the economy, e.g. the influence of the minerals-energy complex, export weaknesses and a lack of competition
  - Spatial marginalisation
  - The institutional fabric
  - A dysfunctional values system, i.e. apartheid-inspired racial patronage and a lack of meritocracy contributed to a post-democratic ambiguity around skill, authority and individual achievement versus entitlement
- The state
  - The level of state effectiveness
  - State-party relationships
  - State-community relationships
- The state and civil society
  - Social compact challenges
  - Ongoing skills shortages and deficits
  - The nature of economic transformation
  - The functioning of political parties

The first two sets of forces cannot easily be influenced. The last two sets of forces will determine the extent to which South Africa can wrench itself out of apartheid path dependency. However, developing the institutions required to bring into being a truly developmental South African state will be a long-term process, which will intimately be tied to changes in society as a whole. In addition, while the current administration has once again embarked on an intensive and extensive reform programme, the challenges and constraints that have so far inhibited radical transformation in state performance as well as state-society relationships remain. Thus, these initiatives are also likely to have a limited impact in the absence of effective capacity to execute. The key is to develop a set of interventions that can be implemented within current constraints but also have the power to catalyse broader change in the system. This will involve leveraging existing areas of effective leadership and institutional strength to bring about change, drawing on the talents of all South Africans. It will also require a greater level of realism and an ability to prioritise.

4. Key levers of change

The first priority needs to be addressing weaknesses in political governance where they occur, not just within local government but also within other areas of the state, accompanied by strengthening public accountability. An ongoing lack of effective political governance will continue to undermine efforts to increase the efficacy of the state and to forge broader social coalitions that unite the talents and energy of all South Africans behind a common agenda.

> Improving political governance is central to changing South Africa's development path.

This needs to go hand-in-hand with efforts to strengthen economic stewardship and civic leadership. Given the challenges noted above in building a national social compact, a more bottom-up approach might yield better results. This could take the form of sector-based agreements – not just in critical economic sectors but also in social sectors such as education and health. The focus should be on building on areas of institutional strength and depth to gain momentum in sectors where significant and tangible progress can be made. Such interventions could also be used to start inculcating a new value system aimed at driving excellence through improving individual and community or group agency. With regard to the performance of the state, interventions to improve political governance must go hand-in-hand with improving the quality of administrative leadership, particularly in priority areas. In addition, given the capacity challenges across the state, more targeted and focused delivery improvement interventions need to be undertaken, while more long-term reform strategies continue to be rolled out. This must be accompanied by collective efforts to build skills pipelines in critical areas. The fragmented nature of the state also needs to be addressed through streamlining powers and functions in the short term and implementing measures to decrease institutional complexity in the medium to long term.

These interventions are outlined in more detail below. While all of the proposed interventions are vital and possible, some have a higher probability of success, some will take longer to have an impact, and some will have a bigger developmental impact than others. Each intervention has been assessed against these factors. Time to impact is defined as short term (up to 2014), medium term (up to 2019) and long term (up to 2025 and beyond). Path-breaking interventions are those that have the potential to break South Africa's current trajectory. Path-making interventions are those that have the potential to set the country on a fundamentally new path. The likelihood of success is ranked as low, medium and high, and denoted in the tables by the colours red, amber and green respectively.

4.1 Leadership

4.1.1 Improving political governance

In the short term, improving the quality of political governance would involve optimising the quality of political leadership in priority areas or ministries. While the Performance Monitoring and Evaluation Unit has made great strides in the development of publicly available delivery agreements, the extent to which consequences for poor performance will actually be meted out is still to be fully tested. Increasing public awareness of and engagement with ministerial delivery agreements will be crucial to reinforcing the sense of public accountability. To this end, the structure of delivery agreements must be improved to indicate more clearly which outputs are to be delivered on a quarterly and annual basis, so that citizens can track progress effectively. In addition, outputs that are location-specific, such as infrastructure or the performance of a school, hospital or government office, are currently not spatially referenced, making it difficult for the public to track delivery. Hence, similar performance agreements or citizens' charters must be developed for premiers, Members of the Executive Council (MECs) and mayors, to allow people to track visible improvements in their area. In addition, a mechanism needs to be developed for the external verification of results. This could take the form of an expanded performance auditing mechanism, housed within the Public Service Commission. Lastly, a number of sector, community and media-driven accountability mechanisms could be developed by civil society bodies to complement those developed by the state.

The relationship between the party and the state also needs to be optimised to improve administrative stability and policy coherence. This will involve delinking changes in political heads from changes in administrative leadership (unless there has been a change in the political party in office), and concretising political roles and responsibilities where necessary. For example, at municipal level, a clear distinction needs to be established between legislative oversight and executive functions through regulatory measures to encourage the greater use of s80 committees; centrally determining and assigning proper roles and delegations for the mayor, Speaker and council committees; confining direct political involvement in the administration to the competency-based appointment and objective oversight of the municipal manager; and barring political office bearers from appointment to administrative posts. Recent legislation in this regard is a welcome development.

Ultimately, however, managing citizen expectations requires public leaders who 1) understand how government actually works and what it takes to deliver on something within what timeframe, so they do not make promises they cannot possibly keep; and 2) can communicate clearly and effectively so as to engender trust. How political leaders are chosen therefore becomes vital. It is important to develop effective models to improve the leadership development and deployment processes of political parties. This would involve defining the standards and competency requirements – innate abilities, skills and knowledge – for different political roles within the state; improving deployee assessment processes; creating proper career paths within the party and government; and revising training and development programmes. While a few parties have sought to incorporate some of these elements into their leadership selection processes, changing political cultures in the South African socioeconomic context will be a long-term process. However, over and above improving public accountability, the basis for this transition could be laid in the short term through celebrating incidences of good political governance, helping politicians to upgrade their skills through customised coaching and development programmes that expand their career options, as well as strengthening existing initiatives to define competency frameworks for different political offices.

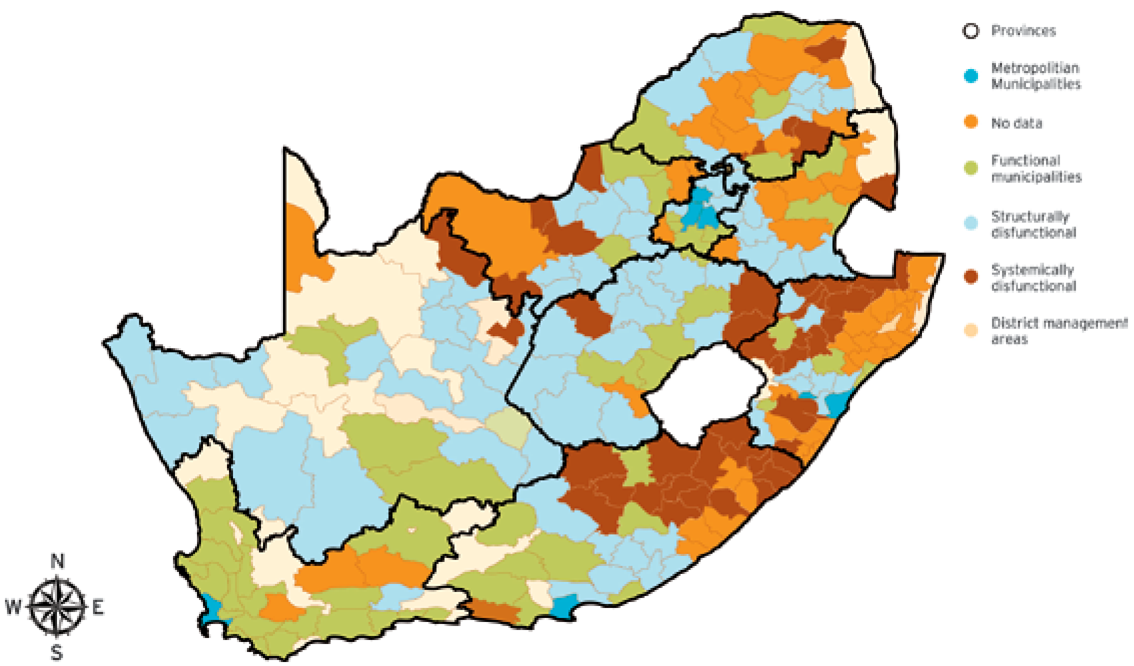
Table 4: Improving political governance

Proposed intervention		Time to impact	Path-breaking impact	Path-making impact	Likelihood of success	Success likelihood rating
Improving political governance						
PG1	Public accountability mechanisms	2014	●		**High:** Instruments exist and would be easy to strengthen	● (green)
PG2	Structure of relationship between party and state	2014	●		**Medium:** Even if conceptually resolved, actual relationship would depend on political leader involved	● (yellow)
PG3	Functioning of political parties	2025		●	**Low:** Will require deep cultural and socioeconomic shifts	● (red)

