

Covid-19

Government & Public Sector

Where Next for Government in South Africa?

An opportunity for change





Contents

An opportunity for change	1
A crisis at a difficult time	3
The response and its impact	6
The implications for Government are significant	8
Mapping out a new way forward	11
A new focus on the essentials	12
Encourage growth and investment	13
Create a pro-innovation & pro-growth ecosystem	15
A new approach to public enterprises	17
A more efficient operating model	20
An emphasis on quality of governance	21



Covid-19 has brought about the destruction of the economy. We must now collectively respond to how we will rebuild and reposition it.

— *President Cyril Ramaphosa,*
May 2020

An opportunity for change

The Government's operating model is no longer fit for purpose

The COVID-19 pandemic has exposed issues with the Government of South Africa's operating model that were already present before the crisis. South Africa was already on a rocky path, one on which economic growth was declining and inequality was rising.

The outcomes of the current model go against the Government's very own goals and ambitions. The key challenges in our country: unemployment and inequality, which have now become considerably more severe through the pandemic, can no longer be approached in the traditional way. An entirely new approach is needed.

Change Government's role from controller to enabler

In its current model, the Government has taken control of key assets and redistributed from pockets of wealth in a divided economy. More and more people are reliant on social grants and transfers without opportunities to participate in the economy and without the financial and sociopsychological benefits of having a job. Meanwhile, state-owned assets have become liabilities for their ultimate owner: the public.

The South African Government needs to take on a new role to stay relevant in today's world and to lead the country out of this crisis and onto a better path. Its role of controller and provider is no longer feasible in the modern world and certainly not in the economic reality we now find ourselves in.

Instead, the Government can do so much more to become an enabler of growth across the board, encouraging active participation of the majority of its citizens. It can prepare the ground for broad-based business growth and empower its citizens with the tools required to participate in that growth.

In this role, the Government would play a central role in setting the direction and the vision for the country, while looking out for the public good. The management of tasks would be left to those best placed to deliver them – be they cities, businesses, civil society organisations or individual citizens. Like a conductor, it would orchestrate action across these stakeholders rather than discordantly trying to play every instrument itself.

While many inefficiencies and questionable procurement deals have been exposed, the Government has also shown during the pandemic crisis that it is capable of fast and decisive action. Particularly through partnerships and in cooperation with business, civil society and individual citizens, it has managed to fast-track action and find workable solutions that take a broad range of views and circumstances into consideration. For instance, through a collaborative effort between Volkswagen Group South Africa, the Nelson Mandela Bay Business Chamber, the Nelson Mandela Bay Municipality and the Eastern Cape Department of Health, the car manufacturer's factory in Uitenhage has been made available as a temporary medical facility to accommodate COVID-19 patients.

The window of opportunity for change is here and now

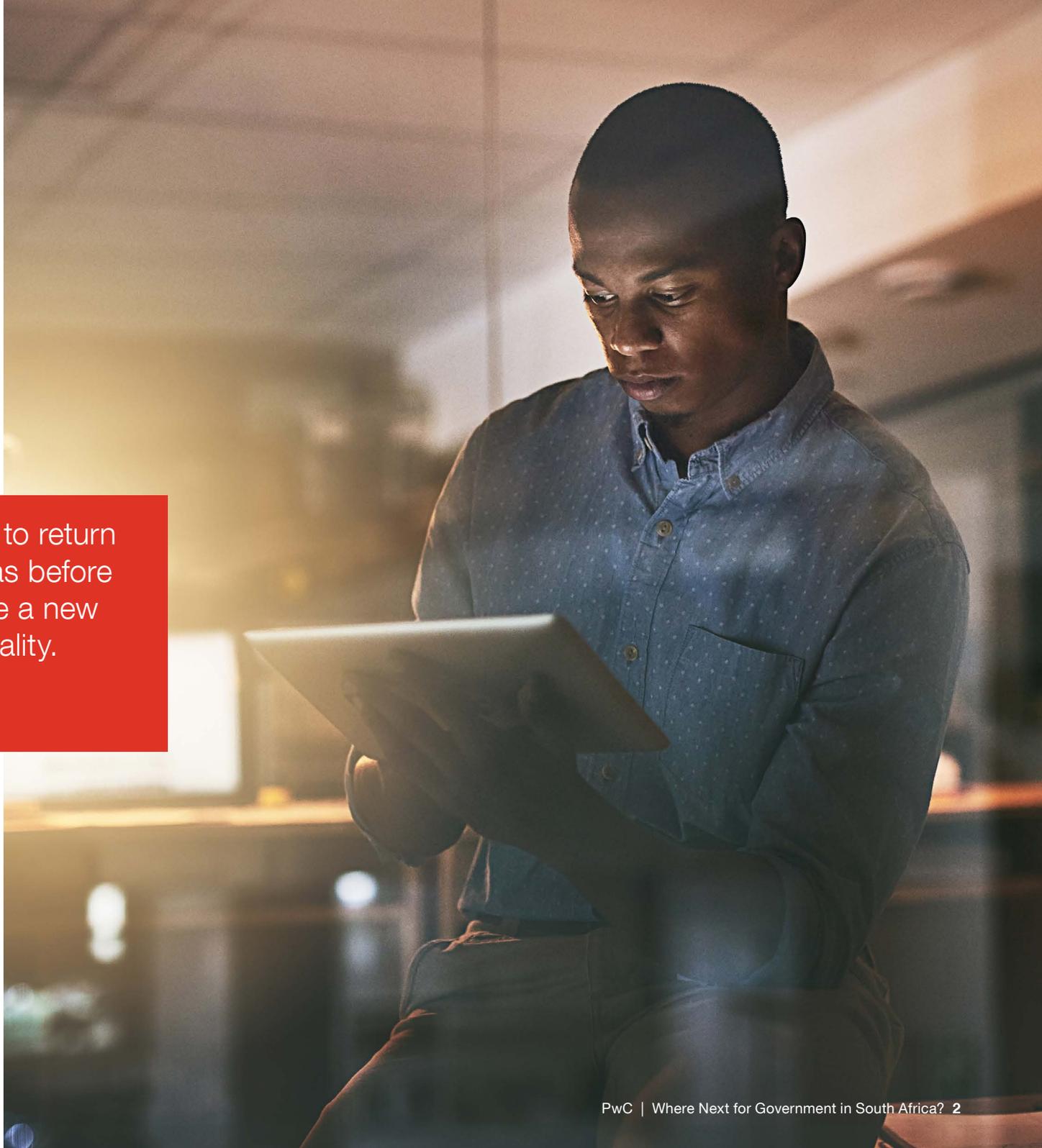
While we face trying times, the current crisis presents an opportunity for South Africa. The crisis highlights the urgency for important change in Government, which may not only help to bring the country out of its deep crisis, but to place it on a stronger development path of more sustainable and more inclusive growth.

In this report we first provide some background on where the economy was heading before the COVID-19 pandemic, and where it currently stands. We then present the implications for Government and highlight six key areas we believe should be focused on to achieve an urgently needed and sustainable turnaround.

“ We are resolved not merely to return our economy to where it was before the coronavirus, but to forge a new economy in a new global reality.

— *President Ramaphosa,*
21 April 2020¹

¹ Statement by President Cyril Ramaphosa on introduction of further economic and social measures in response to the COVID-19 epidemic, 21 April 2020, <http://www.thepresidency.gov.za/speeches/statement-president-cyril-ramaphosa-further-economic-and-social-measures-response-covid-19>



A crisis at a difficult time

The COVID-19 crisis has struck South Africa at a time when its economy is already severely strained

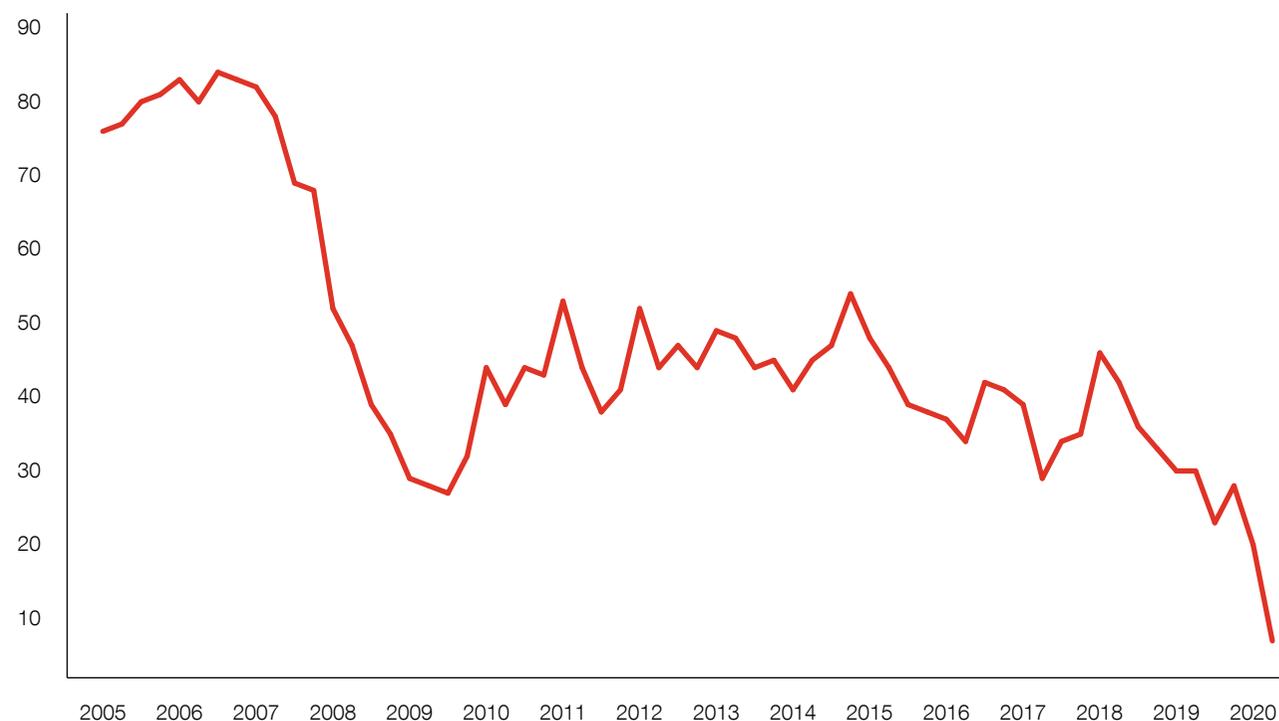
- South Africa's economy has had a decade of slow growth and started 2020 already in a technical recession. Quarterly growth was -0.8% in Q3 of 2019, -1.4% in Q4, and -2.0% in Q1 of 2020.²
- Business confidence, as measured by the Bureau of Economic Research (BER) Business Confidence Index, has been on a downward trend.
- Unemployment rose to a historical high of over 35% in Q1 of 2020 with unemployment among the youth reaching approximately 50%.³
- The major rating agencies have all downgraded South Africa's rating to below investment grade.⁴

