



Diagnostic report



June 2011

Secret – Embargoed until 14:00, 9 June 2011

Agenda

- 
- Today we release the results of an NPC diagnostic of South Africa's strategic achievements and challenges
 - South Africa has achieved many significant gains since 1994
 - However, we confront several important challenges to meeting our objectives
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The purpose of the NPC is to develop the country's long term vision and national strategic plan

- In particular, the commission is expected to
 - Draft a vision statement for 2030
 - Produce a development plan for how this vision can be achieved
 - Present reports on issues affecting long-term development, such as infrastructure investment, water resources and inequality
- The mandate of the commission allows it to be objective and, where necessary, critical
- Given its advisory role, the commission needs to *convince* the country and Cabinet of its arguments through evidence, well-considered proposals, and ideas that are tested with the public and experts

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The President gave the commission a clear mandate

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

“ *The mandate of the commission is to take a broad, cross-cutting, independent and critical view of South Africa, to help define the South Africa we seek to achieve in 20 years time and to map out a path to achieve those objectives. The commission is expected to put forward solid research, sound evidence and clear recommendations for government.*

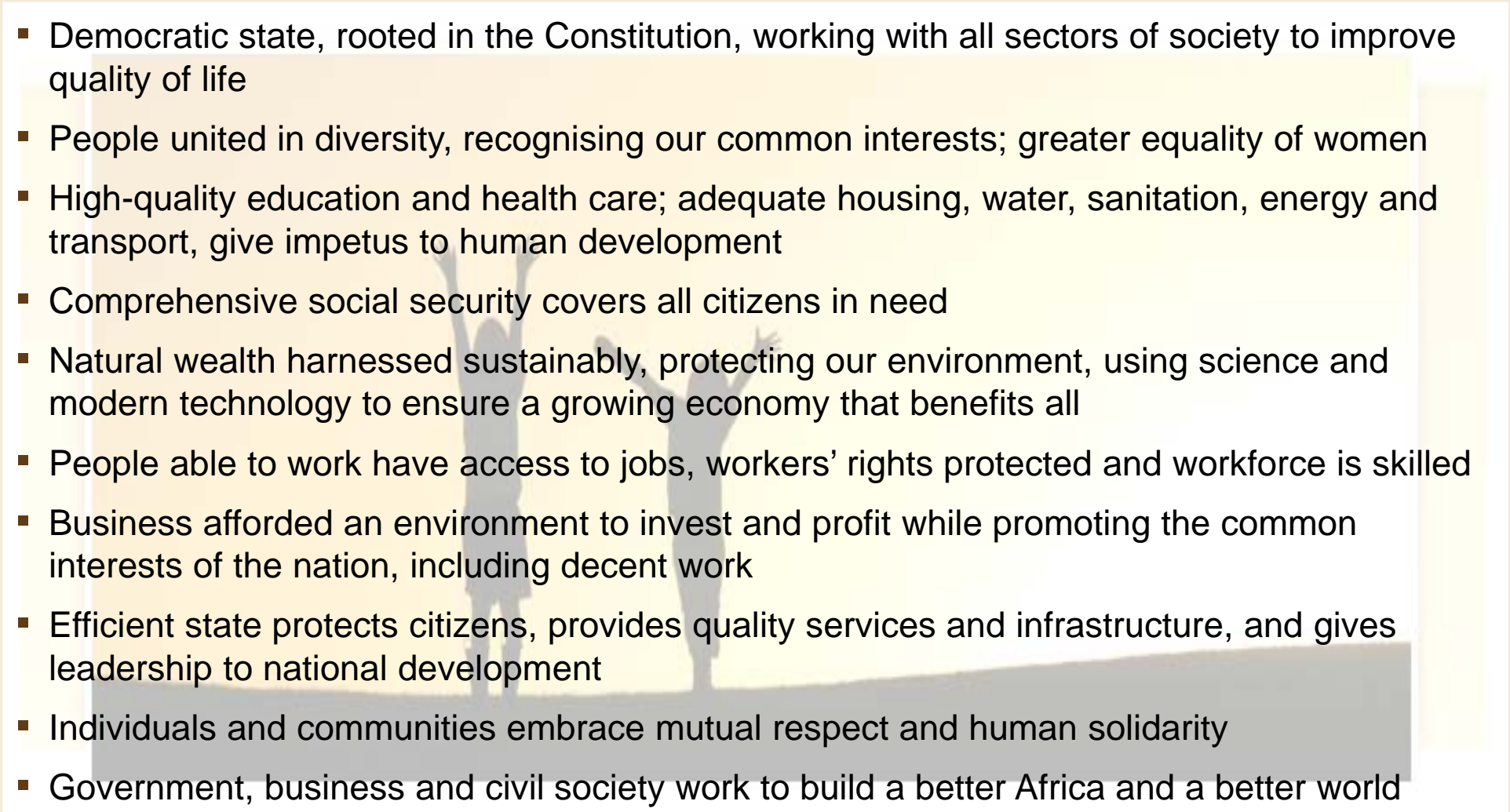
The commission will also work with broader society to draw on the best expertise, consult the relevant stakeholders and help to shape a consensus on what to do about the key challenges facing us. Government has often taken a sectoral and short-term view that has hampered development. Taking a long-term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

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

”

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Initial elements of a vision

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- Democratic state, rooted in the Constitution, working with all sectors of society to improve quality of life
 - People united in diversity, recognising our common interests; greater equality of women
 - High-quality education and health care; adequate housing, water, sanitation, energy and transport, give impetus to human development
 - Comprehensive social security covers all citizens in need
 - Natural wealth harnessed sustainably, protecting our environment, using science and modern technology to ensure a growing economy that benefits all
 - People able to work have access to jobs, workers' rights protected and workforce is skilled
 - Business afforded an environment to invest and profit while promoting the common interests of the nation, including decent work
 - Efficient state protects citizens, provides quality services and infrastructure, and gives leadership to national development
 - Individuals and communities embrace mutual respect and human solidarity
 - Government, business and civil society work to build a better Africa and a better world

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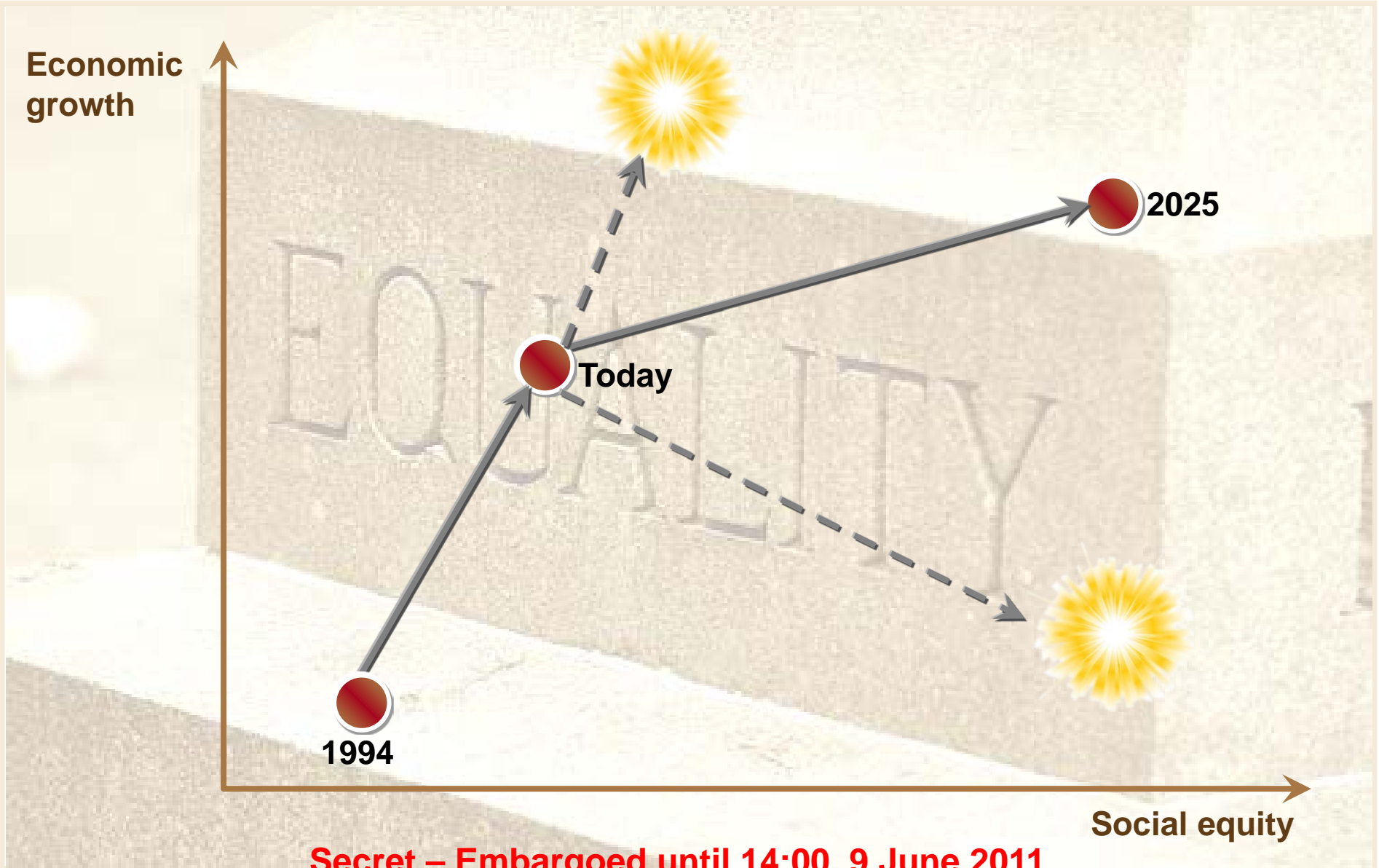
Where we stand today – results of our diagnostic

- We are now releasing a diagnostic document outlining the key challenges confronting South Africa and exploring in some detail their underlying causes and effects
- **The commission urges the public to comment on this diagnostic document, to strengthen our analysis of what is wrong and what needs to be fixed**
- In developing our diagnostic we accessed multiple sources of information, including
 - Existing and commissioned research and analysis
 - Engagement with experts from the public and private sectors and civil society
 - A weeklong online discussion forum that encouraged young South Africans to discuss nation building



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We need a development path that promotes growth AND social equity



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South Africa has undergone a political miracle over the last 2 decades

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Abolition of Apartheid

Today



Interim Free constitution elections

New constitution



Abolition of the legal apparatus of apartheid

- Ban on anti-apartheid groups lifted
- Racial segregation laws abolished
- Freedom of press
- Death penalty abolished

