A business response to the National Development Plan

Panel Discussion
KPMG Wanooka Place
Wednesday, 7 March 2012
South Africa can eliminate poverty and reduce inequality by 2030. It will require change, hard work, leadership and unity. Our goal is to improve the life chances of all South Africans, but particularly those young people who presently live in poverty.

The plan asks for a major change in how we go about our lives. In the past, we expected government to do things for us. What South Africa needs is for all of us to be active citizens and to work together – government, business, communities – so that people have what they need to live the lives they would like.

A government that works well doesn’t just deliver more houses. It does more than that. It makes it possible for people to build or buy their own houses. This can be through earnings from work, savings, borrowing from the bank, family networks or government subsidies. Government can build schools, but it can’t make children go to school and study hard. It needs parents and teachers to do that. Getting this right is much more difficult than building houses or schools. This means we have to look at things differently, and behave differently.

The National Planning Commission (NPC) has done some terrific work in driving forward what may easily be argued as South Africa’s most strategic initiative since our first democratic elections. This is all about Nation Building, in a world of continuous change, massive inequalities and economic uncertainty – yet also one of high hopes, trust and expectation. It’s something that we have to get right.

But this isn’t simply about Government. Far from it. Rather, it’s about – and for – all of us. By working together to create an inclusive, economically viable, sustainable and inspirational future, we will set South Africa on a course that is the proud envy of the rest of the world. We’ve already achieved this politically and now need to focus – with a sense of urgency and single-minded purpose – on our social and economic needs and opportunities. While this is obviously good for all of South Africa’s people, it’s also good for business – in fact, essential.

The National Development Plan is a very comprehensive, robust response to the outcomes of the NPC’s Diagnostic Report, which we commend. The scores of recommended initiatives and actions are ambitious to say the least. In a resource constrained world, where competing priorities are the norm, it will be essential to prioritise what needs doing. Some of the planned initiatives will be easier to achieve and may be viewed as ‘quick hits’. Some are prohibitively costly, some may be seen as more important than others and indeed others may quite simply be ‘non-negotiable’.

As among South Africa’s business leaders, we have the opportunity to engage with Government in a structured way and to help shape what is achievable and what we may do with the steps in the plan that are harder to address.

This is why a discussion such as today’s is so important. KPMG recognises this and specifically committed to being involved with the purpose of the National Planning Commission in a direct and meaningful way in a meeting our global Chairman, Michael Andrew, and I had with Deputy President Kgalema Motlanthe in November last year.

All of us need to actively engage with Government with a mindset of how, together, we’re going to make this happen. If there are areas of disagreement, that’s fine too – but let’s articulate these constructively and purposefully, allowing the desired end outcomes to remain top-of-mind.

Together with my fellow Partners, I thank the National Planning Commission for allowing KPMG to host this panel discussion and welcome you to this milestone event. Please contribute deeply – your insights are what will make this particular feedback session for the NPC really stand out. In this workbook, we’ve set out a summary view of the National Development Plan and what lead up to this, with specific reference to the innovative and most helpful videos prepared by the NPC to explain to the Nation what this is all about. You’ll find space in the book to jot down your own thoughts, which you may want to pick up for discussion now or later. We’ve also noted some specific KPMG contacts for each major area of the plan who you may wish to engage with further after today’s discussion.

Thank you for being here today – especially when it’s actually all about tomorrow.

Kind regards

MOSES KGOSANA
Chief Executive, KPMG in South Africa
Senior Partner, KPMG Africa
The plan helps us to chart a new course. It focuses on putting in place the things that people need to grasp opportunities such as education and public transport and to broaden the opportunities through economic growth and the availability of jobs. Everything in the plan is aimed at reducing poverty and inequality.

Our view is that government should shift the balance of spending towards programmes that help people improve their own lives and those of their children and the communities they live in.

South Africa can become the country we want it to become. It is possible to get rid of poverty and reduce inequality in 20 years. We have the people, the goodwill, the skills, the resources – and now, a plan.

National Planning Commission
BACKGROUND AND CONTEXT

Source: 9 Challenges facing South Africa - Diagnostic Report - National Planning Commission (NPC)
7 March 2012

26 Commissioners in part-time capacity, 1 full-time

Where are we as a country?

Diagnostic report

Good job describing the problems that face us as a nation.

Feedback:

2nd task

Draw up vision and a plan that will take us to

Focus:

Eliminate poverty

Reduce inequality

2 biggest problems that face us so big - affects everything else.
SOUTH AFRICA’S CURRENT REALITY

Source: Planning for Thandi’s future - Diagnostic Report - National Planning Commission (NPC)
Our focus is on eliminating poverty and reducing inequality. I want to emphasise that.

Trevor Manuel
Minister in the Presidency
Virtuous cycle

Expanding opportunities

Economic growth
Contribution
Sacrifice

Strong leadership
Nurturing consensus
Social cohesion
Capable state

Community development
Reducing poverty

Building capabilities
Rising living standards

Source: Planning for Thandi’s future - Diagnostic Report - National Planning Commission (NPC)
The good news

It’s been 18 years living in a democratic South Africa. We as South Africans have seen many changes and many challenges over this time and we have certainly come a long way. Our population has grown by more than 10 million people, from just short of 40 million in 1994 to over 50 million in 2011. The size of our economy, measured by the change in real GDP, has grown by 67% from R1 100 bn in 1994 to R1 834 bn in 2010. Individually, South Africans are also better off: Real GDP per capita has grown by 28% from R28 536 in 1994 to R36 591 per capita in 2010, while the real disposable income of households per capita has grown by 32.6% from R17 775 in 1994 to R23 569 in 20101.