Unpacking government performance – the municipal differentiation model

Traditional capacity building interventions for local government have tended to follow a one-size-fits-all approach, which has failed to take adequate account of different institutional dynamics and circumstances. In addition, national departments have tended use static models to categorise municipalities, which assumed that those with large endowments would also automatically perform well. In practice, however, this was not the case, with some well-endowed municipalities performing far worse in relative terms than some municipalities with far less. Hence, in order to promote a more nuanced and targeted approach to the assessment and management of municipal performance, the DBSA developed the Municipal Differentiation Model (dbsaMDM). The dbsaMDM is a dynamic model that seeks to place municipalities on a developmental continuum based on their *endowments* (their local space economy and financial reserves) and their *performance* (their execution capacity to use their endowments to achieve their goals and objectives in a sustainable manner). Thus, endowment indicators are derived from the municipality's economic and financial resource base. Performance indicators relate to issues such as leadership, administration, regulatory compliance, service delivery and financial management. Though still in its initial stages, this model has enabled the DBSA to start building a picture of those municipalities that are functional (performing in terms of their endowments and likely to sustain their capital programme), those that are structurally dysfunctional (underachieving in terms of their endowments), and those that are systemically dysfunctional (have an extremely low resource base and are unable to sustain municipal services without special, focused interventions). The spatial distribution of functional, structurally dysfunctional and systemically dysfunctional municipalities is set out in Figure 19 below. It is hoped that this more nuanced approach will assist in ensuring that the design of local government support programmes is more fit-for-purpose, while also paving the way for the development of a new financial and institutional dispensation for systemically dysfunctional municipalities.

Figure 19: Spatial distribution of functional and dysfunctional municipalities



The likelihood of success, the developmental impact and the time to impact of these interventions are set out in Table 4 below.

The analysis suggests that the most effective path-breaking lever in the short term will be improving public accountability. While addressing the relationship between party and state could have short-term benefits, it has only a medium likelihood of success. Restructuring community-state relationships will take longer to have an impact and has only a medium chance of success. While changing the functioning of political parties would set South Africa on a different developmental path, the proposed short-term interventions would be offset by deep cultural and socioeconomic forces that will take a long time to shift.

4.1.2 Improving economic stewardship

Roles and responsibilities relating to the leadership of economic strategy in South Africa remain ambiguous. This applies to those directly involved, such as the National Planning Commission, the National Treasury, the Department of Science and Technology, the Department of Trade and Industry, the Economic Development Department and the Department of International Relations and Cooperation. However, economic policy also influences other critical departments, such as Public Enterprises, Basic Education, and Higher Education and Training. The result is that different departments have produced different sets of documents, and the level of integration and alignment between them is not always clear. While the New Growth Path tries to bring about a level of integration, this also results in it being largely a consolidation of socioeconomic policy priorities across government, which thus does not adequately articulate what is old and what is new or some of the hard strategic choices required. For example, the microeconomic policies it proposes have been part of the economic policy discourse for at least a decade but have not been adequately implemented. Likewise, growth trajectories based on the industrial and primary sectors are simply enmeshed without any real discussion of their independent or collective viability or their trade-offs. While the politics of accommodation has many uses, it also has the danger of obfuscating significant policy differences, which departments then continue to pursue independently, thus further undermining policy consistency. Hence, a clear decision on the leadership of economic strategy within government needs to be made, while putting in place better mechanisms for coordinating economic strategy across the state.

In addition, the government should work towards gaining sufficient consensus around a realistic assessment of South Africa's current and potential areas of competitive advantage and how to achieve such advantages. This would involve immediately strengthening and increasing the momentum of existing partnerships, for instance in the automotive and energy sectors, to stem job losses and boost growth in the medium term. The government must also move swiftly to resolve the policy uncertainty in the mining sector, so that the focus can shift to the successful implementation of the joint strategy agreed to by the parties.

> We need to undertake a realistic assessment of South Africa's true areas of competitive advantage and what it will take to achieve them.

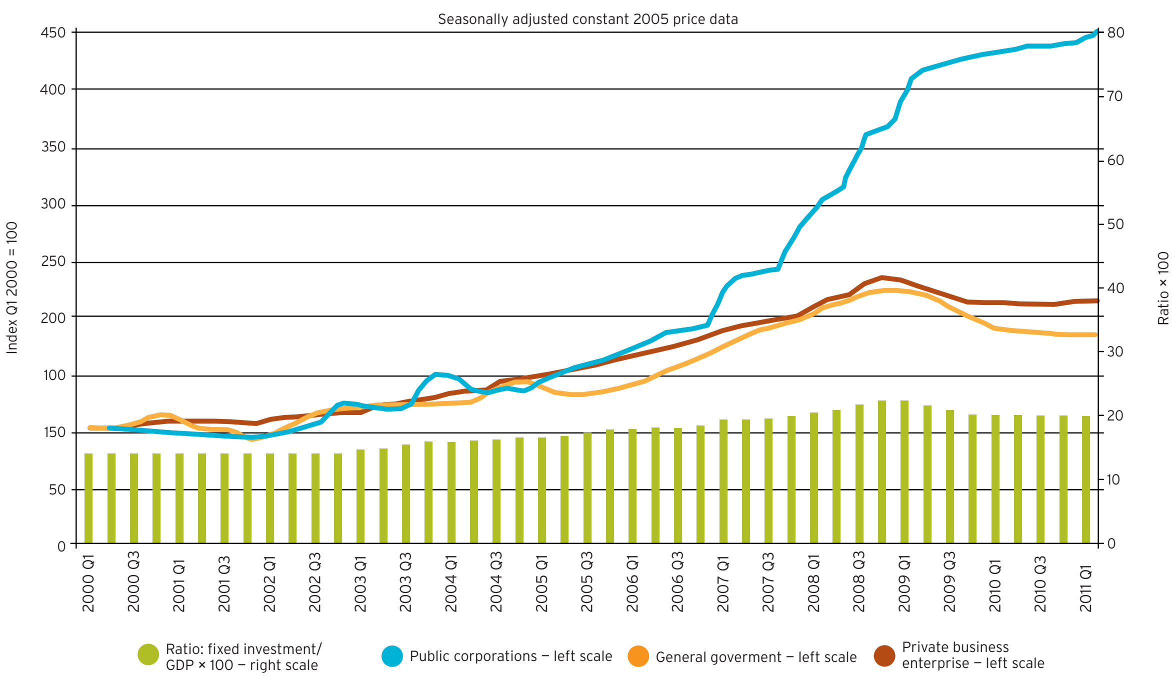
Political contestation relating to agriculture and land reform continues to be influenced, and exacerbated, by the lack of proper policy direction and coherence in this area. For example, it is still unclear how the Green Paper on Land Reform relates to the forthcoming Green Paper on Rural Development and how both will relate to broader initiatives to increase growth and sustainable labour absorption in the sector (considering that many agricultural jobs are seasonal). Decisive political action will be required to resolve this issue, as will initiatives to address ongoing institutional weaknesses in the Department of Rural Development and Land Reform. Such initiatives will improve the Department's ability to drive a coherent policy agenda that promotes agricultural competitiveness, while also addressing the imperatives of transformation (see below, as well as Chapter 8).

