

EXECUTIVE SUMMARY
of
THE REPORT OF
PROFESSIONAL ECONOMIC PANEL

ORGANIZATION
SECTION PROPOSAL

TRANSFERRING OF HOUSING STOCK 1. Transfer of Housing Stock
CREATING A POSITIVE
ECONOMIC CLIMATE:
THE MACROECONOMIC FRAMEWORK 2. Independence of the Reserve Bank
3. Fiscal Commission
IMPROVING PUBLIC SECTOR EFFICIENCY 4. Restructuring the Civil Service
5. Performance Auditors Office
6. Restructuring the Security Services
RE-STRUCTURING THE MEDIA . 7. Restructuring the media
PROMOTING INVESTMENT AND FOREIGN TRADE i 8. The Socio-economic Council
9. The Industry & Trade Development Council
10. Export promotion drive
11. Enterprise development status
SKILLS DEVELOPMENT i 12. Greater efficiency and equity in education expenditure
1 13. Human Development Foundation
I 14. Increasing adult basic education and development
i 15. Database of facilities for education and training
FIGHTING UNEMPLOYMENT 16. Restructuring the Unemployment Insurance Fund
17. Promoting Periodic Markets
18. Instituting Public Works Programme
19. Initiating a nation-wide Youth Development Programme
PROMOTING ENTREPRENEURSHIP AND 20. Creating a champion of small business
ECONOMIC EMPOWERMENT 21. Directory of black directors, managers and suppliers
FOR THE DISADVANTAGED 22. Remove oppressive controls

INTRODUCTION

The Panel received from the sponsors a brief to develop detailed, practical strategies to improve the total economic situation in South Africa and create a climate for a sustainable economic upswing. The brief also called for plans for greater job creation, an accelerated national education strategy, and education and jobs for the so-called "lost generation".

The Panel's work resulted in 22 action priorities detailed in this report.

Mostly these concern institutional reforms and sound economic governance, both of which are essential to restore domestic and international investor confidence. However, the Panel also stresses the importance of structural adjustments to the economy itself.

The proposals also meet the following criteria: new institutions should be adapted from existing institutions, so that the total number of institutions would be reduced; institutions and processes recommended should be transparent and clearly designate accountability; proposals should be implemented as soon as they gain credibility and legitimacy; and no additional taxation or government expenditure should be required.

SITUATION ANALYSIS AND MAIN THEMES

The story of South Africa's economic decline over 20 years is well-known and has been analysed in greater detail by many others. The Panel assumes agreement on this, but highlights certain indicators including:

- . 17 million people living below minimum subsistence level

- , 6 million unemployed

- , skewed distribution of income

- , declining gross and net investment

The Panel accepted that there is no simple "quick fix" for these problems.

But it did not accept that prolonged misery is required for change to take place. Positive steps can be taken that are immediately beneficial and will not compromise a sound long term approach.

These steps must have the potential to increase confidence in domestic and foreign investors. They will include at least the following:

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PEP REPORT. Executive Summary page 1

sustainable growth, balancing wealth creation and redistribution

greater attention to the needs of the poorest

a clear industrial strategy

an export orientation and culture.

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The political framework

The Panel operated on the principle that no economic reform could succeed without political and popular support, and that all strategies should be designed accordingly. Thus an assessment was made of the possible means of gaining legitimacy and credibility for the proposals, through an understanding of the political dynamic of negotiated transition to democracy.

Some of the proposals contain provision for transitional arrangements or institutions.

Negotiated agreements

The Panel envisages three major negotiated agreements or pacts. The first involves a negotiated agreement on political and constitutional process, described above. This is the political pact. The second is a negotiated agreement on the security forces and the establishment of a system of law and order which is acceptable to the citizens (a "stability pact"). The third agreement will be aimed at socio-economic development based on economic growth -- a "development pact". The three parts support each other; however, failure in any one undermines chances of success in the others.

All 22 proposals form part of either the stability pact or the development pact. The panel further believes that all proposals are politically possible.

PROPOSAL 1: TRANSFER OF HOUSING STOCK

The Panel unanimously recommends the transfer of all state-owned housing stock and the residential land on which it is located (in previously "black" areas) to private ownership by existing occupiers, as soon as there is consensus on a legitimate process. This would be a visible and dramatic change with huge, positive economic impact. It would also empower large numbers of people. Politically too, it would create a sense that change is really happening in a way that reaches a large section of the population. Mechanisms for effecting this transfer are proposed by the Panel.

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PEP REPORT. Executive Summary page 2

In economic terms, there are three main expected advantages:

- . access to capital for the home owners, with the newly-acquired property as collateral, creating opportunities and incentives for home improvements, starting businesses and other activities promoting economic growth;

- 5 an improved flow of rates payments and payment of service charges;

- . removal of the maintenance burden from the public sector, with costs now being voluntarily borne by new home owners.

People who can prove that they had been ordinarily resident in urban areas for a specified period of time should have plots, with specified services, made available to them by the state. Land tribunals or courts should be established on a regional basis, with the power to restore land to any person dispossessed by apartheid, after due process of law. Formalities and costs in respect of dealings in this land should be relaxed or scrapped. These include land survey, deeds registration, conveyancing costs and taxes.

The Panel believes that this proposal has to be implemented by an interim government. The impact will be small (or even negative) if it is implemented unilaterally by the present government.

The Panel recognises that this proposal does not address the urgent problem of homelessness. Other bodies, most notably the National Housing Forum, are examining this, and their efforts to increase the numbers of houses built each year should be strongly encouraged. In this context, the Panel supports major housing and electrification projects.

PROPOSAL 2: INDEPENDENCE OF THE RESERVE BANK

Analysis

The case for a more independent South African Reserve Bank (SARB) is part of the strategy for creating an enabling environment for economic growth and development, based on renewed investor confidence. It forms part of a broader argument in favour of sound economic management.