Universal suffrage, free 1 person – 1 vote elections



Nelson Mandela is elected first black president

International economic sanctions progressively lifted



CODESA

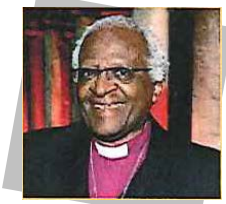
Reincorporation of homelands



Accession to the WTO

Employment Equity Act

Truth and Reconciliation Commission



Chaired by Desmond Tutu

Free elections

International AIDS Conference in Durban



National anti-retroviral rollout plan



Free elections



SA brokers Burundi peace treaty



Non-permanent member of UN Security Council



Investment in Standard Bank by China's ICBC



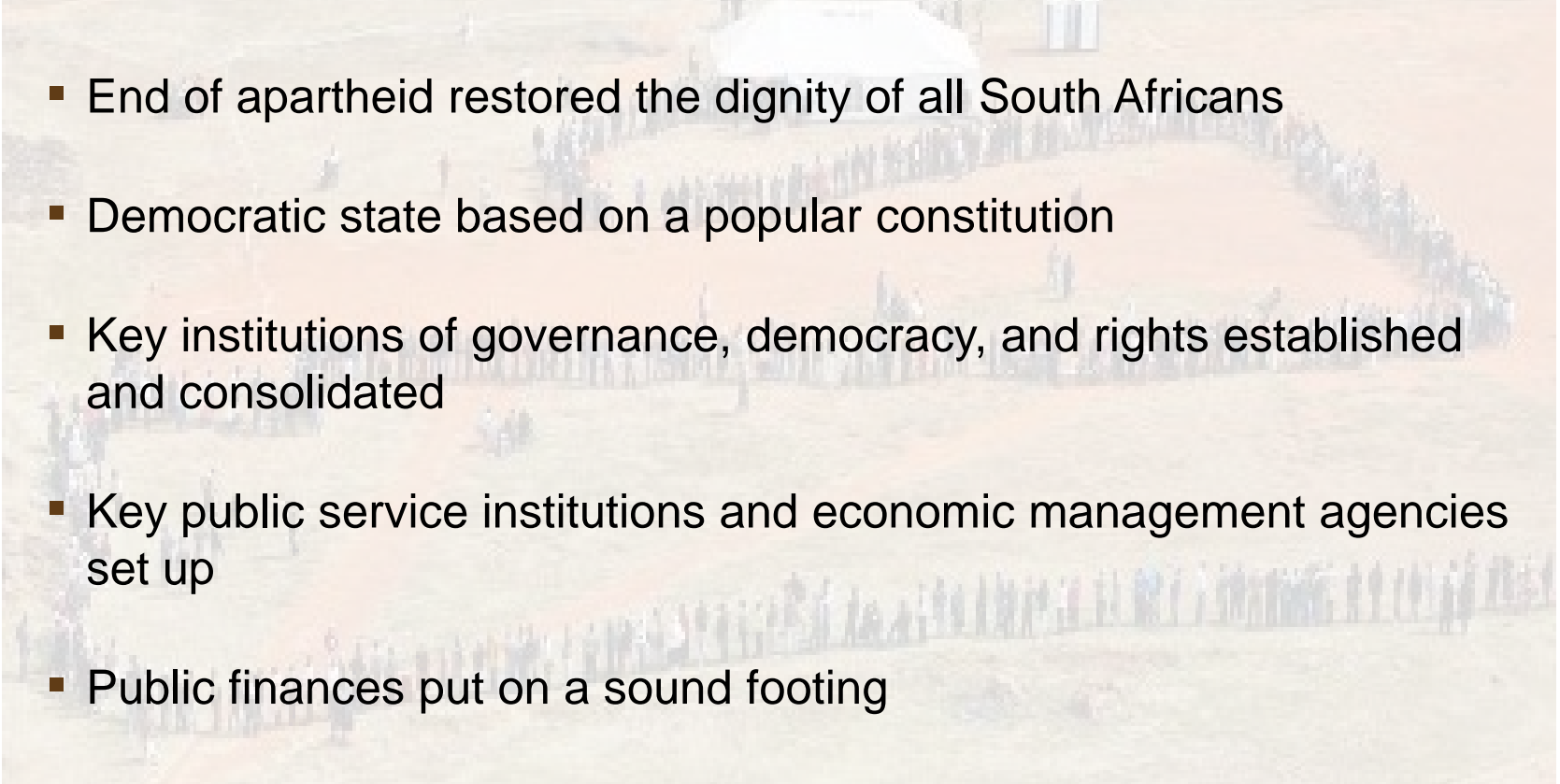
Free elections



FIFA World cup

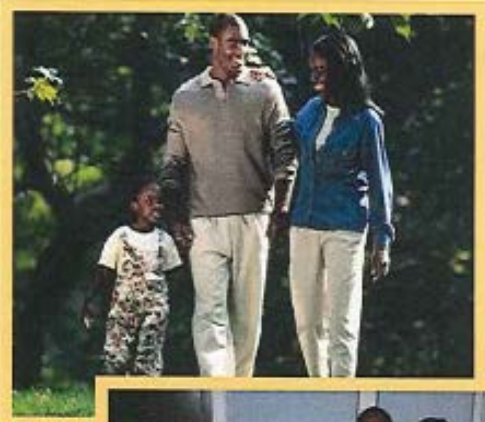


South Africa has made much progress in the transition from an apartheid state based on racial discrimination

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- End of apartheid restored the dignity of all South Africans
 - Democratic state based on a popular constitution
 - Key institutions of governance, democracy, and rights established and consolidated
 - Key public service institutions and economic management agencies set up
 - Public finances put on a sound footing

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South Africa today has much to celebrate on the economy and infrastructure



Economy

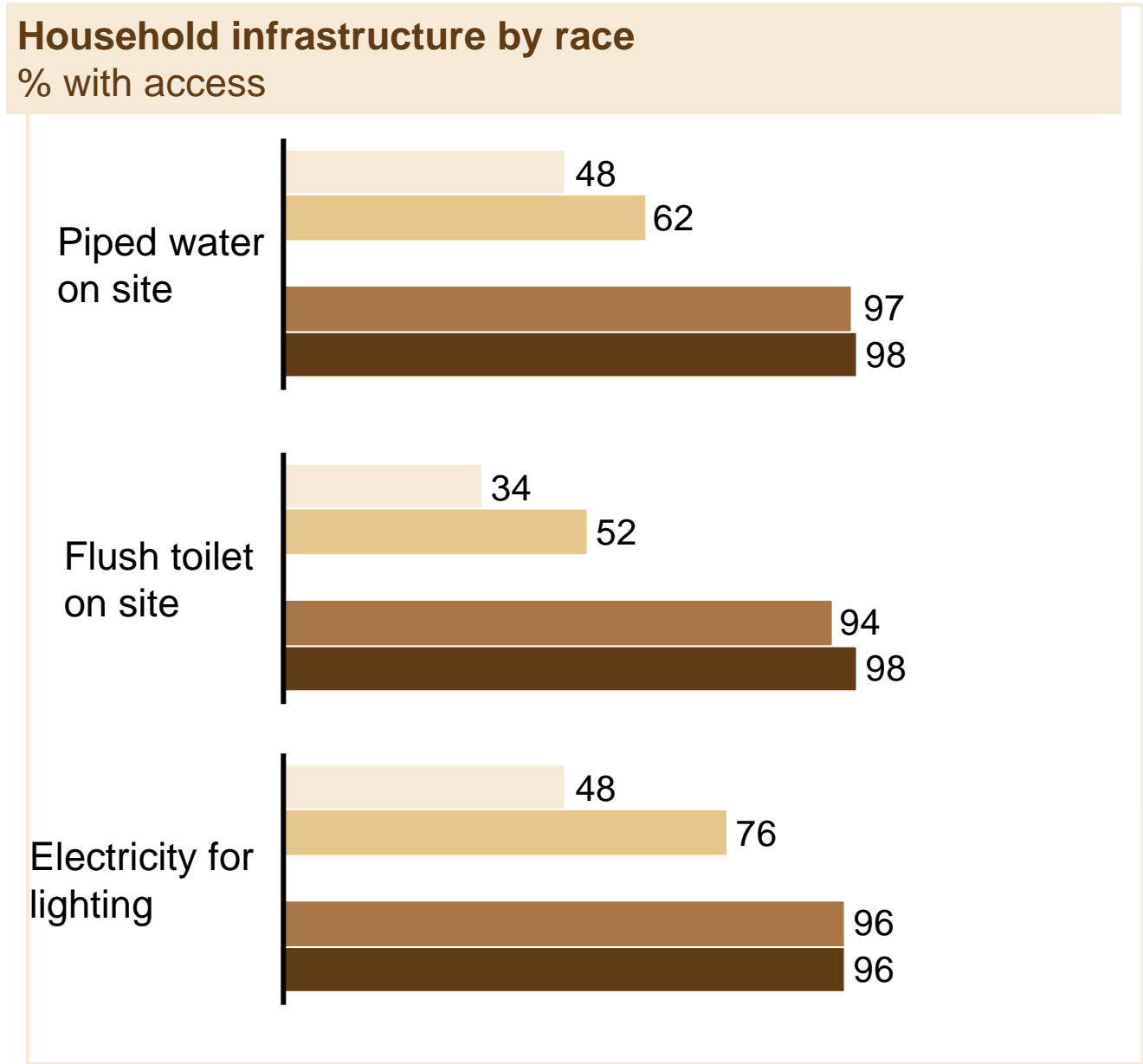
- South Africa has the 27th biggest economy in the world, accounting for almost 25% of the GDP of the entire African continent (World Bank)
- The JSE is the 14th largest in the world, with a total market capitalization of some R2.3 trillion (JSE)
- More than 12 000 “Black Diamond” families (South Africa’s new black middle class) are moving from the townships into the suburbs of South Africa’s metro areas every month (UCT Unilever Institute)
- The black middle class grew by 30% in 2005, adding another 421 000 black adults to SA’s middle-income layer and ramping up the black population’s share of SA’s total middle class to almost a third. Between 2001 and 2004, there were 300 000 new black entrants to the middle class (Financial Mail)

Infrastructure

- South Africa generates two-thirds of Africa’s electricity (Eskom)
- Durban is the largest port in Africa and the 9th largest in the world

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Government has broadened access to public and private services for many citizens



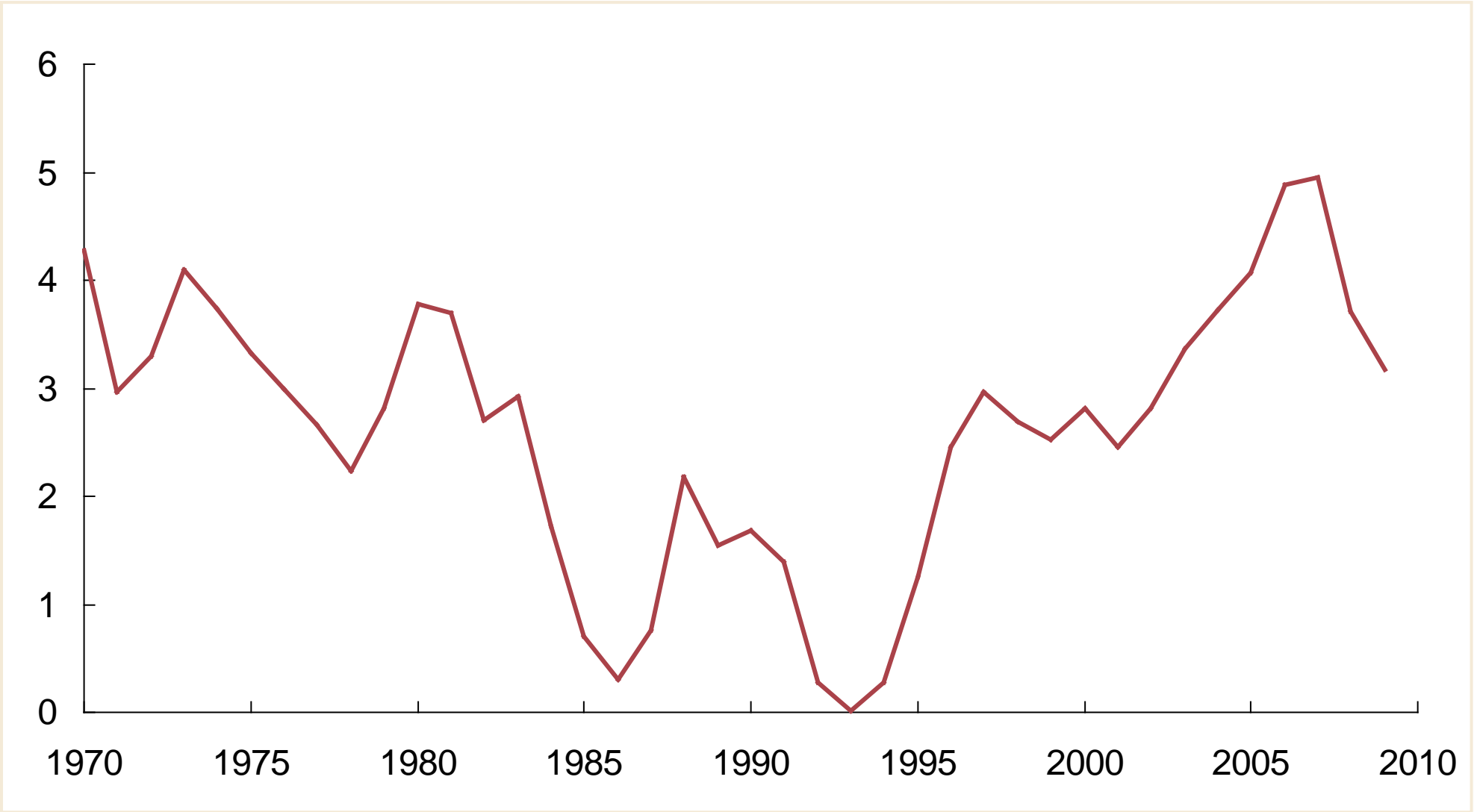
- African 1996
- African 2007
- Non-African 1996
- Non-African 2007

