Building state capacities and dynamic capabilities to drive social and economic development: The case of South Africa

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Building state capacities and dynamic capabilities to drive social and economic development: The case of South Africa

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Abstract

South Africa has not lacked policies, it has lacked dynamic capabilities inside the public sector to implement those policies. This paper tackles this question head on, beginning with a different notion of the state—not just a market fixer but also a market co-creator and shaper. We focus on three inter-related areas: the dynamic capabilities needed to improve implementation of chosen strategic missions and related programmes, including digital capabilities; innovation in public service, especially with respect to coordinating activities that yield outcomes in a defined locality, but very much driven by a set of missions; and the idea of a developmental state whose aim is to achieve both greater efficiencies and equity outcomes. We conclude with a set of recommendations for South Africa to turn its weak state into a dynamic and capable innovative state.

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Introduction

Crises can act as critical junctures and be a spur for long-term social and economic change. This has been the case with previous crises in history, from the Great Depression to the Global Financial Crisis of 2008. The health pandemics of the past, from the Black Death of the fourteenth century to SARS pandemic of the late twentieth century, imbued governments with a new sense of mission to change how economic and social infrastructure is configured. Crises and pandemics can bring society together around a common purpose, but we know from history that such critical junctures can also divide societies and propel them into chaos. Learning the right lessons and being able to galvanise society for positive change is thus one of the key tasks for governments during the ongoing pandemic.

It takes bold leadership to carry out transformative programmes that could not be achieved during normal times. The task of leadership is also to overcome inefficiencies and corruption. Some of the recent literature on South Africa has cast a spotlight on how embedded the practice of state capture (a form of corruption facilitated by powerful figures within the state) has been in South Africa's state formation (Chipkin and Swilling 2018) and how this has exacerbated institutional decay (Jonas 2019). Jonas, in particular, looks at how these practices have undermined the social contract that was achieved at the advent of democracy in South Africa in 1994.

Examples of institutional decay as well as the decimation of capacities within state-owned enterprises (SOEs) are discussed extensively in the works of Hofstatter (2018), and Mashele and Qobo (2014). The testimonies presented at the ongoing Zondo Commission of Inquiry into State Capture provide the clearest example of how state capacity has been undermined by various forms of corrupt practices that were sanctioned at the top echelons of the state before 2018. It is thus impossible to consider strategies for building state capacity without addressing corruption and infusing the state with a different ethos that is mission-oriented.

The COVID-19 pandemic offers the South African government an opportunity to overcome these weaknesses, replenish the capacities of the state, and implement the social and economic changes that were planned, but never brought to fruition. This requires a clear sense of purpose that defines a compelling narrative for transformative change, and the necessary institutional capacities and capabilities that can deliver such change. South Africa has a rare opportunity in the context of the COVID-19 pandemic and the economic crisis that this has triggered to do everything possible to drive major economic change across the various levels in government, as well as in its SOEs and other delivery agencies. The government has an opportunity to 'build back' based on a new mission centring on greater economic inclusion; overcoming the spatial legacy of apartheid; delivering social and economic infrastructure to both improve the quality of government services and enable new economic activities, including those aimed at generating green growth to thrive; building institutional capacities for the public sector and skills for the economy; promoting small and medium enterprises; and accelerating digital transformation.

Many of these objectives are expressed in government policy documents such as the National Development Plan of the National Planning Commission and the recent Economic Strategy of the National Treasury. This paper aims to identify the implementation bottlenecks, articulate these objectives in the form of coherent policy missions and define the institutional framework that would deliver the desired outcomes. The conceptual lens that we adopt is organised around the hierarchy of public sector administration and the imperative of building dynamic capabilities to improve implementation of chosen strategic missions and related programmes; innovation in public service, especially with respect to coordinating activities that yield outcomes in defined localities, but very much driven by a set of missions; and the idea of a developmental state whose aim is to achieve both greater efficiencies and equity outcomes. These three analytic features are interrelated. Even when the state has defined the best missions to pursue, if it lacks dynamic capabilities it will not achieve such missions. Where developmental outcomes or equity objectives are weakly articulated, the state may find itself pursuing efficiency goals that pander to market interests, assuming the character of good governance without the effectiveness that can only come through social inclusion and equity.

The paper is divided into six sections. The first provides conceptual framing by looking at solutions to state capacity beyond merely fixing administrative weaknesses within the state or fixing market failures. We offer a view of state capacities that is rooted in the idea of outcomes of critical missions. The second section assesses public sector effectiveness in South Africa, looking at how challenges and opportunities bolster state capacities for governance effectiveness. Third, we discuss options for building capacities in SOEs and exploring the transformative potential of these entities. The fourth provides insights into what institutional quality for state capacity should look like in the South African context. This, then, builds to the fifth section, which focuses on building institutional capacities at the local government level. The discussion continues to the last section, which thinks about institutional capacities in the context of the Development District Model that is anchored by the Department of Cooperative Governance and Traditional Affairs (Cogta).

The conceptual lens: long term capacities, dynamic capabilities, innovation and developmental missions

Effective governance requires capacities for resilience and capabilities for agility. Public sector capacity is typically defined as the set of skills, capabilities and resources necessary to perform policy functions, from the provision of public services to policy design and implementation (Wu, Howlett and Ramesh 2018). The capacities associated with the public sector tend to be narrow and focus on stability (i.e. continuity, transparency, predictability of services and interventions), and sources of dynamisms are often seen to be external to the public sector (i.e. private sector practices or individual leaders). The conception of capacities needs to be complemented by the understanding of dynamic state capabilities. While there is a rich literature about firm-level dynamic capabilities (Teece and Pisano 1994), insufficient attention has been paid to where the equivalent level of public sector capacity comes from and its dynamic evolution over time (Mazzucato and Kattel 2020). Instead, over the years the idea that the public sector should at best fix market failures and seek the same level of efficiency in the private sector has taken hold. An approach wedded to static efficiency and 'fixing' does not justify the investment in the internal capabilities to co-create value (Mazzucato 2018b).

This type of thinking has mainly been influenced by public choice theory and the development of new public management (NPM), or new public administration, in US business schools. NPM, which gathered momentum in the 1980s, basically argued that governments should adopt private-sector strategies to maximise value in the public sector. NPM policies were widely implemented in advanced economies in the 1980s and 1990s, in particular in the UK, New Zealand and Australia (Hood 1991). By the mid-1990s, however, concerns were growing about its appropriateness (Drechsler 2005). Yet, as Lapuente and Van de Walle have recently argued, 'Administrations all over the globe have taken measures in the three main themes of NPM: competition between public and private providers, incentives to public employees and the disaggregation of public organisations' (Lapuente and Walle 2020). However, deregulation, shareholder value and new government practices, such as setting up arm's-length agencies and outsourcing, did not always work as well as the theory said they should.