In addition, with South Africa becoming a member of the BRICS, we are now firmly part of the developing economies of the world; the ones that are looked at to shape the future of the global economic environment. Combined with that, the fate of Africa has also changed significantly, and with South Africa being regarded as the economic powerhouse of Africa, we have a role to play in the future development of the continent we are part of. Even in 2012, a year that is expected to be a difficult one for the global economy with global growth expected to average around 3%, Africa’s GDP growth is estimated to reach almost 6%2.

Foreign investors also appreciate how far the country has come and we are ranked amongst the best in the world with regards to our financial sector, the strength of our reporting and auditing standards, the protection of investor rights and our legal framework. The country also benefits from the relatively large size of its economy, in particularly in comparison with the rest of Africa. If compared to the rest of the world, South Africa also does well in areas such as business sophistication, innovation, benefiting from good scientific research institutions and the strong collaboration that exists between the business sector and universities3.

Such a virtuous cycle requires agreement across society about the contribution and sacrifices of all sectors and interests.

Trevor Manuel
Minister in the Presidency

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1 SARB constant 2005 prices
2 The IMF: The Economist article 3 Dec 2011
A challenging environment

Europe’s financial crisis is expected to continue through 2012 and adversely affect world economic growth especially in Emerging Market (EM) countries, where growth is set to be lower than what was previously anticipated in late 2011. Although a bail-out package for Greece was finally agreed upon on 21 February 2011, the extent of the European crisis will continue to weigh down financial markets and hamper global economic growth. It remains to be seen whether the half-trillion Euros provided by the ECB will help to alleviate the region’s financial ills rather than just masking the underlying problems.

South Africa, however, is in a unique situation if compared with its peers: As a small open economy and with the Euro zone being South Africa’s largest trading partner, the prevailing financial crisis has reduced demand for South Africa’s goods and has, to some extent, driven away potential and existing investors from riskier emerging market assets, as they become more risk averse in their investment behaviour. As a result, the South African economy is expected to grow by around 2.8% in 2012. It will take time for Europe to recover and it is expected that the economic landscape will never be the same as it was before. From this perspective, South Africa will have to change its traditional focus to trade with China and India, and with the rest of Africa.

In addition, we have seen some significant structural changes in our economy: As is typically the case with economies going through the transitional phases of development, there has been a significant shift towards the services sector becoming a major contributing sector to our GDP. In fact, the share of the finance, real estate and business services sector has grown from just over 16% to over 20% of GDP4. During the same time, the country has seen a decline in the role of traditionally important sectors such as the mining sector and agricultural sector. Employment in both these sectors has declined, with agriculture employment declining from 1.3 m in 2000 to 630 000 in 2011, and mining employment declining from 431 000 in 2000 to 327 000 in 2011.

Given the size of the country, the assumption would be that South Africa should be able to provide for its own food resources. However, with only 12% of the country being suitable for the planting of crops, we will have to rethink our approach to agriculture to improve food security. South Africa can take a page from Brazil’s book and the success that the country achieved in turning the traditional agricultural sector into part of the manufacturing sector through optimising beneficiation opportunities.

South Africa holds the world’s largest natural reserves of gold, platinum-group metals, chrome ore and manganese ore. There is substantial potential for the discovery of further deposits in areas yet to be explored. For the mining sector, the importance of certainty around Government’s views and approach towards nationalisation cannot be underestimated if we are to take full advantage of the abundant natural resources in the country.

These structural changes, of course, come with their own challenges: a services economy requires specific skills. This once again places South Africa in a challenging position: certain sectors of the economy are experiencing skills shortages, whilst unemployment levels are comparatively very high.

4 StatsSA, KPMG calculations
WE NEED COORDINATED AND FOCUSED IMPLEMENTATION

THIS IS WHAT BRINGS PLANNING INTO PLAY THAT MAKES IT SO IMPORTANT IN SA NOW.
Tackling unemployment, poverty and education

The unemployment rate peaked in 2001 at 31%, but through sustained economic growth from 1997 to 2008, a drop in the unemployment rate to 23.2% was achieved in 2008. However, the global economic downturn had a negative impact on economic and employment growth after 2008, and by 2010 the unemployment rate had increased to 25.4%. On the positive side, a decrease in the unemployment rate had been observed in the fourth quarter of 2011, with the rate decreasing to 23.9%.

When examining the unemployment figures in a bit more detail, two key trends jump out: the issue of discouraged work-seekers - ie, people that gave up looking for a job and the high rate of youth unemployment. The broad rate of unemployment, which includes discouraged work-seekers, was measured at 35.4% for 2011Q4, down from the 36% of the previous quarter, and has been at or above 34% since 2009Q3. The number of the not economically active population increased by 134 000 during 2011Q4, of which 111 000 were discouraged work-seekers, which affected the observed drop in the unemployment rate to 23.9%.

Unemployment largely affects the youth in South Africa, with roughly 71% of all unemployed individuals being between the ages of 15 and 34 in 2011Q4. The unemployment rate for youths between the ages of 15 – 24 years stood at 49.2% in 2011Q4, decreasing from 51.3% observed in 2010. Youth unemployment for the 25 – 34 age category was 27.8% in 2011Q4 and also decreased from the 29.1% of 2010.