PEP REPORT. Executive Summary ' page 3

Specifically, the SARB must have the independence to exercise control over interest rates and money supply. However, even with these powers, it cannot ensure macroeconomic stability on its own. Good economic governance on the part of both the fiscus and the SARB are necessary institutional ingredients of sustainable development. .

Under a new government massive pressures will be felt to increase government social spending which, if acceded to, could result in excessive borrowing and rising inflation. In this context, the SARB will be an important guardian of macroeconomic stability.

For the SARB to take the necessary steps against inflation and constrain the money supply, it must have an independent power base from the government. Bank officials must not fear removal from office for politically unpopular monetary policies.

Proposal

The Panel proposes that the brief of the SARB, which should be clearly articulated in the relevant Act, should include statutory guidelines to be followed by the Board of Directors and the governors.

The Governor of the SARB should be appointed by Parliament and not by the State President.

The governing board of the Bank must consist of representatives of the most important private sector institutions, as specified in the revised Act, and an equal number of directors nominated by parliament (and not by the State President). The Board of Directors must fulfil the customary supervisory and control functions, and must report to Parliament.

The Management Board should consist of the Governor and deputy governors, and an equal number of representatives from the Board of Directors who are not full-time appointees of the Bank. The Governor must convince the Management Board about proposed policies. The Management Board will be responsible for the ongoing interpretation of the statutory functions of the Bank, and of any broad policy direction laid down by the Board of Directors which is not in contradiction with the Bank's statutory functions. The Governor and deputy governors will remain responsible for the day-to-day running of the Bank.

The main report includes a number of subsidiary recommendations regarding the independence of the SARB, in particular that it should

PEP REPORT. Executive Summary page 4

comply with the requirements of transparency and accountability, and that the tenure of the Governor and deputy governors can be terminated only by Parliament.

independent academics appointed by parliament according to open and democratic parliamentary procedures aimed at ensuring legitimate independence.

PROPOSAL 3: FISCAL COMMISSION

Fiscal policy is one of the keys to sound macroeconomic management, which is, in turn, a prerequisite to ensure a climate conducive to accelerated economic growth. It is generally accepted that there will have to be a redistribution, or re-allocation, of public expenditures under a new government.

The Panel concluded that a mechanism needs to be found which can help future governments find answers to the vexing fiscal questions around government spending and its financing, which will also send out the signals about fiscal management which will help to restore investor confidence.

The urgency of our present position requires that an Interim Fiscal Commission be established to serve for the period covering the expected delay in forming a legitimate statutory body. Its members should be drawn from fiscal experts in the government, the democratic movement and the private and academic sectors, and it should replace existing bodies involved in fiscal issues, such as the Standing Committee on Taxation Policy.

The main report lists a number of tasks for the Interim Commission, and makes recommendations with regard to funding and implementation.

However the need for a permanent Fiscal Commission is emphasised.

The Panel recommends the creation of a Fiscal Commission as a permanent, statutory body. It will address the formation and implementation of fiscal policy, including the reduction in corruption, inefficiency and poor targeting of expenditure. It would also advise on expenditure reallocation within the revenue means of the government.

Permanent Fiscal Commission

The Fiscal Commission must not be regarded as an economic negotiating forum. Rather, it should consist of fiscal experts drawn from technocrats in the civil service (for example, the Department of Finance and the Reserve Bank), the private sector (including organised labour) and

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PEP REPORT. Executive Summary page 5

The Fiscal Commission will thus be answerable directly to parliament and not to any minister or the government of the day. it should have a small secretariat, but, for the test, should mostly consist of part-time commissioners with the power to commission research.

The following issues should be included in the brief of the Fiscal Commission:

- , It must have statutory powers to investigate any fiscal issue.
- , If a National Development Plan is drawn up by an appropriately authorised body, the Fiscal Commission must be consulted.
- , It should be given a budget sufficient to commission research of a policy nature.
- , The government of the day should be required to submit plans for fiscal legislation or major policy changes with a significant potential fiscal impact to the Fiscal Commission for advice.
- , it must have regular meetings with the Reserve Bank and the Department of Finance to discuss and promote the co-ordination of coherent macroeconomic policies.
- , It must promote the clear stipulation of targets for the spending of public money.
- , It must investigate and advise on public expenditure forecasting and planning procedures.
- . It must make the record of all its proceedings, its research findings and its reports public.

PROPOSAL 4: RESTRUCTURING THE CIVIL SERVICE

Situation analysis

The decision-making processes within the civil service can fundamentally determine the opportunities of people in society. If our society is to move from domination to democracy, this will also have to be reflected in changes in the decision-making processes of the civil service. For the civil service to change so as to meet this new challenge, it would have to:

- , become far more accessible to a much broader range of interests so that new information relevant to policy making can be incorporated into public sector decisions;
- , mediate between the needs of different interests in society, and become more amenable to the requirements of those people disadvantaged by past patterns of growth and development;
- . allow much broader participation in feedback.

Proposals

v A code of conduct for the civil service during the transition, which prescribes behaviour suitable to implementing new policies and should specifically combat nepotism and corruption and promote impartiality.

, procedures for disclosure of information on policy and administrative decisions should be negotiated and implemented. This could be achieved by a Freedom of Information Act.

. A panel should be established to draft summaries of all legislation, especially in the main African languages, to be widely disseminated.

. Channels should be created to strengthen public input into civil service decision-making proposed laws and programmes before their presentation to the Cabinet and Legislature.

v The membership of all bodies acting within the civil service or as advisory to it should become much more inclusive in membership.

p' To achieve real change, "permanency" of tenure by civil servants must be set aside.

PEP REPORT. Executive Summary page 7

, An investigation should be initiated into the filling of more "official positions" by election.