In development theory and practice, the market-failure-based approaches coalesced in the 1990s around the so-called Washington Consensus policies focused on deregulation, opening up of domestic markets, and relying on foreign direct investments and exports to drive economic transition and growth (Williamson 2002). The main assumption of the Washington Consensus was that, as all development problems are of the same nature, the solutions are bound to be the same as well. This removes the question of directionality of growth from domestic policymaking and leaves global markets in charge.

Since then, while there have been attempts at going beyond NPM (Moore 1995) and the Washington Consensus (Rodrik 2006), a proper framework has not been developed that can understand how the state is responsible not only for fixing markets, but also for shaping and co-creating them—and the capacities and capabilities needed to do that (Mazzucato, Kattel and Ryan-Collins 2020).

The key to the idea of capacities and capabilities in the public sector is based on building complementarities or partnerships with other social and economic actors. This entails showing the direction, through various policy options, that would allow the private sector and society to *explore* and *exploit* existing and new economic and technological potential. In other words, partnerships are fundamental for creating spaces for investment and innovation. This approach to problems can apply across different state agencies, including SOEs and public administration at different levels of government. To be sure, in its various policy positions, the governing party, the African National Congress (ANC), has proposed various approaches to building state capacities. In 1992 the ANC released a 'Ready to Govern' document setting out key themes that would inform its policy positions and approach to public administration. As part of this document, the ANC sought to outline a vision of redistribution to meet the basic needs of citizens, the restructuring of the economy on the basis of clearly defined growth and development strategies (ANC 1992). In this document, the ANC also set out policy guidelines on the future developmental state. It asserted that the developmental state would '…have ultimate responsibility—in cooperation with the trade union movement, business and other organs of civil society—for coordinating, planning and guiding the development of the economy towards a sustainable economic growth pattern. Emphasis will be placed on macro-economic balance, including price stability and balance of payments equilibrium.'

Some of these strategies were set out in the 1994 Reconstruction and Development Programme (RDP), which in 1996 would be subsumed under the Growth, Employment and Reconstruction (GEAR) framework, which acted as a home-grown macro-economic stabilisation plan. One of the key programmes of the RDP was to build human and technical capabilities (RDP 1994, pp. 8-9). These earlier efforts underestimated the magnitude of the social legacy of apartheid, especially on the country's human resource development, as well as more specifically limited capabilities within the public administration. The latter was fragmented along the homeland ('Bantustan') system, which was created under apartheid government, and had to be integrated as one public service under the new democratic order in the early 1990s. The traces of this legacy are still present in South African public administration and weaknesses have been worsened by the rising incidents of corruption especially between 2007 and 2018, as evident in Zondo Commission testimonies.

Given limited capabilities, the state alone will not be able to solve all the challenges facing the country, even with the best of intentions. Building partnerships across various social sectors will thus be very important. Such partnerships require relatively long-term mindsets and policies, spanning a typical electoral cycle or two, and often summarised in national development and innovation strategies. However, all too often such strategies remain vague and non-committal, because governments actually lack capacities and capabilities to implement them. We show this—as well as solutions—below when discussing public administration and SOEs in South Africa. We argue that through well-defined ambitious goals, or more specifically 'missions', that are focused on solving important societal challenges, policymakers have the opportunity to determine the *direction* of growth by making strategic investments, coordinating actions across many different sectors, and nurturing new industrial landscapes that the private sector can develop further (Mazzucato 2016).

This 'mission-oriented' approach to policy making is not about top-down planning by an overbearing state; it is about providing a direction for growth, increasing business expectations about future growth areas and catalysing activity—self-discovery by firms—that otherwise would not happen (Mazzucato and Perez 2014). It is not about de-risking and levelling the playing field, nor is it about supporting more competitive sectors over less, since the market does not always know best, but about tilting the playing field in the direction of the desired societal goals, such as the SDGs (Sachs et al. 2019). However, we argue, to achieve this requires a new analytical framework based on the idea of public value and a policy-making framework aimed at shaping markets in addition to fixing various existing failures.

Such long-term market-shaping activity by governments requires agile stability: internal dynamism and learning in policies, services, institutions and organisational formats complemented by the ability to maintain stability to patiently implement policies and deliver services expected from the state (Drechsler and Kattel 2020). Market-shaping capacities and capabilities need to rest on a positive theory of public value that begins with a notion of the public good not as a correction to a failure, but as an objective in itself—an objective that can only come about if linked to a process through which value is created (Mazzucato and Ryan-Collins 2019). Key here is the emphasis on value creation at the core: not 'public' value but value itself—with a clear delineation of the role of the different actors that are central to its formation.

This may be expressed differently depending on the state agency. Delivering value in an SOE may entail taking a lead in supplying critical public infrastructure or services, especially in areas where the private sector would not invest on its own. In some instances it may be expressed through organising and directing state investments to research and development; or by stimulating the ecosystem for small and medium enterprises through ramping up finances (through development finance institutions) in instances where private capital is held back. In the context of local government, the state could direct resources towards creating a system of innovation, and improving how social and economic infrastructure are delivered, at times through collaboration with other stakeholders. Here, what is of significance is setting out a clear mission and identifying the desirable outcomes.

While in economics value is, in essence, created inside businesses and only facilitated by the public sector, in this view value is co-created and requires a stakeholder understanding of capitalism itself across different levels of the state. This more collective view of value underpins a different understanding of the market itself, with the market as an outcome of the interactions of individuals, firms and the state. And if value is created collectively, a first question becomes: what capabilities, resources and capacities are needed for this value to be created inside all the different organisations, including those in the public sector, private sector and civil society?

A key success of past market-shaping policies, such as the mission-oriented policies of the moonshot era, has been setting a clear direction for problems to be solved (e.g. going to the moon and back in one generation), which then require cross-sectoral investments and multiple bottom-up solutions, some of which inevitably fail. Too much top-down can stifle innovation and too much bottom-up can make it dispersive with little impact. Crucially, in the case of South Africa, replication of institutional agencies of the state that are all focusing on the same problem has, in the past, inhibited delivery. In particular, this has been the case in the economic cluster of government departments. Policies tackling grand challenges should thus be broad enough to engage the public, enable concrete missions, attract cross-sectoral investment, and remain focused enough to involve industry and achieve measurable success. By setting the direction for a solution, missions do not specify how to achieve success, but rather stimulate the development of a range of different solutions to achieve the objective. In other words, missions guide entrepreneurial self-discovery.

