



Public Servants Association

Analysis: Towards Economic Transformation, Inclusive Growth, and Competitiveness:

Towards an Economic Strategy for South Africa

A Contribution

13 September 2019

Introduction

In August 2019 the National Treasury released a much publicised document titled: Economic transformation, inclusive growth, and competitiveness. This is not yet a strategy but a draft. The National Treasury has called for public comments to this paper. Below is the Public Servants Association’s inputs into the National Treasury Paper.

The PSA would like to state from the outset that it is broadly in support of the National Treasury’s effort to revive the economy and set it on a growth path. As PSA we are keen to work together with government to find solutions to some of our most complex socio-economic challenges. We are pleased that government has called for comments into this process.

It is worth highlighting that the ideas presented in the Treasury paper are not new. These have been explored in various fora, such as for example, the Economic Colloquia hosted by the National Treasury in 2018 and 2019; in the National Development Plan; in the New Growth Path; and in the National Industrial Policy Framework amongst others.

Reports by various international organisations such as the International Monetary Fund, through its Article IV process, and the World Bank through its Economic Updates, have also set out a comprehensive set of interventions required on the macroeconomic and social policy side. It is important that in venturing into a new path of economic revival we are clear about the reasons why none of the proposals set out previously have been implemented, and why should we have confidence that government has the will and capacity to implement?

Building the State Institutional Capabilities

The public sector is at the coalface of public service delivery and of managing economic change. It is worth stating the fact that public sector efficiency plays a pivotal role in two strategic respects: one is to effect redistribution to correct income maldistribution that arises from the market economy, and the other is to ensure globally competitive private sector operations. This is true within any “normal” mixed economy context. The income and wealth maldistribution as well as the structural unemployment are well above average in both peer country comparisons and globally. The key challenge faced by South Africa is that of deep structural inequalities. A capable state is required to overcome the socio-economic cleavages that threaten social stability and undermine growth.

Against this backdrop, the efficiency of the public sector assumes extraordinary significance for both socio-political stability as well as for economic growth sustainability. Yet, it is a commonly acknowledged reality that both government departments and state-owned enterprises lack systemic efficiency. The recent pronouncements that public sector wages will be kept flat in future do not inspire high performance in the public service. Given the depletion of skills over long periods of time, especially during the era of state capture, reducing the size of the public sector or freezing salaries will harm any effort to attract requisite skills. Skills at the technical and managerial level have evaporated, creating what is commonly referred to as ‘brain drain’.

Yet the effectiveness of public administration and institutional quality are major determinants of government effectiveness in delivering public service. Shortage of skills in government is compounded by existence of overlapping functions and duplication both within departments and between departments. In the previous administration new government departments were created, especially within the economic cluster; and now there is a process of rationalising and integration of related or duplicated functions, which could compound the skills challenges in government. This takes up enormous energies and time. Both strategic issues, namely defining key government priorities in departments, and operational issues – aligning capabilities to need – suffer as a result. Streamlining government departments should be a low-hanging fruit. Departments should be given a defined time to achieve the right shape and structure, with a clear plan to replenish government with the right capacities especially at technical, project management, financial management, and strategic management. Such a move should be preceded by a process of skills audit across government. If government is to be characterised by a culture of high performance, the Directors General and executive layer of government should comprise of a calibre of highly skilled technocrats who have managerial capabilities. Any restructuring process in the public services should not follow a linear logic where blanket retrenchments are undertaken. Rather a social compact marked by productive trade-offs between government and the unions should be put in place, with job protection as a non-negotiable. If anything, there is a need to replenish the public sector with new capacities.

Policy Proposals and Measures

The paper identifies what it refers to as five building blocks of sustainable growth:

- a) Improving educational outcomes, with emphasis on early childhood development;
- b) Implement youth employment initiatives and training including learnership programmes within resource constraints; as well as internships and support for school-to-work transition;
- c) Inclusive cities and sustainable transport systems to overcome spatial legacies;

- d) Addressing skills constraints in the economy. Some initiatives here include easing migration constraints for individuals with tertiary education.
- e) Supporting the development of economic institutions, including building functional relationship between the state and the private sector.

A closer look at these building blocks suggest that there is nothing new here. The paper does not shed light on why many of these measures have not been implemented, what has undermined implementation, and what is the certainty that these will be implemented? The major elephant in the room, state-owned enterprises, are not discussed in any detail in the report, and this is with the exception of Eskom. No doubt, the points that are discussed in the National Treasury paper are important and reflect South Africa's reality today. It is just that these issues have been rehashed several times before, and articulating them over and over again does not add new value unless there was a clear implementation plan with time-frames and prioritisation.

The paper proposed the following areas as reform measures:

- i) Modernising network industries: energy, transport, water, and ICT
- ii) Enhanced economic competitiveness as a lever for economic growth and economic transformation; encouraging growth of smaller firms, entry of new firms, and ensuring innovation. This also requires tackling uncompetitive behaviour.
- iii) Labour intensive growth as key to reducing unemployment: retail, construction and tourism have potential to create jobs and absorb youth.
- iv) Implementing focused and flexible industrial and trade policies to promote competitiveness and long-rung growth.
- v) Dynamic opportunities for SA exports lie in the region; and smaller exports lie here (page 18).