It is also proposed that a new, multi-party Civil Service Commission be authorised to set procedures and to monitor outcomes. Its discretionary powers would include: access to evidence; giving evidence; cross examination; written reasons for any curtailment of rights; public hearings. The main report contains a budget for restructuring the civil service.

PROPOSAL 5: PERFORMANCE AUDITOR'S OFFICE (PAO)

South Africa, in the past and at present, has experienced gross wastage and ineffectiveness in public spending. The billions of Rands of wastage and corruption that have come to light during 1992 are probably only the tip of the iceberg. This wastage cannot be afforded. The potential "savings" to be achieved by more effective, ongoing controls could easily be between 10% and 30% of public spending (or R10-billion to R30-billion in 1992 terms).

With the objectives of any expenditure programme spelt out, it is necessary to put the institutional arrangements in place which can ensure that public resources are used efficiently in terms of those objectives. The Fiscal Commission alone is not sufficient to ensure efficient public spending, and needs to be supplemented with an effective process of performance auditing.

Proposal

It is therefore proposed that a Performance Auditor's Office (PAD) be created within the department of the Auditor-General. It should be totally independent, like the judiciary, with sufficient funds, constitutionally guaranteed, to perform its task effectively. The Interim Fiscal Commission, and later on the statutory Fiscal Commission, could be responsible for advising on its budget.

The FAO must undertake performance audits according to generally accepted, random auditing practices, into any department or programme funded with public money, at all levels of government.

The FAO must be accountable to parliament and the public, and must make all its findings public in full.

PEP REPORT. Executive Summary page 8

The FAQ must build up a database, or reference system, of measures which failed, inefficiencies discovered, forms of wastage, and, in general, anything which resulted in public money not being effectively spent. The PAO must facilitate efficient spending by assisting public bodies in the planning of their expenditure, and informing them in a transparent manner of problems which can affect the performance of their spending negatively.

The FAQ should be created and instituted by the interim Fiscal Commission.

PROPOSAL 6: RESTRUCTURING THE SECURITY FORCES

Public perceptions of the various armies within South Africa's borders and of the police foster violence and undermine negotiations for an interim government. These two factors represent critical obstacles to a revival of the South African economy.

Political and social uncertainty scares off foreign and local investors and undermines attempts to formulate and implement durable economic and development policies.

In this context, the state security forces assume critical importance. Many parties and communities have accused the security forces of bias. This belief has led to repeated breakdowns in negotiations at all levels, and in initiatives for peace. In their present forms, the security services cannot restore the stability required for economic growth and development.

In short, for the Panel's economic recommendations to take effect, it must also suggest realistic proposals on the army and the police. The structures of the National Peace Accord (NPA) sought to address these issues in a variety of ways, but implementation has not proceeded as hoped.

Proposals

5 Establish separate reform processes for the army and police, including their homeland counterparts, that would be legitimate, participatory and effective. Such reform processes would seek to

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PEP REPORT. Executive Summary page 9

develop greater trust between the security forces and communities.

These processes should include programmes to foster discussion on the role of the army and the police in the "new South Africa"; more accountable and transparent procedures and structures; ways to rationalize the security forces so they can better fulfil new tasks.

, Establish ways to deal effectively with the security forces of the TBVC and self-governing states; guidelines for the integration of the SADF, MK (Umkhonto we Sizwe), APLA, the TBVC defence forces and other armed groups.

, All the relevant components of the security forces must play a central role in designing effective reforms. Local experts and community representatives must also take part.

, The NPA should initiate this type of reform process for the Defence Forces and the police. The government of the day should cooperate with such a process to the fullest possible extent.

p All ranks of the security forces should meet regularly with members of the opposition groups. The NPA provides one way to facilitate such meetings.

, The structures of the National Peace Accord should be fully funded.

, The government should immediately review and, where possible, disband structures that arose mainly for the purposes of counterinsurgency.

PROPOSAL 7: RESTRUCTURING THE MEDIA

Economic growth and development require a climate of peace and legitimacy for institutions of authority and a full and vibrant culture of democracy throughout the country. A democracy, in turn, is only possible where there is a free, accessible and diverse mass media system. Recognition of this reality has already occurred and the Panel supports this. Specifically, the Panel recommends that the Board of the SABC must be made independent and more representative, through an open process of appointment. The Board would be responsible to a Media Commission, which would act as a link to the government of the day.

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PEP REPORT. Executive Summary page 10

Immediate tasks of a new Board will include:

- , governing the SABC as primarily (although not exclusively) a public broadcasting service;
- , ensuring a commitment to promoting quality locally produced programmes, including work commissioned from producers outside the SABC;
- , ensuring fair news reporting (an SABC news monitor or ombudsperson could facilitate this);
- . ensuring equal broadcast time for all the major political parties;
- , instituting a right of reply;
- , establishing a national education campaign on radio and TV on important public concerns, such as the principles of democracy and issues around the economy.

An Interim Independent Telecommunications Authority (ITA) must be appointed by the Interim Government to manage and regulate the airwaves as a limited public resource (as is the international norm). However, this ought to occur within the context of minimal control and maximal freedom of expression.

The Media Commission should call for nominations by political and civil society for an interim ITA. Criteria for nomination, and the process of appointment, should be similar to those of the SABC Board.

The tasks of the ITA should include regulating the airwaves (signal distribution, frequency spectrum management, cable and satellite); regulating all telecommunications operations; the impartial supervision of free and fair broadcasting; anti-monopoly regulation, plus privatization activities; limits on foreign ownership; local content; affirmative action and development.

The Panel supports the recent creation of an independent Media Diversity Trust, which will actively work to make freer and more diverse the participation of all groups in communication within a democratic state.