Importance of public value

Missions need to rest on a positive theory of public value that begins with a notion of the public good not as a correction to a failure, but as an objective in itself—an objective that can only come about if linked to a process through which value is created (Mazzucato and Ryan-Collins 2019). In this sense a new building block is needed to guide and legitimise public policy. The criteria for selecting missions adopted by the European Commission, after widespread stakeholder consultation based on the Missions Report (Mazzucato 2018a), are that they should:

- be bold and address societal value;
- have concrete targets: you know when you get there!

- involve research and innovation: technological readiness over limited time frame;
- be cross-sectoral, cross-actor and cross-disciplinary; and
- involve multiple competing solutions and bottom-up experimentation.

Thus, the emphasis of both long-term capacities and dynamic capabilities is on building collaboration between state and business. In the context of development thinking, the concept of public sector capacity has been previously applied either through the lenses of state legitimacy, single key agency or capabilities to absorb international aid and technological change. Such frameworks lead the public sector to develop capacities for short-term efficiency gains at the expense of both long-term vision-setting and the ability to take on board the uncertainties and risks of innovation. Our view is that these approaches and frameworks are inadequate for solving key socio-economic challenges, as has been laid bare by the COVID-19 crisis.

For South Africa, this particular crisis should help to build capabilities that will make society and the economy resilient for the future. Improving skills in the public service—rather than fixating only on reducing the headcount—and defining in more precise terms the kind of mission-critical outcomes the state seeks to pursue are key success factors. The very important point about building state capabilities is having a clearly laid out mission, or set of missions, and identifying the resources and sets of relationships that are required to bring the mission to fruition. The next section will look at various challenges and opportunities to building state capacities and set out an outline that can help organise policy interventions.

Public sector capacities and capabilities in South Africa: diagnosing the challenges and opportunities

The retrenched market-fixing state marked South Africa's first decade of democracy. There were two fundamental tensions that characterised the emphasis on macro-economic stabilisation and growth. The first is what is sometimes defined as the pro-poor agenda or transformation objectives. The second is related to attracting foreign investment, ensuring economic growth and modernising the economy. These are not naturally contradictory; indeed the latter, specifically high growth, is often required to generate sufficient resources for meaningful state-led redistribution to take place. But the locus of tension is in the perceived emphasis of economic policy priorities or the direction of growth. Macroeconomic stabilisation was made necessary by high levels of debt that were accumulated by the apartheid government, especially since the 1980s as the economy was buckling under sanctions. Fiscal resources for delivering on the basic needs approach of the RDP, which included overcoming poverty and improving the quality of life of the citizens, were constrained. In addition, the new government had to put the macroeconomic house in order and create a better basis for sustained economic growth and equity, while also rebuilding public services.

The best mechanism for the state to overcome the residual tension between growth and equity is by conceiving itself in developmental terms through 'embedded autonomy' (Evans 1995) or as an 'entrepreneurial state' that not only takes cues from the market, but co-create markets (Mazzucato 2013). The state versus markets—or growth and equity—debate has become somewhat sterile, as both institutions can work collaboratively to address 'wicked problems' in society or to realise grand missions that lead to structural change. What we present here is a framework of thinking that emphasises clearly defined mission-critical objectives and whose realisation requires a strong, not weak, state that is able to co-create markets, and work with a variety of stakeholders in realising missions.

Depending on the mission, such stakeholders may include the private sector, social enterprises or non-governmental organisations. Without such capacities it becomes extremely difficult to gain traction towards achieving major developmental outcomes. This explains why it is often said that there are many policies in South Africa, but implementation is weak. Implementation failures are linked to absence of clarity of purpose and capacity deficiencies. Having many goals or policy statements does not in themselves constitute a mission, nor does it offer certainty that there are requisite capacities to carry out those objectives. It is, however, not just implementation weakness that needs to be solved, but how the state conceives critical mission objectives and the means through which these are to be realised, for example, through SOEs, other specialised institutions of the state, the district development model at the local government level, public-private partnerships structured to realise defined set of outcomes or other identified avenues that signified a shared mission.

For South Africa, an array of institutional weaknesses and governance failures at the municipal, provincial and national levels have undermined the ability of the state to deliver on its developmental mandate. These weaknesses centre on the organisation of the state, absence of an ethos of accountability and transparency, skills deficiencies and, in some instances, ill-defined goals. Corruption has also undermined the effectiveness of the state in delivering on its developmental mandate, as shown in various reports, such as the *State of Capture* report by the former public protector, Thuli Mandonsela, in 2016; as well in works by academics who contributed to the study *The Shadow State* (Chipkin and Swilling 2018). As we noted in the previous section, corruption weakens the institutional foundations of the state and redirects resources meant for socio-economic interventions to serve the interests of a small elite.

Wasteful expenditure has also undermined governance at the municipal level. The auditor general's reports have highlighted the fact that the majority of municipalities are non-compliant with legal and regulatory prescripts, precisely due to lack of managerial and technical capabilities, policy misalignment and the encroachment of special party-political interests into state processes. Furthermore, South Africa is battling with governance challenges in most of its SOEs. These entities have suffered from weak articulation of mandates or strategic goals, lack of clarity between their commercial and development roles, poor oversight and deficiencies in corporate governance. In sum, their mission is blurry and the capacities that are often deployed into these entities are not fit for purpose. It is worth undertaking a short review of the performance of SOEs and various attempts at restructuring, before proposing some of the approaches that could be considered in calibrating SOEs to fulfil critical missions to promote development. The paper proceeds to discuss this issue below.

State capabilities and state-owned enterprises

Since the 1990s, SOEs in South Africa have struggled with governance challenges and battled to define their mandates in precise terms. Many attempts at formulating a framework to guide restructuring have not borne fruit. In some instances these SOEs have become a burden on the fiscus through state guarantees by the National Treasury, which were extended in order to cover their borrowing in capital markets. Restructuring the SOEs for sustainability and to calibrate them to deliver mission-critical developmental mandates is vital for a country like South Africa. Much of the attention on restructuring of SOEs has focused on the governance fixes, especially as a result of corruption, as well as on operational improvements.