2 Statistics South Africa, "GDP falls by 2.0%", <http://www.statssa.gov.za/?p=13401>

3 Statistics South Africa, "Quarterly Labour Market Survey: Q1 2020", <http://www.statssa.gov.za/publications/P0211/P02111stQuarter2020.pdf>

4 Reuters (March 24, 2020), "South Africa's foreign direct investment dips in 2019", <https://af.reuters.com/article/investingNews/idAFKBN21B0V5-OZABS>

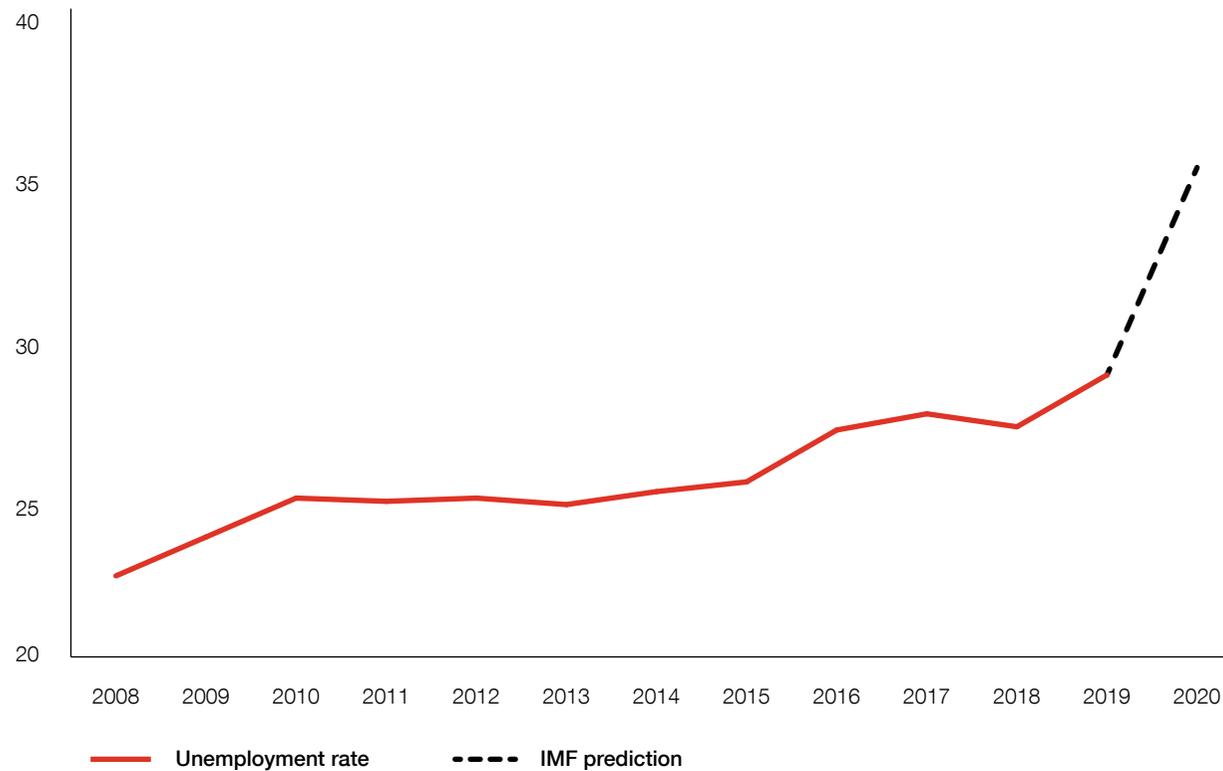
Figure 1: RMB/BER Business Confidence Index, 2005Q1–2020Q2



Note: Score above 50 = positive; below 50 = negative.

Source: Bureau of Economic Research (BER)

Figure 2: Unemployment rate, 2008–2020



Sources: Quarterly Labour Force Survey; IMF

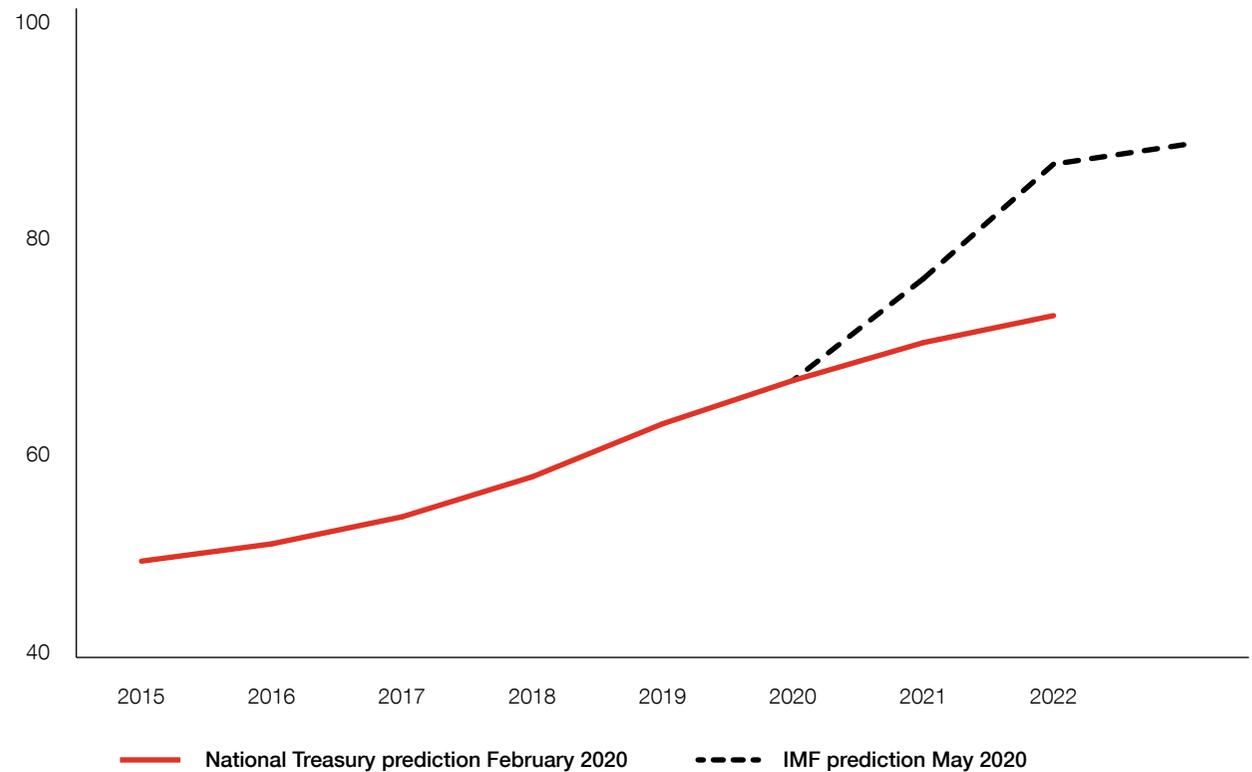
Government finances were already on a deteriorating trajectory

- The gap between revenue and expenditure was widening and public debt has been steadily increasing.
- Budget 2020 suggested little political manoeuvring room to reverse the trend of growing budget deficits.
- Core government services of water and electricity provision were increasingly unreliable.
- More and more state-owned enterprises called for large bailouts following years of mismanagement, further weighing on public finances.





Figure 3: Public debt-to-GDP, 2015–2022



Source: National Treasury

Meanwhile, South Africa's divided economy continues to have among the highest rates of inequality and poverty. While there has been an improvement in welfare and basic services for those below the poverty line,⁵ inequality has increased over the last decade.⁶ According to World Bank estimates, South Africa's consumption expenditure Gini coefficient of 0.63 (estimated using 2014 data) is higher than the most recent coefficients for any other country.⁷

5 World Bank (2019). "Overcoming Poverty and Inequality in South Africa: An Assessment of Drivers, Constraints and Opportunities", <http://documents.worldbank.org/curated/en/530481521735906534/pdf/124521-REV-OUO-South-Africa-Poverty-and-Inequality-Assessment-Report-2018-FINAL-WEB.pdf>

6 Palmer, Ian, Susan Parnell, and Nishendra Moodley (2017). "Building a Capable State: Service Delivery in Post-Apartheid South Africa".