PEP REPORT. Executive Summary page 11

PROPOSAL 8: SOCIO-ECONOMIC COUNCIL

SA is already moving to greater involvement of various constituencies in policy-making. This process should be widened and accelerated to create a common commitment of major actors in society to policy options and by generating a more participatory democracy.

In many countries, governments consult with stakeholders before deciding on socio-economic policy. This is best done through a single policy advisory group - a 'Socio-economic Council'.

In our present situation, where Parliament lacks legitimacy, the role of a Council would be largely to coordinate the policy formulation processes being undertaken by a wide spectrum of formal and informal forums and to provide advice to a transitional or interim government.

During this period, the role of the Council will be particularly crucial. The existing state policy formulating bodies lack legitimacy, but replacement institutions will not yet have been developed. As this phase could last for a number of years, it will be essential to generate socio-economic policies capable of addressing the crises that confront the country. These will have to enjoy a broad commitment from social actors, and deliver widely acceptable results. If this is not the case, central government will be encouraged to assume sole responsibility for policy formulation.

The creation of a Socio-economic Council will constitute recognition that organised labour and capital wield immense power and play a key role in any growth or development strategy. They have the power to commit significant resources of human and financial wealth to a particular growth or development path. Their views and commitment are essential components of acceptable and implementable socio-economic policy.

At the same time, there is a need to guard against a 'narrow corporatism' and dominance by labour and capital. This would be detrimental to weaker groupings in society (consumers, the rural poor, small and emerging enterprises, and so on). The interests of these groups must be represented. The proposal recommends a 'checks and balances' proposition.

The composition of the Socio-Economic Council would be based on group representation. The composition of each group would reflect an agreed proportionality suited to its particular nature.

PEP REPORT. Executive Summary page 12

The overall size of the Council is ultimately a matter for negotiation. However, a smaller number of representatives may be more conducive to the negotiating nature of the Council. It is proposed that the maximum number of participants be 40.

The Socio-economic Council will require substructures, probably working groups (including experts not themselves members of the Council) to address specific sectoral policies, such as housing and transport. The Council could be introduced in three phases. In phase 1, the Council could be developed out of one "forum" - possibly the National Economic Forum. In phase 2, the forums would be reconstituted as substructures of the Council. Under a democratic government the Council would become the primary advisory body to government on socio-economic interests.

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PROPOSAL s: INDUSTRY 3. TRADE DEVELOPMENT COUNCIL (ITDC)

South Africa needs a coordinated or unified industrial vision and strategy -- something it sorely lacks at present. This vision should be embodied in a new institution which will replace several existing bodies and, being politically legitimate, will be more effective in implementing policies.

The Panel recommends the creation of an ITDC to spearhead the country's drive to become more internationally competitive.

The concept of the ITDC is based on the real lesson from Japan's Ministry of International Trade and Industry (MITI): how to harness successfully the specific socio-cultural and environmental features of a given society, at a particular time in its history, towards agreed goals, through a process that makes optimum use of the talent and resources available.

The objectives of the ITDC should be wide-ranging: development of a long-term industrial orientation or vision; coordination of the relevant actors and agencies, mobilizing them around this vision; targeting of important industries for development; and formulating policies and programmes on export efforts, investments, research and development, technology development and transfer, industrial relation systems, human resources development, marketing expertise and managerial cultures.

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PEP REPORT. Executive Summary page 13

The ITDC could be composed of, and coordinate the activities of, inter alia, all relevant existing institutions such as the Department of Trade and Industry (DTI), the Board on Tariffs and Trade (BTT), Customs and Excise, the South African Foreign Trade Organization (SAFTO), the Department of Finance, the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), organized business, both large and small, organized labour, and experts in the fields of industrial development, exports, productivity, technology, training, and so forth. A sound working relationship with the Socio-economic Council is also essential.

The ITDC is considered to be of such importance that the Panel recommends the immediate launching of a Trade and Industrial Policy Project (below).

PROPOSAL 9 (A): TRADE AND INDUSTRIAL POLICY PROJECT

It seems unlikely that the ITDC can be discussed, negotiated, legislated and set up before 1994. More than a year would thus be lost during which industrial policy development and analysis, as well as the promotion of consensus on the need for an ITDC, could have been undertaken. Hence the Panel proposes an interim and preparatory initiative in the form of a Trade and Industrial Policy Project (TIPP). Objectives

The first aim of the TIPP is to create a climate conducive to the promotion and formation of the ITDC. The second task of the TIPP is to collect information and compile an inventory of research relevant to trade and industrial policy in South Africa, and to review, summarize and synthesize this research so as to lay the basis for an industrial strategy. It could also undertake additional research to fill any gaps that may exist. The results of its work should be disseminated among policymakers, employers, trade unions and the media for broader discussion and debate. Proposals for specific measures to be implemented should be handed to a legitimate government, or to the ITDC after it has been constituted, for further action.

Composition and phasing

The TIPP should be made up of (a few) existing industrial policy research capacities; for example, the IDC, the BILT, the Industrial Strategy Project,

the Macro-Economic Research Group and the private sector, including small business. This would have the following advantages:

- , the TIPP will represent the bulk of coordinated research in the relevant areas;

- , no legislation or special bureaucracy is required;

- , it can start immediately with the IDC as secretariat;

- . it will enjoy the necessary legitimacy.

The TIPP should start as soon as possible, and have a clear brief to be completed within 18 months. It will be led by a small Executive Committee consisting of one representative from each participating body. The Executive will be responsible for carrying out the brief of the TIPP and for ensuring a smooth working relationship with the IDC as secretariat. 'f

PROPOSAL 10: EXPORT PROMOTION DRIVE

Fundamental shifts in world trade require South Africa to concentrate on value-added exports. The Panel proposes a dual export promotion drive which maximises foreign earnings from beneficiated exports and concentrates on a export development programme for manufactured goods for new markets.