The education sector in South Africa has not been successful in addressing the skills challenges of the country. The quality of education received by learners in disadvantaged areas remains of a poor standard and is reflected in the statistics. According to a study done by Professor Tim Simkins in 2005, South Africa’s literacy and numeracy test scores are low by African and global standards, although government dedicates nearly 6% of GDP on education and that South Africa’s teachers are among the highest paid in the world (in purchasing power parity terms). In 2010, only 15% of learners who sat the matriculation exam achieved an average mark of 40 percent or more. This is masked by the 67.8% pass rate number cited in the 2010 matriculation results. Infrastructure shortages at public schools also remain highly unequal and many schools still do not have toilets, electricity, desks and chalkboards.

Although South Africa is considered an upper-middle income country because of a relatively high GDP per capita figure, the reality is that the country is an extremely unequal society. South Africa’s Gini coefficient was 0.67 in 2005. This translates to the poorest 20 percent only earning 2.3 percent of national income, while the richest 20 percent earns more or less 70 percent of income.

The National Development Plan document has identified these three areas as the areas of highest priority. Currently, 39% of the population lives under the Commission’s recommended poverty line of R418 (in 2009 prices) per person per month. The National Planning Commission looks to bring this number of people down to zero by 2030. Poverty alleviation and job creation therefore go hand in hand.

As it stands now, the country needs to create an additional 11 million jobs in the next 20 years and grow by about 5.4 percent on average over this period to achieve this objective. Currently, a poor education system is debilitating South Africa’s growth potential and prevents South Africans from escaping a life of poverty and inequality. It is important to notice that the document emphasises the implementation of all aspects of the National Development Plan in order to solve South Africa’s unemployment problem.
Share the Burden
Nation Building
Costs and Benefits
Together-Collective Interest

As a Nation
We Know Where
We Want to Be

We Want All of Our People Involved in the Discussions of These Matters
Addressing the concerns of investors

In order to put South Africa’s economic growth on a different trajectory, we cannot get away from the importance of Foreign Direct Investment (FDI). Although it should be taken into account that a few large merger and acquisition transactions as well as the global economic downturn have played a role in South Africa’s FDI, the country has seen some dramatic ups and downs in its FDI trends over the last few years: $9 billion in 2008, $5.4 billion in 2009 and $1.6 billion in 2010.

However, if we want to attract more investment and be the preferred destination in Africa and become one of the preferred investment destinations amongst our counterparts in the developing world, we need to do more to address the concerns of investors, some of which are reflected in 2011/2012 Global Competitiveness Report:

• Investors have ranked the impact of government bureaucracy, the inadequate skills of the work force, South Africa’s restrictive labour legislation, corruption and crime and theft as their most significant concerns and impediments for doing business in South Africa.

• South Africa is seen as a country with low levels of labour market efficiency and we are ranked amongst the worst in the world when considering the rigidity of our hiring and firing practices. Foreign investors are also concerned with the lack of flexibility that exist with regard to companies’ ability to determine wages and the tensions that exist with labour unions.

• Investors also indicate that the relatively poor health of our labour force is a worrying factor when they consider investments in the country.

• Although our infrastructure seems to be in a relatively good condition if compared to the rest of Africa, investors are worried about infrastructure maintenance and are of the opinion that our infrastructure needs upgrading.

• The poor security situation and the impact and cost of violence and crime for business are a cause for concern and we are ranked amongst the worst in world on this aspect.

So now, the question arises: how does the National Development Plan propose to address South Africa’s challenges?

"We need to act together in our collective interest."

Trevor Manuel
Minister in the Presidency
OUR COUNTRY’S CHALLENGES

1. Poor educational outcomes
2. Too few are employed
3. High disease burden
4. Divided society
5. Public service often fail the poor
6. Parts of the country where people are locked into poverty
7. Infrastructure is crumbling
8. We do not use our natural resources
9. Corruption

Source: 9 Challenges facing South Africa - Diagnostic Report - National Planning Commission (NPC)
EDUCATION AND TRAINING

CREATE JOBS

PROVIDE QUALITY HEALTH CARE

TRANSFORMATION AND UNITY

BUILD A CAPABLE STATE

TRANSFORM URBAN AND RURAL SPACES

EXPAND INFRASTRUCTURE

TRANSITION TO A LOW-Carbon ECONOMY

FIGHT CORRUPTION
1. EDUCATION AND TRAINING

THE PROBLEM / DIAGNOSTIC

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

• The quality of education for the majority of black learners remains poor
• Learners in historically white schools perform better, and their scores improve with successive years of schooling. In contrast, in the majority of schools with black learners, the learner scores start off lower, and show relatively little improvement
• Poor-quality education not only denies many learners access to employment - it also affects their earnings potential, career mobility and reduces the dynamism of South African businesses

THE PLAN

Vision 2030: Ensure that all children can access and benefit from a high quality education – especially in literacy, mathematics and science

How: Focus on early childhood development, schooling, further education and training, and higher education

Key actions:

• Lay a solid foundation for a long and healthy life (the home and community environment is critical for a child’s development)
  - Develop a nutrition programme for pregnant women and young children, to be piloted by the Department of Health for two years
• Build a properly qualified, professional, competent and committed teaching core
  - Increase teacher training output by expanding “Funza Lushaka” to attract learners into teaching, especially those with good passes in mathematics, science and languages
  - Hold teachers individually and collectively (at school level) accountable for learner performance (link teacher pay to learner performance improvements)
  - Change the pay structure to attract and retain good teachers
  - Regularly test teachers in the subjects they teach to determine their level of knowledge and competence
  - Get rid of union and political interference in appointments and appoint only qualified people
  - Change the process of appointing of principals and set minimum qualifications
  - Gradually give principals more powers to run schools, including financial management, procurement of textbooks and other educational material, as well as hiring and firing educators
  - Good schools should not be burdened with the paperwork that poor performing schools have to do to improve. Schools performing very poorly should receive the closest attention
• Build a strong set of institutions for delivering quality education
  - Build two new universities in Mpumalanga and the Northern Cape
  - Build a new medical school in Limpopo and a number of new academic hospitals
• Focus on enhancing the innovation capacity of the nation
  - Universities should consider extending the length of their science, technology, engineering and mathematics degrees to four years on a voluntary basis
  - Courses should be designed, introduced and taught to instill a culture of entrepreneurship
  - Increase the number of university graduates and the number of people doing their doctorates
2nd Issue - Too few work. More people come in to the workforce every year, there are no jobs available.

60% of unemployed have never worked a day.

Official unemployment statistic:
Lack of skills to modernize.

25.7%.

We have to do something about this. There is no choice!!!
THE PROBLEM / DIAGNOSTIC

Challenge: Too few South Africans are employed.

- South Africa’s labour market is highly segmented. There is:
  - A core (mostly public servants and well-organised sectors)
  - A larger periphery of unorganised and low-paid workers (formal and informal sectors)
  - A marginalised group of the unemployed (both out-of-school youths and adults)
- Labour regulations take account of the first two groups by providing basic protections and rights
- While labour regulations have had several positive effects, there have also been negative unintended consequences. These include:
  - The difficulty in dealing with poor performers – which limits the incentive for firms to hire inexperienced workers
  - Relatively high starting salaries in some sectors – this being yet another disincentive for hiring inexperienced workers
  - Dispute resolution mechanisms which were introduced to reduce the role of courts and attorneys’ fees but have now resulted in rising costs to firms in terms of time and income foregone
- This lack of job readiness (caused, in part, by the inability to support young people in making the school-to-work transition) is a strong disincentive for hiring young people
- Decades of racial discrimination, combined with poor-quality schooling, confined the majority of black people to menial labour – resulting in low levels of income
- Wage inequality is high and the cost of living is an important contributor to wage levels
  - Weak public transport systems undermine job search attempts and increase the ‘cost of working’
  - Limited access to affordable food and high quality public services raise the cost of living

THE PLAN

Vision 2030: Create 11 million more jobs in the next 20 years

How: Grow the economy faster and make it more labour absorbing

Key actions:
- Raise the rate of investment
  - Expand the Public Works programme and improve infrastructure and networks
- Gain global market share
  - Stimulate areas where there is a competitive advantage and growing global demand
- Stimulate domestically oriented activity
  - Lower the cost of doing business
  - Reward the setting up of new businesses, including partnering with companies
- Position South Africa as a regional hub
- Focus on key sectors and clusters
- Encourage a more responsive labour market
  - Help match unemployed workers to jobs
  - Provide tax subsidy to businesses to reduce cost of hiring young people
  - Make it possible for very skilled immigrants to work in South Africa
  - Help employers and unions agree on starting salaries
  - Make sure that probationary periods are managed properly
  - Simplify dismissal procedures for performance or misconduct
  - Take managers earning above R300 000 out of the CCMA process

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5TH CHALLENGE: POORLY PERFORMED HEALTH SYSTEM

TB RATES ARE HIGH AND RISING: COMING OF THE HIV EPIDEMIC

It is not just about the health system, TB is also about social and economic inequalities, which include: income inequality, gender inequality, education and housing segregation, and poor access to clean water and sanitation.

REFLECTIONS & INSIGHTS

Questions & Ideas ▼

Reflections & Insights ▼
THE PROBLEM / DIAGNOSTIC

Challenge: The ailing public health system confronts a massive disease burden.

• Total deaths in South Africa have increased sharply, with the numbers approximately doubling in ten years up to 2008
  - The evolution of HIV has completely changed the nature of the disease burden in South Africa
• The rise in total deaths, low life expectancy and high infant mortality are all evidence of a health system in distress
  - While the country’s disease burden is rising, the health system is collapsing. This collapse is partly attributable to the nature of the disease burden – but is also as a result of institutional issues and implementation failures over a long period of time
• Government has not dealt effectively with policy and implementation reforms needed in the health system
  - The most severe of these policy lapses concerns the treatment of staff, particularly professional staff in the public health service
• Alongside the problems within the public health system, government has also not managed the relationship with the private health sector effectively

THE PLAN

Vision 2030: By 2030, the healthcare system should provide quality care to all, free at point of service, or paid for by publicly provided or privately funded insurance

How: Focus on improving the quality of public health care, lowering the relative cost of private care, recruiting more professionals in both the public and private sectors, and developing a health information system that spans public and private health providers

Key actions:

• Strengthen the health system
  - Set minimum qualifications for hospital managers and ensure that all managers have the necessary qualifications
  - Eliminate health infrastructure backlogs and increase the use of ICT to treat and manage health conditions
• Prevent and reduce disease burdens and promote health
  - Broaden coverage of antiretroviral treatment to all HIV-positive people
  - Provide quality pre-birth and postnatal services through a primary healthcare approach
  - Promote active lifestyles and balanced diets, control alcohol abuse and health awareness to reduce non-communicable diseases
• Finance the health system
  - Implement national health insurance in a phased manner
  - Implement effective Public-Private Partnerships in the sector
• Address human resources issues
  - Accelerate the production of appropriately-skilled nurses by re-opening nursing colleges (accompanied by curriculum reviews)
  - Speed up the training of community specialists in medicine, including surgery, anaesthetics, obstetrics, paediatrics and psychiatry
  - Recruit, train and deploy between 700 000 and 1.3 million community health workers to implement community-based health care
9th Challenge - Divisions
In all societies, much too sharp in our country.