- 96% of children below the age of 15 in school
- Over 700 clinics built
- 2.6 million subsidised houses built, providing shelter for >10 million people
- Proportion of black people in higher education up from 27% in 1986 to 78% today

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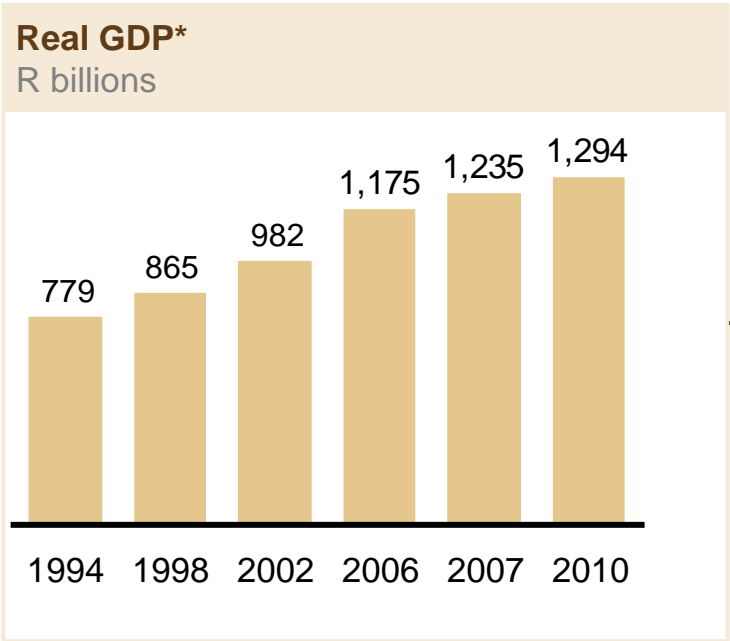
South Africa is experiencing the longest period of sustained economic growth in the last 50 years

Real average GDP growth, 5-year moving average, percent



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Economic growth has led to early employment gains



Working age population is 65% of total population, comparable to the US and Chile with 68%

Increasing labour force participation, but still low compared to US (75%)

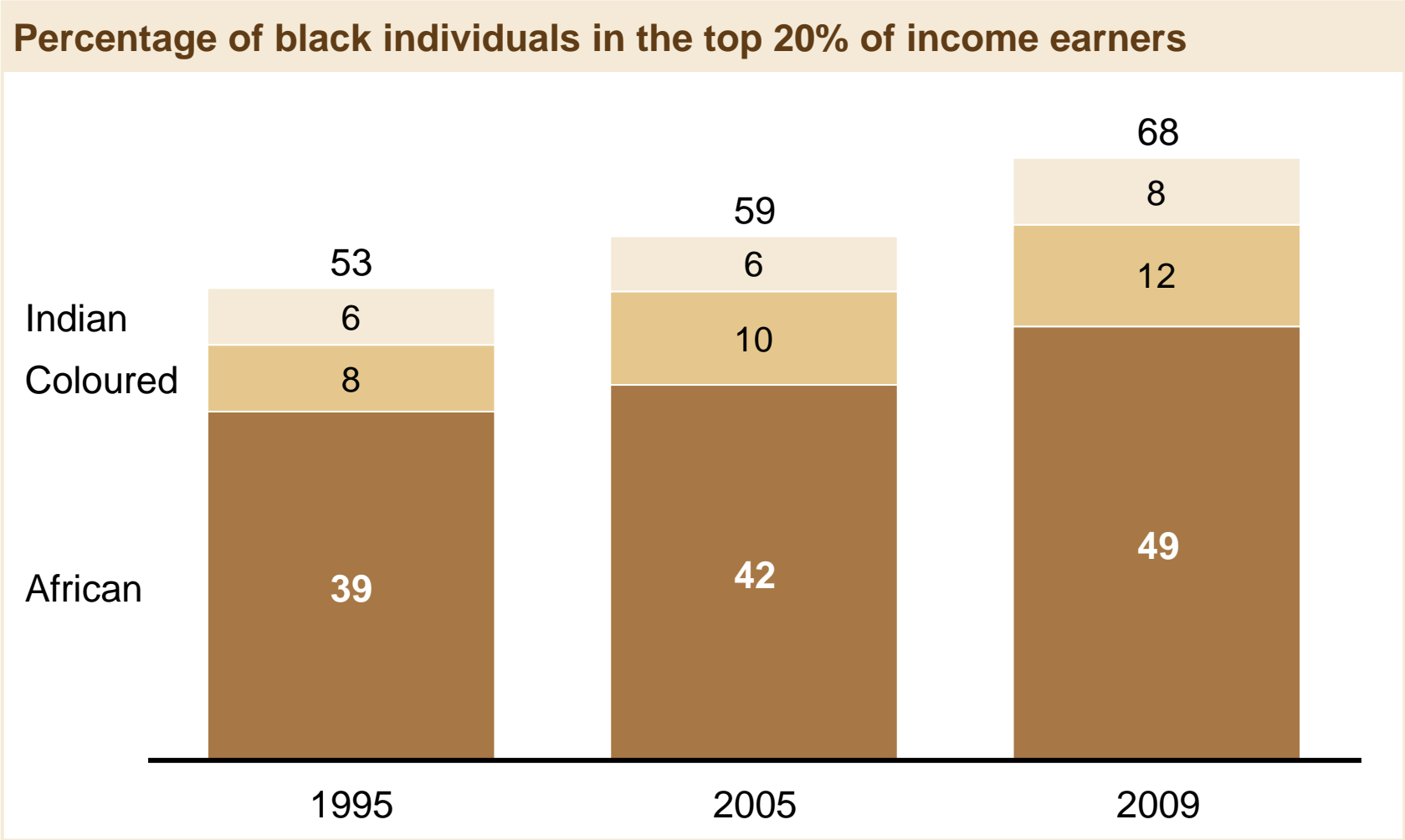
Unemployment levels are decreasing since 2002 but still extremely high (23% vs. 4% in the US)

Labour productivity per employee has decreased since 1994 but increased since 2002

¹ Calculated as real GDP output divided by labour force

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This has also resulted in deracialisation of the top income earners



1 The 1995 and 2005 income variables are directly comparable and have been created by summing all sources of income recorded in both years

2 The source of the 2009 estimates is the general household survey which does not record all income sources and only income from wages and social grants was considered

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However, across the spectrum the income gap between races is widening

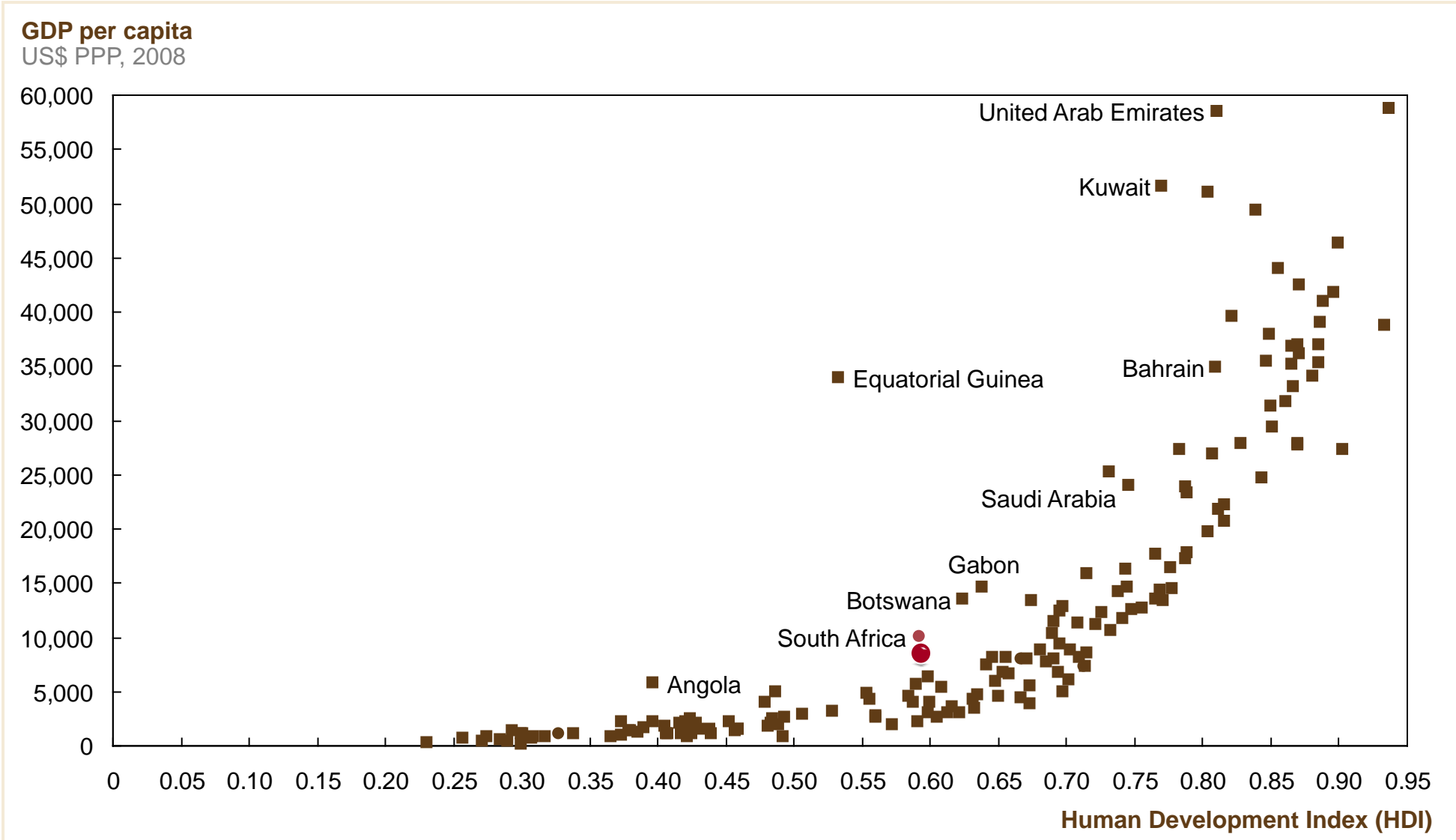
Mean monthly per capita income (2007 Rand)

	1995	2000	2005	Annual real growth Percent
African	615	576	775	2
Coloured	936	1 142	1 385	4
Asian	2 299	2 022	2 786	2
White	4 436	5 129	7 646	6
Average	1 101	1 074	1 515	3

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SA's human development level remains relatively low for a middle-income country