SA spends very small amounts on promotion of exports; 25% of Australia's expenditure and only 10% of Taiwan's. This must be increased.

Nevertheless, exports should not be seen as an end in themselves. They are rather a means of earning the foreign exchange required to finance the imports necessary for growth and development. An export promotion drive will be of great benefit to the country's industrial development. However, the change from a protectionist, import-replacement economy to an export-oriented policy can be painful. The experience of successful countries shows that export culture is not a static psychological/social issue, but can be enhanced by changes in institutional structures and promotional programmes.

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PEP REPORT. Executive Summary page 15

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There is an overwhelming need for such a national export promotion drive. It will create employment opportunities, generate foreign exchange and enhance the competitiveness of the South African manufacturing sector.

The Panel proposes that an export promotion be financed out of a foreign trade levy pegged at 0,15% on all import and export transactions. This will provide R180-million a year.

The proceeds of the levy could be administered by an independent Export Development Trust Fund. The Trustees of the Fund will draw up an annual export promotion calendar and a three-year national export marketing budget. Activities to promote exports will include: international advertising campaigns; trade fairs; store promotions in key markets; product magazines and export directories. Special attention should also be paid to small business export opportunities.

PROPOSAL 11: 'ENTERPRISE DEVELOPMENT STATUS'

South Africa's economic restructuring and its industrial policy should include provision for the creation of carefully targeted incentives. The Panel proposes that incentives should be provided and monitored by an Enterprise Development Authority (EDA) using the concept of enterprise Development Status (EDS) for targeted exporters. The EDS proposed by the Panel combines features of the American and Mauritian models and would be unique to SA.

EDS differs dramatically from the older concept of an export/enterprise promotion zone (EPZ). EPZs, which have been successful in many countries, focused incentives on a specific geographical area. Enterprises had to start up in, or relocate to, the specific geographical zone. EDS, on the other hand, is a legal rather than a geographical concept. It confers legally the incentives offered to certain enterprises wherever they may be located. The concept is dynamic - a process rather than a place - and is capable of dealing with a range of special economic conditions.

EDS aims to stimulate:

- s new local and foreign investment;

- , the attainment of international competitiveness;

PEP REPORT. Executive Summary page 16

s economic development, including that of small, medium and emerging enterprises (SMEEs).

Enabling legislation should provide for the granting of EDS to individual enterprises, wherever located, and/or defined geographical areas.

The granting of EDS should fall under the EDA. EDS would entail exemption from, or relaxation of, specified controls or taxes, either indefinitely or for a specified period, and subject to prescribed EDS Conditions of Establishment. These would include a specification that EDS should be granted only in the case of genuine, long-term investments, and that all applications must be accompanied by a social impact statement.

The EDA should be a 'one-stop-shop'. To ensure maximum enterprise-friendliness, EDS promoters would have the option of having all paperwork and formalities processed either by the EDA or a single relevant government department. In particular, the 'one-stop-shop' would administer all official matters directly related to the EDS. In view of the substantial discretionary powers suggested for the EDA, it should be a transparent and accountable multi-party body, including representatives of such interests as labour, business and consumers. Obtaining EDS should be bottom-up rather than top-down. Promoters could apply to the controlling authority for EDS. EDS might be given to a single enterprise or an area being developed by a promoter in much the same way as a commercial or industrial township or hive is established. There would be no single EDS model or mix. Promoters would propose EDS formulae specific to their needs. Also, EDS might be targeted for informal sector development, offshore financial services, export processing, free ports, or any enterprises likely to increase exports under EDS.

Controls to prevent leakage into or out of an EDS, where necessary, would be primarily legal and administrative. Conditions would normally prescribe strict record-keeping, reporting and auditing.

EDS enabling legislation would distinguish two basic types of advantages an EDS could have: those to which any EDS is entitled (subject, of course, to appropriate conditions); and those which the controlling

PEP REPORT. Executive Summary page 17

authority may grant on a discretionary basis. These can be referred to as Schedule I and Schedule II rights.

Schedule I would cover restrictive microeconomic measures such as licensing, zoning and minimum standards. Ideally, it would also include import duties and the right to retain foreign earnings in foreign currency accounts which could be traded among South African residents.

Schedule II would include discretionary exemptions such as from tax, environmental protection and labour legislation, which should be granted only after consultation with relevant stakeholders. Schedule II should be as inclusive as possible.

PROPOSAL 12: ACHIEVING GREATER EFFICIENCY AND EQUITY IN EDUCATION EXPENDITURE

Both formal education and skills development in South Africa are in a highly unsatisfactory situation. As a result, there is a huge mismatch between education resources directed at employment in the formal sector of the economy and those which will empower people to earn a living in the informal sector.

The country must urgently take up the challenge of reconstructing education, but it must be done within approximately the present level of expenditure in real terms: that is, 6% of GDP and 23% of the state budget. However a total reconstruction of the systems cannot take place before a democratic government is in place. For these reasons, the Panel decided to focus on changes possible in the immediate future.

The first proposal aims to achieve greater impact within the present education budget. Calculations are based on the 1990 budget.

Many studies relating to organizational effectiveness and quality and productivity improvement show that most organizations can find 20%-30% savings in operating costs. Given the obvious, well-documented inefficiencies in the education system, one would expect to be able to save at least R5-billion per annum, and still provide quality education to increasing numbers of pupils and students. Allowing for the realisation of only 50% of possible savings.

PEP REPORT. Executive Summary page 18

The panel estimated that R2,5-billion in the present education budget could be redirected to more pressing education sectors. The main impacts of the proposed reconstruction of the education budget are:

- . The country can expand and improve pre-primary and primary education. The increased efficiency of the system would generate a 'saving' of about R1,6 billion.