Employed

Unemployed

Compensation

1/1 Official Languages

Have to find ways to narrow divides.
THE PROBLEM / DIAGNOSTIC

Challenge: South Africa remains a divided society.

- Despite progress having been made in uniting the country since 1994, society remains largely divided and the major dividing line is still race.
- Opportunity continues to be defined by race, gender, class and linguistic background.
- These issues still persist, 17 years after the end of apartheid, mainly due to the following reasons:
  - The economy has not performed as well as expected, and implementing government policy in education, housing, transport, health and social welfare services has not reversed the inherent privilege attached to race.
  - Historic privilege and deprivation continue to define opportunities.
    - The generations of investment in the skills of white people gives many a deep reserve of human and social capital on which to draw.
    - While the black middle class has recently been able to develop these reserves, many black South Africans living in historically deprived areas have been denied this opportunity.

THE PLAN

Vision 2030: A united, prosperous, non-racial, non-sexist and democratic South Africa.

How: Focus on creating equal opportunities (by nullifying factors such as gender and ethnicity), righting the wrongs of the past and ensuring true equality before the law.

Key actions:

- Broaden opportunity through economic inclusion and specific redress measures.
  - The Commission on Gender Equality and the Ministry for Women, Children and People with Disabilities should jointly set (and report on) targets for the advancement of women’s rights.
  - A review of Black Economic Empowerment (BEE).
    - While BEE remains the correct approach to broaden ownership, the present model is not achieving the desired objectives quickly enough.
  - Employment equity and other redress measures should continue and be made more effective.
- Promote mutual respect and cohesion by acting on the constitutional imperative that South Africa belongs to all who live in it.
  - The Bill of Responsibility, developed by the Department of Basic Education and others, should be popularised and used as a pledge by all South Africans to live the values of the Constitution.
  - A pledge based on the Constitution’s preamble should be developed and used in school assemblies.
  - Encourage all South Africans to learn at least one African language.

4.

TRANSFORMATION AND UNITY

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Reflections & Insights

Questions & Ideas

Source: 9 Challenges facing South Africa - Diagnostic Report - National Planning Commission (NPC)
THE PROBLEM / DIAGNOSTIC

Challenge: The performance of the public service is uneven.
- Despite South Africa having a progressive constitution and a body of laws designed to protect and advance citizens’ rights, there is often a significant gap between the aspirations set out in official policy and what happens on the ground
- The uneven performance of the public service is as a result of an interplay of a complex set of factors, including:
  - Tensions in the political/administrative interface
    - At senior levels, reporting and recruitment structures allow for too much political interference in selecting and managing senior staff
    - At junior levels, there has been insufficient focus on providing stimulating career paths
  - Instability of the administrative leadership and skills deficits
  - The erosion of accountability and authority structures
  - Poor organisational design
  - Inappropriate staffing and low staff morale
- There is a real risk that South Africa’s national plan could fail because the state is incapable of implementation

THE PLAN

Vision 2030: Build a capable and effective state, able to enhance economic opportunities, support the development of capabilities and intervene to ensure a rising floor of social rights for the poor

How: Focus on ensuring that there is a clear separation between the roles of the political principal and the administrative head, and building a skilled and professional public service

Key actions:
- Stabilise the political-administrative interface
  - Create an administrative head of the public service to whom directors-general report on organisational and administrative matters
  - Put in place a hybrid approach to top appointments that allows for the reconciliation of administrative and political priorities
  - Fix the relationship between political parties and government officials
- Make public service a career of choice
  - Implement a formalised graduate recruitment scheme for the public service, skills strategies for senior management, technical professionals and local government staff
  - At the top, recruitment and management should be based on experience and expertise, while at junior levels, the state needs to focus on producing the appropriate skills and expertise
- Improve relations between national, provincial and local government
- Boost the developmental potential of State-Owned Enterprises to help build the country
  - Government (joint responsibility of shareholder and policy ministries) should appoint the boards, and the boards should appoint the chief executive officers
4th Challenge - Spatial Patterns

Rich - Poor

Where people live apart and created household division of settlement patterns

What does this mean?

- Few rail links
- Don't earn a lot
- Live very far from work

This must be corrected!
THE PROBLEM / DIAGNOSTIC

Challenge: Spatial challenges continue to marginalise the poor.