However, there has, by and large, been very limited attention given to the deep-seated challenges related to the critical missions of these organisations, their alignment to government's strategic objectives and their long-term positioning. As such, governance frameworks within these organisations are not properly grounded on any strategic goals that can be measured against government's mission-critical objectives. The boards and management teams in place, as well as the relationship between the boards and the shareholders, have no guiding compass apart from doing business as usual and adhering to generic governance frameworks. Therefore, evaluating success or failure is based on very limited metrics of either governance principles or value for money (financial sustainability), without much regard for long-term developmental outcomes, since there is no tool defined to evaluate these.

Restructuring efforts so far have been about reorganising the house, while leaving the fundamental structure intact and purpose weakly defined. In some senses this limited focus has been necessitated by an imperative to stop corruption, avoid further financial losses, and set in motion a process of internal clean-up of these SOEs. Like the classical 'wicked problem', SOEs are not facing one single challenge, but a multiplicity of problems that are often difficult to define in precise terms. Even political principals who are well-meaning in driving change in these entities may themselves not be well acquainted with corporate governance norms or may choose to disregard them, believing that political overreach to clean up these entities trumps corporate governance and the independence of boards. If they have no strong sense of mission, beyond merely operational improvements, it is unlikely that they will position these SOEs as instruments for development.

In the past there have been various attempts at restructuring SOEs, such as the 1999 initiative that culminated, in August 2000, in the policy framework *An Accelerated Agenda Towards the Restructuring of State Owned Enterprises*. This set out a pragmatic approach with various options: further nationalisation for strategic reasons; joint ventures between existing SOEs and the private sector; reducing the level of state ownership in order to enhance efficiencies or to empower historically disadvantaged SOEs through such a process (Department of Public Enterprises 2000). A Presidential Review Committee on State-Owned Enterprises published its report in 2013. The main focus of its work was whether SOEs were responsive to the developmental state agenda and it sought to ascertain 'the extent to which the state should be an active, effective and decisive shareholder' (Presidential Review Committee on State Owned Enterprises 2013). Further, it also looked at clarifying the multiple roles of government, such as shareholder, policymaker, regulator and operator, and how these worked in practice. The committee made several recommendations. These included its observations that: there needed be an enabling environment for SOEs; government should delineate the separate roles of government as owner, policymaker, regulator and implementor; there should be a policy for mandatory periodic reviews of SOEs; the executive authority should play a stronger role in setting the strategic direction and framework for SOEs; government should adopt appropriate funding principles and models; government should consolidate SOEs; and SOEs should play a leading role in socio-economic transformation. However, these are a set of fixes that do not go deep. Given weak capacities within government, these and other recommendations that would follow as a result of governance and financial challenges in major SOEs, such as Eskom, SAA and SABC, could not be carried out.

The failings of SOEs in the recent past has led many to question whether the state should hold on to these, with suggestions that these should be privatised. In our view, the question is not whether SOEs should exist or not. What is of utmost importance is how their missions are defined and how they operate as constituent parts of a mixed economic system, where the state has an opportunity to co-create markets and provide the social and economic infrastructure that would otherwise not be supplied by the private sector. Without singling out any of the 700 or so SOEs, it could very well be that some of these do not have compelling missions to fulfil, but this should not be assumed *a priori* without a proper examination of the fitness of these SOEs for purpose, assessment of their capacities and a clear understanding of the nature of governance challenges that each may be confronted with. It is not a given that SOEs are destined to fail. There are factors that may contribute to their failure and these could include the management teams that are appointed, the skill sets of their boards, and the set of relationships between the boards and government as a shareholder. If missions are clearly defined and periodically evaluated, many of these challenges will not exist to the extent that they currently do.

The Norwegian model offers some instructive examples. In Norway, the shareholding structure of government is diffused across 11 government departments, with state equity ranging between 30% and 100% (Norwegian Ministry of Trade, Industry and Fisheries 2019). Apart from the government pension fund of Norway and the well-known Statoil in the gas and oil sector, Norway commands 70 other SOEs spanning aerospace, health, local government banking, arts and culture, genetic seed breeding, construction and civil engineering services, coal mining, property development, fibre optics and mobile telephony, among others. At face value, the state should not be participating in some of these activities. However, it is not the nature of the activity but the mission that is pursued which determines the extent of participation of the state in economic sectors or activities.

Many of these SOEs are 100%-owned by the state, and this is over and above the shareholding interest that the state has in various private sector companies, a position that seeks to fulfil a defined set of missions. The activity of the state generates public value that sustains the high quality of life that Norwegians enjoy. In some instances this is about diversifying the economy into new frontiers of technology and building a knowledge-based society. Debates on the role of SOEs and the precise terms of their pursuit of commercial vis-à-vis developmental roles are ongoing in Norway and elsewhere. China also offers plenty of examples of SOE regulation with varying levels of complexity, from local to national oversight bodies. It is the mission that determines how the state participates in the economy.

In both China and Norway, the main critical success factors, at least for those SOEs that are performing well, are capabilities, clearly defined missions and better coordination. In the case of South Africa, there are various fixes that are required as part of the thinking about defining mission-critical objectives and imbuing these agencies with the requisite capabilities. First, there is a need for a clear ownership policy needs to be place that defines the overall rationale for state ownership, the state role in corporate governance of SOEs and how government will implement its ownership policy. Second, there should be constant monitoring and evaluation of these entities, with a focus on the manner of their operations, how they deploy capital and their development effectiveness. Third, SOEs should justify themselves on the basis of value-creation for the public, and with clear development impact. This is not to be read to mean that financial sustainability is not important, but this is subordinated to the legitimate social purpose or mission that the state seeks to achieve. There are areas where some SOEs could work in tandem with the private sector in co-creating markets. Fourth, at the minimum, these entities should abide by existing corporate governance norms, including the Companies Act, Public Finance Management Act and King IV Codes of Good Governance. For this to be possible, boards should be selected on a merit-based system and made up of individuals known for their tested expertise and grasp of ethics.

Finally, as the OECD Guidelines on Corporate Governance of SOEs suggest, these entities should have a disclosure policy that identifies which information should be publicly disclosed and clear processes on obtaining such information. It is important that various government departments that are responsible for SOEs improve their coordination. This is especially critical for the Department of Public Enterprises and various policy departments; the Department of Planning, Monitoring and Evaluation; the National Treasury since it is the custodian of state guarantees; and the Presidency for coordination purposes. For this to be possible, there is a need to improve institutional quality and coordination, which is the subject of the next section.