- , Two trends must be reconciled in respect of secondary schooling. Demand will rise sharply; and increasingly fees will have to be charged. However, the Panel recommends that bursaries and loans for secondary school students should be increased to offset the rise in fees. More affluent students could take advantage of loans, which will probably become available in 1993, starting with a national loan scheme for tertiary students.

- . Teacher education is a high priority. The Panel recommends that all the benefits of greater efficiency be retained in the sector, permitting it to expand and increase the quality of its systems.

- , By international standards South African technikons attract too small a percentage of students and are underfunded. Universities enrol too large a percentage and are already rationalising. This does mean a shift within the tertiary allocation, from universities to technikons. Technikons produce many sorely needed categories of person, including managers, public sector administrators and (technical) teachers.

Proposal

A small Task Team should be created to review all education expenditure and to advise on areas in which greater efficiency and decreased spending could be achieved, without loss of quality and (in some cases) increased capacity. This process should begin immediately a single Ministry of Education is created.

5 The Task Team should be headed by a prominent person, acceptable to the state, business, political groupings and teacher associations.

5 Other members of the Team should include an education economist, educationists and persons from the state, business and labour.

PEP REPORT. Executive Summary page 19

PROPOSAL 13: HUMAN DEVELOPMENT FOUNDATION

South Africa has a dire need for skills training for adults. There is a serious mismatch in South Africa's current education and training system between the type and level of training available, and the qualifications needed to take advantage of it.

The vast majority of South Africans do not complete secondary school, and so are not eligible for further formal training. The current training system makes little attempt to meet people in this vast sector at their level of skill and help them advance through appropriate training programmes.

It is essential that South Africa begins to tap its vast human resources in new ways by making it possible for those who do not have formal school-leaving qualifications to participate in accredited training programmes, which will provide them with the skills they require to survive in the informal sector.

The Panel proposes the establishment of an independent Human Development Foundation (HUDEF) to sponsor, oversee and coordinate the provision of a modular, integrated basic skills training system to meet the needs of the entire population but, more specifically, for those entering the informal economic system.

Potential trustees of HUDEF range from representatives of the political sector through to trade unions, employers, funders and development agencies. Funding would come from a variety of sources - the state, aid agencies, levies on business, donations, local grants and foreign funding.

HUDEF will:

- , develop and maintain a database of all education and training physical facilities proposed below and encourage free access to it by all potential users;

- . contract with training centres or training schemes to provide training and establish accreditation of these centres;

- D establish standards and norms on a national level for accreditation and certification, and issue certificates to successful participants;

PEP REPORT. Executive Summary page 20

. pay trainers on results. Contrary to most existing programmes, payment would be based on output, not input. The emphasis would be on training for flexibility and mobility. All programmes would be modular, and certificates would be transferable from one training programme to another, and between industrial sectors. Centres accredited by HUDEF would offer five types of assistance: formal industrial training; nonformal skills training; business skills; and programmes designed to create a general understanding of the nature of society, the importance of democracy and the possibilities and responsibilities of citizenship.

PROPOSAL 14: CAMPAIGNS TO INCREASE ADULT BASIC EDUCATION AND DEVELOPMENT

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Adult Basic Education and Development (ABED) is defined as comprising literacy in home language and (preferably English) numeracy to primary school leaving level; and a variety of basic life skills which enable an adult to live, work and participate in a community within a democratic state.

Each year about 100 000 people voluntarily enrol in ABED programmes - less than 1% of those requiring ABED. Of these, nearly 75% drop out before completing their courses. Thus, in any given year, 25 000 adults completing courses represent only 0,16% of the target audience of about 15 million people. Clearly, problems of ABED will never be solved at this rate.

Various reasons are advanced for the unacceptably low enrolment, coupled with drop-out rate. Poor teaching, transport problems, and "unrest"; learners attending industry-based programmes complain of disruptions caused by shift work. More subtle obstacles are those of morale and self-esteem. Learners fear appearing stupid in front of others, and are frequently mocked by neighbours or youths for "going back to school".

There is presently a shortage of ABED teachers. However, many presently unemployed persons have the educational background to become teachers. There is a job creation possibility here.

PEP REPORT. Executive Summary page 21

Research indicates that a series of literacy campaigns, over 1042 years, with legitimate government backing, is the best approach to this issue. The Panel agreed that ABED programmes would be most effective if financed (partly) by the state but organized by private bodies: unions, employers, profit and nonprofit agencies.

The ABED Trust Fund (ABEDTF)

The object of ABEDTF is to provide ongoing funding to develop the basic skills of workers through an approved developmental path, and to link this to similar development opportunities for the unemployed. It will also provide strong incentives for all participants in the scheme, including employees and employers. A fund is also required to provide finance for the necessary infrastructure, test and support facilities.

International literature clearly indicates that the quickest economic and social returns on an investment in ABED can be obtained by targeting employed persons of both genders. This group is the easiest to reach, and involves other stakeholders such as employers and unions. By focusing in the first instance on the two million or so illiterate employed persons, a substantial inroad can be made into the total number of illiterates in the country, and a direct contribution to the economy achieved through improved productivity, development of human potential, employment creation and the better utilization of existing resources. As regards targeting of other groups, it would be an element of strategy to be discussed with all stakeholders, including existing organizations. However, research indicates that it will be advantageous to focus on women between the ages of 15 and 30, where ABED often has multiple effects in the form of smaller families and better education for the children. The international literature does not propose other priority targeting in principle; but the Panel's emphasis on the informal economic sector would probably give third priority to those already operating in the informal economy.

The ABEDTF would be established as an independent trust fund, with its own Board of Trustees, and complete control of its own finances, subject to private audit and/or audit by the Auditor General. The Trustees will be drawn from business, unions, government, civic associations and experts in ABED.