- The spatial legacy of apartheid continues to weigh on the entire country
  - In general, the poorest people live in remote rural areas
- Housing policies since 1994, in some instances, have reinforced the spatial divide by placing low-income housing on the periphery of cities, far from places of work and economic activity
- In urban areas, a fundamental concern is the failure to coordinate delivery of household infrastructure as part of a broader process of building vibrant and viable human settlements
- Rural areas, however, are characterised by greater poverty and inequality than urban areas, with many households trapped in a vicious cycle of poverty

THE PLAN

Vision 2030: In urban areas, more people will be living closer to their places of work, they will have access to better quality transport and there will be more jobs in or close to dense, urban townships. In rural areas, create an additional 643,000 direct jobs and 326,000 indirect jobs in the agriculture, agro-processing and related sectors.

How: Transforming human settlements requires far-reaching policy changes and shifts in household, business and institutional practices. An incremental approach within the long-term strategic vision will be key to the success of the initiative. The 2030 vision for rural development will be driven through an expansion of irrigated agriculture, supplemented by dry-land production where feasible.

Key actions:

Transform human settlements
- Develop a clear strategy for the densification of cities through land-use planning. Stop building houses on poorly located land and shift more resources to upgrading informal settlements, provided that they are in areas close to jobs
- Make massive investments to ensure safe, reliable and affordable public transport
- Give businesses incentives to move jobs to townships that are on the margins of cities
- Develop a focused strategy on the housing gap market, involving banks, subsidies and employer housing schemes

Build an inclusive and integrated rural economy
- Reactivate rural economies, activated through improved infrastructure and service delivery, a review of land tenure, services to small and micro farmers, a review of mining industry commitments to social investment, and tourism investments
- Put money into irrigation in Makatini Flats and Umzimvubu River Basin
- Give communal farmers, especially women, security of tenure
  - Investigate different forms of financing and vesting of private property rights to land reform beneficiaries that do not hamper beneficiaries with a high debt burden

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TRANSFORM URBAN AND RURAL SPACES
As a nation we could spend very well, but we haven’t invested in big infrastructure.

We haven’t spent nearly enough for about a generation.

But we need to invest significantly more maintaining what we already have.

We have to spend on the maintenance of the infrastructure!

Source: 9 Challenges facing South Africa - Diagnostic Report - National Planning Commission (NPC)
THE PROBLEM / DIAGNOSTIC

Challenge: Poorly located and inadequate infrastructure limits social inclusion and faster economic growth.
- South Africa has effectively missed a generation of investment in roads, rails, ports, electricity, water sanitation and public transport
- Current investment levels are insufficient and maintenance programmes are seriously lagging
- South Africa has to expand its infrastructure to suit mining and other traditional activities while at the same time investing in the facilities required for a more labour-absorbing, knowledge-intensive economy
  - The enormous distances between South Africa and its major trading partners in Asia, Europe and the Americas contribute to high costs, and African infrastructure networks are inadequate and poorly maintained, raising costs and hindering trade
  - Linked to that challenge is the state of the Information and Communication Technology (ICT) sector
    - South Africa has lost its status as continental leader in internet and voice connectivity, with its place on global ICT indices also usurped by former comparator countries

THE PLAN

Vision 2030: Invest in a strong network of economic infrastructure designed to support the country’s medium- and long-term objectives

How: Through the targeted development on transport, energy, water resources, and ICT networks

Key actions:

Energy (the aim is to have adequate supplies of electricity and liquid fuels to avoid disruptions to economic activity, transport and welfare)
- Balance domestic coal supply security with growth in exports
- Explore gas as a viable alternative to coal (and nuclear)
  - Enable exploratory drilling to see whether there are viable coal seam and shale gas reserves, while investigations continue to make sure that operations do not damage the environment
- Diversify power sources and ownership in the electricity sector
  - Move Eskom’s system operator, planning, power procurement, power purchasing and power contracting functions to the independent system and market operator
  - Closely regulate the electricity maintenance plans of large cities

Water resources and services (all South Africans will have affordable access to sufficient and safe water and hygienic sanitation)
- Set up an investment programme for water resource development, bulk water supply and wastewater management this year, with reviews every five years
- Establish a national water conservation programme with clear targets to improve water use and efficiency

Transport
- Create workable urban transit solutions with public and private components
  - Renew the commuter rail fleet – in conjunction with station and facilities upgrades to enhance links with road-based services
- Strengthen and optimise freight corridors
  - Upgrade the Durban-Gauteng freight corridor and build a new port at the old Durban airport site
  - Invest in a new heavy-haul rail corridor to the Waterberg coal field and upgrade the central basin coal network
  - Expand the coal, iron ore and manganese lines
  - Upgrade the Sishen to Saldanha iron ore line and expand capacity on the manganese line (including port capacity)
- Achieve rural access and mobility

ICT infrastructure
- Improve and cut the cost of internet broadband by changing the regulatory framework
5th Challenge - Although we have great resources: coal we can mine cheaply - water scarce country

We need to act in a way that protects our environment. Threat of climate change not only in our country but around the world.
THE PROBLEM / DIAGNOSTIC

Challenge: South Africa’s growth path is highly resource-intensive and, hence, unsustainable.