Importance of institutional quality and state capabilities

Apart from SOEs there are numerous other deficiencies that exist within the bureaucratic structure of governance and inhibit implementation of government policies. Their weaknesses have varied sources. Some are historical and some have emerged as a result of bad practices, especially the defective party-state relationship; misalignment of objectives; inter-agency contestations; and the lack of a clear human capital strategy for the public sector. As we have noted before, corruption has been the Achilles heel of state institutions. This paper does not set out to offer solutions to all these challenges. Rather, it articulates a broad framework built around long-term capacities, dynamic capabilities, innovation and developmental focus on specific missions instead of generic trickle-down growth. This organising framework allows decision makers to focus on the missions to be achieved.

In the first phase of democracy, a period spanning 1994 to 2007, there was a strong focus on building a democratic developmental state with strong constitutional commitments. The 'Ready to

Govern' policy envisaged the state intervening in the economy in a 'flexible way' that would '…strengthen the ability of the economy to respond to the massive inequalities in the country, relieve the material hardship of the people, and to stimulate economic growth and competitiveness' (ANC 1992). In the early stages of ANC rule its approach continued to favour a strong state model capable of acting in the collective interest, while ensuring balance between democratisation and considerations of equity and justice (ANC 1998). Constitutional values such as human dignity, the achievement of equality, the advancement of human rights and freedom, non-racialism and non-sexism, and constitutional supremacy were articulated in various policy positions of the governing party and institutions of the state, and these mediated state-society relations. Various policies were developed, including those aimed at fixing the economic underperformance that was the legacy of the apartheid state, as well as the creation of a new set of institutional arrangements.

Reforming the public service was one of the most important of these reforms. In the past there had been various attempts aimed at improving the functioning of the public service from a human capital development point of view. In 1999, the then minister of public service and administration, Geraldine Fraser-Moleketi, launched the South African Management Development Institute (SAMDI) with the purpose of improving efficiencies in the public service. Institutional weaknesses did not abate; instead they increased. The service ethos of *Batho Pele* ('People first') did not become deeply ingrained in the culture of public service.

In 2004, President Thabo Mbeki launched another initiative in the form of the Public Administration Leadership and Management Academy (PALAMA), a predecessor to the current National School of Government. At the unveiling of PALAMA, Mbeki asserted that this new initiative would take government to a 'qualitatively higher trajectory', and would be marked by 'decisive transition in public management development'. However, building a capable state still proved an elusive goal.

As noted earlier, in 1994 the Reconstruction and Development Programme (RDP) envisioned a public service marked by well-developed human capital; geared towards building the economy, and democratising state and society; and meeting the basic needs of the majority of South Africans (ANC 1994). These sets of missions were not fully achieved owing to low investment into long-term capacities and a weak focus on dynamic learning capabilities within the state. The persistence of apartheid spatial arrangements and high-levels of inequality more than 25 years after democracy bears testimony to the lack of capacities to shape and implement equity objectives. To a considerable degree, these failures have originated in politically oriented deployments in state departments and agencies or what has been referred to as a 'cadre deployment practice' in the governing party. In other cases they have had to do with the fragmented structure of government and the uneven capacities across the different levels – national, provincial and local. Coordination problems, politically inspired deployment and skills deficiencies for implementation of priority developmental programmes are all obstacles that decision-makers still need to overcome.

In 2010, the presidential Policy Unit was dissolved, which meant a loss of skills in a critical policy nerve centre of government. The Department of Planning, Monitoring and Evaluation that replaced it could not rise to the occasion, owing to both weak capabilities and a lack of authority to coordinate effectively across government. The current delivery unit, *Vulindlela* (Open the Path), is led from the National Treasury and will face similar challenges if its mission is not clearly defined; it is not well-resourced; and it is not given the latitude to coordinate and monitor implementation effectively, and introduce innovations in how government carries out its mission. This may likely be the case if its remit does not extend to the coalface of service delivery at local government level or if it fails to scale up its activities through replication with joined up coordination. We discuss this at greater length when looking at local government level.

There are significant capacity weaknesses at local government level, as the various auditor general reports have indicated (we will discuss this in more detail in the next section). Every year, the auditor general paints a picture of systematic irregularity, wastage and corruption in local government, with skills deficiency a mark of how deeply the party interferes in this most important sphere of governance. Party-directed cadre deployment is one channel through which the party-state relationship is blurred, and this erodes the capabilities of the state and distorts its mission. The institutional erosion of the state through cadre deployment was confirmed through evidence that over half of municipal managers are not qualified for their positions. Party-directed cadre deployment is contrary to norms of good and effective governance. This defective party-state relationship cripples the effectiveness of state bureaucracy and has the potential to crowd out top skills in government. The bureaucratic core of the state—what Nicos Poulantzas refers to as the institutional kernel of the state—constitutes the system and organisation of the bureaucracy, and its long-term capacities (Poulantzas 1980).

Such long-term capacities include well-trained experts who are key to mechanisms for intelligent policy choices, implementation of routine (operational) functions, the organisational structures or delivery mechanisms that are used for resource allocation, and protocols governing how different agencies of government interact with one another to deliver social objectives (see also Painter and Pierre 2005). These capacities form the foundations of strong institutions and their dynamic capabilities. Our main contention is that the purpose and ethos of the public sector should be conceived from a new perspective—that of government developing sound institutional long-term capacities that will enable it to, among other actions, actively shape markets rather than simply fixing failures. It should also reconfigure social structures and systems to pursue outcomes that promote greater inclusion and equity. This brings us to the mediation of competing interests, the interplay between the bureaucracy and key political actors, including business, labour and the ruling party outside the state. When this interplay is poorly managed or perverted to further narrow interests, for example when cadre deployment neuters appropriate political oversight, or when the state is captured by special interests for corrupt purposes, the effectiveness of public institutions and the delivery of quality public services suffer.

Strong institutions that are capacitated by well-trained bureaucrats who are committed to the ethos of public service and are endowed with mission-critical expertise are key success factors in enabling the state to achieve developmental outcomes. Without a sound normative base and strong capabilities it is difficult to create economic prosperity. In such an environment strategic planning and good intentions become casualties of institutional underperformance or the pursuit of narrow sectoral interests. Tackling grand challenges requires the strengthening of the institutional capacities and capabilities of the state across different spheres of government, especially at the coalface of public service delivery at the local level. It also requires revitalising private and public investment, as well as promoting innovation in a collaborative manner, including through partnerships between government, research institutions and industry.