In addition, a realistic assessment is needed of the country's potential path to reindustrialisation. While competitive factors are different for different industries and sectors, two important areas need to be addressed. For those manufacturing sectors where price is the main global competitive factor, hard choices will have to be made about reducing input costs if South Africa wishes to compete in these sectors. Where the main competitive factor is differentiation through innovation, South Africa must vastly increase technology transfer driven by foreign direct investment, supported by the mass importation of skills and much higher investment in research and development. Even here, substantive localisation is only likely to take place once educational outcomes and the productivity of the labour force improve. Hence, a knowledge economy is only likely to emerge in South Africa in the very long run. Furthermore, 'Factory South Africa' will only be possible if exports of value-added goods to Africa significantly increase, which in turn will depend on two core things. The first is the extent of the country's ability to support its African counterparts in addressing the institutional weaknesses that perpetuate non-tariff barriers to trade on the continent. The second is persuading its fellow BRIC partners, and other important investors, to see South Africa as a gateway to Africa rather than as just another competitor. Without these, South Africa will simply not be able to compete.

Much of the above would also apply to the potential of green economy initiatives, which also need to be supported by better policy coherence, a clearer regulatory framework, appropriate financial incentives, and improvements in local government capacity.

Infrastructure development has already been identified as an important driver of economic growth, with many positive multiplier effects. However, if South Africa is to play to its strengths in this area, it will have to build on established capacity in strong public corporations and development finance institutions to carry out its infrastructure programme in the short term. From 2005, investment by public corporations has significantly outstripped that of government in general as well as the private sector (see Figure 20). Over and above economic infrastructure, investments by public corporations have many multiplier effects. For example, recent announcements by the Minister of Public Enterprises on the establishment of a competitive supplier development programme should contribute to establishing strong value chains between public enterprises and important industries in the local manufacturing sector. In addition,

Figure 20: Trends in gross fixed capital formation, 2000–2011[80]



state-owned enterprises have historically played a significant role in the development of intermediate skills. Some of them are beginning to resuscitate this role amid calls for the reintroduction of the apprenticeship system.

> The institutional arrangements for infrastructure delivery will need to be radically improved.

However, the investment strategies followed by public corporations and the management of the infrastructure under their control have been driven largely by internal imperatives rather than by a broader set of strategic, integrated infrastructure development goals. Moreover, many state-owned enterprises have recently experienced poorly managed leadership transitions. These governance challenges will need to be addressed if public corporations are to fulfil their true potential. Furthermore, the role of regulatory bodies, their relationship with state-owned enterprises and their ability effectively to regulate the sectors under their control have also been subject to criticism.[81] What is required, therefore, is a candid review of the mechanisms of infrastructure delivery in South Africa – including the role of regulatory bodies – in order to streamline and optimise powers, functions and accountabilities. Harnessing the capability of these corporations in a new direction will require shareholder departments to be capacitated to play their oversight role, which will include addressing the current disconnect between sector departments and the Department of Public Enterprises. The technical capacity and governance systems of state-owned enterprises will also need to be enhanced. Shareholder departments should be better coordinated, possibly through a structure similar to the DFI Council. This structure should be tasked with reviewing current legislation on these institutions with a view to ensuring more coherence, development impact and operational efficiency. Access to off-balance-sheet and concessional funding will also be necessary. To this end, the government could provide equity, guarantees, transfers, tax exemptions or dividend retention, complemented by a structured partnership between development finance institutions and state-owned enterprises to ensure that the former support the resource planning and financing of important strategic programmes.

At the same time, developing an integrated infrastructure plan for South Africa – which involves streamlining government efficiencies across a multi-sphere value chain – also requires the capability of other spheres of government to be addressed. In the short term, this could involve using strong development agencies and development finance institutions to build effective programme management capacity in priority national and provincial departments, as well as municipalities. This could go hand-in-hand with reorganising the relationship between large and smaller development

Supporting regional integration

DBSA activities in the region focus on promoting regional development and integration through infrastructure investments that support increasing economies of scale and cross-border connectivity, such as power, water, transport and telecommunications. The Bank's transactional and project financing focus is complemented by upstream strategic planning and project development activities, particularly relating to strategic projects that integrate South Africa with its neighbours and with high-potential SADC countries such as Angola and the Democratic Republic of Congo. In addition, in support of the South African government's bi-national commissions and regional integration efforts, the DBSA plans to support cooperation between the SADC and adjoining Regional Economic Communities. For example, on behalf of the SADC, COMESA and the EAC, the DBSA has been given grant funding of £67 million by the United Kingdom's Department for International Development (DFID) to act as an agent in support of regional and inter-regional integration projects, to blend with the Bank's own financing across the north-south corridor comprising south and eastern Africa. In addition, the DBSA will be working on developing a common approach on engagement in the BRICS Banking Mechanism in support of the South African government's objective of using the country's BRICS membership to increase strategic cooperation among emerging market economies of the South.

finance institutions to improve the impact and capacity of the latter. In the medium to long term, this would also necessitate changes in powers and functions to streamline delivery around existing pockets of capacity (see below). This must be combined with the establishment of a central planning body that has the power to determine how infrastructure investments are undertaken (within the context of a clear spatial vision for South Africa) and managed (increasing operational efficiencies and optimising asset management and maintenance). These powers should include the ability to enforce integration and decide on trade-offs.

The likelihood of success, the development impact and the time to impact of these interventions are set out in Table 5 below.

Table 5: Improving economic stewardship

Proposed intervention		Time to impact	Path-breaking impact	Path-making impact	Likelihood of success	Success likelihood rating
Improving economic stewardship						
ES1	Leadership of economic strategy within the state	2014	●		**Medium:** Will require strengthening the Economic Cluster and making political trade-offs	●
ES2	Leveraging the strength of state-owned enterprises to accelerate the delivery of economic infrastructure	2014		●	**Medium:** Will require strengthening shareholder coordination and oversight	●
ES3	Integrated infrastructure planning across all three spheres	2019		●	**Medium:** Different sectors will have different success rates but full integration will require simultaneous and significant capacity improvements across all three spheres	●
ES4	Strengthening existing economic partnerships	2014	●		**High:** Should be easy to build on momentum already attained	●
ES5	Boosting the mining sector	2019	●		**Medium:** Will require strong political intervention to restore policy certainty	●
ES6	Boosting the agricultural sector	2025	●		**Low:** Impasse will not be resolved easily owing to the level of political and stakeholder contestation and weaknesses in government support capability	●
ES7	Path to industrialisation	2019		●	**Medium:** Spirit of cooperation strong but greater realism from all parties required, e.g. will depend on a major importation of skills, technology transfer and significant increases in research and development	●
ES8	Path to a knowledge economy	2025+		●	**Low:** Even if research and development grow and educational improvements succeed, it will take time for a strong national system of innovation to emerge	●
ES9	Greening the economy	2019		●	**Medium:** Support frameworks and mechanisms being put in place require greater realism, a strategy to 'buy' technology, improving government coordination, and strengthening local government	●
ES10	Increasing continental trade	2019		●	**Medium:** Infrastructure rollout will facilitate trade but non-tariff barriers will impede rapid progress	●
ES11	Increasing developmental emerging market trade	2019		●	**Medium:** Emerging trade and cooperation agreements have a developmental focus but government and industry players will need to maximise benefits	●

This analysis suggests that the most effective path-breaking lever in the short term will be strengthening existing partnerships. As for the other path-breaking interventions, concretising economic leadership within the state and boosting the mining sector both only have a medium likelihood of success, with the latter also having only a medium-term impact. Boosting the agricultural sector, however, has only a low likelihood of success, given the high level of stakeholder and political contestation, as well as weaknesses in government support programmes. Even if the latter were more effective, it would take some time to overcome the legacy of de-agrarianisation. In terms of path-making interventions, the most effective lever in the short term will be leveraging state-owned enterprises to accelerate the rollout of economic infrastructure, though this intervention has only a medium likelihood of success. However, integrated infrastructure planning across all three spheres would have an impact in the medium term but only a low to medium likelihood of success, given the significant capacity challenges that need to be overcome. In addition, the impact of successful reindustrialisation, including moves towards a greener economy and increased trade with African and emerging markets, is only likely to be felt in the medium term. These initiatives also have only a medium chance of success even if technology transfer and 'buy' strategies, as opposed to 'make' strategies, were used. Given the weaknesses in the national system of innovation and the quality of educational outputs, the path to a knowledge economy is seen to have a low likelihood of success in the near future and, if successful, the time to impact will be very long.