GDP per capita and Human Development Index, 2008



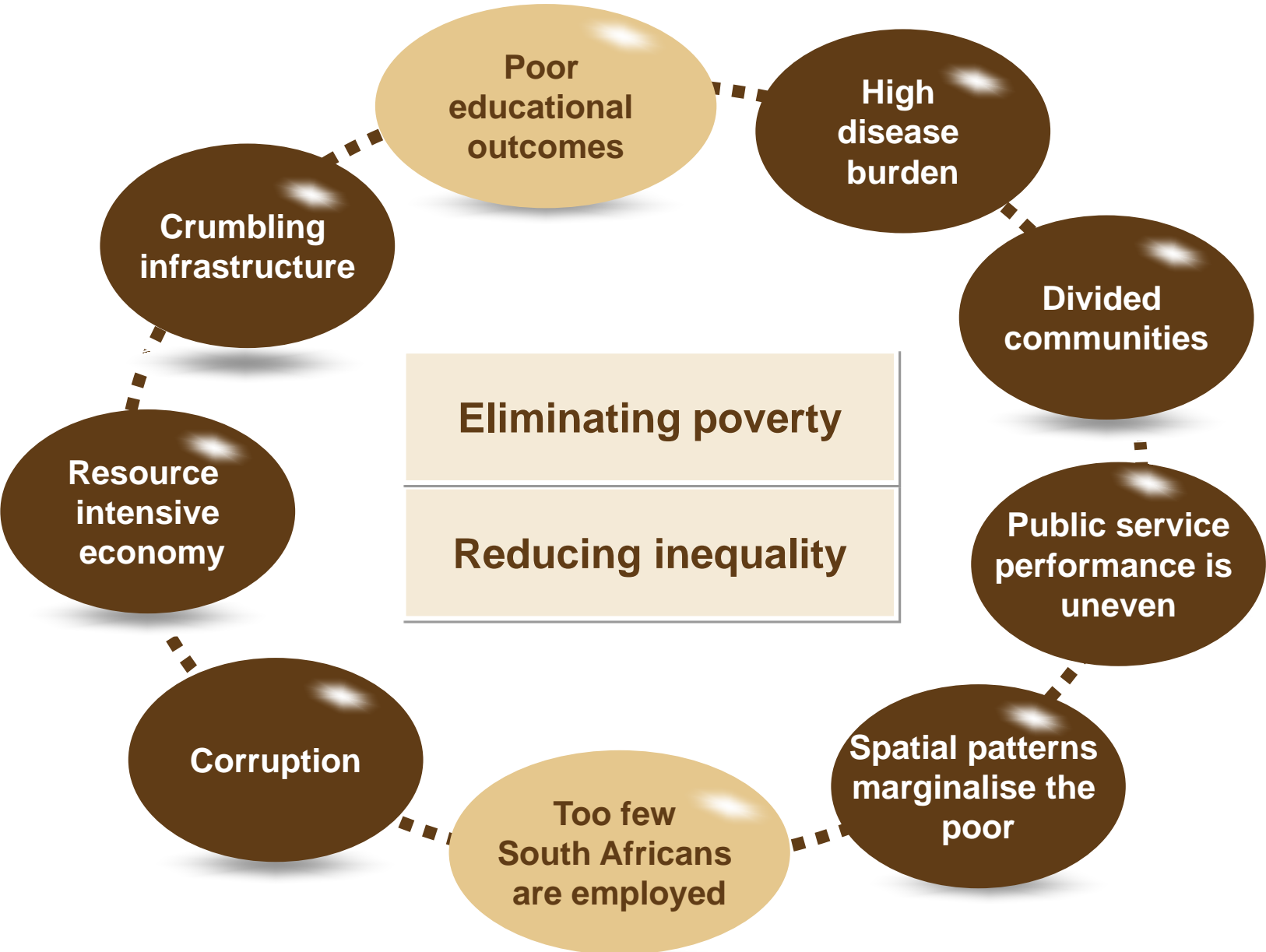
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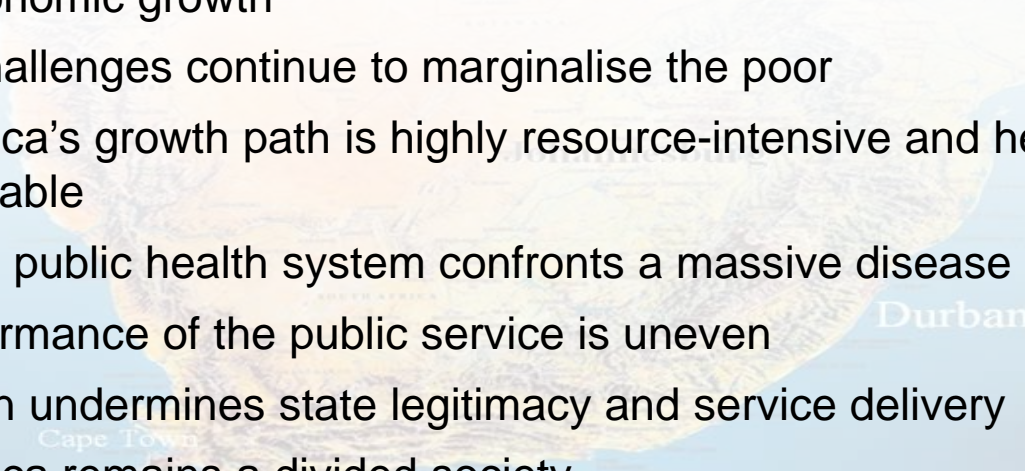
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Eliminating poverty and reducing inequality are key strategic objectives



Nine key challenges stand in the way of eliminating poverty and reducing inequality

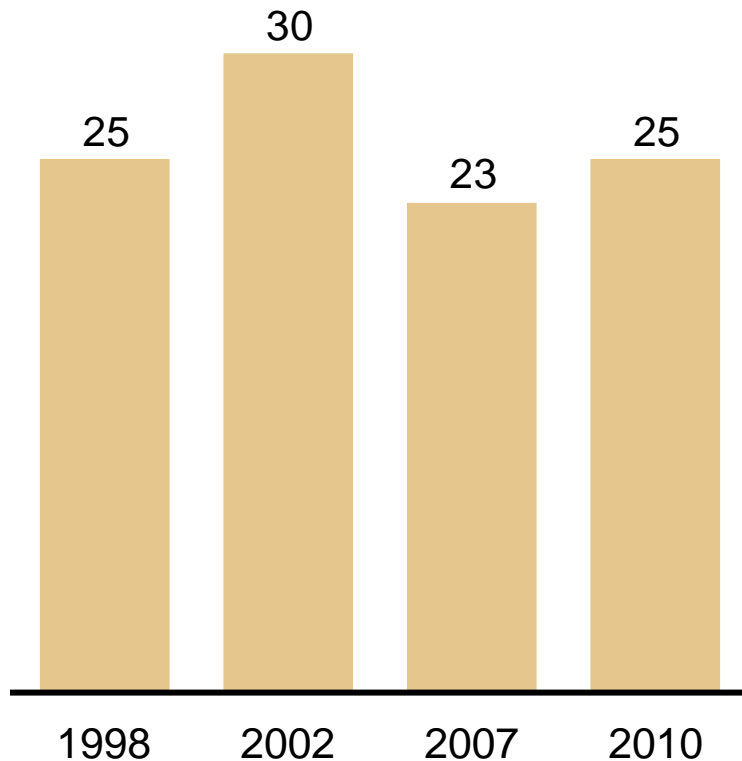
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1. Too few South Africans work
 2. The quality of school education for most black people is sub-standard
 3. Poorly located and inadequate infrastructure limits social inclusion and faster economic growth
 4. Spatial challenges continue to marginalise the poor
 5. South Africa's growth path is highly resource-intensive and hence unsustainable
 6. The ailing public health system confronts a massive disease burden
 7. The performance of the public service is uneven
 8. Corruption undermines state legitimacy and service delivery
 9. South Africa remains a divided society

Tackling these challenges will require the involvement of all South Africans and coordination and cooperation across society and government

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1 Real per capita income is increasing but growth is unequal and too slow to solve poverty

Percentage of workforce that is unemployed¹



- Poverty and inequality are largely driven by high unemployment
- Real per capita income has increased by 2% p.a. since 2001. At this rate, it would take South Africa about 35 years to reach Poland's income level
- The proportion of people below the poverty line has dropped from 53% in 1995 to 48% in 2008, but is still very high
- Share of income for the poorest 40% has remained stable since 1994 – but now comes from social grants, rather than income and remittances

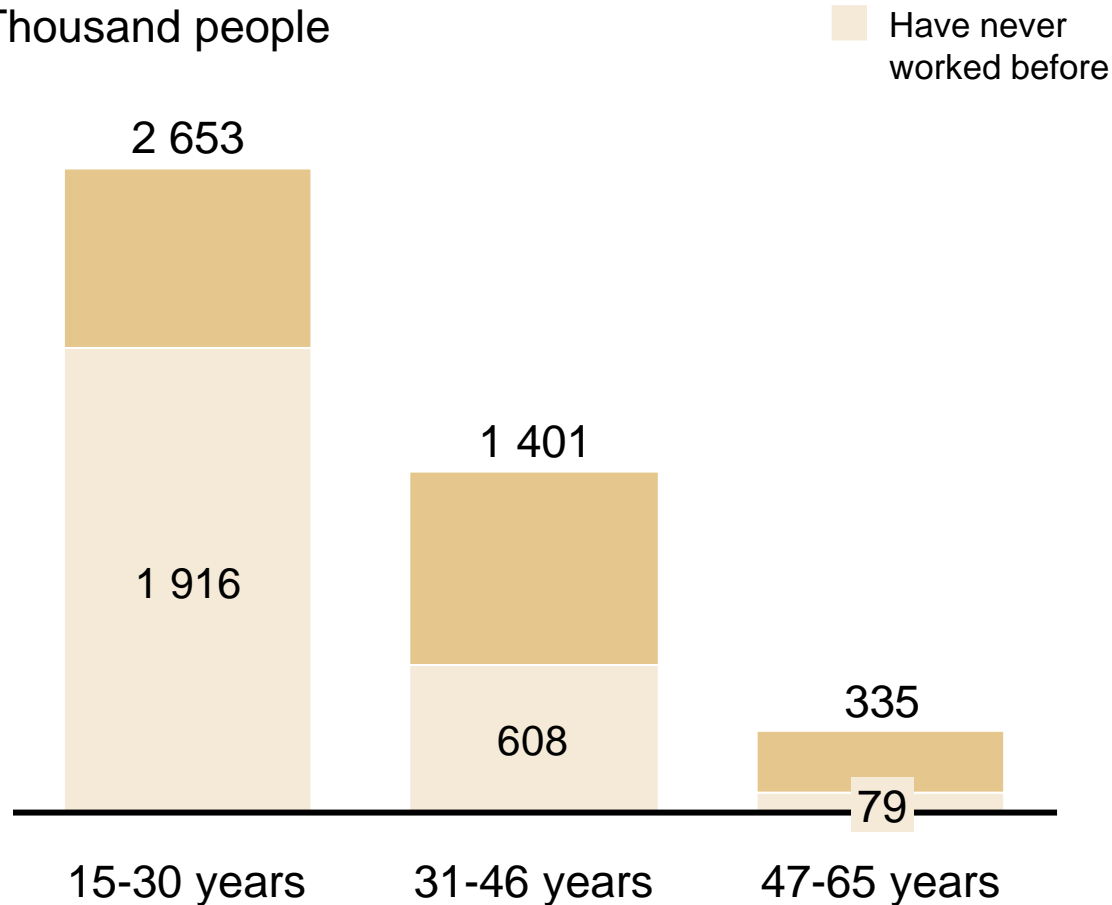
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¹ Official definition of “unemployed”: number of people seeking employment in the last 2 weeks

Persistent unemployment is being driven by several factors

SA unemployed population by age group

Thousand people

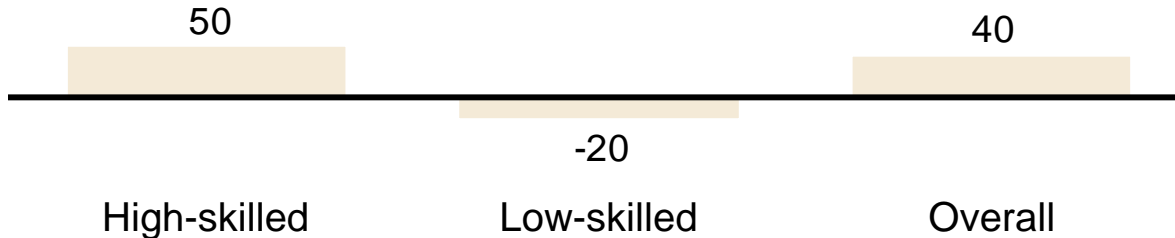


- Growth in the labour force has outstripped employment creation
- Many of these workers also lack skills in line with the needs of a modernising economy
- Almost 60% of all unemployed have never worked