7 World Bank (2019). "Gini index (World Bank estimate): South Africa. The World Bank Development Research Group", <https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA>

The response and its impact

A swift response to save lives, but also a costly one

After confirming the first COVID-19 cases in South Africa in March, the Government responded swiftly to the outbreak, taking timely and decisive action to contain the transmission of the virus and buy time to build up its healthcare capacity. The Government moved quickly and decisively to implement relief measures, introducing or expanding a number of grants, transfers, and guarantees, while the South African Reserve Bank (SARB) moved rapidly to add liquidity, mitigate cash and credit flow problems and improve market functioning.

The lockdown restrictions, both locally and globally, disrupted supply chains, halted trade and tourism, and restricted businesses and workers, leading to a loss of livelihoods for many and bringing large parts of the economy to a virtual standstill. The SARB forecasts a 7.3% contraction in GDP this year.⁸

Despite limited fiscal buffers, the Government announced a R500bn fiscal response package to build up the public health system and provide relief.⁹

⁸ South African Reserve Bank, "Statement of Monetary Policy Committee: Embargo against Delivery:", July 2020, <https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/10114/MPC%20statement%20July%202020.pdf>

⁹ Reuters 2020, "South Africa's Ramaphosa pledges COVID-19 rescue package worth 10% of GDP", April 21, <https://www.reuters.com/article/us-health-coronavirus-safrica/south-africas-ramaphosa-pledges-covid-19-rescue-package-worth-10-of-gdp-idUSKCN22334A>

Recovery of economic growth to pre-lockdown levels is not expected for another 2-5 years

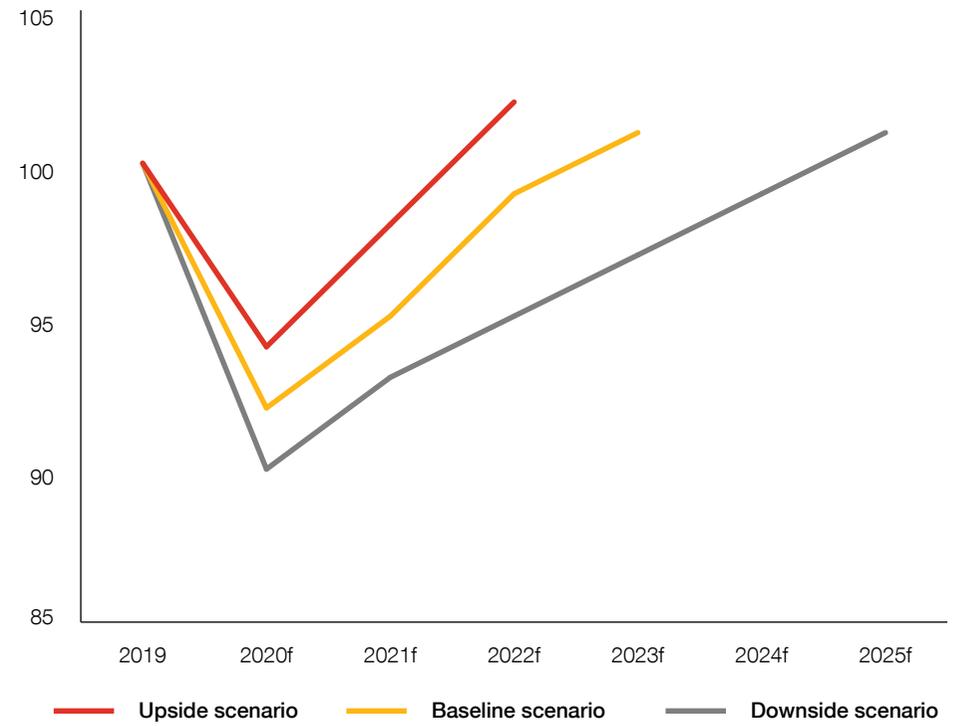
GDP per capita is expected to decline in the medium term as the population continues to grow while GDP contracts, meaning South Africans will on average become poorer over the next few years. PwC calculations of different scenarios, suggest it could take between two and five years for GDP and employment to return to pre-lockdown levels.

R800bn

is the minimum amount the finance minister expects the Government to spend to help alleviate the negative effects of Covid-19.



Figure 4: Predicted return to 2019 GDP levels



2019 = 100

Source: PwC calculations

The implications for Government are significant

Public spending power will decline considerably

The public sector is expected to shrink in terms of the money available to spend. With the drop in economic activity, tax revenue has already been reported to have dropped correspondingly and is expected to be significantly down from the comparative period in 2019. The National Treasury, in its Supplementary Budget Review issued in June 2020, predicts revenue performance to be R304.1bn lower than what was predicted in the February Budget estimate.¹⁰

As indicated by the SARB, the stock of government debt is expected to rise much faster with the additional spending required to fight the pandemic and provide associated relief.¹¹ In the Supplementary Budget Review, the National Treasury predicts the budget deficit to widen to 15.7% in 2020/21 and public debt-to-GDP to reach 81.8% in FY2020/21.¹²

The cost of debt pre-COVID was already at R201bn (15% of revenue) and had risen to be the fourth largest expenditure item in the budget. It is now expected to rise to R304bn by 2022/23, crowding out public spending on health, education, and other policy areas.¹³

The National Treasury vehemently urges reining in government spending in the subsequent budget in order to avert a debt crisis. The finance minister laid out an active and passive scenario, warning that if the Government did not take active steps towards debt stabilisation, “debt will spiral inexorably upwards”, seeing a rise to 140% of GDP by the end of the decade. “The public finances are dangerously overstretched. Without urgent action in the 2021 budget process, a debt crisis will follow.”

R304bn

is the amount that revenue is expected to fall short on what was predicted in the February 2020 Budget estimate.

10 Supplementary Budget Review 2020, <http://www.treasury.gov.za/documents/National%20Budget/2020S/review/FullSBR.pdf>

11 Businesstech, 2020, “South Africa faces ‘historic’ Covid-19 economic shock”

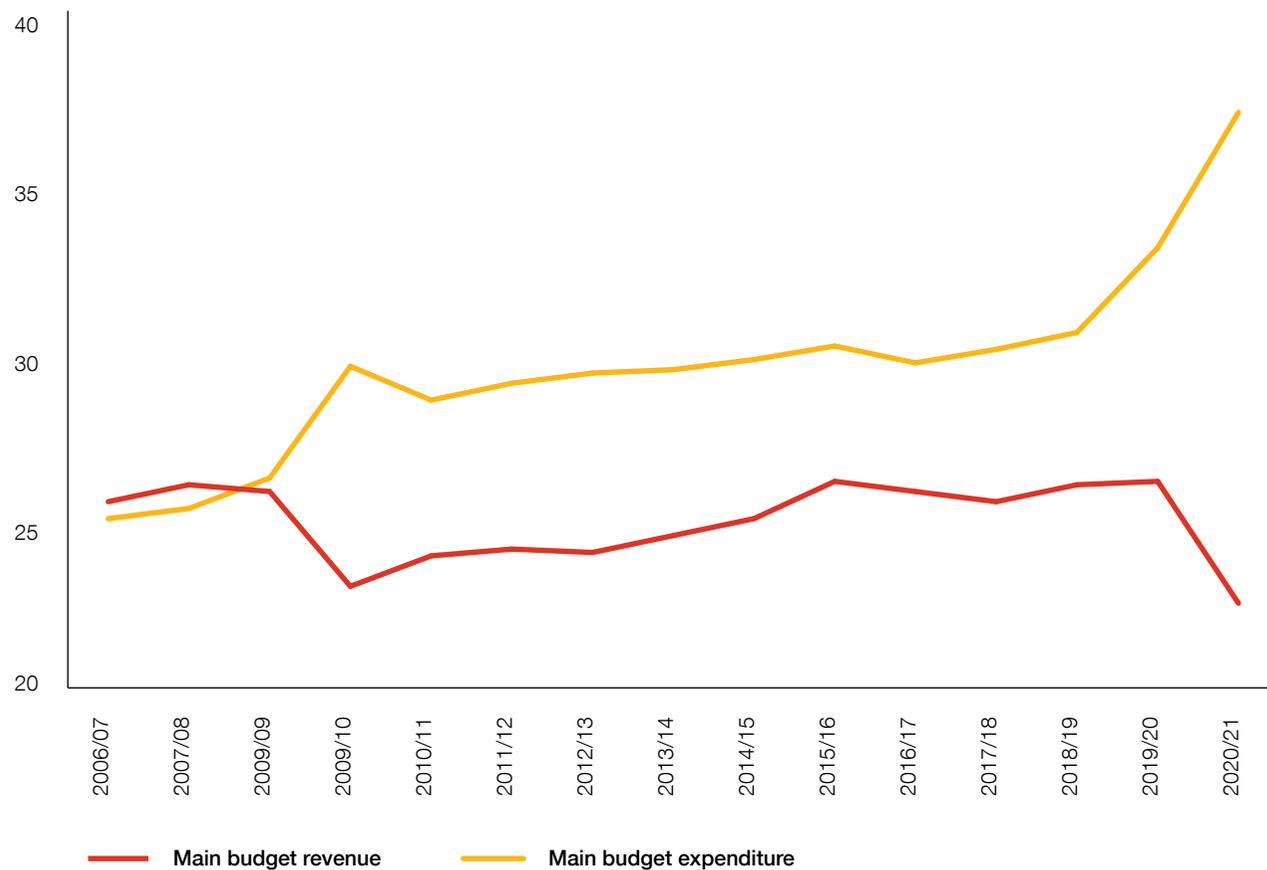
12 Supplementary Budget Review 2020, <http://www.treasury.gov.za/documents/National%20Budget/2020S/review/FullSBR.pdf>

13 Supplementary Budget Review 2020, <http://www.treasury.gov.za/documents/National%20Budget/2020S/review/FullSBR.pdf>

“ The public finances are dangerously overstretched. Without urgent action in the 2021 budget process, a debt crisis will follow.