4.1.3 Improving civic leadership

Despite the apparent increase in national civil society organisations in recent years, civic leadership at community level remains disparate and weak. What are needed are civic leaders and organisations that can drive generative ways of improving community governance and build individual and community agency. The government has developed a number of programmes aimed at stimulating community agency, such as Working for Water and the Community Works Programme, and several non-governmental agencies are working with communities in sectors such as housing, agriculture and gender. Still, more intermediation at a broader community level is required to support community-based planning processes.

> Better intermediation is key to boosting community agency.

In addition, the way in which the relationship between the state and the community is conceptualised and the way in which government participatory processes are designed need to be reviewed. Ineffective participatory processes around IDPs could be replaced by more effective community-based planning processes, and poorly functioning ward committees could be replaced by greater use of other individual and collective mechanisms for citizens to engage with the state, in order to minimise elite capture. In addition, mechanisms must be improved for individuals and communities to provide structured feedback on performance against key indicators, as well as on general perceptions. These mechanisms could be developed by the state or non-governmental organisations. The results of the Public Service Commission audit as well as the citizen

Table 6: Improving civic leadership

Proposed intervention		Time to impact	Path-breaking impact	Path-making impact	Likelihood of success	Success likelihood rating
Improving civic leadership						
CL1	Increasing community-based planning intermediation	2014	●		**High:** Work of existing intermediaries would need to be expanded	●
CL2	Community-state relationships	2019	●		**Medium:** Success of interventions would be mediated by different political and community dynamics in different areas	●

evaluation process could then be published on at least a quarterly basis to incentivise better performance.

The likelihood of success, the developmental impact and the time to impact of these interventions are set out in Table 6 on page 54. This analysis suggests that the most effective path-breaking intervention in the short term would be to increase the footprint of existing community-based planning intermediaries. Restructuring community-state relationships is only likely to have an impact in the medium term, and its success will be offset by the functioning of political parties, socioeconomic conditions and different political and community dynamics in different areas.

4.2 Building a delivery state

4.2.1 Improving administrative leadership in priority areas

In the short term, the focus must be on ensuring that the top teams of priority departments and cities are staffed by efficient and effective administrative leaders. Where staff are already in place, coaching and customised development programmes should be provided as needed, linked to rigorous, independent performance audits that serve as an input into the incumbent's performance review. Where staff are not in place, appointments should be determined not by individual political leaders but rather by a Cabinet or mayoral committee process of vetting top management appointments. Consideration should also be given to extending the contract period for these posts, subject to performance, to help stabilise the administration. Once stable and effective senior management teams are in place, they will be in a better position to drive institutional and delivery improvements in their areas of responsibility. Other mission-critical managerial and technical posts in priority departments also need to be filled (using deployees and/or imported skills as necessary).

In future, all top and senior management appointments should be based on relevant and rigorous external tests of key competencies and demonstrable management expertise, while independent interview panels should be integrated into the recruitment and selection processes.

4.2.2 Targeted interventions to improve delivery

Given the multiple capacity challenges facing the state, the temptation to continue with an extensive and intensive reform agenda is likely to be significant. However, since a largely undercapacitated state will struggle to reform itself, a shift to more focused interventions is required. Internationally, a number of governments have established dedicated capacity to drive performance improvement interventions within the state, such as the Delivery Unit established by former Prime Minister Tony Blair in the United Kingdom. All too often, however, in the South African context, new institutions that were supposed to drive change have ended up being inappropriately staffed, and have added to institutional failure rather than relieving it. A more appropriate approach, therefore, would be to use existing islands of capability to support targeted interventions in priority departments and spheres. The prioritisation of areas of intervention should be based on the size and impact of positive outcomes in terms of advancing the country's developmental agenda. Moreover, for support programmes to work, the organisation receiving the support must have a minimum level of capacity to play its role in the programme, for example by taking timely decisions, integrating the support initiative with the work of the department, and ensuring that important stakeholders are on board. All too often, government initiatives involve multiple support programmes from different partners, which are uncoordinated and run parallel to the day-to-day activities of the organisation – activities that tend to reinforce bad practice and undermine the impact of the support initiatives underway. Once the priority areas of intervention have been chosen, the effort must be led by strong and capable political and administrative leaders, committed to making a difference.

Improving the state delivery system will require streamlining roles and responsibilities, building skills pipelines, enhancing administrative leadership and the greater use of public-public partnerships to boost institutional capacity.

Organisations such as the DBSA are already working closely with a number of national and provincial departments and municipalities in designing and implementing support programmes across the delivery value chain. This package of support includes:

- Providing policy and strategy development advice;
- Providing programme management support;
- Embedding standard systems and processes;
- Improving knowledge and information management;
- Providing infrastructure planning and infrastructure audits;
- Developing innovative funding models;
- Conducting capacity and competency assessments; and
- Recruiting, managing and deploying technical and professional skills to accelerate delivery.

In addition, government entities such as the South African Revenue Service (SARS) and the Council for Scientific and Industrial Research (CSIR) have also been called upon to provide turnkey solutions for other organs of state. Thus far, this support has been provided on request, but if South Africa is to change its current development trajectory, intensive support

Summary of key interventions

Energy

- Address cost, skills and technical factors that impede energy diversification, linked to a clear import policy.
- Promote increased household access through the use of non-grid energy resources (e.g. liquified petroleum gas and solar water heaters) backed by local economic development programmes to promote affordability.
- Reduce the electricity intensity of the economy through improving consumption and production efficiencies, driven by the requisite incentives and penalties to encourage behavioural change.
- Develop a coherent plan to address electricity distribution infrastructure backlogs.
- Optimise refining capacity, particularly in relation to diesel, to provide a hedge against high oil prices.

Water

- Finalise the Integrated National Water Investment Framework to drive infrastructure planning and investment across the sector.
- Enhance institutional integration, capacity and regulation.
- Enhance the role of development finance institutions in developing innovative funding solutions to fast-track infrastructure delivery and crowd in the private sector.
- Develop a pricing and tariff structure that recognises the true value of water in each of the water user groups.
- Undertake high-impact skills development initiatives to address the critical skills shortages within the sector.

Health

- Strengthen the District Health System, including the capacity of provinces to support districts.
- Ensure effective hospital management.
- Accelerate the implementation of HIV, AIDS and tuberculosis strategic plans.
- Accelerate health infrastructure delivery.
- Progressively work towards an efficient and equitable healthcare financing system, taking forward the goals and objectives of National Health Insurance.
- Ensure the development of adequate and well-managed human resource capacity.

Basic Education

- Need to conduct a deeper analysis of what needs to be done at national, provincial and district levels to achieve goals of the Action Plan.
- The success will depend on the following key levers:
  - Adequate resources
  - Effective school leadership
  - Supporting changes in classroom practice that deepen learning
  - Improved district capacity
  - Improved administration at provincial level
  - Appropriate allocation of responsibility and accountability across the system
- Roll out high-impact interventions to provide momentum to longer-term change programme.

Further and Higher Education

- Develop a clear industrial policy.
- Improve coordinated planning between the Departments of Basic Education and Higher Education and Training.
- Improve the capability of FET sector institutions to accommodate school leavers and unemployed youth.
- Build a new generation of high-quality lecturers.
- Expand academic development programmes to address the needs of the current cohort of students.
- Improve student selection of study paths and the institutional selection of students.
- Mobilise the public and private sector to increase work experience and training.
- Encourage greater participation of the private sector in skills development and training.