In the South African context there are public policy innovations underway in the form of social compacting to develop sectoral master plans through government-business collaboration; the district development model to overcome implementation weaknesses in local government; and a roadmap aimed at improving the performance of SOEs to enable them to operate more effectively and with a clear developmental purpose. Examples such as the poultry and sugar master plans offer some lessons on structuring state-market relations to bolster the capacity of the state to deliver social and economic outcomes. These policy processes need to be underpinned with strong conditionalities for business in order to steer the economy and promote productive forces towards a more inclusive, sustainable and innovative economy (Mazzucato and Andreoni 2020). Our approach is not about more state or less state, but a different type of state: one that is characterised by innovative institutions, embodies public value and is able to act as an investor of first resort, catalysing new types of growth and in so doing crowd in private-sector investment and innovation. These are, in essence, functions about expectations and about future growth areas.

Weak institutional capabilities at the local government level

The 1998 White Paper on Local Government outlines the developmental thrust of local government. It also emphasises the need for municipal institutions to be capacitated at an appropriate level, including through the adoption of monitoring and evaluation (M&E) mechanisms to measure the impact of policies. In addition, it is important to build a system of innovation at the local level rather than have this only located and limited to national centres with limited diffusion to local government. This is important given that local government is at the coalface of socio-economic challenges and civil servants at this level are the main drivers of service delivery to communities. A historic assessment of local government indicates a persistent culture of incapacity and failure. In its 2014 *Diagnostic Back to Basics* report, Cogta indicated that only 7% of municipalities were considered to be doing well on implementation; 30% were considered reasonably functional; 32% almost dysfunctional; and 31% completely dysfunctional (Cogta 2014). This was as a result of widespread institutional incapacity and skills deficiencies in local government, among other areas. It had, in certain instances, led to a complete breakdown of basic service provision, and there is no sign that these problems have been fixed since then. Notwithstanding these findings, not much has been done to arrest the decline in skills at local government level or to undertake a process to build dynamic capabilities. This partly reflects a vicious cycle of high levels of socio-economic marginalisation in some areas, especially townships and rural areas, the lack of a system of innovation and an agglomeration of skills in urban nodes that are relatively developed. Building capabilities in the sphere of local government, therefore, remains a serious challenge, as exhibited by numerous audits by the auditor general's office. For instance, the auditor general's findings over the last decade have consistently shown a regression in terms of financial management. The local government audit outcomes for the 2014–15 financial year indicated encouraging signs, with a cumulative improvement in the period 2010–

11 to 2014–15. There was a significant reduction in adverse and disclaimed opinions from over 30% of municipalities to about 11%. However, this trend was reversed in the 2015–16 financial year. Regression has continued with the latest audit outcomes for the period 2018–19 indicating that 76 municipalities have fallen backwards and only 31 have registered some improvements. This clearly needs major interventions, including redefining missions and thinking through the kind of institutional innovations that are required to bolster municipalities and districts. While the emphasis in the audit outcomes has been a failure of leadership and lack of effective governance, in the 2018–19 report the auditor general cited instances where finance units and internal audit divisions of both district and local municipalities lacked the necessary skills, competencies and capacity. There is a general practice in municipalities where they rely heavily on consultants to compile their strategic plans and financial statements, with no skills transfer happening. This will not yield outcomes that generate dynamic capabilities over time.

In addition to the auditor general's reports, the results from the Department of Planning, Monitoring and Evaluation's (DPME) *State of Management Practices in Municipalities* for the financial year 2016–17 indicated the continued non-compliance of municipalities to regulatory frameworks and service standards (DPME 2018). This report was based on a survey undertaken during that period where 41 municipalities were assessed. Of the 41 municipalities, 16 (39%) were found to be non-compliant with best practice requirements in terms of integrated development planning and implementation; 30 (73%) were found to be non-compliant on service standards and compliance management; and seven (14%) were non-compliant and 14 (34%) were partially compliant on service delivery (meaning over 50% of the municipalities assessed were not fully compliant with legal, regulatory and prescribed best practice requirements in service delivery standards). The survey also indicated that 17 municipalities (41%) fully applied the prescribed recruitment practices and were innovative, and 20 (48.7%) were also fully compliant but were not innovative in applying those practices. The finding on the application of prescribed recruitment practices suggests that the wrong kind of professionals are employed in many municipalities and they probably lack the requisite skills to execute their functions. Targeted interventions are required at the municipal level to deliver social and economic infrastructure, and generate quality of life outcomes for local communities. At the broader level, remedies lie with properly defined missions, embedding innovation principles and practices, allocating the right set of skills and technical capacities, and improving systems of accountability, especially between the national sphere and local government. Key among these is mission clarity and proper signaling through use of incentives or penalties by the national government.

In addition, there is also a need for better alignment between strategic goals or policy directives and the kinds of skills that are deployed; better systems of building capacities among municipalities; and coordination of certain missions through collaborative relationships between government, business, social enterprises and community-based organisations to improve service delivery at the local government level. Furthermore, strong monitoring and evaluation (M&E) tools that are well-designed to support agreed-upon missions could go a long way towards identifying implementation gaps early on. These should not only provide a framework for immediate policy fixes, but should also be linked to long-term missions and should help decision-makers anticipate the direction of change. All of this will require a new set of knowledge resources that could help the state to 'envision and enact bold policies' (Mazzucato 2013). The process that was initiated by

Cogta in the wake of the president's announcement on the district development model will need to focus on building capabilities and realising more innovative approaches to governing in a decentralised fashion, with strong coordination at the top rather than merely fixing problems. We consider options for this in the next section, which looks at the district development model.

Can the state use the district development model to drive critical missions and partnerships with the private sector?

