

WCPDF CONFERENCE 16-17 MAY 2019

REDUCING RED TAPE – DOING BUSINESS WITH GOVERNMENT

Master of Ceremonies, members of the WCPDF, ladies and gentlemen,

Let me state from the outset that we share the objective which is encapsulated in your conference theme, and which speaks to the promotion of investment and jobs. This stands in sharp contrast to the undesirable alternative of bureaucracy and stagnation.

We must concede that the statistics are pointing towards prolonged stagnation. Real economic growth at the national level was a mere 0.8% for 2018 compared to 1.4% in 2017. The construction sector shrunk by 1.2% in 2018, and therefore dragged the average growth rate down. This sector also shrunk in 2017, by 0.6%.

The 2016 national average economic growth rate was a miserable 0.4%.

The estimated provincial economic growth rate in the Western Cape was 1.2% in 2017, compared to the national average of 1.4% in that year.

These statistics do not paint a rosy picture. We are also painfully aware that after 45 years of trading on Johannesburg's stock exchange, Group Five Ltd.'s stock was suspended two months ago after the company filed for bankruptcy protection, making it the fifth local builder to enter business rescue in less than a year. From a peak market value of 8.2 billion rand in 2007, it was worth less than 100 million rand when the shares stopped trading.

Murray & Roberts Holdings Ltd. saw the writing on the wall some time ago. Having built significant South African landmarks such as Johannesburg's Carlton Centre, the continent's tallest building, the company sold its building and infrastructure units in 2016 to focus on international businesses focused on projects such as underground mining and oil and gas.

StatSA's latest release of its QLF survey show that 142 000 jobs were lost in the construction industry in the first quarter of 2019 compared to the fourth quarter of 2018. Crime and criminal activities has certainly not done much for efficient and effective construction in, especially, township areas.

The concern among analysts now is that South Africa is depleting its capacity to build its own infrastructure. The implication is that the country will be forced to rely on international companies and their pricing when the cycle turns again.

I will focus on the following four issues in expressing the desire of the Western Cape provincial government to find a way to turn the economy around in collaboration with sectoral and industry partners like yourselves. The four issues are:

- i. Ease of doing business interventions by government,

- ii. Some of the emerging behavioural insights that are relevant to cultural changes that are needed for economic growth;
- iii. The pipeline of provincial government projects that may be particularly relevant to the WCPDF; and
- iv. Suggestions for a way forward ... pending policy direction from the new regime.

With regard to the ease of doing business interventions by government, we are guided by the provincial strategic objective to improve the regulatory environment for this purpose, including interventions to reduce red tape. Our view is that regulations are only justified when their benefit or public value exceeds the cost of compliance. Regulation should therefore contribute towards sustainable and inclusive economic growth, rather than be a trade-off against economic growth. This is a focus area of the 2019 WCPDF conference.

The provincial Economic Development Department has been conducting impact assessments of public sector interventions to reduce red tape and promote the ease of doing business during the past two years. We assessed 28 specific interventions and found that the cost savings and economic benefits that were realized through them were almost R1.1 billion. The largest of these interventions is the Development Application Management System of the City, which has resulted in the building plan approval process being reduced on average by 21 days between 2015 and 2018. This was achieved by converting a manual and serial process to a digital process, where approvals from different sections could be obtained simultaneously.

A provincial methodology was developed for the impact assessment of all red tape reduction interventions. By using this methodology, it is estimated that improvements in the building plan approval process in the City generated approximately R8m per year in personnel cost savings and approximately R70m per year in benefits, mostly related to reduced financing costs for developers.

The World Bank monitors the DAMS process in the City of Cape Town very closely, because it is included in their international doing business index at the subnational level for South Africa. Our Red Tape Reduction Unit is engaged with the team in the City who co-ordinates the local work of the World Bank. We congratulate the City team for the excellent work that they are doing. Every manager in the City has adopted the motto: I mean business.

My Department has assisted Drakenstein Local Municipality to implement a similar digital improvement to their building plan application process, which caters for more than 1,000 applications per year. This intervention was only recently implemented, but has already generated net benefits in excess of R7m per year. The Department is now rolling out this intervention in other municipalities as well.

You may also be interested to hear about an intervention to synchronise EIA applications that is being implemented by our provincial Department of Environmental Affairs and Development Planning. One of the challenges is that there are several different government departments that each need to comment before an EIA decision can be made. Smooth EIA application processing

has historically been problematic. In this intervention the various parties to the operational agreement synchronised the four assessment and decision-making processes. The synchronisation would result in time and cost savings to the authorities, consultants, applicants and interested and affected parties. The need for applications or reapplications could also be reduced through advising applicants in joint pre-application meetings.

The second issue that I would like to address relates to some of the emerging behavioural insights that are relevant to cultural changes in organisations and that are needed for economic growth. We would be the first to admit that inefficient and careless behavior of public servants adds to the cost of doing business. We are aware that regulatory focus could become a default or bias, as behavioural economists call it. Regulatory focus is a heuristic or systematic error that many public servants are particularly prone to and that results in the belief that more regulation is better.