Developing a new spatial trajectory for South Africa

- Shift from a primary focus on spatial targeting to also promoting spatial integration.
- Develop the institutional capacity to manage/facilitate economic development, spatial investments and service delivery in a coordinated manner.
- Improve land administration and management systems.
- Develop innovative funding models for housing and rural infrastructure, supported by changes in grant and subsidy regimes to increase access, streamline delivery and promote private sector participation.
- Improve the sustainability and economic impact of cities through providing targeted capacity support, creating fiscal space, promoting sustainable service delivery choices and increasing densification through better public transport and flexible tenure options.
- Catalyse rural development through building effective rural institutions; improving access to social services and social protection, as well as land use and access; and linking agrarian reform to economic development, supported by connective infrastructure and tied to processes that build economic and social agency.

programmes will be needed in priority areas. Such programmes and areas could include:

1. Providing policy, organisational development and programme management support to vital economic and social sectors, such as water, health, education, energy, transport and logistics, housing and human settlements, and information and communications technology (ICT). The specific interventions required in these areas are discussed in more detail in Chapters 2 to 8. The DBSA is already involved in support interventions in the first four areas, based on requests from national departments. In some instances, however, a wider package of support will be required.
2. Facilitating spatial and settlement planning, linked to integrated infrastructure planning and investments. This would include specific measures to strengthen urban governance and rural development (see Chapter 8 for details of the proposed interventions). The multiplicity of departments and spheres involved in this area, many of which have significant capacity challenges, suggests that support programmes should be constructed at two levels. The first area of focus should be the establishment of a central coordinating capability. The second should be supporting the development of effective delivery value chains in priority geographic areas to drive economic growth and integrated development.

4.2.3 Building skills pipelines

To enhance the relevance and effectiveness of public management development programmes, the focus should be on developing partnerships with important national and international institutions to enhance the practical content of leadership development programmes. This should be accompanied by the rollout of executive coaching programmes for senior managers, linked to performance-based pay. Once designed, these practical leadership and management development programmes, based on action learning, should first be piloted and then rolled out in priority state sectors.

As for technical pipeline development, priority departments should strengthen partnerships with professional bodies and strong sister departments in other countries, and jointly design a pipeline development programme. Central to this would be increasing the level of government investment in the early identification of talent, the development of career paths, augmented school teaching support, university bursaries (complemented by international teaching and work experience exchanges to improve skills and professional socialisation), and guaranteed internships for successful candidates.

Both these interventions would need to be underpinned by a reconceptualisation of the type of skills needed for effective public management. 'International literature suggests that holistic development programmes require a high capacity for creativity and innovation ... The reason for this is that the technical, institutional, political and economic complexities of these programmes require managers who can work adaptively and not procedurally according to a rule book'.[82] However, traditional approaches to the teaching and practice of public administration, within a context of Weberian bureaucracies, have tended to emphasise rule-based processes of management. Many schools of public administration and management in South Africa continue to teach this way, while the higher education system encourages specialisation rather than multidisciplinary pollination.

4.2.4 Decreasing institutional fragmentation

Decreasing institutional fragmentation would involve differentiating functional and financial allocations between national and provincial departments and municipalities, based on their institutional capacity. This must be complemented by the streamlining of powers and functions. Indications of this are becoming apparent in health, education and the devolution of housing and transport functions to cities, as well as the development of a special purpose vehicle (SPV) for local government. Asymmetrical approaches would also be appropriate in the water sector, human settlements planning and roads management.

The likelihood of success, the development impact and the time to impact of these interventions are set out in Table 7.

Table 7: Building a delivery state

	Proposed intervention	Time to impact	Path-breaking impact	Path-making impact	Likelihood of success	Success likelihood rating
Building a delivery state						
DS1	Strengthening administrative leadership in priority areas	2014	●		**Medium:** Will be difficult to shift weak incumbents but there is potential to influence new appointments	🟡
Targeted delivery improvement interventions						
DS2	▪ Water	2014	●		**Medium:** Bold and consistent leadership required from national department to drive effective support programmes to address significant institutional gaps	🟡
DS3	▪ Health	2014	●		**High:** Key interventions systematically driving better (though still slow) performance	🟢
DS4	▪ Education	2025+		●	**Medium:** Challenges of section 100 intervention in Eastern Cape highlights complexities of enforcing minimum standards	🟡
DS5	▪ Energy	2014		●	**Medium:** Bold and consistent leadership required from national department to increase speed of progress	🟡
DS6	▪ Transport/logistics	2014		●	**Medium:** Progress will depend on stronger regulatory framework to drive alignment	🟡
DS7	▪ Housing/human settlements	2019	●		**Medium:** Progress likely in rental stock and mixed-use settlements but institutional and integrated planning challenges and massive demand will limit progress	🟡
DS8	▪ ICT	2014		●	**Low:** Bold leadership required to address ongoing challenges in regulatory environment	🔴
DS9	▪ Coordinative mechanism to drive spatial settlement planning	2019		●	**Medium:** Progress on spatial vision but accountability and enforcement likely to be a challenge	🟡
	▪ Integrated development planning across three spheres in priority areas	2025		●	**Low:** Land management issues and significant institutional weaknesses will take time to overcome	🔴
Building skills pipelines						
DS10	▪ Practical programmes	2014	●		**High:** Strong potential to build on good practice established in private sector and some state-owned enterprises and departments	🟢
DS11	▪ Pipeline development	2019		●	**Medium:** Success will vary across sectors, based on strength of national department and professional associations	🟡
DS12	▪ Reconceptualisation of public management programmes	2025		●	**Low:** Academic resistance and weaknesses in higher education system likely to delay progress	🔴
Decreasing institutional fragmentation						
DS13	▪ Financial mechanisms	2014	●		**High:** Strong potential to expand schedule 7 grants and other key instruments to more sectors	🟢
DS14	▪ Sectoral asymmetry	2014	●		**Medium:** Will differ across sectors depending on strength of sector leadership and levels of resistance from affected parties	🟡

This analysis suggests that the path-breaking interventions that are likely to be the most successful and have a short-term impact are using financial instruments to decrease institutional complexity, rolling out practical management development programmes, and using targeted interventions in the health sector. Other short-term path-breaking interventions such as strengthening administrative leadership, using targeted interventions in the water sector, as well as linking institutional capabilities to responsibilities are likely to have only a medium level of success. Progress with housing delivery is likely to be slow, with significant progress only being made in the medium term. With regard to path-making interventions, targeted interventions in the education, energy and transport sectors, coordinated spatial planning, and pipeline development are only likely to have an impact in the medium term and are seen as having only a medium likelihood of success. Targeted interventions in the ICT sector are unlikely to succeed in the absence of bold leadership. In addition, the reconceptualisation of public management programmes will take a long time to have an impact and is likely to have a low level of success if weaknesses in the higher education system cannot be overcome.

4.3 Building effective social coalitions

As for building national coalitions in other sectors, while broad accords or campaigns are symbolically useful, they seldom have a significant impact. Rather, the focus should be on targeted interventions in priority areas that 1) bring together people and groups with a proven capacity to make a difference; and 2) build on past lessons and good practice linked to practical and measurable performance outputs. To ensure a focus on practical implementation, the scope of these accords would have to go beyond the national sphere to reach provinces and municipalities. In addition, such agreements could involve a variety of groupings, not necessarily only traditional social partners. The brokering of these agreements would be driven by organisations that are independent enough to be trusted by all parties but influential enough to draw in all the relevant players. Critical areas for such interventions could include basic education, youth unemployment, and improving the enabling environment for entrepreneurship.

> It is time to pool our disparate efforts into more coordinated approaches that have a higher chance of achieving system change.