- South Africa’s development path was based on the apparent abundance of natural resources, which colonial rulers exploited for export, using little for domestic consumption and development
- South Africa’s economy and society today, continues to reflect and reproduce this dependence on natural resource exploitation. While natural resource exploitation has provided a basis for local as well as foreign accumulation, it also makes the country particularly vulnerable to external forces
  - In the future, the energy-intensive coal-based nature of the economy is likely to be penalised as the world seeks to mitigate climate change by reducing emissions of carbon dioxide
- Water resources are another constraint
  - South Africa is the 30th driest country in the world and the “intensity” of South Africa’s water use, at 31% of the available resource, means that the country will face a binding water constraint as water use approaches 40%

THE PLAN

Vision 2030: South Africa’s transition to a low-carbon, resilient economy and just society will be well under way

How: There are differences in opinion on how South Africa should move to a low-carbon economy, at what pace and how the costs and benefits should be apportioned – however, there are several areas where consensus has been reached

Key actions:

- Focus on renewable energy
  - Speed up and expand renewable energy under the IRP 2010 and waste recycling, and ensure buildings meet energy-efficient standards
  - Scale-up investments and R&D for new technologies
  - Simplify the regulatory regime to encourage renewable energy, regional hydroelectric initiatives and independent power producers
- Promote and encourage energy efficiency
  - Set a target of 5 million solar water heaters by 2030 as part of urban energy efficiency
- Transition to a low carbon economy
  - Introduce a carbon tax – complemented by a range of programmes and incentives to raise energy efficiency and manage waste better
  - Consider a carbon budgeting approach (ie, setting the amount of carbon that can be emitted in a given amount of time)
Reflections & Insights

Questions & Ideas

Source: 9 Challenges facing South Africa - Diagnostic Report - National Planning Commission (NPC)
THE PROBLEM / DIAGNOSTIC

**Challenge:** Corruption undermines state legitimacy and service delivery.
- One of the country’s most striking breakdowns in accountability is corruption
- Corruption is not specific to the public sector – the private sector has been tolerant of and continues to engage in corrupt practices
- It undermines confidence in the democratic system by enabling the better-off to exert undue influence over the policy process or obtain preferential access to services
- Corruption weakens government’s ability to deliver services, increase social mobility and overcome inequalities
  - High levels of inequality can, in turn, exacerbate the potential for corruption
- The entire country is harmed by corruption, but the costs are not borne equally and fall most heavily on the poor
  - The fact that the costs of corruption are concentrated on those with the least influence makes tackling corruption more difficult

THE PLAN

**Vision 2030:** Build a corruption-free society, a high adherence to ethics throughout society and a government that is accountable to its people

**How:** Overcoming the twin challenges of corruption and lack of accountability requires a resilient system consisting of political will, sound institutions, a solid legal foundation and an active citizenry that is empowered to hold public officials accountable

**Key actions:**
- Build a resilient anti-corruption system
  - Centralise the awarding of large tenders or tenders that go for a long time
  - Strengthen the protection of whistle-blowers
  - Give sharper teeth to the tender compliance monitoring office to investigate value for money
  - Take political and legal steps to stop political interference in agencies fighting corruption
  - Set up dedicated prosecution teams, specialist courts and judges
- Develop an accountability framework linking the liability of individual public servants to their roles and responsibilities
  - Make it illegal for civil servants to run or benefit directly from certain types of business activity
  - Consider restraint of trade agreements for senior civil servants and politicians
So, now that we have a better understanding of the challenges that the NDP identified, perhaps it is worth considering what policy initiatives Government already has in place and how the current policy environment supports or challenges the roll-out of the National Development Plan.

The New Growth Path, IPAP2 and the policy direction

The New Growth Path document, released in December 2010 by the Economic Development Minister Ebrahim Patel in December 2010, has set job creation as a country priority, aimed at reducing unemployment by 10 percentage points by 2020, down from the current rate of 23.9 per cent. The New Growth Path has fixed six priority areas to job creation: infrastructure development, agriculture, mining, manufacturing, the ‘green’ economy and tourism. In addition, the government states its commitment to implement the policy through:

• A comprehensive drive to enhance both social equity and competitiveness
• Systemic changes to mobilise domestic investment around activities that can create sustainable employment
• Strong social dialogue to focus all stakeholders on encouraging growth in employment-creating activities.

The 2010/2011 – 2012/13 Industrial Policy Action Plan (IPAP2) was released in February 2010 and provides a strategy plan to diversify, intensify and enhance the competitiveness of the South African industrial sector. The IPAP2 document builds from the first IPAP document dating back to August 2007. This original document outlined ‘easy-to-do’ actions that have been largely implemented. The new mandate has now shifted to ‘need-to-do’ action necessary to generate a structurally new industrialisation path.

The 2010/2011 – 2012/13 Industrial Policy Action Plan (IPAP2) was released in February 2010 and provides a strategy plan to diversify, intensify and enhance the competitiveness of the South African industrial sector. The IPAP2 document builds from the first IPAP document dating back to August 2007. This original document outlined ‘easy-to-do’ actions that have been largely implemented. The new mandate has now shifted to ‘need-to-do’ action necessary to generate a structurally new industrialisation path.

This document sets out these objectives, as well as ways to promote a more labour absorbing industrialisation path in order to combat the country’s unemployment problem and to increase the participation of historically disadvantaged people and marginalised regions in the core of the industrial economy. The Department of Trade and Industry stated that IPAP2 is “a radical shift to grow a developmental economy by taking deliberate decisions to ensure that investment targets production sectors of the economy and to arrest the decline in manufacturing and accelerate skilled employment creation.”

The State of the Nation Address, 2012/13 Budget and the MTEF

In the recent State of the Nation Address, the 2012/13 Budget Speech and the Medium Term Budget Policy statement of October 2011, two of the nine key issues identified in the NDP, infrastructure and job creation, received much of the attention.