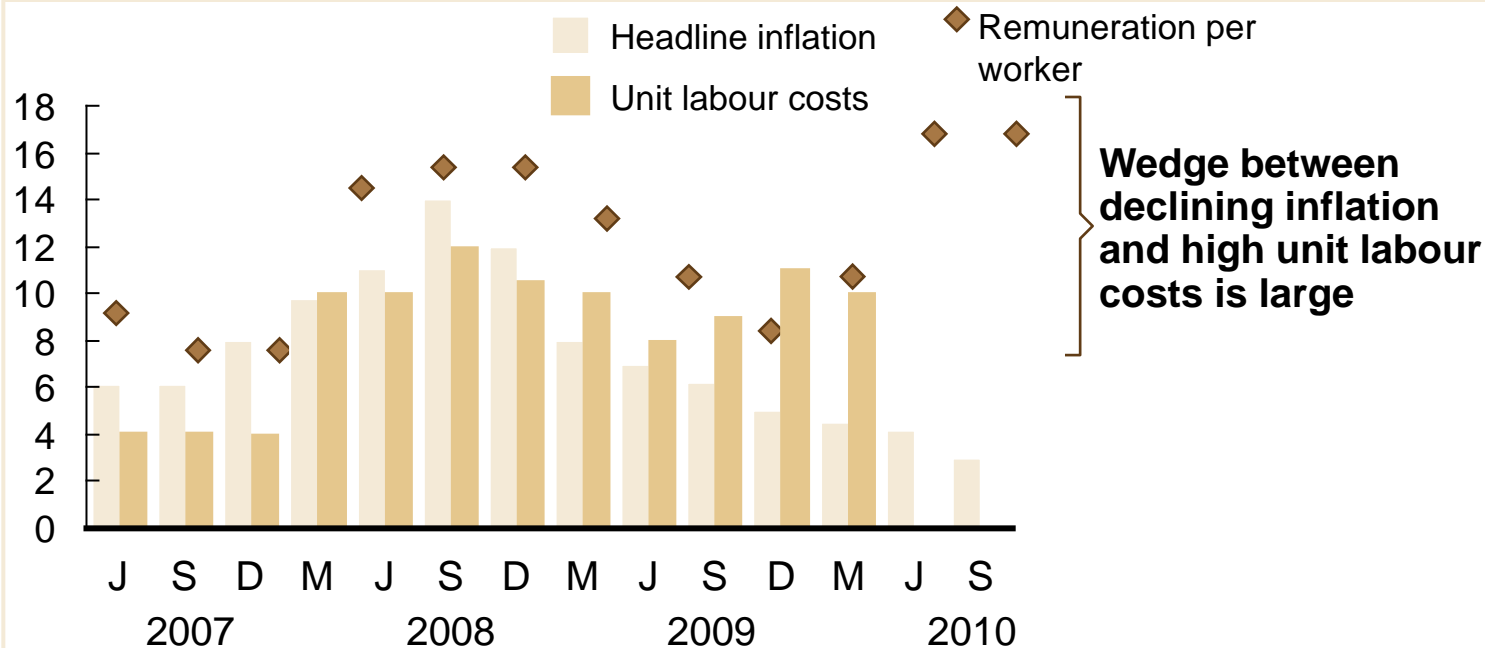
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Most jobs created in skills intensive sectors

Job growth between 1995 and 2009 (%)



Inflation and annual growth in remuneration per worker and unit labour costs, 2007 to 2010

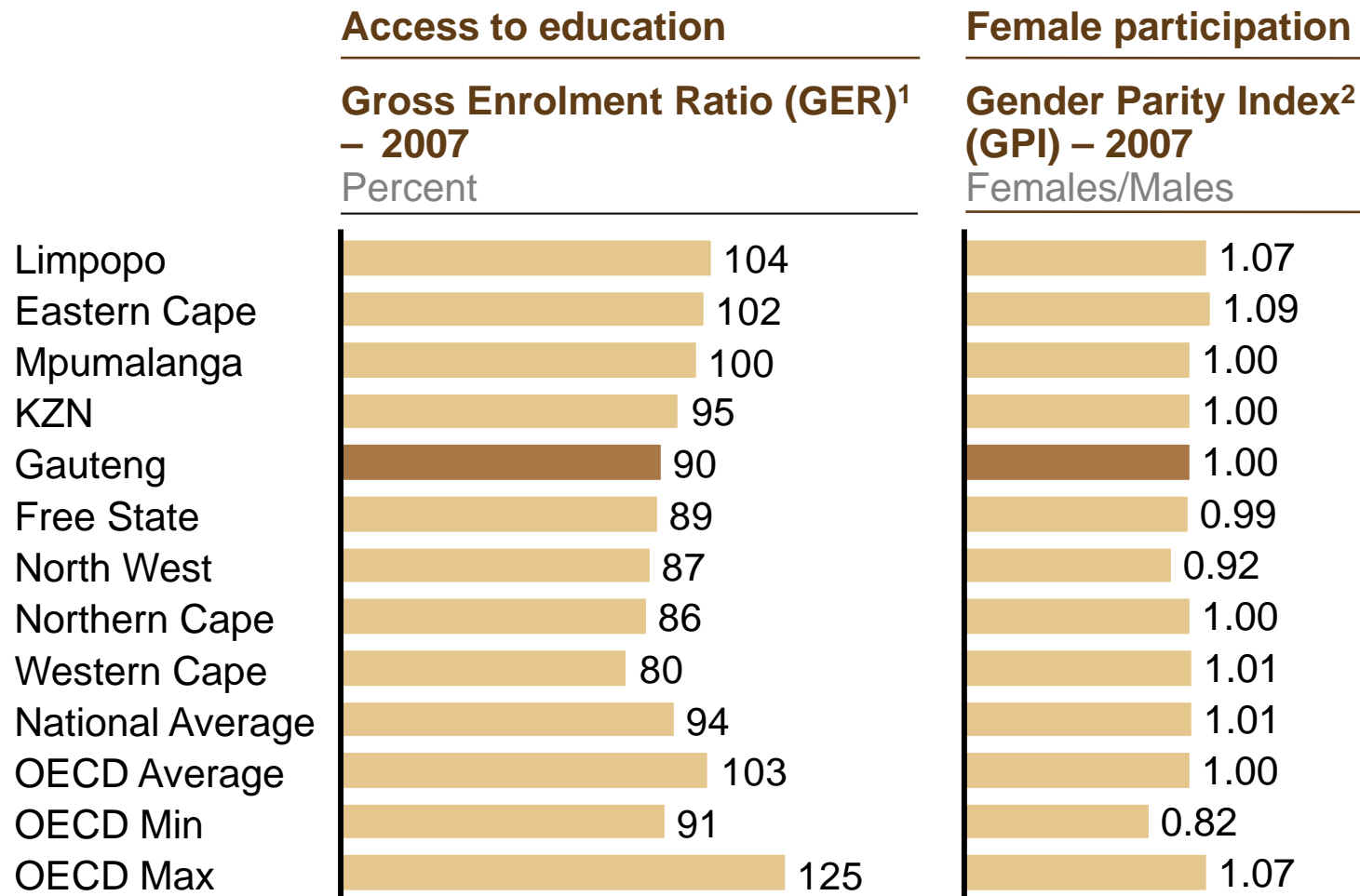


- Growth has been concentrated in less labour-intensive sectors
- Salary increases have often exceeded productivity growth
- An economic environment that is not conducive to small business growth

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Education has undergone several broad reforms

Access to education and female participation are at or near universal levels



- Access to education is now nearly universal
 - Steady increase in basic literacy rates
 - Much better equity in school funding
 - 80% of learners aged five are enrolled in grade R
- Most poor children receive school meals

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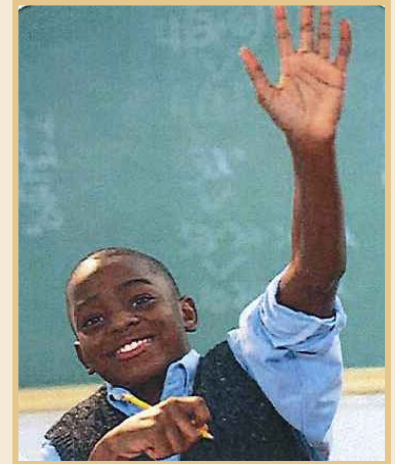
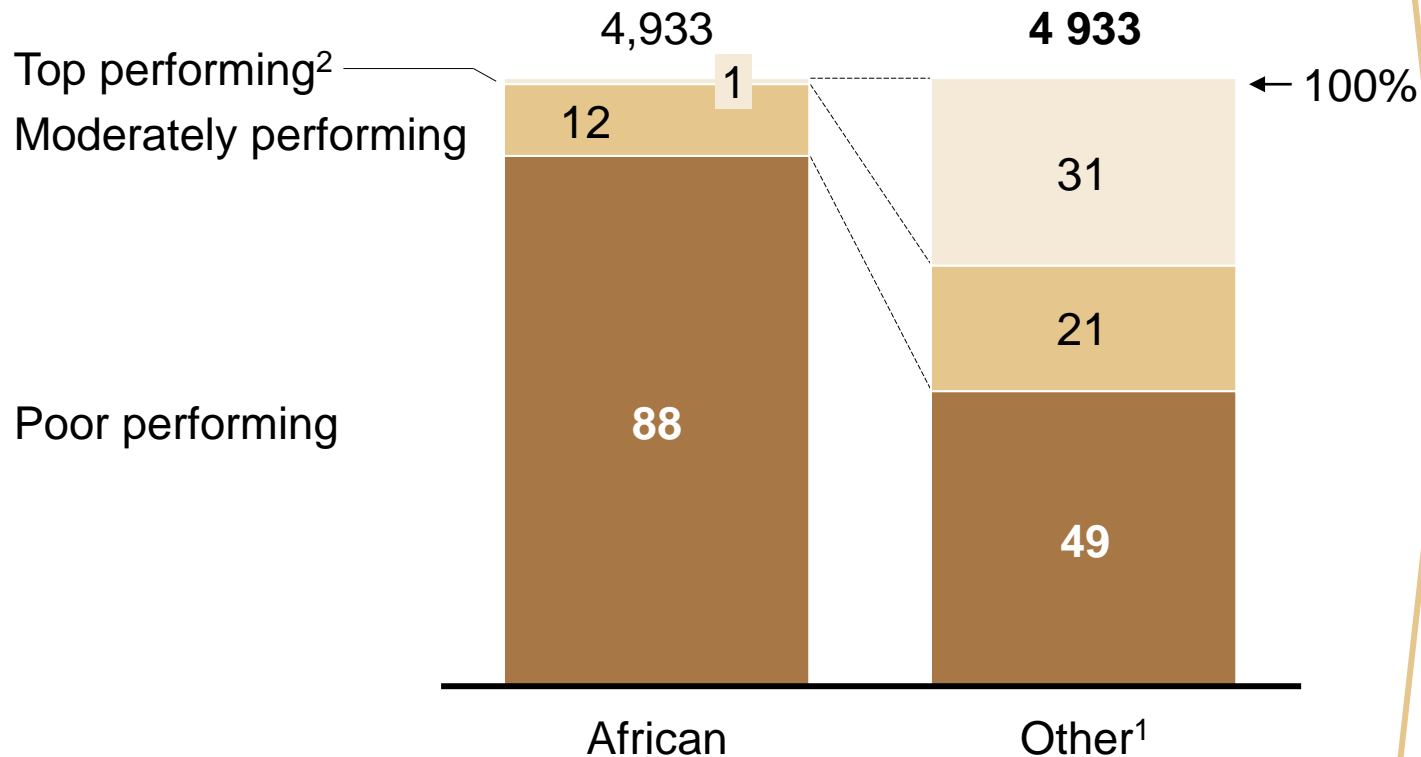
1 GER is defined as number of learners, regardless of age, enrolled in a specific school phase as a percentage of the total appropriate school-age population