4.3.1 National Partnership for School Improvement

Over and above government initiatives, enormous investments have been made in school improvements by non-governmental organisations in South Africa. For example, ten years ago, around a fifth of the country's schools benefited from development projects initiated by donor and non-governmental organisations, valued at around R500 million per year. In addition, different private companies, along with organisations such as the National Business Initiative and Bridge, continue to run a variety of school improvement programmes. As noted, however, these initiatives have not had the kind of impact hoped for, largely because of their disparate nature. Hence, the investments made by the donor community, non-governmental organisations and the private sector need to be optimised through a more coherent and integrated approach. To this end, the DBSA is working with a range of non-governmental organisations, private and union individual and representative organisations, as well as the Department of Basic Education, to develop a National Partnership to Accelerate District and School Improvement. This Partnership is in the spirit of the 2011 NEDLAC Accord on Basic Education and Partnerships with Schools, and in line with Minister of Basic Education's stated wish to create a broad-based partnership to advance quality learning in schools. It builds on proven models of support to direct coordinated action towards clear results, with compacts that are based on clear frameworks of accountability. The goal of the Partnership is to effect system change that results in better learner performance in all schools at all levels within chosen districts. It is envisaged that the programme will be financed by co-investments from both social partners and the government to drive ownership, and that the entrance of school districts to the programme will be competitive, in order to drive a commitment to excellence.

4.3.2 Addressing youth unemployment

The DBSA has just finalised a Youth Employment Strategy[83] that identifies gaps and misalignments in current programmes aimed at addressing youth unemployment. These gaps include:

- The provision of interventions to keep young people in school;
- The implementation of second-chance learning programmes;
- The development of soft skills linked to vocational and skills programmes;
- The development of transitioning skills, and the provision of job intermediation and counselling centres;
- The mentoring of new and emerging businesses by existing businesses;
- The need for employment creation programmes, such as the Expanded Public Works Programme (EPWP), that are tailored to the specific needs of young people;
- The promotion of 'socially useful jobs' (even stipend-based) beyond the constraints of the budget envelope, as a way for the youth to attain workplace experience;
- The need for a clear occupational framework that signals the value of different qualifications; and
- The need for tailored support programmes and options for rural youth.

The Strategy concludes that 'the spectrum, scale, reach and targeting of existing programmes are inadequate and under-resourced when evaluated against the complexity and scale of South Africa's challenge of youth unemployment'.[84] Hence, it proposes a number of short, medium and long-term interventions to promote youth employment, which are summarised as follows:

- *In the short term:* Interventions should focus on a set of activities to enhance access to the labour market fairly quickly. These include second-chance learning for dropouts, public employment programmes geared to young people, the rollout of soft skills training for young people, more funding for both higher and further education, and the rollout of vocational counselling for all students in Grade 9 (when subject choices are made) and in Grade 12 (when students are poised to enter either the labour market or further and higher education institutions).
- *In the medium term:* Interventions should focus on strengthening active labour market programmes, particularly with respect to vocational counselling, placement and structured exposure to the labour market; and reviewing and restructuring secondary schooling and vocational education.
- *In the long term:* The imperative is to transform the education system so that it becomes functional in terms of providing young people with the skills required by the economy, and to restructure the economy to absorb more labour. Furthermore, the role of the private sector and civil society organisations in driving employment creation needs to be more clearly defined and formalised in social compacts.

Successful implementation of this strategy will require coordinated action from a range of government, private and civil society players. Given the size and urgency of the problem, a national partnership on youth employment – based on similar principles as the Partnership for School Improvement – is long overdue.

Supporting youth development

The DBSA is currently involved in two important youth development initiatives. The Young Professionals Programme provides both professional and personal development training for technical (e.g. engineering), town planning and municipal finance graduates. In 2011/12, over 170 young professional skills development and employment opportunities will be created. The Artisan Programme recruits and trains low and unskilled youth members as apprentices. This programme plans to employ 300 artisans in 2011/12.

4.3.3 Building a strong entrepreneurial class

With regard to changing the ownership of the economy, the above analysis suggests that interventions for economic transformation need to shift from a primary focus on employment equity and wealth redistribution to a larger focus on entrepreneurship and value creation. To bring this about, current obstacles to the emergence of a strong black entrepreneurial class need to be systematically removed, including high barriers to entry and a lack of access to finance and markets. While these obstacles have been recognised for some time, the initiatives and institutions that aim to address them struggle to do so. This is either because of a lack of capacity within the state and funding institutions to play an effective intermediation role, or because of limited transformation of the financial sector, resulting in a lack of financing for small, medium and microenterprises (SMMEs). Commercial banks have also become significantly more risk averse during the global financial crisis, negatively affecting SMME access to finance. The slow recovery and the prospects of a renewed recession in Europe suggest that this trend is likely to continue in the medium term. In addition, SMMEs have complained that, in some cases, the conditions put forward by development funding agencies are no better than those of commercial banks. This is partly because development finance institutions raise money for their lending activities in the same markets as commercial banks, which limits their ability to play a countercyclical role. Slow changes in the monopoly structure of the economy, despite the valiant efforts of the Competition Commission, are also likely to impede SMME development for some time to come. While some established businesses have structured SMMEs into their value chains through supplier partnerships, mainstreaming this approach will require significant intermediation support and stronger incentive frameworks.

In addition to removing barriers to entrepreneurship, more rigour is needed in entrepreneurship support programmes to ensure that they are appropriately designed. For example, business support is often woefully inadequate. The focus should be on real entrepreneurs as opposed to 'necessity' entrepreneurs (i.e. those who are simply seeking an income rather than actually wanting to be self-employed). This will significantly increase the success rate of entrepreneurship programmes.

Hence, making enterprise development work at scale requires South Africa to move away from disparate and ad hoc interventions to formulate a more systematic approach, using the strengths and talents of all social partners. In addition, black business organisations need to play a far more effective role in working with each other and with other social actors to support the development of more value-creating, strong and sizeable black-owned and black-managed companies.

The likelihood of success, the developmental impact and the time to impact of these interventions are set out in Table 8.

The intervention that is most likely to succeed and have a short-term, path-making impact is the National Partnership for School Improvement. While a national coalition to support entrepreneurship has the potential to realise some benefits quickly, significant progress is only likely in the medium term, and it is seen as only having a medium chance of success in the absence of strong business leadership and better intermediation. Lastly, given the scale of the problem and the lack of agreement among important social partners, a national coalition to address youth unemployment is only likely to have a mixed impact (e.g. differing by sector) and, thus, medium chance of success. It is also likely to take a medium time to have an impact.

Black business organisations need to play a far more effective role in working together to develop value-creating, strong and sizeable black companies.

4.3.4 Valuing excellence

If the interventions cited above are to succeed and be sustainable, they must be accompanied by measures to bring about a fundamental paradigm shift in the way many South Africans approach excellence and competition. Successful developmental states tend to put

Table 8: Building effective social coalitions

Proposed intervention		Time to impact	Path-breaking impact	Path-making impact	Likelihood of success	Success likelihood rating
Building effective social coalitions						
SC1	School improvement	2014		●	**High:** Strong partners and momentum behind a coordinated, systematic initiative	● (green)
SC2	Youth unemployment	2019	●		**Medium:** Education interventions will take time to have an impact, while short-term high-impact interventions (e.g. youth employment incentives) are still impeded by a lack of consensus among social partners	● (yellow)
SC3	Entrepreneurship	2019	●		**Medium:** Requires better intermediation and strong business leadership	● (yellow)

a strong emphasis on individual or group achievement and competitive excellence, first through the acquisition of skills and experience, and then through rigorous processes of evaluating and rewarding performance. In the South African context, an apartheid past, a legacy of institutionalised racism that continues to put race before merit, and the discourse of redress that has sometimes nurtured a culture of entitlement have contributed to a devaluing and labelling of skills requirements and competition as mechanisms of exclusion. Individual or group agency is subsumed to collective entitlement and people's locus of control becomes external rather than internal, as millions of people wait to be given a better life. Not only does this stymie individual productivity but it also makes individuals and communities more vulnerable to patronage in the context of high levels of poverty and unemployment. South Africa must begin to build a society that values and seeks to nurture individual and group achievement, thereby building the capacity to compete as individuals, as groups and as a nation. In the long term, this will involve creating social institutions – such as the family, the education system and the workplace – that encourage and reward talent and excellence. Progress in the short term, however, will depend on using existing and quicker socialisation processes to drive change, such as media messages. With regard to messaging, the first step will be to review and change who the country celebrates. Initiatives such as Lead South Africa could be built upon to promote and recognise excellence in a variety of sectors. A national partnership would have to be developed to encourage consistent messaging from the media, business leaders, civil society organisations, the government and politicians. However, this initiative would have to go hand-in-hand with changing people's day-to-day experience. Thus, the success of initiatives to build community and individual agency, cited above as a means of giving people greater access to opportunity and platforms of professional socialisation, will be key.