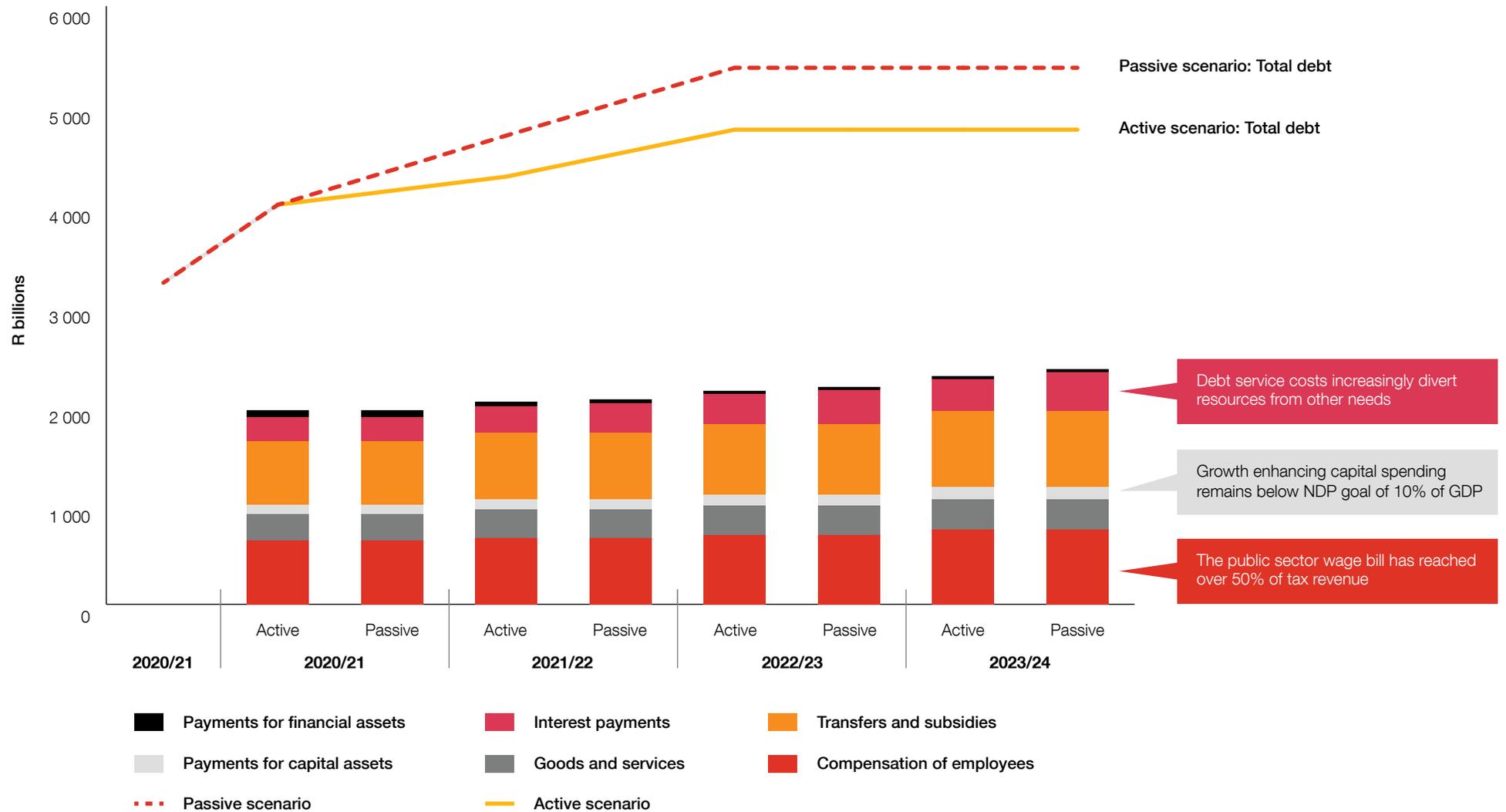
– National Treasury
Supplementary Budget Review
24 June, 2020

Figure 5: Revenue and expenditure as a percentage of GDP, 2006/07–2020/21



Source: National Treasury, Supplementary Budget Review June 2020

Figure 6: Government budget estimates and total government debt, 2020/21–2024/25



Source: Source: PwC calculations based on National Treasury Budget Review 2020 and Supplementary Budget Review 2020

Mapping out a new way forward



Six priorities for Government to consider to drive growth and restore the economy

01



A new focus on essentials

02



Encourage growth and investment

03



Create a pro-innovation and pro-growth ecosystem

04



A new approach for public enterprises

05



A more efficient operating model

06



An emphasis on quality of governance

What this means

Rethinking and optimising Government's portfolio

The urgency of the COVID-19 crisis and the need for fiscal consolidation presents a one-time opportunity to renew focus on spending and balance sheet management, where this was not possible pre-crisis.

Each government department and public entity now has an opportunity to reprioritise its portfolio of projects and programmes and focus on the value created for the citizens through optimisation.

Reprioritising means not only delaying, but cutting, dropping, and replacing comparatively less effective projects and programmes with more effective and efficient ones that have accelerated social, fiscal and economic benefits.

Optimising the portfolio requires re-examining all balance sheets and revenue raising tools, to assess how public assets are managed. A smarter management of public assets could reduce waste, find economies of scale, generate additional revenue, and unlock value.

Getting foundation services right to benefit a larger share of citizens

For a long time, Government has been spread across a wide range of areas, while many of its key responsibilities have been neglected. For example, many municipalities have needed to divert their limited resources into time-consuming Local Economic Development programmes, while underperforming on the basics, such as provision of water and sanitation services.

There would be great benefit in focusing on foundation services; that is, the basic building blocks for growth that have broad-based benefits for all. At the national level, and as emphasised by National Treasury¹⁴, this means getting network services right: energy, telecommunications, and transport.

¹⁴ National Treasury (2019), "Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa", http://www.treasury.gov.za/comm_media/press/2019/Towards%20an%20Economic%20Strategy%20for%20SA.pdf

Expediting network infrastructure spending to kickstart the economy



Infrastructure spending as a percentage of GDP has been on a downward path for the last five years and well short of the 10% annual target set in the National Development Plan.¹⁵

Economically, the case for technologically advanced, resilient and sustainable infrastructure is clear. Infrastructure projects that build or maintain network services create jobs and stimulate the economy in both the short and long run.

Infrastructure development therefore needs to be accelerated, but the Government needs to have both the institutional and the financial capability to implement at the required scale. Here, the private and public sectors can be the ideal match. The comparative advantages of both sectors can be leveraged to expedite the delivery of critical infrastructure.

¹⁵ PwC, 2019. Towards a Growing Economy.

02 Encourage growth and investment

What we need

A joint government strategy that prioritises investor confidence

President Ramaphosa has repeatedly emphasised the importance of enhancing investment for growth and job creation, both from abroad and domestically. “We want and need foreign direct investment and scaled-up domestic investment is the necessary catalyst,” he said during investor meetings in September 2019.¹⁶ Where this was a key priority pre-COVID-19, Government’s role in enhancing investment has now become more critical.

Currently, different departments have different agendas and goals and regulations of one sometimes conflict with the goals of another. For example, immigration regulations with security goals have unnecessarily restricted large numbers of tourists and business travellers from visiting South Africa.¹⁷

Joint cross-government strategies should be established and implemented that prioritise attracting investment that directly and indirectly enables the commercial success of local industries.

Address impediments to investment as a matter of urgency

One of the key factors that foreign investors consider is the state of public finances. Correlation analysis has shown that foreign direct investment (FDI) is most highly correlated with the indicator ‘Quality of governance’ among various indicators, as shown in Figure 7. There is also a strong positive correlation between FDI inflows and business confidence.

According to the World Economic Forum’s Global Competitiveness Report 2019, areas of concern to be addressed in South Africa include security, transparency, and Government’s adaptability to change.

Insolvency regulation and administrative burdens when starting a business, as well as persistently insufficient labour market flexibility, are additional issues that hamper investment and require redress.¹⁸

16 IOL Business Report, 5 September 2019. “Cyril Ramaphosa urges investors to help salvage economy in moves to revive investment drive”. <https://www.iol.co.za/business-report/economy/cyril-ramaphosa-urges-investors-to-help-salvage-economy-in-moves-to-revive-investment-drive-31872896>.