In the State of the Nation Address, five different infrastructure programmes were announced. These programmes have an integrated approach and a geographical focus mainly in the mining, transport and agricultural sectors. In the 2012/13 Budget speech, infrastructure investment expansion was listed as a priority, with approved and budgeted Medium Term Expenditure Framework (MTEF) plans of R845 bn. There was also a R2.3 bn allocation to the support for industrial development and special economic zones.

There was also a particular focus on the unemployed youth of the country, even though there was a welcome recovery as unemployment decreased from 25% in 2011Q3 to 23.9% in 2011Q4. An additional R4.8 bn was allocated to expanded public works programme and the New Jobs fund that began operating in June of 2011, received over 2500 applications and committed over R1 bn in allocations to various projects.

The Budget Speech also indicated that Government was taking some steps to improve the conditions for investors. In order to ensure that the South African economy remains on a path of rapid and inclusive growth, the Government aims to support both the Industrial Development Zone (IDZ) and Special Economic Zones (SEZ). Government allocated R2.3 bn of the R15.8 bn to economic services and environmental protection to the IDZs and SEZs. The Minister of the dti has drafted legislation pertaining to the creation of the SEZs which highlights various considerations for business that are willing to invest in these zones. The elements under consideration include tax relief for those businesses who invest in these zones, a reduction in the corporate income tax rate, and support for employment and training expenses.

After receiving comments, Treasury recognises that there are barriers to investment that exist for both foreign and domestic investors. In line with the Government’s commitment to an environment that will encourage business investment, the Minister of Finance indicated that Treasury will consult and explore how it can lower these barriers and costs to all investments in South Africa.
The plan proposes that if we do something differently!

Poverty

To achieve the change we want, we need to change the way we do things.

Inequality
And now for implementation...

The tricky part for Government is the implementation of these initiatives, which require large capital outlays. Even though large portions of the budget have been set aside for infrastructure and job creation projects, the Government aims to reduce the projected 2012/13 budget deficit from 4.6% to 3% in 2014/15. This reduction could only be achieved through a reduction in spending, a clampdown on corruption and graft, and the improvement of financial management and reporting.

As a nation, we have always been praised for our policymaking, the only criticism being the implementation or lack of implementation thereof. In the 2012 Budget, it was announced that corruption and fraud would be dealt with through new procurement policies and practices as well as tighter enforcement of the existing laws. The National Treasury has issued new regulations to the departments regarding the tender process and it will appoint a Chief Procurement Officer who will be responsible for monitoring procurement.

Credit rating agencies will be watching with a keen eye the ability of the South African government to remain in charge of its finances and its fiscal and monetary policy. At the end of 2011, Fitch changed South Africa’s credit rating outlook from neutral to negative, mainly as a result of the increased government debt levels and concerns about the impact that reduced spending might have on socio-economic stability in the country. Moody’s has also downgraded the credit rating of the five largest South African commercial banks due to their perception of the South African government’s reduced ability to support these financial institutions if necessary. However, the Minister of Finance has indicated that retaining a good credit rating remains one of his top priorities.

When considering the country’s medium term growth outlook, a cause for concern is that the South African economy relies heavily on the rest of the world in the form of trade and investment. The European Union, our largest trading partner (25.1% of total trade) is currently embroiled in a sovereign debt crisis and there are upside risks to inflation due to an increase in the oil price as well as a potential weakening of the Rand. All these elements will hamper local economic growth and make achieving these set objectives all the more difficult, unless we are able to adjust our approach and align our manufacturing sectors to increase trade with the rest of the developing world and the rest of Africa.

While on the topic of trade with the rest of Africa, South Africa’s best chance of taking advantage of being the ‘Gateway to Africa’ is now. If we do not make use of this opportunity, we might miss out on the growth and returns that Africa is presenting. In order to do this, we will have to decide how we are going to implement changes that address the concerns of investors.

Yet, despite the challenges we are faced with, we as a nation have managed to weather the storm better than most developed countries. Economic growth in 2012 will remain positive at just below 3% and we remain one of the most attractive investment options on the continent. In 2012, the plan is to move on and move forward and, with the NDP and the programmes proposed and funded by the State of the Nation Address and the 2012 Budget, we can do just that.

“...The National Plan has to attack the blight of poverty and exclusion, and nurture economic growth at one and the same time."

Trevor Manuel
Minister in the Presidency

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8 National Treasury Budget Review 2012
9 National Treasury Budget Review 2012
10 IMF Regional Outlook - Revised
ADOPT A PLAN THAT IS WORKABLE AND SUPPORTED BY ALL SA!

Source: Our Future, Our Plan, Speak Out! - National Planning Commission (NPC)
3 KEY ELEMENTS

- Active Citizenship
- Capable State
- Leadership

2030

Please make a contribution

NPC

We can and will do things now.

Does not mean that we have to wait until then.

Still inadequate.

Ideas, inputs, criticisms - don't accept or reject all. Join the debate.

Source: Our Future, Our Plan, Speak Out! - National Planning Commission (NPC)
Your specific thoughts, questions and recommendations

To ensure that what you see as the most important outcomes of today’s discussion are taken into account in preparing the written submission to the National Planning Commission, please either hand in the attachment at the end of this session or e-mail us at ndpvisionfor2030@kpmg.co.za.

Thank you!
WHOSE CHALLENGES
WE UNDERSTAND AND WHOSE JOYS WE
WILL SHARE!
THANK YOU
VERY MUCH