The President's Coordinating Council (PCC) endorsed the district coordination delivery model for development under the name *Khawuleza,* which, loosely translated, means walk or act faster (Presidency 2019). The district development model was announced during the Presidency's 2019 budget vote and was aimed at overcoming historic underperformance, eliminating silos in the way government operates and improving coherence in government. One of the objectives of this new approach is to foster partnerships between national, provincial and local spheres of government and communities, as well as business and labour, to synchronise and implement economic plans in South Africa's 44 municipal districts and eight metros. This model seeks to improve the effectiveness of development programmes by emphasising coordination, and complementarities between rural and urban development, and ensuring alignment of budgets. By bringing the three spheres of government—local, provincial and national—together ('joined up government') to work more collaboratively in coordinating resources and addressing public service delivery weaknesses this new approach could potentially improve government performance. The model reframes the geographic spaces by identifying them as localities, which transcend both the existing municipal and district municipal structures, as a means of aggregating capabilities and creating impact. Government envisages that the district development model will provide regulatory and policy certainty to local stakeholders, positioning districts as viable and attractive places to live, work and invest. Under this approach, all planning and budgeting across the state will be based on a shared understanding of the kind of deficiencies that are experienced at the district level. A pilot of the district development model was launched in two districts (OR Tambo and Waterberg) and one metropolitan (Ethekwini) municipality. Accordingly, from 2020-21 national budgets will be spatially based on this new thinking. The district development model envisages these 44 districts as 'developmental zones' built around strategic alignment across all three spheres of government (national, provincial and local) to guide strategic investments and projects at identified localities. There are, however, limitations with the district development model. This approach was created primarily to solve coordination challenges within government structures. The main inhibitors to performance are fundamentally systemic and encompass those problems we have previously alluded to, namely: a weak sense of mission; the conflation of party and state authority in the deployment of critical skills and to drive change; a dearth of managerial and other technical expertise; a lack of a framework to promote innovation at local government level; and an absence of integrated thinking that views the state as a coordinating mechanism that works collaboratively with an array of actors outside the state, including the private sector, social enterprises and community-based organisations. This is not to suggest that an alternative framework to the existing district development model should be invented; rather, that the scope of its focus needs to be broadened in order to tackle the more deep-rooted problems, instead of making small fixes around coordination.

The capacity of the state will need to be bolstered in order to engage more effectively with the private sector and the range of other non-state actors so that mission-critical outcomes can be based on legitimate social purpose and broader acceptance by various stakeholders. It is not just bureaucratic capabilities that are missing, but leadership at the top, and that includes at the level of directors-general, heads of departments in provinces, municipal managers and political leadership across different spheres of government. The announcement by the South African cabinet on 26 August 2020 of an initiative, jointly driven by the National School of Government, the University of the Witwatersrand and O.R. Tambo School of Leadership, to roll out training programmes for the political layer, could be a starting point, but is certainly not enough to address the deep-seated leadership challenges in government.

The current district development model does not go beyond aggregating various institutions that suffer individually from the same weaknesses that the state seeks to address through coordination. It also does not aim to do the things that were not done before or even envisioned (Mazzucato 2013). There is a lack of ‘big thinking’ or the ‘moonshot’ perspective. While coordination is important, solutions have to be multidimensional and cross-sectoral (Mazzucato 2017). This is especially so given the complexity of governance and socio-economic challenges in many of the poor municipalities in South Africa, particularly those that are on the margins of the urban areas. Coordination, as proposed in the district development model approach, does not address many of the systemic challenges we have highlighted.

However, the district development model remains an important approach for initiating thinking through large-scale change that, for example, could entail redefining the spatial arrangement; taking a ‘moonshot’ on economic infrastructure expansion, including digital infrastructure in underserviced townships and rural areas, as well as closing the rural-urban divide; building a thriving and multi-sectoral rural economy that is not conceived as a ‘ghetto economy’ but integrated into the mainstream economy through value chain integration of small enterprises; rethinking systems of innovation at the district level; and crowding in technical capacities that are required to improve public administration, especially in relatively poorer municipalities.

In sum, there is a need to have a clear vision on utilising the district development model as an instrument that is more than just fixing coordination problems or solving immediate financial challenges; that is a powerful base to achieve moonshots in areas where the state has failed in the past. This will require communicating a shared vision, agreeing spatial and development priorities in identified impact areas, bolstering the effectiveness of municipalities as delivery agents, sound long-term planning, an accountability framework, and responsibilities including tracking and reporting on implementation and actions. Apart from the imperative of alignment and joint planning, there is a need to define clear mission-critical objectives that do not simply reconfigure the locality of engagement, but aim to shift the composition of intended outcomes, for example to promote economic inclusion.

Private sector expertise could be leveraged to provide technical support to local government whilst also transferring skills. Engaging with the private sector and other key agents in society should go beyond just fixing weaknesses in the state to fixing structural challenges in local communities, for example working together to overcome under-investment in digital infrastructure or green energy, as well as other crucial infrastructure pillars, in rural and township communities. This would need a sound governance framework which should set out a structure of reciprocity that is mutually beneficial. Given the pervasiveness of 'wicked problems' in many municipalities, this is an area where grand cross-sectoral coordination for mission delivery, rather than just alignment within government, is required to create significant momentum for structural change.

Digital transformation as mission-critical outcome

South Africa still faces challenges in transitioning to the kind of digital economy that facilitates inclusiveness. There remain major policy, regulatory and human capital bottlenecks that hinder the meaningful participation of a large number of citizens in the digital economy. There are many deficiencies that need to be overcome in the ICT and digital policy environment. These have been set out in greater detail in the *Draft Digital Futures* report by the National Planning Commission (2020). The diagnosis of the National Planning Commission confirms our observation of the developmental cost of weak state capabilities and the need to build dynamic capabilities in state institutions. The deficiencies highlighted in the report include: policy and regulatory weaknesses; overlapping agencies; delays in the implementation of key policy decisions, especially to further the role of ICT in socio-economic development; delays in undertaking digital migration; weak appointments to key institutions; and market failures in the form of high data cost.

The data cost area of market failure flagged by the competition authorities throttles access to ICT and digital tools for citizens in low-income brackets. In 2019 the South African Competition Commission found that South Africa's mobile network operators charged consumers excessive data prices. The enquiry undertaken by the competition authorities into data costs revealed evidence of monopolistic behaviour. The report found that South Africans paid higher prices compared to other countries, including other African countries. Lower income consumers, in particular, were found to be 'exploited to a far greater degree relative to wealthier consumers for mobile data prices' (Competition Commission 2019). Slow progress on the part of government in releasing high-demand spectrum due to delays in digital migration (from analogue to digital) have left mobile operators with both insufficient spectrum and a lack of access to favourable low frequency bands, and this potentially has a cost-raising effect for consumers.