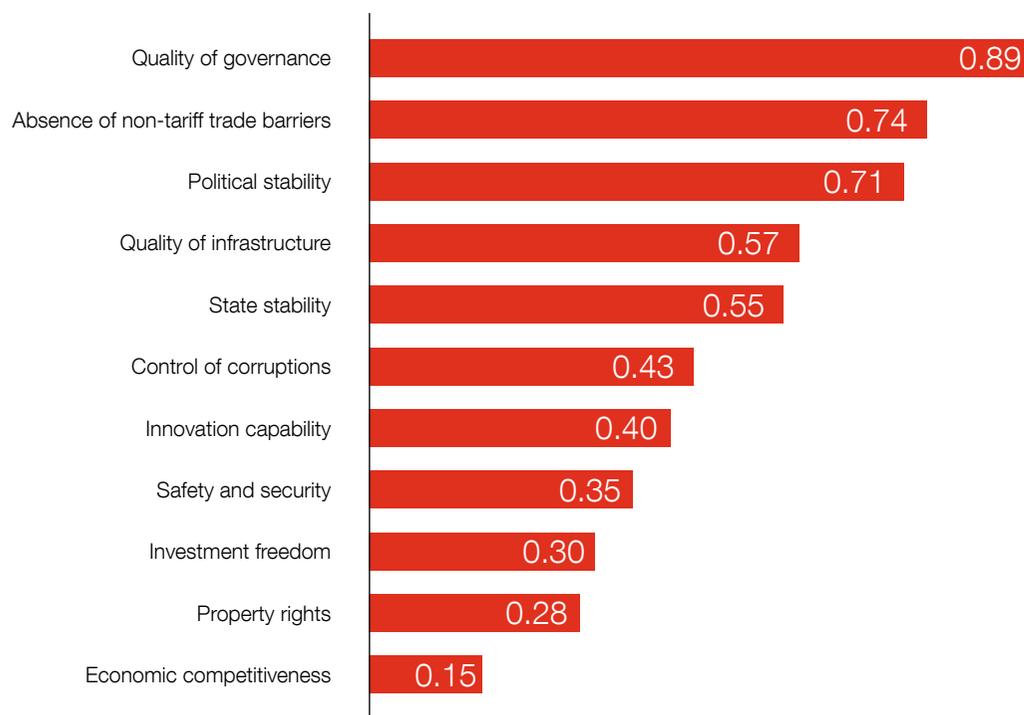
17 Tourism Business Council of South Africa. (2015). TBCSA’s Report on the Impact of the New Immigration Regulations on the Travel and Tourism Industry.

18 World Economic Forum, “Global Competitiveness Report 2020”, http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf





Figure 7: FDI correlations with selected indicators (1 = best), 2020



Source: PwC calculations based on multiple sources

Prioritise investments that create jobs and growth

The Government should prioritise investment in those sectors and activities that bring the highest return on jobs and GDP growth for the wider economy, while ensuring sustainability in terms of their social and environmental cost and resilience in the long run.

Government also has a role to play in helping South African firms move quickly to reap the benefits of the 2019 African Continental Free Trade Agreement and enhance gains from trade across the continent. Government could also help stimulate investment towards higher value chain integration and increased localisation of production, where this has positive net impacts on job creation and economic development.

The priorities should be...

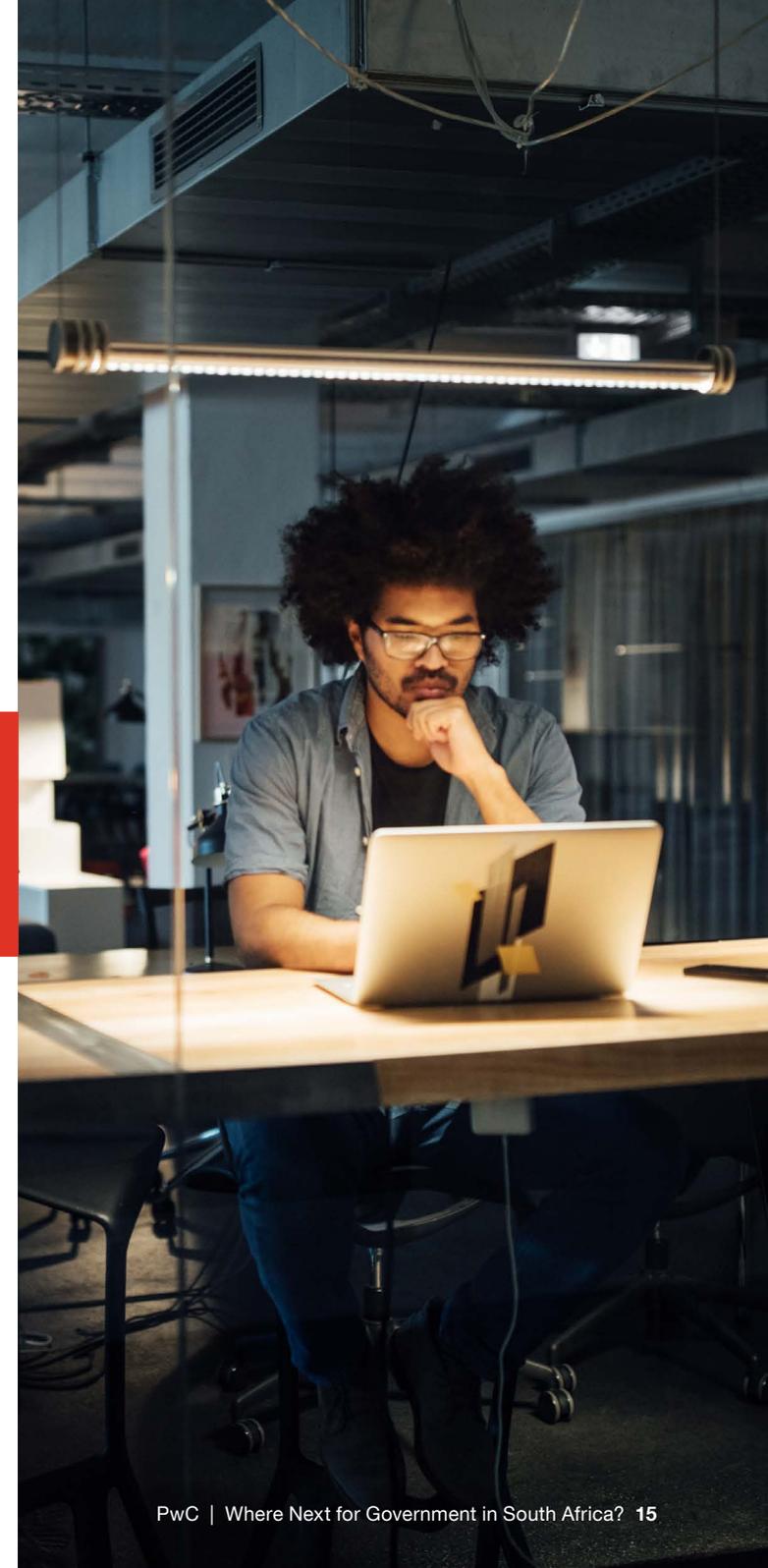
Removing red tape that restricts innovation

In South Africa, small, medium, and micro enterprises (SMMEs) have been recognised as critical to alleviating economic challenges. Relative to large businesses, SMMEs generate more job opportunities more quickly, and are more adaptable and dynamic.¹⁹ In the lock-down period, we have seen township businesses rapidly shifting to use online or mobile tech for e-commerce. This adaptability makes them particularly important in the post-lockdown recovery period.

However, SMMEs are disproportionately affected by burdensome regulations, limitations on finance and data costs. Regulations and costs can limit speed to market with new ideas and make start up, growth and job creation unviable. These barriers need to be revised to ensure that growth and innovation can be encouraged.

84th

is South Africa's current ranking in the World Economic Forum's index in terms of burden of government regulation, down from 32nd place in 2008.



Quickly and fundamentally transforming education with a focus on upskilling and partnering

Currently employers in South Africa are struggling to find people with the requisite skill sets. At the same time the unemployment rate is at historically high levels. Supply of skills is therefore not meeting the demand. The current education system is not fit for purpose and requires an overhaul.

Immediate changes to our skills and education systems would include a shift to lifelong learning pathways, the growth in digital education and new funding models for higher education. Borrowing from successful models in other countries, it would create a competitive market for the public and private sector, and civil society in the development of skills programmes to improve supply and effectiveness of education.

Increased cooperation and collaboration is required between academia, small businesses, investors, and industry to sow seeds for innovation and growth. Government can therefore play an important role in ensuring deeper linkages between these to help create innovation hubs.

Case example: Kgololo Academy's packages for educational excellence

Kgololo Academy in Alexandra, Johannesburg which brings educational excellence to scholars in an underprivileged area, is packaging its successful teaching methods and processes, based on international best practice methods tailored to low cost contexts in South Africa. Its tools allow other schools to replicate its successful models in other parts of the country. The Government could partner with such institutions and draw on its tools to improve education quality more rapidly throughout the country.

Speeding up delivery and procurement

The South African procurement process is plagued with delays, lack of decision-making, duplication and inconsistencies. And yet it is not always achieving its goal of integrity and best value for the taxpayer. This is largely a result of the paper-based system that is required by many institutions which could be easily modernised. While many institutions opted for the email of encrypted submissions during Covid-19, some still required the submission of paper-based copies.

Digital procurement strategies to allow more flexibility and agility, while also ensuring enhanced integrity, should be considered. This would include a platform whereby bidders are able to engage with the organisation and submit all the relevant documentation in response to the terms of reference, including managing the clarifications and negotiations process. The increase in efficiency in the evaluation and award of tenders will result in the acceleration of infrastructure development to boost the economy while reducing fraud and wasteful spending.