PEP REPORT. Executive Summary page 22

An annual payment would be made to the ABEDTF by the Treasury, comprising a direct grant from the education budget and the proceeds of an annual levy on employers. As the total levy can be 're-earned' by the employer, this is not regarded as an additional 'tax', though companies not providing adult education will not be reimbursed.

The ABEDTF could also accept moderate grant and loan finance from abroad, provided this is not at a level to cause an appreciation of the currency or pose repayment problems for future governments. It is not intended that the Fund spend any of its funds on capital assets, as the Panel believes that sufficient capacity in physical facilities already exists. The ABEDTF would be permitted to invest its income to obtain the best return, with guidelines to protect the capital. All 'earnings' would be capitalized and used exclusively for the original objectives of the Trust. The Panel's proposal provides detail for the methods of implementation and costs of the programmes in relation to the numbers of people receiving education and training.

PROPOSAL 15: DATABASE OF PHYSICAL FACILITIES FOR EDUCATION AND TRAINING

The HUDEF and ABED proposals require extensive facilities for new education and training programmes. This proposal seeks to reduce the costs of provisions of new courses by identifying and making available the physical facilities required. In this way, capital expenditure will be avoided for at least the first five years of the initiatives.

No single source has information on South Africa's existing training infrastructure on a national level. However, the country does possess a large number of potentially suitable facilities: regional training centres, Corporate training centres, industry-linked training facilities, in-company training facilities, private training facilities and multi-purpose training centres in the 'self-governing states'. There are also 146 technical colleges and very large numbers of church, school and community halls quite suitable for literacy training.

In many small to medium-sized enterprises having their own training facilities, it is not unusual to find these standing empty for large parts of the year. Even among the most efficient and well-run centres in the

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PEP REPORT. Executive Summary page 23

country, there are none which run at full capacity all the time, with all available training places fully occupied. Full usage of all these facilities is urgently required.

Proposal

The Panel recommends increasing the coordinated use of all existing physical facilities, and a moratorium on the construction of new facilities until full utilization of existing facilities is achieved.

PROPOSAL 16: RESTRUCTURING THE UNEMPLOYMENT INSURANCE FUND

The existing Unemployment Insurance Fund (UIF), which has resources in excess of R1-billion, could be more effectively used without infringing on the rights of remaining employee contributors.

The Fund is governed by statute, and controlled (in theory) by employer and employee representatives. In practice, it is administered by the Department of Manpower. Major union groupings (such as COSATU) are not involved. There are indications that improved fund management could result in higher rates of return on investments.

The Act governing the Fund specifically makes provision for job creation programmes. However, in practice, the Fund has not acted on this provision for at least the last 10 years.

Proposal a

The UIF should be brought under meaningful tripartite control, that is by employers, employees and the Department of Manpower. The Fund should aim to use the interest earned on contributions (currently close to R200-million annually) to assist in longer-term employment creation and in retraining programmes for unemployed contributors, without banning the actuarial soundness of the Fund.

PROPOSAL 17: PROMOTING PERIODIC MARKETS

In Africa, Southern Africa is unique as a region without markets operating on market days. This has denied rural and township residents the economic, information and social opportunities associated with the gathering at regular intervals of large numbers of people. Historically,

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periodic markets have realised the advantages of scale and of diversity that provided the impetus to long distance trade and to manufacture. Their reinstatement in South Africa today would help enable marginalized communities to join the modern economy on favourable terms. Periodic markets have considerable potential in both the communal and rural areas, emanating from small towns, and in the peri-urban and township zones of cities, as a low cost, participatory means to lower transaction costs across goods, services, information and entertainment. Markets are centres of social intercourse, attracting locals, outsiders, even tourists. They add the vital element of time to the conventional planning concerned with space.

Proposal

The Panel proposes the promotion of periodic markets, operating weekly or fortnightly within the social and economic fabric of South Africa as a component of development strategy. They represent a significant possibility for enhancing the viability of 'the informal sector.

However, there is an immediate need to make markets known as offering non-threatening solutions to many of the present inefficiencies of spatial ordering in South Africa. The Panel supports funding of the following:

A handbook for each market type - homeland, rural area/small town, township and metropolitan area - with architectural drawings and illustrative diagrams to explain the concept, provide a basis for community decision making and training, and serve as a first management guide for market committees.

The formation of a broadly-based Market Society to advocate periodic markets, to service member market committees, to realise small business opportunities, to respond to demands from communities seeking to establish markets, and to support the use of markets as sites for entertainment.

PROPOSAL 18: INSTITUTING PUBLIC WORKS PROGRAMMES

in the current economic climate, public works programmes (PWP) could supply one of the most effective means of stimulating the economy. If implemented on an appropriate scale these will have minimal effects on inflation and the balance of payments, but highly positive redistributive and developmental effects.

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PEP REPORT. Executive Summary page 25

An approach to PWPs must be far broader than existing government-funded special employment programmes (SEPs), which have been inadequate in terms of development, community involvement, continuity and scale.

Ideally, PWPs should do as many of the following as possible: create useful public assets, preferably those identified by the community; have a low foreign exchange requirement and a strong multiplier effect in the economy; develop skills, both individual and community based; be sustainable; be labour-intensive, provide income to the poor; support local enterprises where possible; and be easy to start.

PWPs can also be used as part of a short-term welfare programme. In this instance, the job (labour-intensive, unskilled) and associated low wage is used primarily as targeted "workfare" rather than as a developmental programme.

Community involvement in PWPs is critical. A large scale programme would entail a careful strategy of inclusion of various community interests. On the other hand, successful PWPs can enhance community coherence and capacity.

An Independent PWP Trust should be created, which receives regular annual grants from the state. These may be supplemented by funds from other sources. The Trust funds PWPs through existing (and new) state and NGO structures. The Trust should absorb (or at least coordinate) activities currently being undertaken in the PWP sphere by institutions such as the IDT, the DBSA and the Urban Foundation (UP).