2 PI is defined as GER for females divided by GER for males, e.g., GPI>1 indicates there are more females than males in the school system

There are huge variations in South African education outcomes depending on school type

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

Apart from a small minority of schools, the quality of public education remains poor



Only **1 percent** of African schools are top performing on high school certificate results, vs. **31 percent** for formerly privileged schools

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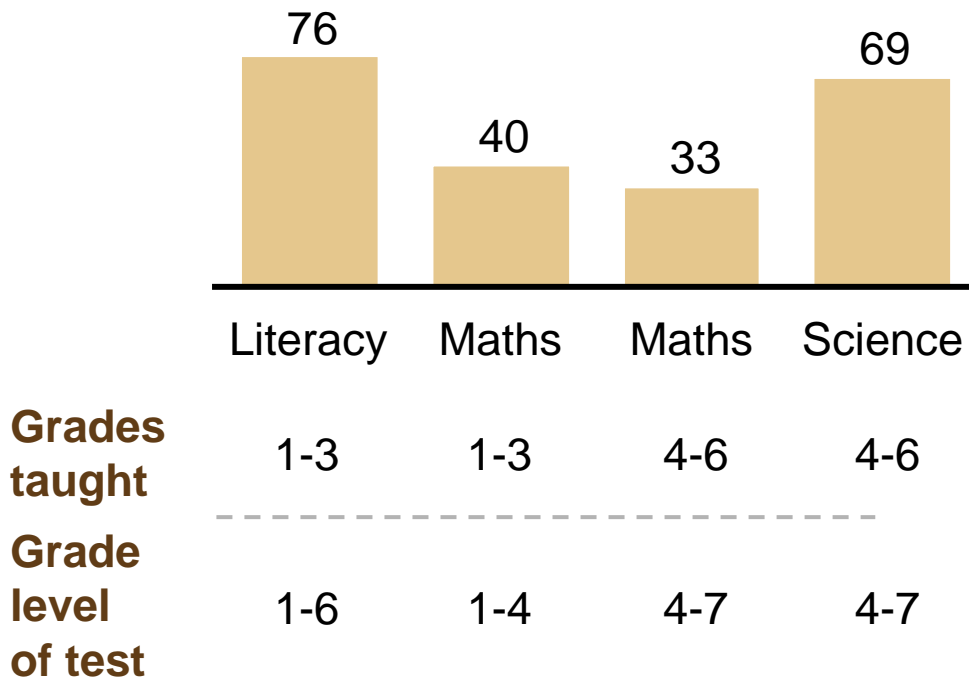
1 These were schools that were formerly reserved for whites, coloureds or indians under the previous apartheid regime

2 Top performing schools produce at least 30 maths passes in the examinations, with at least 20% at the higher grade; moderately performing schools produce at least 30 maths passes, mostly at standard grade; poor performing schools fail to achieve 30 passes in math

Evidence suggests teacher performance and quality of school leadership are the most important factors

Teachers scored less than the minimum scores expected from the average learner in their own subjects

Average scores of teachers completing tests in own subject after 4-yr training program; %; 2008

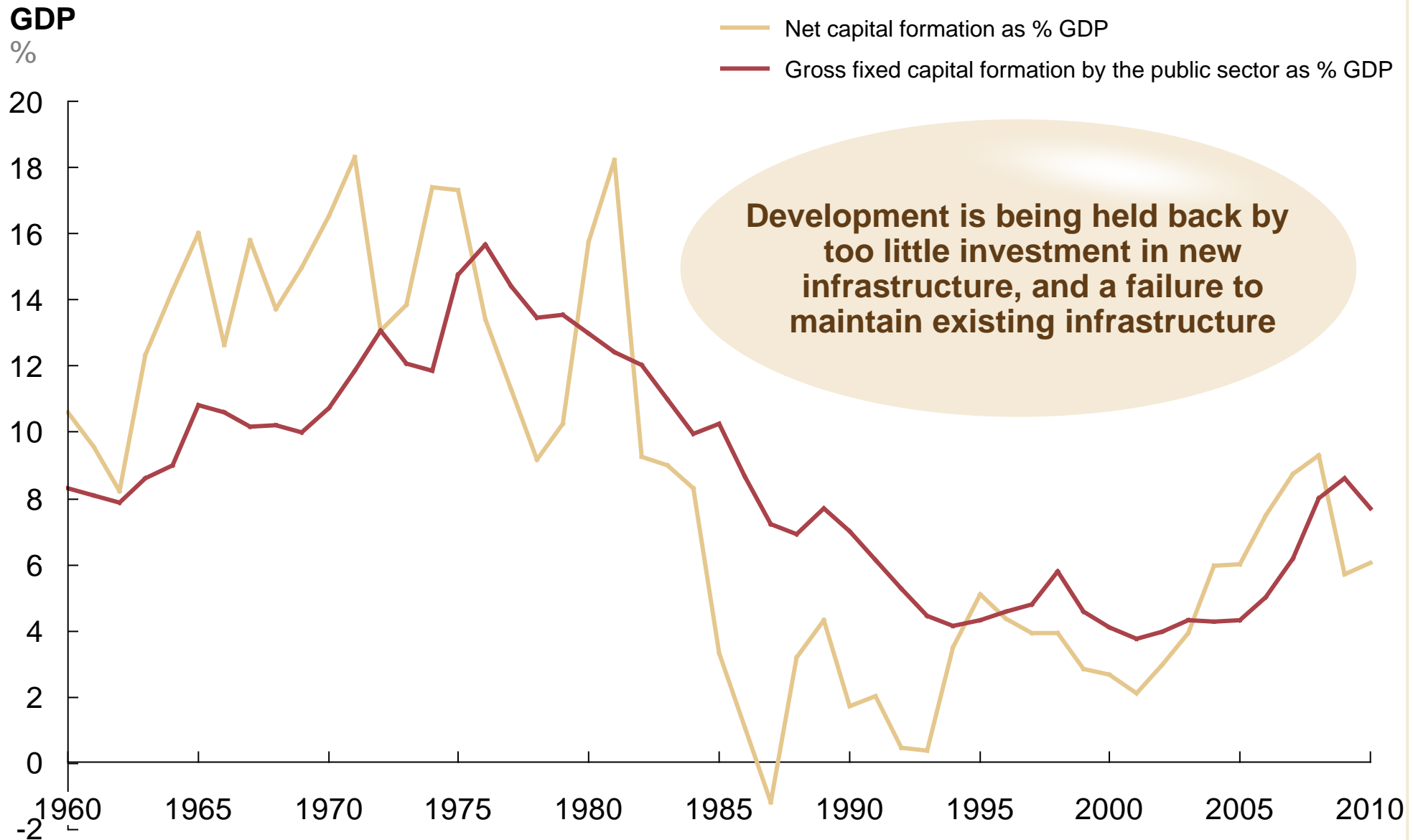


South Africa needs more principals, especially in poor communities, who

- Run efficient and disciplined schools
- Support their teachers
- Mentor less-experienced staff
- Involve parents in the education of their children
- Seek opportunities to promote their schools in the broader community

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We have under-invested in infrastructure for over a generation

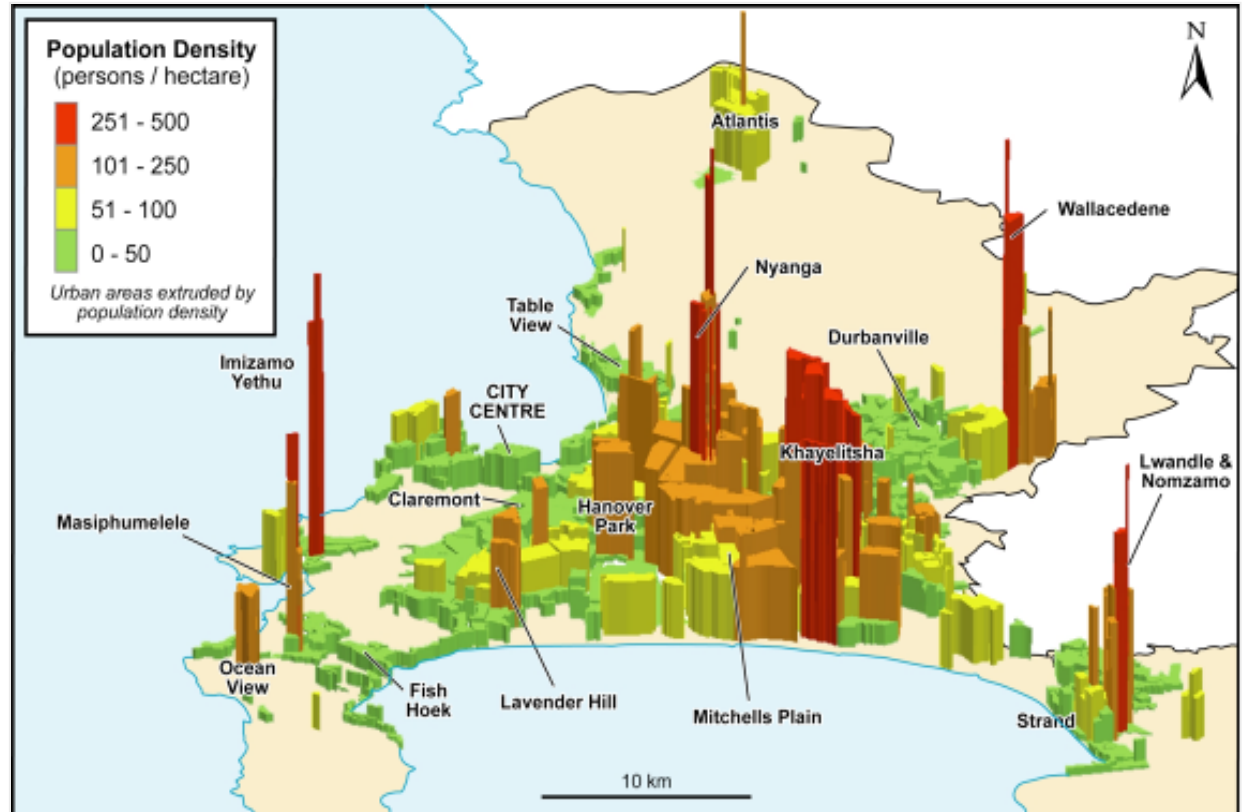


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4 Reversing the effects of spatial apartheid will be a central challenge in the decades ahead

3 major challenges

- The poorest live either in former homelands or in cities far from where the jobs are
- We fail to coordinate delivery of household infrastructure between provinces, municipalities and national government
- We can either move people to where the jobs are or move the jobs to where the people are



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To deal with these challenges, SA will need much more effective institutions

- Modernising infrastructure is complex, involving high costs while also helping shift towards a more labour-absorbing, knowledge-intensive economy
- Big distances within SA and between SA and our trading partners add to costs, given weak African infrastructure networks
- Thus SA needs a highly efficient logistics system, requiring more investment (including private money) and a political understanding of the need for super-efficiency
- We need a level of coordination within government and amongst SOEs that we've not achieved to date
- Given our low savings rate, capital is scarce – SA has to be careful what and how it builds

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SA's society and economy need a more sustainable growth path