Abandoning failure

An innovation ecosystem must contain systems that both point to what initiatives need to be created but also for what needs to be abandoned. In the spirit of what economist Schumpeter termed “creative destruction”, in order to create space for innovation and direct resources to support it, dying and dead-end initiatives need to be recognised for what they are and Government must have mechanisms in place to abandon them.²⁰

20 Frenkel and Maital. 2014. Mapping National Innovation Ecosystems: Foundations for Policy Consensus.



The key considerations are

Identifying where state ownership is helpful to development and where it is harmful

South Africa's development strategy intended to use state owned enterprises (SOEs) to provide quality services and infrastructure and support private sector development. Numerous commercial and non-commercial SOEs were created, taking ownership control of an asset base now amounting to over R1 trillion, equivalent to over 25% of GDP.²¹ Yet rather than fulfilling their developmental mandate, many of these have instead become an obstacle to development and a burden on the public, particularly the poor who rely more on public services. Many SOEs' business models are flawed as they operate at losses and require repeated government bailouts, placing immense pressure on the fiscus. Over the next three years, the Government will need to transfer R112 billion to Eskom alone.²²

Investors will carefully be assessing how the Government manages SOEs as it emerges from COVID-19. It provides an opportunity for SOE reform, which needs to start with an existential exercise of revisiting the purpose of state ownership in all cases:

- What is the purpose of the SOE and is it still relevant?
- If yes, does the asset need to be in full public ownership to achieve that purpose? Do positive impacts on the economy outweigh the costs?
- If not, the next step is to prepare for divestiture.

State ownership can give the Government a tool to allocate resources with a view to creating greater societal and public value.²³ But state ownership also creates the risk of financial burden on its ultimate owners: the public.

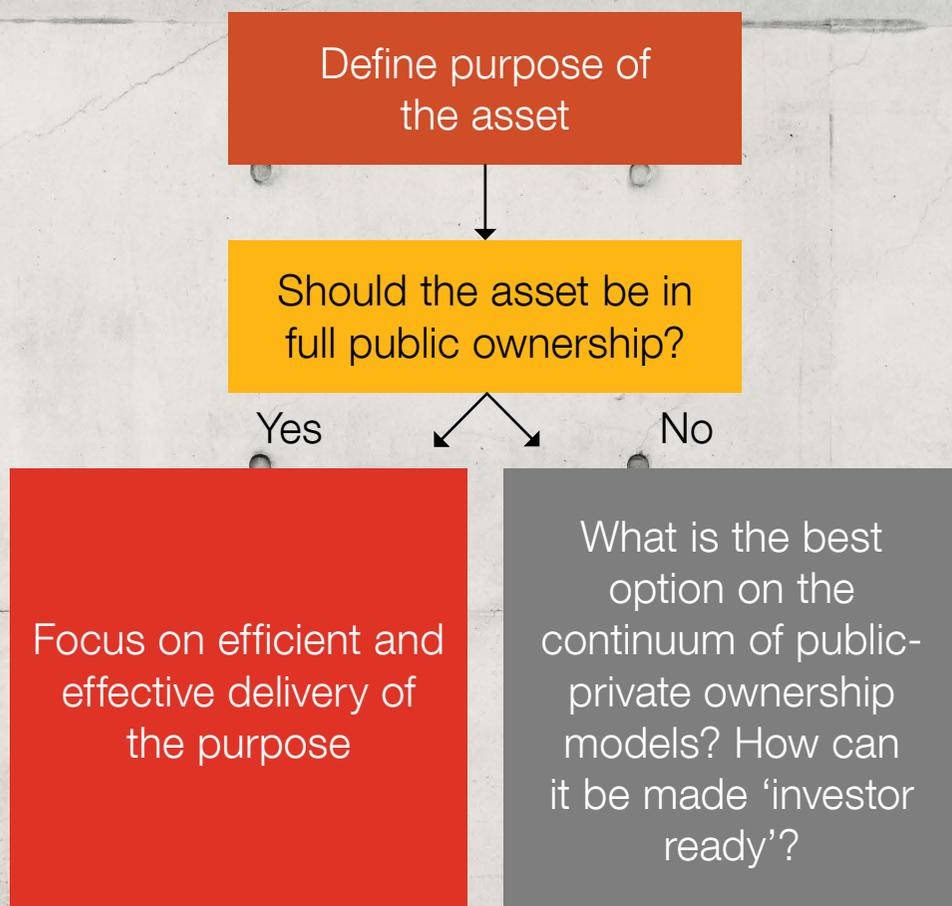


21 The World Bank, 2018, "Republic of South Africa - Systematic Country Diagnostic: An Incomplete Transition Overcoming the Legacy of Exclusion in South Africa" <http://documents1.worldbank.org/curated/en/815401525706928690/pdf/WBG-South-Africa-Systematic-Country-Diagnostic-FINAL-for-board-SECPO-Edit-05032018.pdf>

22 News24, "Little new for Eskom and SAA in budget as spotlight turns to state wage bill", 28 February, 2020 <https://www.news24.com/fin24/Budget/little-new-for-eskom-and-saa-in-budget-as-spotlight-turns-to-state-wage-bill-20200226>

23 PwC (2015a). State-Owned Enterprises: Catalysts for public value creation? Available at: <https://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf>

Key decisions for SOE reform



Getting public assets 'investor ready'

If the answer is that an asset should be moved out of the public sector (in part or in full), there is then a need to choose the right option from the range of alternatives. Assets also need to be made 'investor ready' and transparent processes need to be in place in order to realise the full potential benefits from any sale. Changes to Government's asset base need to be made in a sustainable way, with an eye to the long term including the impact on markets and competition and the continued efficient delivery of the associated public services.²⁴

Selecting the optimal delivery model

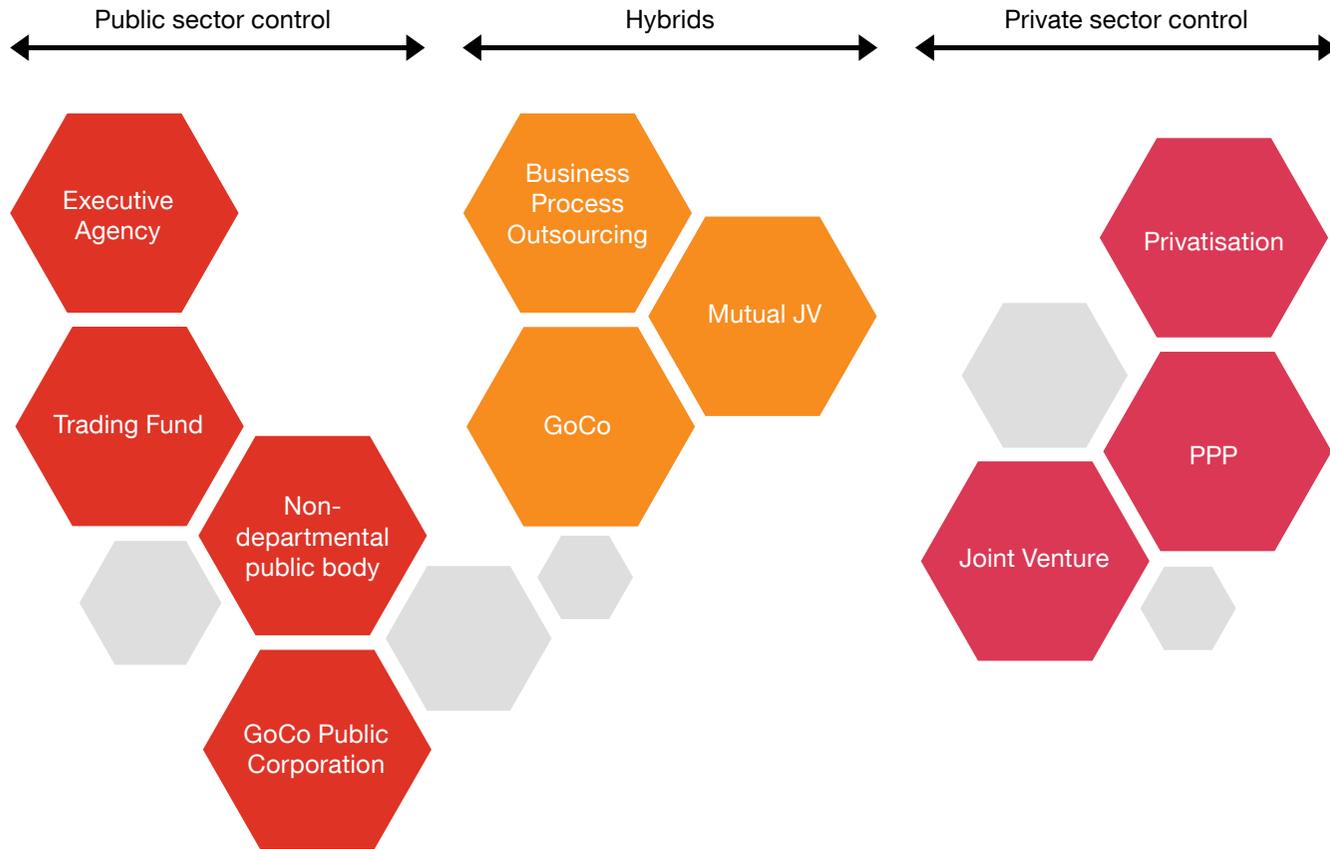
- Considering value for money and the best interest of South Africans, may private and/or third party organisations be in a better position to ensure greater productivity of functions, generate funds for other uses, and improve outcomes for the public?
- Can public entities be merged to create economies of scale? What else can be done to improve efficiencies and give the public its best value?