We need to rediscover the meaning of merit and the value of striving for excellence.

The likelihood of success, the developmental impact and the time to impact of these interventions are set out in Table 9. This analysis suggests that the path-breaking intervention that is likely to have the most success in the short term is messaging from non-governmental organisations. While private sector workplaces help to develop a strong professional ethic, ongoing inequalities are likely to perpetuate value ambiguity, which makes the likelihood of success uneven and thus medium. The dysfunctional cultures in many public sector organisations will probably be resistant to change, making the likelihood of success low. They may even serve as a platform for the

Table 9: Valuing excellence

Proposed intervention		Time to impact	Path-breaking impact	Path-making impact	Likelihood of success	Success likelihood rating
Valuing excellence						
Messaging linked to building agency						
VE1	Non-governmental responses	2014	●		**High:** Strong potential to harness increase in civil society organisations	🟢
VE2	Government responses	2019	●		**Medium:** Ambiguity regarding skills will take time to overcome	🟡
Transforming social institutions						
VE3	The family	2025+		●	**Low:** Will require significant socioeconomic shifts	🔴
VE4	The basic education system	2025+		●	**Medium:** National partnership will make an impact in chosen districts, but large-scale systemic changes to transform schools into effective platforms of socialisation will take generations to effect	🟡
VE5	The workplace (private)	2019	●		**Medium:** Strong professional ethics but institutionalised racism and inequalities need to be overcome	🟡
VE6	The workplace (public)	2025	●		**Low:** Dysfunctional culture likely to be resistant to fast change, even within the context of the state interventions proposed above	🔴

entrenchment of dysfunctional value sets. While the transformation of formative institutions, such as the family and the basic education system, will have the largest path-making impact, the transformation process will take generations to have an impact at scale. In addition, especially with regard to the family, it will need to be accompanied by significant socioeconomic change. Hence, the likelihood of their success is seen as medium and low respectively.

4.5 Summary of key interventions

Based on the above analysis, the interventions proposed above can be categorised as follows:

- **Short-term interventions with a high probability of success**
  - Strengthening existing partnerships in economic sectors;
  - Using public accountability mechanisms to improve political governance;
  - Implementing practical management development programmes;
  - Implementing targeted delivery improvement interventions in the health sector;
  - Building a National Partnership on School Improvement;
  - Implementing financial mechanisms to decrease institutional complexity;
  - Increasing community-based planning intermediation; and
  - Driving a new set of values using messaging by non-governmental bodies.
- **Short-term interventions with a medium probability of success**
  - Enhancing the structure of the relationship between party and state;
  - Strengthening administrative leadership in priority areas of the state;
  - Implementing targeted delivery improvement interventions in the water, energy and transport sectors;
  - Matching roles to responsibilities in key state sectors;
  - Leveraging state-owned enterprises to accelerate the rollout of economic infrastructure; and

  - Ensuring leadership of economic strategy by the state.
- **Medium-term interventions with a medium probability of success**
  - Boosting the mining sector;
  - Setting a path to industrialisation;
  - Greening the economy;
  - Increasing continental trade;
  - Increasing developmental emerging market trade;
  - Restructuring community-state relationships;
  - Implementing targeted delivery improvement interventions in national and provincial education departments;
  - Setting up a coordinative mechanism to drive spatial and settlement planning;
  - Enhancing pipeline development in key sectors;
  - Setting up a national partnership to promote entrepreneurship;
  - Setting up a national coalition on youth employment; and
  - Driving a new set of values using messaging by the government, and enhancing the socialisation impact of private sector workplaces.
- **Long-term interventions with a medium probability of success**
  - Driving a new set of values through transformation of the basic education system; and
  - Setting the path to a knowledge economy.
- **Interventions with a low probability of success**
  - Improving the functioning of political parties;
  - Boosting the agricultural sector;
  - Ensuring integrated infrastructure planning across all three spheres;
  - Ensuring integrated development planning across all three spheres;
  - Implementing targeted delivery improvement interventions in the ICT sector;
  - Reconceptualising public management education programmes; and
  - Driving a new set of values through transformation of the family and public sector workplaces.

5. **Scenarios** for the future

5.1 Islands of excellence

The implications of the above analysis for South Africa's development path are as follows:

In the short term (2011–2014)

Strengthening existing partnerships in the economic sectors will help to limit job losses and lay the basis for better sectoral planning to drive growth in future. Stronger public accountability mechanisms will build the foundation for improvements in political governance over time, complemented by better community-based planning intermediation processes to deepen public accountability at local level and remodel state-community relationships. These initiatives will be augmented by civil society campaigns aimed at inculcating a new set of values. Targeted improvements in the health sector will promote infrastructure delivery and access to health care, supported by the rollout of National Health Insurance in pilot districts as well as measures to improve the management of health facilities. Hence, the trend of slow but ongoing improvements in health outcomes is likely to be maintained. At the same time, the National Partnership for School Improvement will boost the effectiveness of the schooling system in key districts, which will gradually improve educational outcomes and drive greater levels of agency among important stakeholders, as well as a stronger commitment to excellence. Improvements in the health and education sectors will be supported by the rollout of practical management development programmes, as well as the use of financial instruments to improve control and accountability in the delivery chain.

In addition, if key constraints are overcome, this period could also see wider improvements in state effectiveness. Enhancing the structure of the relationship between party and state will facilitate greater administrative stability, thus laying the basis for stronger administrative leadership in priority areas. At the same time, greater alignment in state roles and responsibilities around areas of institutional capacity will help to streamline delivery chains and accountability, provided the necessary legislative changes are implemented soon. In turn, these interventions will support delivery improvements in the water, energy, transport and housing sectors, as well as improving the coordination and management of state-owned enterprises. In the water sector, this is likely to result in higher investment in raw, regional and municipal bulk infrastructure as well as operations and maintenance, based on an integrated National Water Investment Framework. This will help increase the security of supply for vital economic sectors and new developments. Household access to water and sanitation will also increase, though increased access in remote rural areas may still be hampered by the slow uptake of non-grid options, such as rainwater harvesting. In the energy sector, increased capacity will have a positive impact on the reserve margin and security of supply, which will be strengthened by decreased demand during the economic recession. This period should also see an increase in independent power producers and, in terms of renewables, an increased rollout of solar water heaters, supported by an optimised REFIT programme. At the same time, improvements in the transport and logistics system would help decrease transport costs and increase economic competitiveness, while also improving access to public transport. However, the impact of the latter on improving city efficiencies and densification would be offset by ongoing challenges in human settlement planning. In housing, there would be some increases in mixed-use developments and rental stock, supported by a revised subsidy policy and a review of development finance in the sector. However, a new housing regime predicated on a self-build, incrementalist approach, combined with trade-offs around land values that tend to be at the expense of the poor, will see the continuing prevalence of informal settlements on the periphery. The rollout of infrastructure in these sectors will also have positive effects on job creation in terms of the EPWP and youth employment, as well as boosting the construction sector. SME development will benefit from using large contractors to subcontract and transfer skills to smaller players in the construction as well as the operations and maintenance phases, thus ensuring quality while increasing developmental impact. Also, the localisation of infrastructure inputs will be supported by a stronger procurement system.

Lastly, increases in state effectiveness should also enable a more coherent approach to the leadership of economic strategy within the state, laying the basis for greater coherence in economic policy and certainty in critical areas such as mining. This should also result in better and more realistic economic planning, building on existing economic partnerships to develop a clearer understanding of South Africa's real current and potential areas of economic competitiveness – within the context of sustainability imperatives – and how they will be realised over time. A clearer economic path will also support better skills planning, driving improvements in the structure of the further and higher education system and its links to basic education. In addition, in terms of increased continental trade, while the implementation of economic infrastructure and Free Trade Area agreements will create an enabling environment, progress will be slow because of challenges within countries and within the Regional Economic Communities. Trade with Europe will be dampened, while trade with emerging markets is likely to remain asymmetrical, driven by mineral and metal exports.