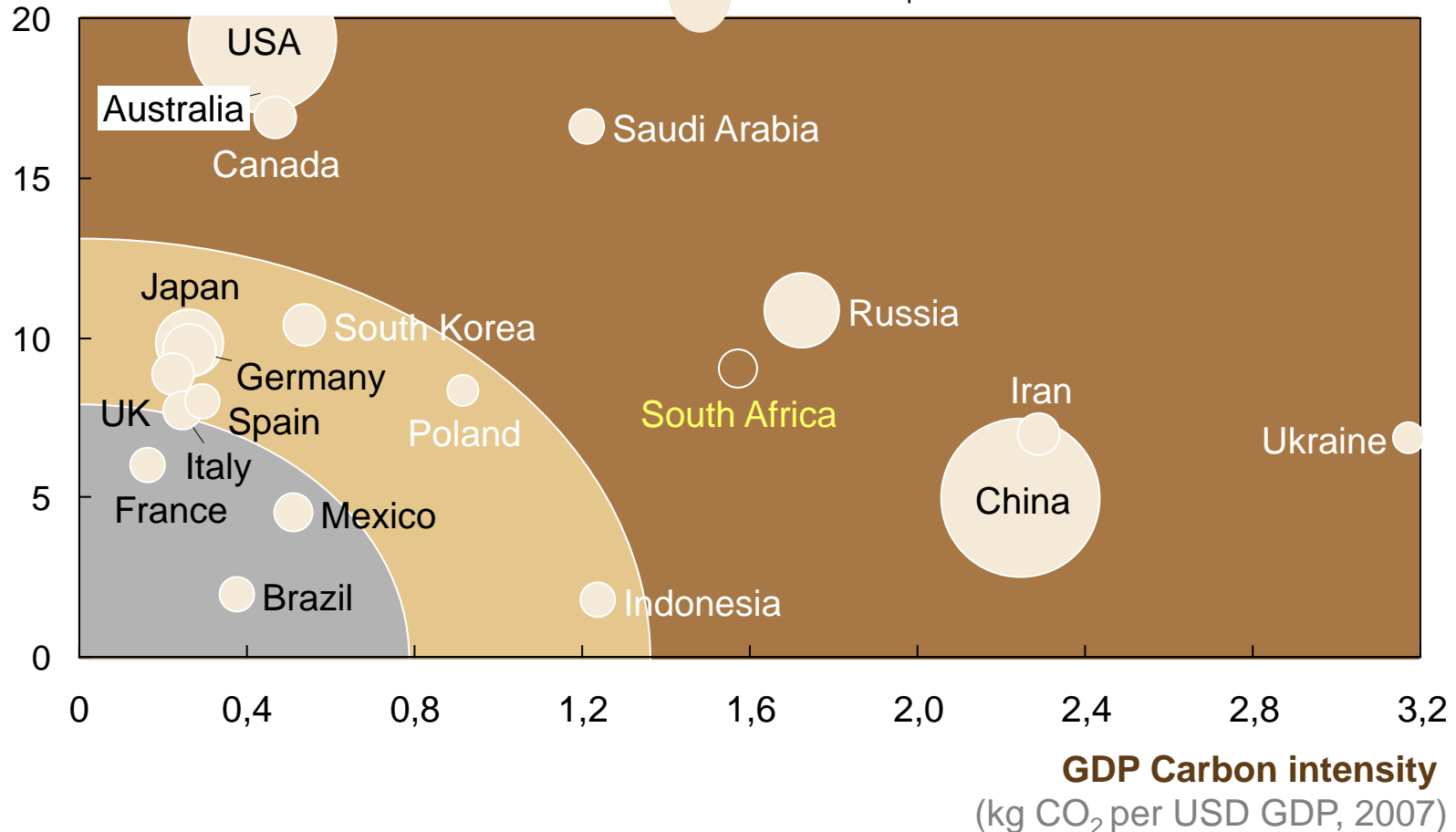
Per capita emissions
CO₂ tons per capita, 2007

Highest CO₂ intensity

Intermediate CO₂ intensity

Lower CO₂ intensity

Bubble size represents 2007 emissions



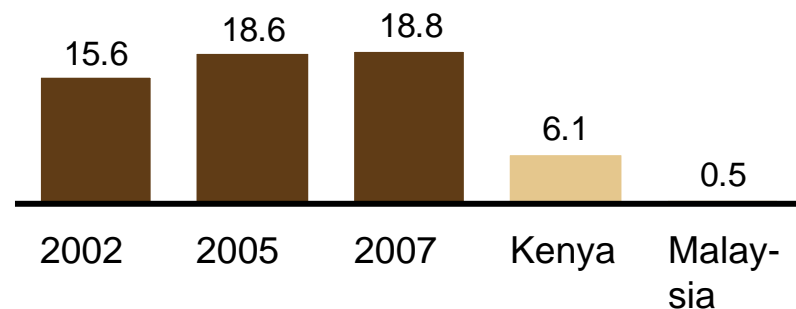
- SA's economy is highly resource intensive and we use resources inefficiently
- As a result we are starting to face some critical resource constraints (e.g. water)
- We need to become less resource intensive – but we also need to balance this against job creation, economic growth and energy and food security

On a number of health indicators, South Africa's performance has actually deteriorated

HIV/AIDS rate is significantly higher in SA than most places in the world, and worsening

HIV/Aids prevalence

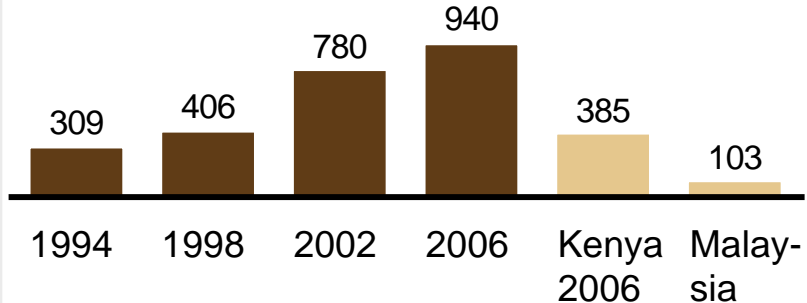
% of population aged 15-49 infected with HIV



Reported TB rates are increasing (which may be linked to improved screening)

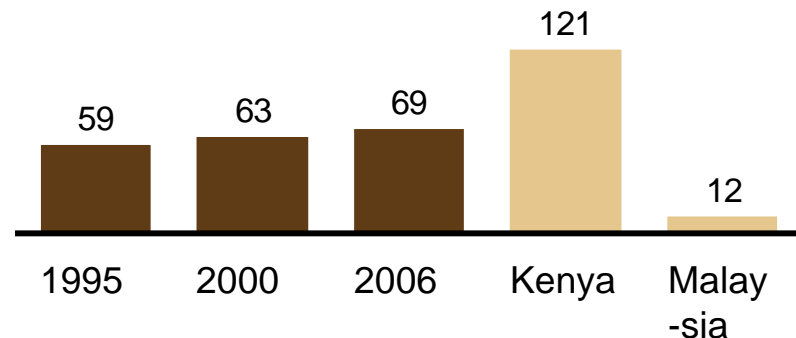
TB prevalence

Incidence of TB per 100 000 per population



Infant mortality rates are high and deteriorating

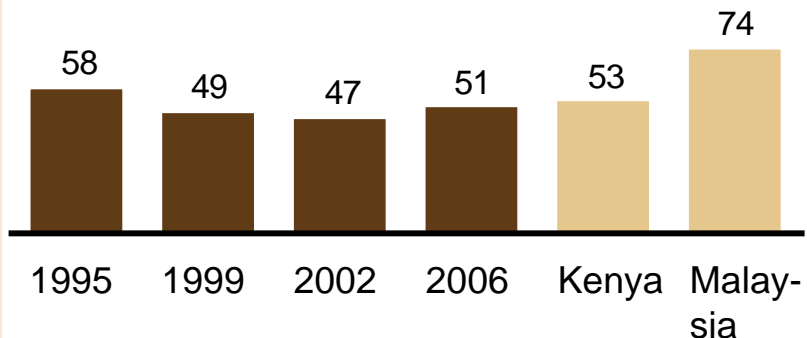
Number of child deaths under 5-yrs old per 1,000 births



Life expectancy has deteriorated since 1995

Life expectancy

Average in years



Given severe public health challenges, SA's health system is in trouble

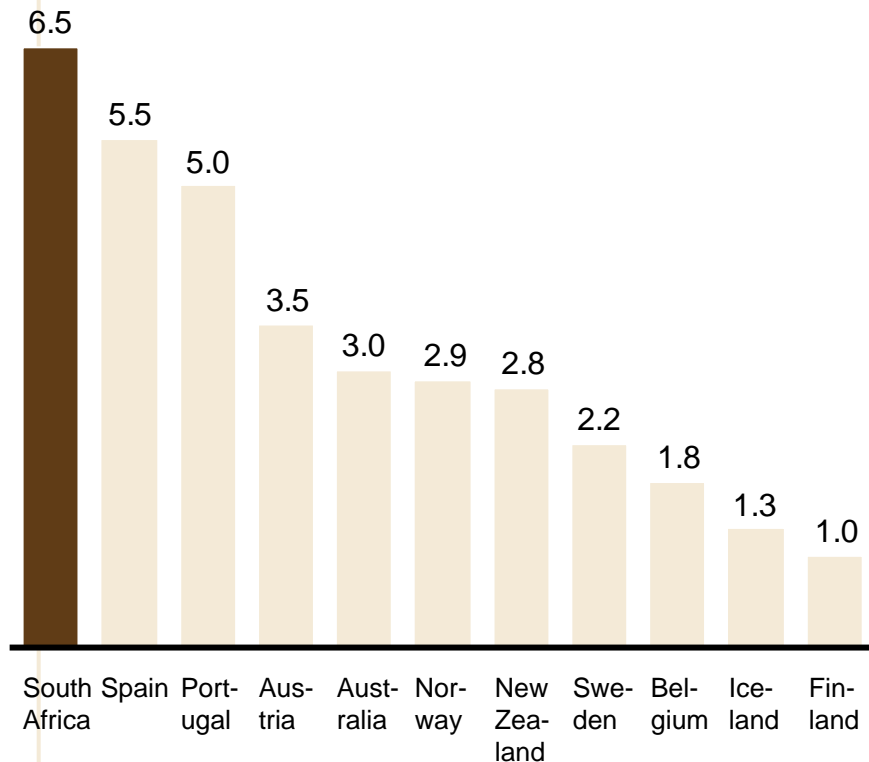
- SA faces a large and growing burden of disease
- At the same time our public health system is collapsing, partly due to policy mistakes
- The biggest concern is a massive shortage of skilled staff – whatever else we do (e.g., NHI) will be ineffective if we don't address this crisis
- Private healthcare is not a solution, as in South Africa it has proved inefficient and costly
- Longer term health challenges relate to nutrition, lifestyle, traffic safety and violent crime

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SA needs to simplify its policy, law and regulation processes and make them more effective

Regulatory compliance costs in South Africa are significantly higher than other countries ...

Economy-wide SME costs of regulatory administrative compliance
% of GDP



- South Africa's legal system, financial regulators and competition authorities score highly in global indices
- However, on other fronts performance is poor
 - Policy is often seen to be ad hoc and discretion-based (thus giving rise to corruption)
 - Regulatory impact assessments are rare
 - Laws and policies are rarely costed or piloted, leading to high compliance costs
 - Institutional capacity to implement is seldom factored in

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7 SA public service needs to get better at consistent long term thinking and implementation

3 major factors drive uneven performance on service delivery

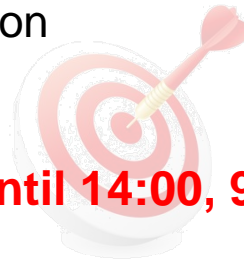
Policy instability

- Visible examples of poor delivery create the temptation to look for 'quick fixes'
- Too many reforms are destabilising, and do not address underlying causes
- Having too many initiatives soaks up public service capacity, and can lead to transformation fatigue



Organisational instability

- Newly appointed ministers often replace their administrative department heads
- This leads to tension and conflict, and creates scope for undue political interference
- Changes of leadership are often also accompanied by major policy reviews and shifts in direction



Capacity/skills deficit

- The public service faces a severe shortage of staff and specialised skills – esp. in health, policing, infrastructure planning, engineering, finance and information technology
- This adversely impact not only front line service delivery, but also long term planning and coordination



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SA public sector's biggest challenge is to boost public services that require frequent community interaction

- Productivity remains low in labour intensive parts of the public service like education, health, and policing
- Managerial accountability has not yet yielded significant positive results
- Performance-based incentives are miniscule and insignificant
- Workers blame excessive centralization, poor working conditions, inadequate equipment, large workloads and poor supervision for low morale