Privatisation and outsourcing are just a part of a continuum of models of control which span the public-private interface. Over time, part public/part private ownership models ('hybrids') have become increasingly common as stable, longer term arrangements. Internationally there are many examples of joint ventures where the private sector is introducing commercial skills and making an asset more valuable for the public than it was under public ownership.

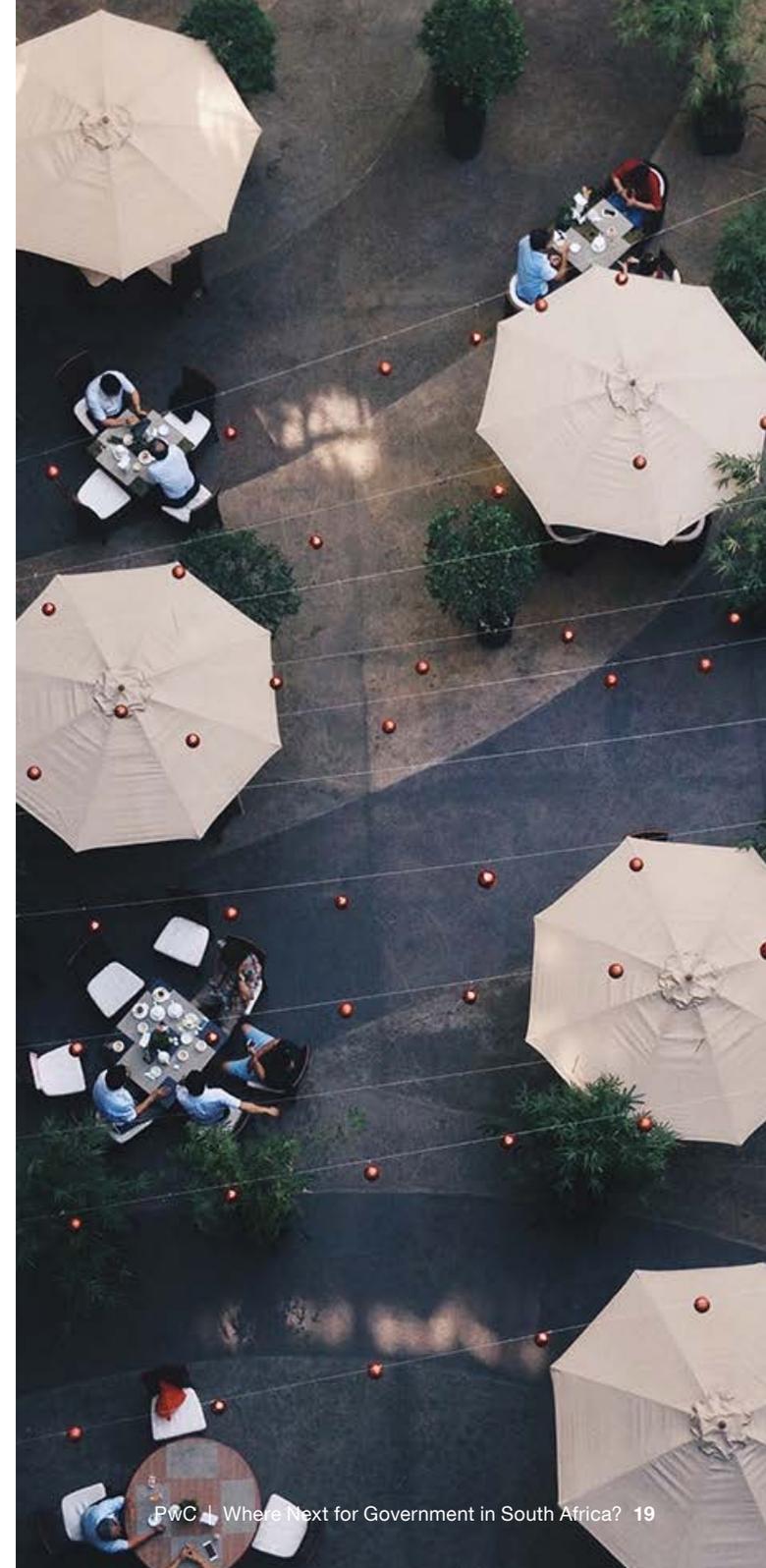
The COVID-19 crisis provides the opportunity for an urgent relook at where government ownership and operations are necessary, and where developmental goals can be better achieved through other methods that place less financial risk onto the general public.

²⁴ PwC (2015b), "To own or not to own: Realising the value of public sector assets" <https://www.pwc.com/gx/en/psrc/publications/assets/realising-the-value.pdf>

Continuum of private-public models



With South Africa experiencing severe economic conditions as a result of the lockdown, what remains under state ownership is then required to improve in terms of its contribution to the economy, through a number of reforms including but not limited to restructuring, revised business models, improved internal controls and transparency. President Ramaphosa has already appointed a Presidential State-Owned Enterprises Council (PSEC) to support Government to reposition state-owned enterprises and review business models, capital structure and financing. It is now time to implement bold reforms.



What this means

A performance focused operating model for cities

Cities are experiencing 'twin challenges' — the more that is done to flatten the infection curve, the more steeply the recession curve is rising, coupled with reduced revenue and increased expenses across key urban sectors. This has therefore impaired cities' capacity to deliver on its mandate as a result of reduced cash flow and budget adjustments due to lower expected revenue collection (Property rates, service charges). As a result, the Government needs to spend its available budget far more efficiently. This calls for a radical transformation of its operating model.

Further to this, the directives for municipal governments to reconnect utility services for all customers, whether their accounts are up-to-date or not (as a result of increased unemployment), has placed severe stress on the local finances. The declining revenues and cash flow, along with the increasing illegal connections and impairment of debt management systems confirms that the current operating model was flawed even before the lockdown. Municipal governments therefore require an overhaul in the way in which they conduct business and their value proposition to their constituency needs to be re-examined.

A performance focused operating model is required which will necessitate a review of the full suite of services offered to customers. This will necessitate a review of the processes and the technologies to provide integrated services that improve the value to the customer. This also means a review of the combination of skills and capabilities required to drive a more connected organisation into the future.

Bringing private organisations to be enablers of government innovation

Partnerships with entities that have objectives and values that are aligned to that of the state are a win-win for all stakeholders. They allow for risk and cost sharing, as well as the sharing of the benefits associated with the strengths of the respective entities. With unprecedented pressure on cost efficiency, the need to collaborate to serve the interests of South Africans is more important now than ever before.

Innovation in the private sector has meant that it is cheaper to source green energy from an independent power producer (IPP) than for Eskom to generate the power from coal. It is also cheaper to source high resolution cadastral images and detailed population demographic data from airline companies and mobile operators than it is for Government to provide this data about the communities they service on a daily basis.

Digitising service delivery

"e-Procurement", "e-filing", "Smart Cities", "service as a platform": each of these terms describe an aspiration of the direction our public entities need to move towards as part of a digital revolution.

E-passports are a recent example of a planned initiative by some governments across Africa to go more digital. The issuing of e-passports is expected to increase the security and efficiency of border control points. Similarly, the issuing, renewal and replacement of passports will be more efficient, saving Government and travellers time and money.

Imagine if there were no need to complete paperwork when you visited the hospital or when you needed to identify yourself at the traffic department. Instead, we find ourselves in a situation where a high proportion of government employees were unable to work during the lockdown because their tools of trade did not allow for them to work remotely. This meant that a lot of key business functions were not operational (think finance and billing departments) and the Government's ability to ensure business continuity was impacted during the lockdown.

In order to improve services delivery, the Government will need to consider radical digital transformation, with associated automation and virtual services to make the public sector more affordable and resilient.

These are non-negotiables

Building trust in a capable government

Trust in Government and its institutions, by businesses and citizens, is an essential prerequisite for creating an environment that is conducive to investment and economic inclusion of the majority of South Africans.

Because public resources are largely targeted to the poor, they (the poor) are the most severely impacted by the harmful effects of corruption and delays in public service delivery. Corruption and bad management practices divert public resources away from expenditure on social grants, education, healthcare, security, water, power, and other public spending that improves living standards.²⁵ Trust in Government and its institutions has been continuously eroded with instances of corruption. South Africa ranks 70th out of 140 countries according to the Transparency International Corruption Perception Index and is surpassed by eight other sub-Saharan African countries.²⁶