Other typical sources of bias include satisficing and procrastination. Satisficing is the attitude that mediocrity is good enough, especially when challenges become complex. Procrastination refers to the attitude that nothing is urgent because tomorrow is another day. The habits of satisficing and procrastination are related.

We do believe that government has an important role to play in the economy, but this role has to be performed as effectively and efficiently as possible. There should also be benchmarking against best practice and continuous improvements to raise the bar of best practice. Our Department is working closely with the World Bank Doing Business team in the Western Cape on their application of the Doing Business Index. We intend to extend this benchmarking process to consider behavioural conditions that promote or constrain doing business as well.

Behavioural insights have been applied in the Office of the Premier for some time and a significant component of the success in the behavioural change regarding water consumption during the crisis of 2018, can be ascribed to these insights.

Behavioural economics can also be extended to improve the functionality of the provincial labour market. It goes beyond the conventional approach to survey the numbers of employed and unemployed and to provide skills training. Improvement in the underlying issues of trust, motivation, respect, work readiness and career development, could contribute significantly to job creation, productivity and economic growth.

My Department has recently recruited behavioural economists and we have engaged with academia on this topic. We intend to embark on a programme to establish doing business and red tape reduction as a key performance area for all business-facing public servants in the Western Cape. We are committed to regulatory reform that will enable business to establish and grow, rather than to control it.

The property development industry could also apply behavioural insights to good effect. The potential value of sustainable collaboration between customers, regulators, the owners of capital and the owners of labour; makes this imperative.

My third point of focus is the pipeline of provincial government projects that may be particularly relevant to the WCPDF. In the Overview of Provincial and Municipal Infrastructure Investment for 2019, the Western Cape Treasury places the focus on Infrastructure-Led Growth. It states that the Western Cape Government has adopted a more coordinated, integrated and strategic approach to planning and budgeting for infrastructure. The Province plans to spend almost R29 billion on infrastructure inclusive of fixed assets that facilitates the delivery of services and unlocking economic and growth opportunities. A portion of this is allocated to virtual infrastructure in the form of information and communication technologies over the 2019 MTEF. This is an average of R9.5 billion per year. The amounts for the previous two years were R9 billion and R8.9 billion respectively. The bulk of these amounts is for maintenance, with R936 million budgeted for new infrastructure in the current financial year, rising to R1.48 billion in 2022/23. Infrastructure capital transfers are in excess of R2.1 billion each year for the next three years.

The largest specific items for provincial capital expenditure in the current financial year are R4 billion for road transport and public works, R2.1 billion for housing, R1.8 billion for education and R1.2 billion for health.

Municipal capital budgets contain an additional R12 billion each year for the next three years. The largest single allocation from this budget is for water services (almost R5 billion), followed by R1.9 billion for road transport, R1.6 billion for electricity and R1 billion for housing.

The collective capital expenditure by provincial and local government in the Western Cape in the current financial year is R22.2 billion.

Apart from direct capital expenditure by government, Public Private Partnerships (PPPs) are a mechanism for government to procure and implement public infrastructure and/or related services using the resources and expertise of the private sector. A PPP must increase the availability of services to meet demand, improve quality of life, increase efficiency of existing services and assets and introduce competition. The value of PPP projects currently in implementation amount to R84 million. Two of these PPP projects are for waste management and one is for the design and construction of centralised municipal office accommodation in Bitou Local Municipality.

The partnership strategy is being prioritized. One of the projects that may be of interest to this Forum is the packaging of strategic departmental land parcels for social housing¹.

Southern Corridor is one of the national catalytic housing projects that is scheduled for completion in 2022. It is in various stages of planning and construction and comprises almost

¹ 2019 Overview of Provincial and Municipal Investment, p5

52,000 housing units in the N2 Gateway phase. It includes the Airport Precinct and Kosovo Informal Settlement Sites.

The three largest Provincial housing projects include Du Noon with 11,000 housing units, Bo-Kaap and Inner City infills with 10,000 opportunities; and Grabouw with 8,000 units.

Finally, the question arises whether government and entrepreneurial cultures can co-exist. For us the answer is in the affirmative. Government that has strong and capable institutions and public servants with attitudes that promote doing business, are essential partners to create an environment wherein entrepreneurs can thrive. This is exactly the intention of the Western Cape Provincial Government and of the Department of Economic Development and Tourism in particular.

So what are the suggestions regarding the way forward – again, based on the policy direction that will be determined by our new political principals:

1. More info on the “war room” idea – we need this as part of our strategy formulation; I quite like the idea and would want more details;
2. Follow up on Rob McGaffin’s model – as an opportunity to make a systemic change. We’ve been excellent at ad hoc individual interventions, e.g. abnormal load permits, but the need is systemic changes!
3. Widening and deepening our engagement with the private sector stakeholders and role-players; In this way we’re better able to understand the needs of our clients – clients that we expect to generate the jobs that we speak of;
4. A significant effort from the RTR’s unit in terms of red tape reduction advocacy, official capacity building and introducing efficiency interventions such as Lean Management – starting with our own province

In conclusion, I’d like to thank you for your attention and the invitation for us to address your conference.