On modernising network industries, the paper places emphasis on restructuring the electricity sector for energy security and promotion of investments, that IPP should not be frustrated, and that municipal reliance on tariff prices to be reconsidered so that they look for alternative sources of revenue to fulfil their developmental mandate. It also recommends that allocation of spectrum should be done through an auction process with provisions for competition and for conditions for universal service and access; and roll-out of broadband to under-served areas. In addition, it asserts that effective regulation should be adopted for the transport sector. Furthermore, there is a need to overcome backlogs in water infrastructure provision, and with the introduction of an independent water regulator.

Some of the recommendations it makes on Eskom are reinforcing points that have been made before such as the sale of coal power stations through a series of auctions and reviving the ISMO Bill that would create a state-owned transmission company to procure power from Eskom and IPPs. The paper makes wild claims about jobs in the renewable sector exceeding those in coal sector. It does not offer any basis for its claims except citing the US as having achieved this.

Recommendations Related to SMMEs and Industrial Policy

There are some powerful recommendations for interventions to improve the ecosystem of small, micro, and medium enterprises. These go to the heart of some of the challenges that inhibit the growth and competitiveness of this sector. Some of these challenges have to do with lack of access to capital and high levels of concentration by large firms in product markets. The following are some of the more specific interventions:

- i) review of existing regulation around licensing and municipal servitudes and rethinking the role of development finance and patient capital especially as it relates to the need of small businesses
- ii) Government should simplify and better communicate incentives for small businesses

- iii) SMMEs should be supported through public procurement, the establishment of a 'One-Stop Shop' and a commitment to red tape reduction; and the Red Tape Impact Assessment Bill should be revived
- iv) Government to consider partial exemptions for SMMEs from certain kinds of labour regulation e.g. the extension of bargaining council agreements
- v) Government should consolidate existing funds for SMMEs into a single fund with a clearly defined mandate, and with associated performance metrics that could make a meaningful impact on SMME support without needing to deploy additional funds.

Other proposals in the paper are with respect to reviewing the modalities of industrial policies and making them more effective. Growing the economy where proceeds of growth are shared broadly. The paper argues for example that industrial policy that targets large incumbents can create unintended consequences by leaving out small producers. Periodic reviews of industrial policies are proposed in the paper. Such reviews have always been taking place, and are generally referred to as iterations. The major problem is not so much industrial policy per se, but lack of inclusive value chains, which can be addressed through competition policies. On financing, the paper proposes innovative financing through rationalising various funding instruments that are designed for SMMEs to make them effective. Such a review would entail the reorientation of development finance and the creation of a single fund for SMMEs support.

On agrarian reform, the paper leaves the task for leading change to the private sector. There are other proposals such as improving access to finance, implementing joint ventures, use of contract farming, and facilitating domestic and export markets, introduction of adequate and affordable agriculture insurance, and improvement of extensions services for smallholder and emerging farmers.

Additional recommendations from the Public Servants Association

There is no doubt that many of the proposals made in the economic strategy draft paper are accurate with respect to the nature of the challenges that South Africa faces. What is not clear is what value does the paper add to many discussions about economic policy in South Africa. It is also not clear whether there is will, resources, and capabilities to implement many of the proposals that are here and in various government policy perspectives. It is not evident that the National Treasury will necessarily have the authority to drive change in the many areas that are articulated in the document. The loci of implementation will be as important as the reiteration of various government policy commitments. Below we set out succinctly a number of recommendations that should be taken into account:

- A) A clear plan to restructure Eskom and other State-Owned Enterprises. This restructuring should set out clear criteria of how various SOEs will be treated. For example, some may need to be partially privatised; and others require reforms in their financing structure, mandates, shareholder compact, and corporate governance. Crucially, SOEs should reflect a diverse skills set with individuals that are ethical and highly regarded for their competence.
- B) A clear set of interventions should be put in place to boost SMMEs. These interventions should entail immediate removal of red-tape, implementation of 30-day payment period with consequence management for failure, rationalising support programmes (both financial and non-financial), resetting the mandate and measurement metrics of development finance institutions (Land Bank, IDC, NEF, etc.) in relation to SMMEs. These institutions are generally seen as hostile to SMMEs and slow in disbursing support.
- C) A clear plan to deconcentrate the South African economy to allow for inclusive value chains in various product markets. More resources should be directed to institutions such as the Competition Commission and Small Business Development Department to enable them to fight cartels, overcome market concentration, and strengthen inclusive value chain for SMMEs.

D) Finally, in order for government's economic policy plan to work, a great deal of attention should be directed towards improving the capabilities of the state by replenishing skills across various tiers of government – local, provincial and national.

Economic change requires that we all have a sense of urgency and flint-like purposefulness. As the PSA, we support government's economic policy initiatives. We are heavily invested, as public servants, in seeing an economy that works for all, in having inequalities decisively overcome, and in having a government that works effectively in delivering public services.