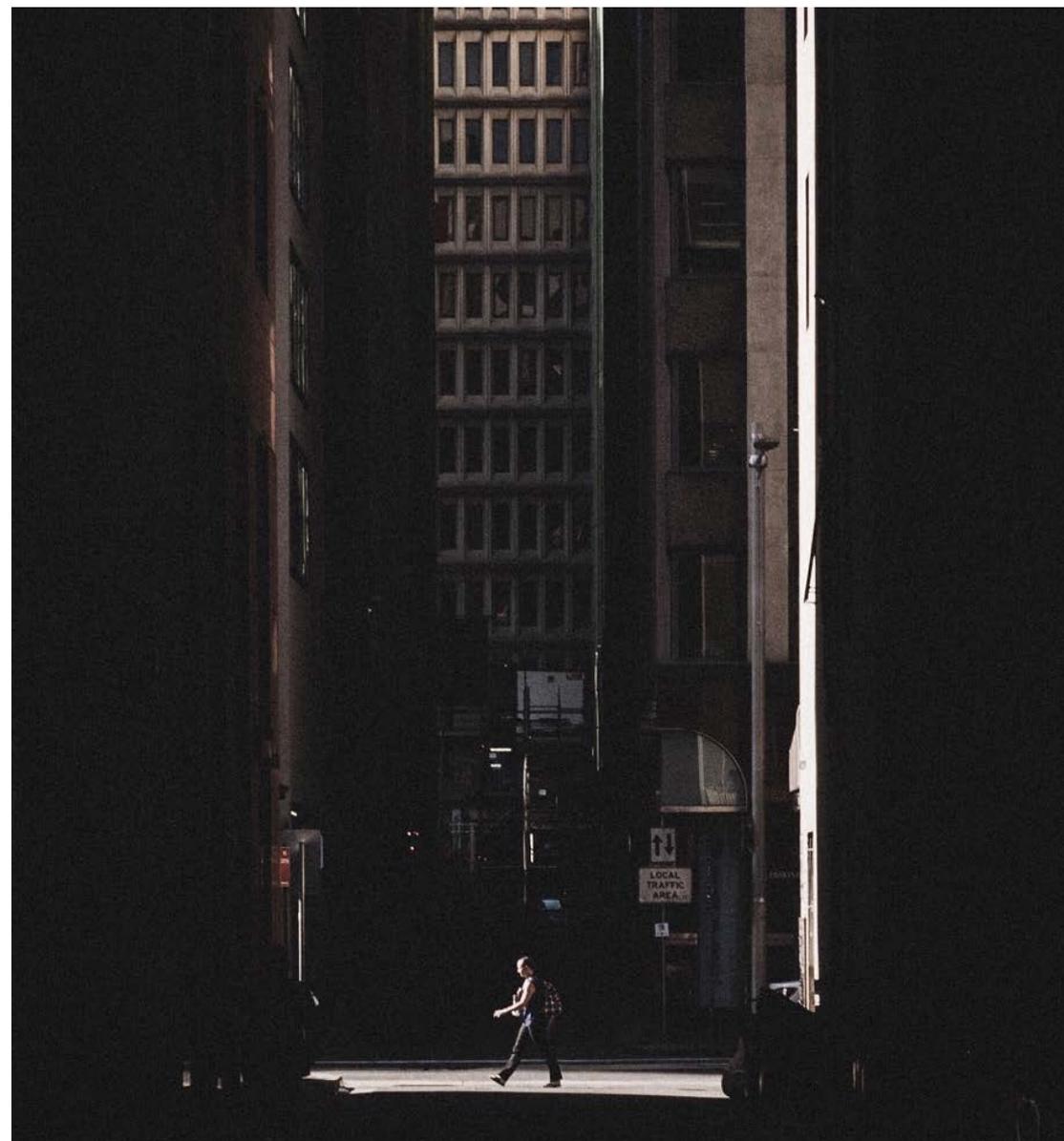
Increasing transparency through compliance systems and technology

It is critical that stringent measures be put in place to ensure that every rand is accounted for and its impact measured. Strong and robust compliance systems therefore play a critical role in detecting corruption and malfeasance.

Enhancing the uptake of technology and its application across stakeholders can further reduce opportunities for corruption. New technologies such as blockchain and e-governance systems provides digital trust and has the ability to create transparency and allow for the protection from deletion, tampering, and revision, if effectively applied. This will significantly impede the opportunity for corruption and also speed up public service delivery.

²⁵ UNODC Effects of corruption, <https://www.unodc.org/e4j/en/anti-corruption/module-1/key-issues/effects-of-corruption.html>

²⁶ Transparency International, 2019 Corruption Perception Index.



Transforming organisational culture

Compliance systems alone are insufficient. Transforming organisational culture is also crucial to improve understanding and appreciation of why compliance is necessary and ensure that behavioural change sticks and corruption and malfeasance are effectively detected, reported, and prosecuted.

This includes setting the tone through ethical leadership from the top. Just as this is vital in the private sector's interaction with Government, there needs to be higher awareness and proactive action taken to prevent waste and embezzlement of public funds.

Opening up to citizen participation

The COVID-19 pandemic has proven that effective formulation and implementation of economic policy requires improved information to its citizens. The crisis has revealed a massive gap in policy makers' understanding of needs and requirements of major parts of its population.

The lockdown period also highlighted that civil society consultation and feedback from larger parts of its population are vital in ensuring that policies properly respond to all citizens' needs and circumstances. The most effective source of the intelligence that should guide economic and social policy-making, are community members and on-the-ground civil society organisations. Civil society's oversight role is also vital in ensuring quality service provision and quality of governance.

Case example: eThekweni Municipality's collaboration with NGOs to assist homeless people

eThekweni Municipality's lockdown programme to help homeless people in Durban Central to be contained in a safe environment, provide food security as well as drug rehabilitation has been marked with early success. The Municipality is working with non-government organisations on various interventions to ensure that the lives of homeless people are improved. These include drug withdrawal management, reuniting them with their families and providing other necessities.

Source: eThekweni Municipality, City's intervention on homeless people pays dividend, May 2020 "http://www.durban.gov.za/Resource_Centre/new2/Pages/City-intervention-on-homeless-people-pays-dividend.aspx

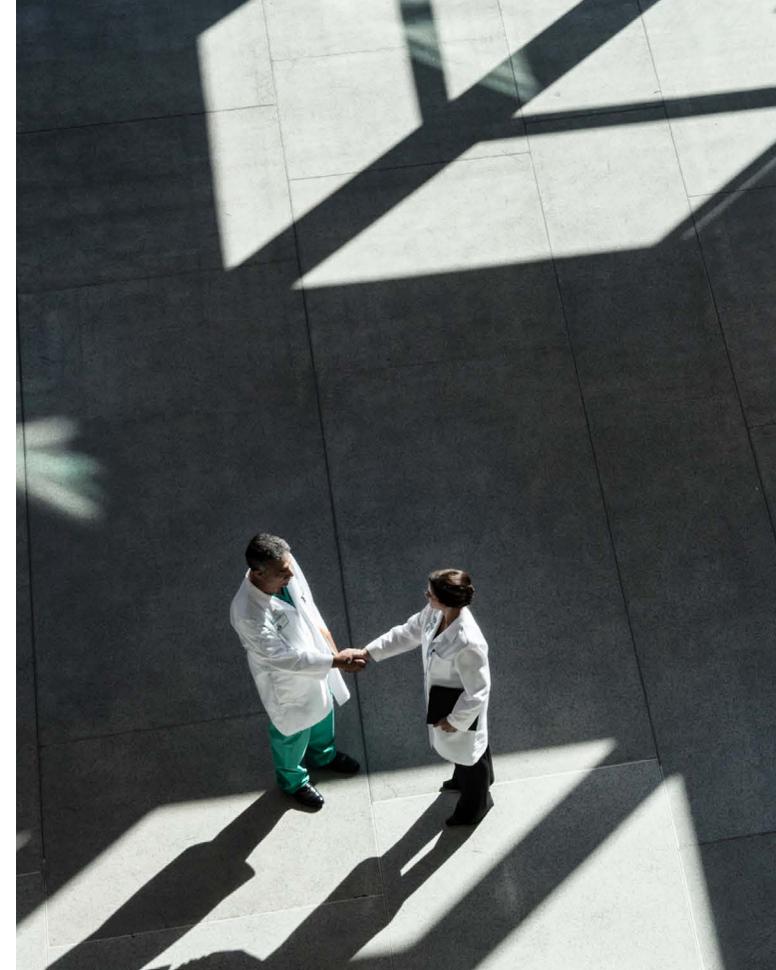
This crisis presents an opportunity for urgently needed change and for Government to help bring South Africa onto a higher, more inclusive, and more sustainable growth and development trajectory. Urgent action is needed now.

The COVID-19 crisis has heightened the urgency of much needed reforms and it provides an opportunity to drive these through in a way that wasn't possible pre-crisis. Things that have been postponed for too long are now immediate and must be dealt with.

We highlighted some key aspects for the Government to consider:

- Reprioritising spending to focus on what's most important. This includes taking the recovery period to optimise Government balance sheets and gear expenditures towards top priorities. These priorities include kickstarting the economy by expediting network infrastructure spending and focussing on getting foundation services like water and electricity right, which affect households of all income levels and businesses of all sizes.
- Ensuring that the encouragement of growth and investment becomes a shared priority across Government. Joint government strategies to this end should be established and implemented. These could encompass measures that build trust between Government and business, address impediments to investment, both local and foreign, and help firms reap new opportunities and comparative advantages coming out of the crisis.
- Creating an innovation and pro-growth ecosystem. An improved regulatory environment and strengthened partnerships with civil society, private sector organisations, university and research hubs could create an enabling environment for broad-based growth, innovation, and opportunities for a wide majority of the population.
- Revisiting the role of public enterprises. State-owned enterprises require a re-examination of their purpose and strategic goals in light of the new reality. The crisis provides the opportunity for an urgent relook at where government ownership and operations are necessary, and where developmental goals can be better achieved through alternative delivery models that do not further burden the general public with debt.
- Transforming the Government's operating model. A sweeping change in operations is required to significantly enhance efficiency and ensure that Government can stay relevant and provide more for less.
- Last but not least, emphasising quality of governance and accountability to build trust and benefit the poor. This includes embracing technology and more efficient practices to enhance the Government's ability to respond to the majority of its citizens and to practice open and participatory governance.

A concerted effort is now required to get the country back onto a path towards growth. It also presents an opportunity to put South Africa onto a trajectory of more inclusive and more sustainable growth.



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