The Trust's annual grant (which should initially start at R1-billion) should be provided by the fiscus, and should include that part of the current development funding that is being mismanaged.

PROPOSAL 19: YOUTH DEVELOPMENT PROGRAMME

Over 60% of the entire South African population is under 26 years of age. Youths represent the future of the country. They are, in addition, particularly vulnerable to unemployment. Some 90% of the current unemployed are below 30 years of age.

A youth development programme would be an investment in the most

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important national asset. The primary objective would be to relieve unemployment. The secondary objective would be building or improving useful physical infrastructure and promoting human development.

Proposal

The Panel proposes a voluntary programme open to all youth, both males and females, between the ages of 18 and 25. It would be a two-year, full-time, residential programme available free of charge to anyone satisfying the age criteria, and would be based in training centres located primarily outside the major metropolitan areas.

The programme would be controlled by an independent national youth institution, the governing body of which should comprise representatives of unions, employers, the state and community organizations - as well as of the youths involved in the programme.

The research for the database of educational institutions (Proposal 15) will undoubtedly identify many suitable physical facilities. Through HUDEF (Proposal 13), many existing and appropriate programmes will also be identified. In addition, there is a large existing infrastructure, physical, organizational, human and training, that is currently under the control of the military. It is proposed that much of this, as well as underutilized facilities in the homelands, be transferred to the jurisdiction of the national youth development programme.

Members of the youth programme should also spend part of their time building or improving useful physical infrastructure and promoting human development. This could include cooperating with communities on projects.

The widest possible range of courses should be offered, to make the programme as attractive as possible to unemployed youths, and help improve their chances of finding employment after completing their service.

The main report details proposals on funding and administration of the youth development programme. Funding will be sought from the state, private sector and foreign and international funding agencies.

Assuming an annual intake of 100 000 youths, or one-fifth of the yearly flow into any of the relevant age brackets, the operating costs of the programme would be R600-million for the first year, and R1,2-billion for each year thereafter.

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PEP REPORT. Executive Summary page 27

PROPOSAL 20: CREATING A CHAMPION OF SMALL BUSINESS

Promoting entrepreneurship and the economic empowerment of the disadvantaged involves a myriad of activities aimed at a broad section of the population. A number of the proposals already covered in this report will make a contribution to these goals.

The small (formal and informal) business sector plays a pivotal role in job creation, as the large-scale formal sector absorbs at present less than 10% of all new job seekers.

In South Africa all sections of the community are to a lesser or greater extent involved in small businesses. These vary in size, from individual operations to employers of up to 200 people, and they are engaged in a wide diversity of activities.

Small business requires the support of both the state and the private sector. The climate has to be made more conducive for small business, as this sector thrives best in a politically and economically stable and enabling environment. All restrictions, (legislative or attitudinal) must be removed, and positive measures introduced.

The major needs for small business are capital, know-how/skills and opportunities.

Proposal

It is proposed that a champion of small business be created. This champion should have a special Cabinet post which would allow him/her access to all state departments which impact from time to time, and in one way or another, on the small firm sector. Obvious examples are the Departments of Finance, Health, Manpower, Trade and Industry, Public Enterprises, Education and Agriculture.

Part of the task of the champion of small business, who should operate in a transparent and accountable fashion, would be to facilitate a change in general business attitudes to small business. This is of particular urgency, as there is a widespread perception that big business has colluded with the state in maintaining a status quo, unfavourable to small business.

The champion of small business could encourage big business to offer assistance to small business in, among others, business development in

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PEP REPORT. Executive Summary ' nave 28

the central business districts, townships and rural areas; provision of finance and supplies on a favourable basis; training and advice, including business clinics and advice centres; mentorship and subcontracting.

The Panel proposes immediate development of a recommendation to an interim or transitional government along the lines set out above.

RBQPOSAL 21: DIRECTORY OF BLACK DIRECTORS, MANAGERS AND SUPPLIERS

Proposal 20 recommends a much greater role for SMEEs and other small enterprises. At the same time, it is common knowledge that there is a distinct lack of information about black directors, managers and suppliers. The creation of a comprehensive database would be an important step in the direction of empowering and directing attention to opportunities that already exist. 1

The best way to approach the problem is to establish a database of information which can be sourced by companies and other institutions. This database could be extended into a directory form and managed on income based on subscriptions or advertising. The creation and marketing of the database could itself become a small enterprise.

PROPOSAL 22: REMOVING OPPRESSIVE CONTROLS

One of the features of the apartheid state was the plethora of laws and regulations it generated. Many of those that are still formally in force are of a blatantly oppressive character, and even those which were not directly motivated by racial concerns continue to have highly undesirable consequences.

The Panel has prepared a list of over 90 measures that inhibit the performance of the economy.

The Panel also noted that practices in the private sector also inhibit free economic activity. Amongst these are criteria for lending money, discrimination in recruitment and development of staff, and many others.

The private sector should be encouraged to look closely at all its operations to see whether greater freedom of economic activity can be

PEP REPORT. Executive Summary page 29

encouraged. Much could also be achieved by increasing the scope and scale of the work of the Competition Board.

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Repaid recommends that a two-day workshop be convened, to which representatives of the relevant stakeholders are invited to discuss a comprehensive review and removal of oppressive controls. This will serve to raise awareness of the subject, and the participants can then decide how they wish to pursue the initiative.

The main report also makes a number of specific proposals on removing oppressive controls (listed below), and it urges that they be adopted immediately. These may be regarded as examples of the analysis in the more extensive document that is available on request.

Informal Money-lending/Credit

Restrictive Licensing

Subdivision of Agricultural Land

Agricultural Marketing Laws

Apprenticeship Laws

Health Laws

Hawking/Vending

Zoning

Farm Sales/Stalls.

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