In the medium term (2015–2019)

While the South African economy will still be facing the residual effects of the economic recession, the above interventions will lay the basis for increased investments and growth in the mining, important manufacturing and green economy sectors, while strengthening the tertiary sector. This will be supported by technology transfer based on foreign direct investment, significant increases in spending on research and development, as well as large increases in the importation of critical skills. While growth in these sectors will boost employment, some sectors will move faster than others in providing opportunities for youth employment, depending on the level of agreement between social partners. Sectoral growth, combined with the ongoing rollout of the infrastructure programme, will also provide increased opportunities for SME development, linked to supplier value chains. Improvements in entrepreneurship will be driven by a restructured microfinance and development finance regime to enhance access to finance and business development support, combined with stronger leadership from organised black business, resulting in an increase in black-owned and managed value-creating enterprises. However, the absorption of low-skilled and unskilled workers may still be insufficient and the economy is still unlikely to be creating 500 000 jobs per year. Continental trade will have increased but progress will be slow, while trade with emerging markets is likely to increase significantly. However, the structure of trade relationships with the United States, Europe and Asia will remain suboptimal, and South Africa is still likely to have a trade deficit.

With regard to the state, improvements in state effectiveness in the previous period will have seen the development of a national spatial vision linked to an integrated planning and budgeting mechanism and a revised national land management system. However, enforcement of integrated spatial and settlement planning is likely to remain difficult, resulting in uneven progress. The greatest improvements are likely to be in areas with strong government institutions across all three spheres – e.g. greater city regions in Gauteng, KwaZulu-Natal and the Western Cape – as well as greenfield growth points such as Lephalale and Cornubia. The targeted delivery improvements in the national and provincial basic education departments are also likely to start showing results, supported by improvements in the delivery chain as well as the national partnership. However, bold leadership will still be required to enforce minimum standards. The development of technical skills pipelines in important sectors is also likely to start bearing fruit, and ambiguity towards skills will slowly be overtaken by a stronger focus on the professionalisation of the bureaucracy, increasing the impact of government messaging. The positive socialisation impact of private workplaces will also have improved because of an increase in employment and economic transformation – not just in terms of employment equity, which will probably have improved only slowly, but also in terms of the growth in SMEs and strong black business enterprises. Lastly, better public accountability and community-based planning will also have laid the basis for improving the structure of community-state relationships. Progress will, however, be uneven and dependent on internal political and community dynamics in different areas.

In the long term (2020–2025)

Improvements in the basic education system, supporting improvements in further and higher education, will begin to drive significant increases in participation rates, labour productivity, entrepreneurship, social mobility and living standards, They will also accelerate industrialisation and localisation, bringing South Africa closer to achieving export-led growth. Educational improvements, accompanied by ongoing increases in spending on research and development, as well as the growth in triple helix partnerships, will lay the basis for South Africa to transition to a knowledge economy. However, this is only likely to occur after 2025.

5.2 A reversal of gains

Interventions with a low probability of success are likely to counteract the above scenario. Slow change in the functioning of political parties, difficulties in dislodging dysfunctional cultures and contradictory rationalities in the public sector, and difficulties in building appropriate skills due to the failure of higher education institutions to reconceptualise public management programmes are likely to affect improvements in state effectiveness and hamper the recrafting of state-society relationships. At best, this will decrease the speed of improvements in these areas. In addition, ongoing challenges in integrated infrastructure planning and spatial development will continue to slow the development of spatial efficiencies – within cities and between remote rural areas and growth points. Many people, therefore, will remain distant from economic opportunities for a long time to come, resulting in ongoing high transport costs for the poor, with high service connection costs that are financially unsustainable (assuming rural areas will increasingly move to off-grid options). Ongoing challenges in the agricultural sector will also have a negative impact on rural development and food security, further undermining the livelihoods of the rural and urban poor. Weaknesses in state capacity and spatial development will also undermine sustainable development initiatives, increasing the country's vulnerability to the damaging effects of climate change. The low probability of success of interventions to address challenges in the ICT sector will also lessen economic growth and technological innovation. Furthermore, challenges in the structure of the family, linked to slow changes in socioeconomic conditions, will not only hamper the development of a new set of social values but will also limit people's ability to take advantage of opportunities afforded by gradual improvements in the education system, locking in intergenerational poverty.

At worst, these factors – particularly relating to the functioning of political parties and the public sector – could result in a reversal of gains. Eventually, this could lead to worsening socioeconomic conditions for the majority, while a social compact based on a co-optive economic model drives up between-group and within-group inequality. Growing levels of inequality, combined with a failure to address the constraints to South Africa's growth potential, will further hamper growth and development, resulting in a vicious downward spiral.

5.3 Diffusion

Alternatively, the path suggested in section 5.2.2 above will build upon and expand existing islands of excellence within South Africa, creating enough momentum slowly to benefit the broader system. Gains in the effectiveness of the state will facilitate further decreases in corruption, crime, the burden of disease, as well as non-income inequality and poverty. Meanwhile, an improved education system will spur higher labour absorption, eventually decreasing the mismatch between educational outputs and the demands of an economy increasingly dominated by the secondary and tertiary sectors, as well as by green industries. These factors will lead to greater social mobility, a gradual rise in household savings and living standards for the majority, as well as a decrease in income inequality. Educational improvements will also help to deepen democracy and support better state-civil society relationships, which in turn will influence the functioning of political parties and thus spur further improvements in state effectiveness. Moreover, the momentum gained in collectively addressing constraints in important economic sectors will enable South Africa to fulfil its potential as a gateway to Africa, working with other African countries to remove non-tariff barriers and vastly expand the size of the African market. This, combined with increased trade with and investment by BRIC countries (Brazil, Russia, India and China) and other emerging markets, will lay the basis for South Africa eventually to attain GDP growth rates of 7%–10%, driving labour absorption, living standards and growth-enhancing domestic investments.

5.4 Summary

It is clear from the above analysis that, above all, two key areas will have the most significant impact on South Africa's development path, one being a game-changer and the other a gatekeeper to progress.

The game-changer: Improving the quality of education will have significant ripple effects in terms of supporting economic growth, boosting employment and decreasing poverty, enhancing social mobility and contributing to the development of a new set of social values, as well as deepening democracy, which in turn will have a positive effect on political governance.

The gatekeeper: A deterioration in the quality of political governance will significantly hamper South

Africa's ability to meet its development objectives, impeding better state management and service delivery, economic stewardship and the ability to build effective state-society relationships.

Thus, South Africa must:

- **Act now** to improve the quality of education, enhance political governance, stabilise government administrations and consolidate economic stewardship;
- **Act together** by increasing the use of public-public, public-private and public-community partnerships to maximise its collective strengths and drive integrated solutions to its common challenges; and
- **Act differently** by taking conscious action to put long-term national interests before short-term individual gains, to let go of dysfunctional value systems and outdated paradigms, thus opening the way for the country to chart a new course.

6. Conclusion

While South Africa has the potential to realise an inclusive and sustainable development path, there are many challenges to be overcome. Some of these challenges arise from the global context or intrinsic geo-spatial factors and are thus difficult to influence, but many others can be influenced with the right leadership and institutional mix. There are a number of initiatives underway, driven by the state and civil society organisations. However, there is a danger that they will fail to have the desired impact because of ongoing institutional weaknesses in the state, challenges in state-society relationships, as well as the disparate nature of many civil society interventions, which undermines their ability to gain critical mass.

Furthermore, if South Africa continues on this road, while there will continue to be areas of success, current trends could also result in a reversal of gains, setting the country on a vicious downward spiral. Hence, making significant progress in changing the country's current trajectory in the short term will require high-impact interventions in priority areas, driven by effective leadership, which will catalyse broader system changes in the medium to long term. Such leadership would best be derived from building on existing areas of effective leadership and institutional strength, drawing on the talents of all South Africans. It will also require a high level of realism about what South Africa can achieve and within what timeframes.

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