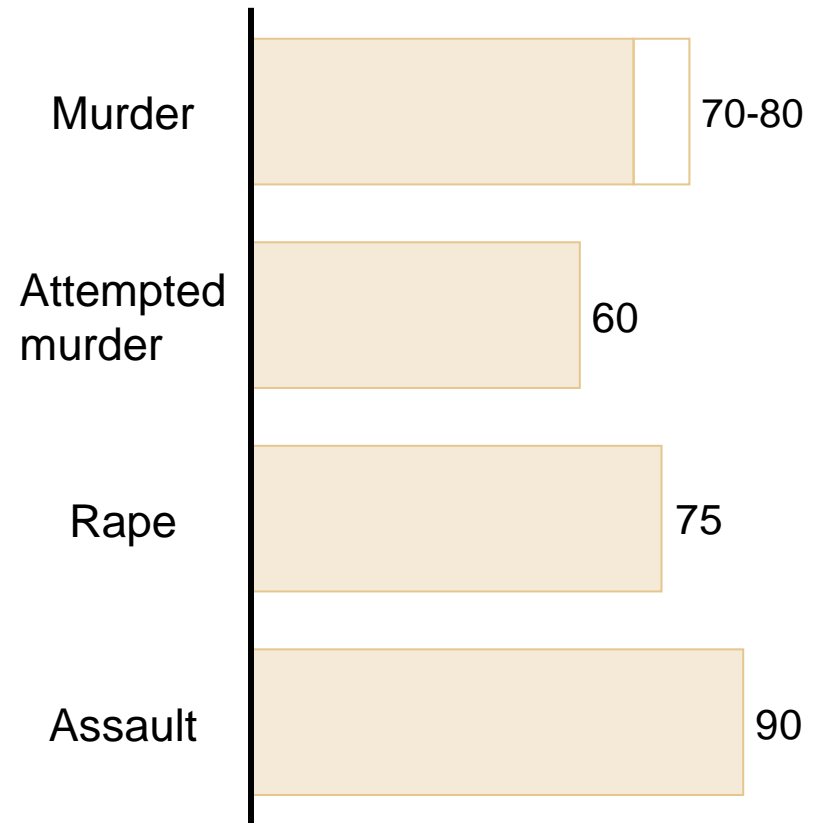


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Weak state services and high poverty and inequality produce severe social problems

- Social fragmentation in SA was partly caused by the migrant labour system, which disrupted families and communities
- Youth unemployment, poverty and HIV/Aids have made matters worse
- Social fragmentation leads to crime and violence (particularly gender-based violence), drug and alcohol abuse, and gangsterism
- Poor social services and ineffective policing make communities feel even more powerless
- Poor education limits social mobility, further straining basic social relations that many societies take for granted

% of contact crimes where victim knew the perpetrator in SA



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Having declined after 1994, corruption may once again be on the rise

Weak legislative and municipal oversight

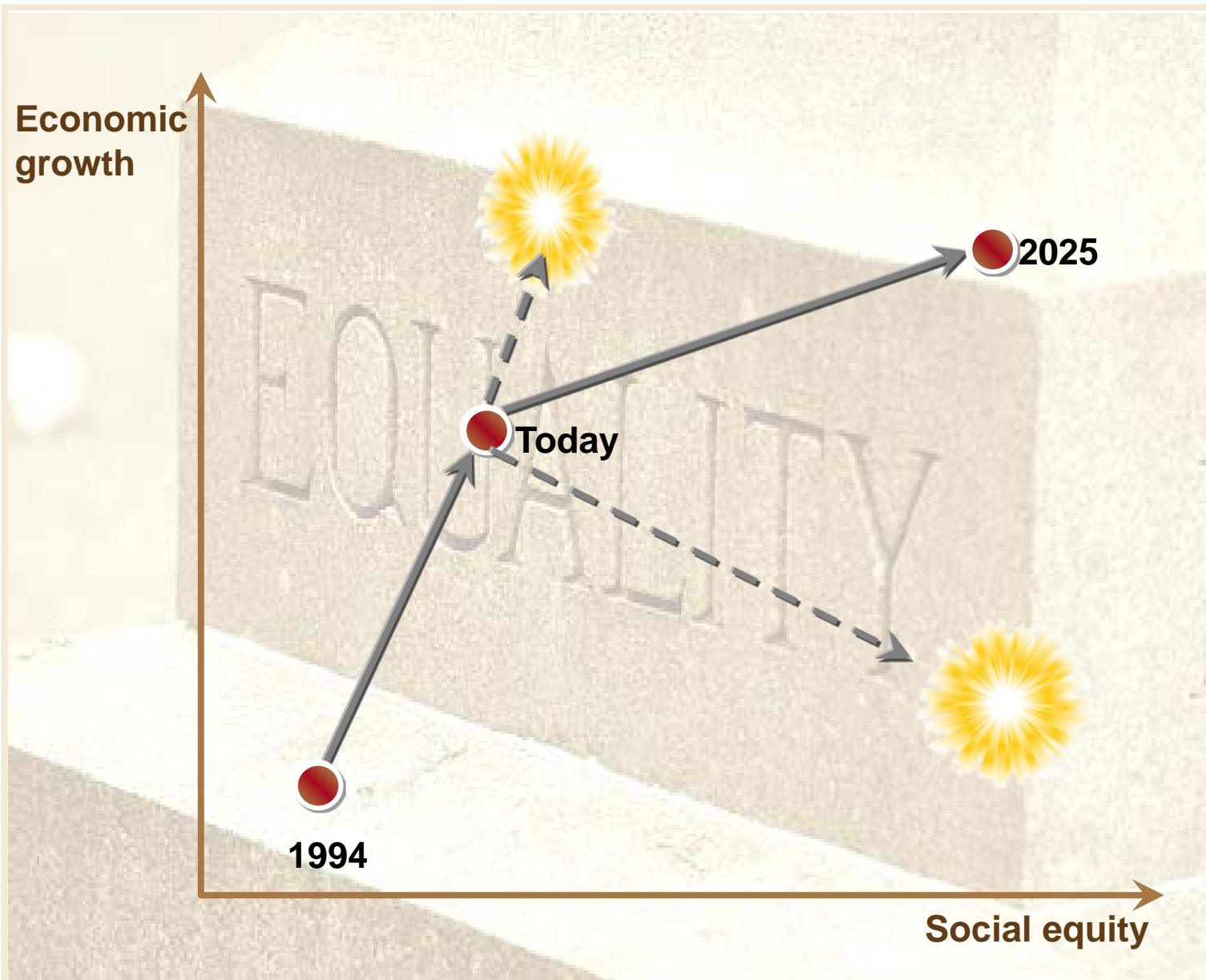
Efforts to fight corruption are fragmented and institutions often weak

Low social mobility and high inequality lead to disintegration of social ethics and values




- Perceptions of corruption high in government
- State agencies tasked with fighting corruption are of the view that corruption is at a very high level
- Weak accountability and damaged societal ethics, make corruption at lower levels in government almost pervasive
- Corruption in infrastructure procurement has led to rising prices and poorer quality –building a school cost R5 m in the late 1990s and costs R40 m today

Despite significant changes since 1994, South Africa remains a divided society



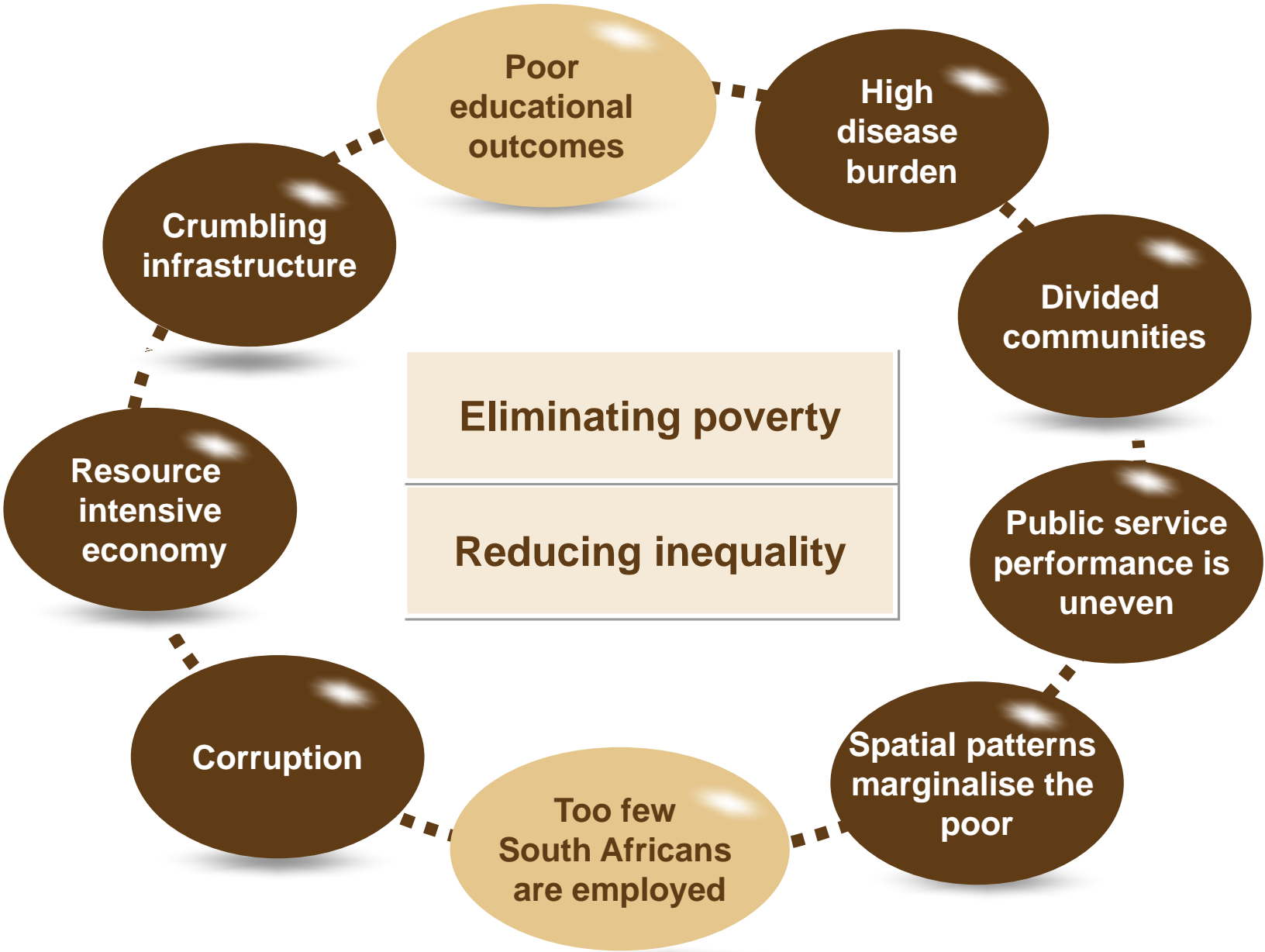
- Redress and broadening opportunities are societal imperatives
- Building national unity and inclusiveness is vital
- Neither objective is possible in practice without strong economic growth and expanding employment
- SA requires a broad social compact to create jobs while growing the economy

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Eliminating poverty and reducing inequality will require bold actions



We have shown before as a country that we can solve complex national challenges



Our previous successes were achieved by

- Focus on the highest priority issues
- Marshalling the required resources and talent behind those issues
- Ruthless execution to deliver the required outcomes
- Success will depend on all citizens and society working to resolve our challenges



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A broad public engagement process aimed at finding solutions

- These are formidable challenges that we face
- A national dialogue involving all South Africans is required to arrive at solutions that are credible and implementable
- Tackling these challenges will require the involvement of all sectors of society
- We need bold leadership from leaders throughout society
- Government would have to find new ways of coordinating within government and with society at large
- A social compact, by definition requires the commitment of all leaders, mutual sacrifice and a long term perspective

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Process towards November and beyond

- We are now entering a listening phase of the planning process
- Public engagement process between June and September
- In November, we release the vision statement and development plan
- Each year beyond this, the commission will release detailed plans for specific sectors or areas of policy

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