It also hinders the availability of low frequency spectrum for rural areas that are underserved and where new sources of innovation could be uncovered, especially to promote smart agriculture and enable data-driven solutions in delivering social services such as education and healthcare. As the *Digital Futures* report points out, the key enabling infrastructure in the form of digital infrastructure and service (base stations, data warehouses and cloud providers) depends on high-quality, stable power supplies and transportation systems. This is extremely important for those areas that are blighted by the digital divide, especially rural communities and township economies. Without clearly defined missions, an integrated planning approach, embedding a system of innovation and building requisite skills and technical capabilities in government, the digital infrastructure will remain weak, with poor communities excluded from the digital economy. With sufficient public investment in expanding the digital infrastructure and related skills, various more opportunities could be created in these areas. This could be an important mission-critical outcome for the district development model that we discussed earlier.

South Africa lacks sufficient skills for the digital economy. In 2017, South Africa had internet usage of 54%, with smartphone penetration rates at over 80%, but the usage rate is below the profile of an aspirational middle-income country—and economic giant in Sub-Saharan Africa—like South Africa. Of greater importance is the value that the digital economy could generate for the country's socio-economic development. Government will need to direct its efforts towards narrowing the socio-economic divide, which starkly reflects the digital divide, especially between well-off suburbia and poor townships, and urban centres and rural areas. Co-investing in building digital infrastructure in underserved areas and releasing the much-awaited spectrum are as important for development as they are for commercial utility. In addition, greater consolidation of SOEs in the ICT area, by defining their missions, and focusing on the viability of open access wireless networks and the enhancement of public sector connectivity, is one of the action points underlined in the *Digital Futures* report. Indeed, this may need to be accelerated.

There are other innovative solutions that can be explored to accelerate a shift to the digital economy, in particular for rural communities that are underserved and investment-starved. Smith (2019, p.159) observes: 'If it's possible to shift from fibre-optic cables to wireless technology for broadband, we can even spread broadband coverage further and faster and at a lower cost… around the world.' Spreading wireless technology to extend internet coverage is possible through utilisation of the low frequency band that is made abundantly available through digital migration. Elsewhere, TV white spaces, which are vacant channels in the TV band, can be rechanneled through database technology, antennae and end-point devices to single fibre-optic cable to diffuse wireless signals to underserved areas, including farms in rural communities. These TV white spaces have been put to great use to improve education outcomes and create new job opportunities in rural parts of Kenya which lacked electricity. This approach has a cost-reduction effect compared to using fibre-optics that require significant capital outlay upfront.

These are small-bet innovations that could in future stimulate more waves of innovation in township economies and rural parts of the country. Failure to make the necessary investment in digital infrastructure in underserved areas could reproduce the socio-economic divides and spatial arrangements that mirror the apartheid social system. Achieving all of this requires clearly defined missions, building dynamic capabilities within the state and working with an array of stakeholders to realise the defined missions.

Conclusions and recommendations

One of the biggest lessons of the COVID-19 pandemic is that public sector capacity to manage a crisis of this proportion is dependent on the cumulative investments that a state has made on its ability to govern, do and manage. While the crisis is serious for all, it is especially a challenge for countries that have ignored those needed investments in public sector capacities. The latter is typically defined as the set of skills, capabilities and resources necessary to perform policy functions, from the provision of public services to policy design and implementation. During the past half-century many countries have seen their public sector capacities hollowed out by swathes of reforms driven by market failure and market-fixing logic. This has been accompanied by a narrowing down of the policy space by international policy rules based on the so-called Washington Consensus and by globalisation of production value chains.

In the pre-COVID-19 world, governments were increasingly turning their attention to how to tackle 'grand challenges' or 'wicked issues' such as climate change, demographic challenges, and the promotion of health and wellbeing. Behind such a 'normative turn' in economic policies lie the difficulties of generating sustainable and inclusive growth, and recognising that limited market-fixing capacity frameworks and narrow policy spaces are diminishing the social, environmental and economic resilience of societies.

Policy-makers increasingly dedicate their attentions to not only the rate of economic growth, but also its direction. For South Africa, an array of institutional weaknesses and governance failures at the municipal and national level have undermined the ability of the state to deliver on its developmental mandate. The majority of municipalities are deemed non-compliant with legal and regulatory prescripts precisely due to a lack of managerial and technical capabilities, policy misalignment and the encroachment of special party-political interests in state processes. Furthermore, South Africa contends with governance challenges in most of its state-owned entities (SOEs). These entities have suffered from confusion over their precise mandates, lack of clarity between their commercial and development role, and weak oversight and corporate governance.

Tackling grand challenges requires strengthening the institutional capabilities of the state across different spheres of government, especially at the coalface of public service delivery at the local level. There are already important initiatives in place, such as *Khawuleza,* that need boosting with capacities and the authority to drive implementation—something that has suffered since the closure of the Presidency's Policy Unit in 2010. Currently, this operation is located within the National Treasury and it may have difficulties in extending its authority across government. Further, there is a need to rethink the relationship between this and the Department of Planning, Monitoring and Evaluation (DPME) on the one hand, and the structures within the rest of government that have the function of monitoring, evaluating and implementing policy on the other hand. It is important that the agencies tasked with implementation are given sufficient political authority and administrative authority. These will also need to coordinate the various policy advisory work conducted by various councils and channel recommendations towards implementation, with monitoring and evaluation tools in place.

Further, there are public policy innovations underway in the form of social compacting to develop sectoral master plans through government-business collaboration, use the district development model to overcome implementation weaknesses in local government, and implement policy to improve the performance of SOEs, enabling them to operate more effectively and with a clear developmental purpose. Conditionalities should underpin these processes, especially to shape the behaviour of business to steer actions towards promoting greater investment, innovation and equity.

In this paper we have taken a closer look at the institutional fixes, among others, and made a point that there is a need to broaden the horizon of public policy innovation to deliver effective developmental outcomes. Our approach is not about more state or less state, but a different type of state: one that is characterised by innovative institutions, embodies public value and is able to act as an investor of first resort, catalysing new types of growth and by doing so crowding in private-sector investment and innovation. These are in essence functions about expectations and future growth areas. The emphasis is on building collaboration between state and business, as well as on picking the willing rather than merely picking winners.

The public sector bears responsibility for the long-term resilience and stability of societies, and for shaping public outcomes through policy-making and public institutions. In order to tackle the grand challenges, governments need capacities for both a long-term strategic agenda and short-term agile responses. Moreover, we propose that the state needs to:

- be bold and address societal value;
- have concrete targets: you know when you get there!
- involve research and innovation: technological readiness over a limited time frame;
- be cross-sectoral, cross-actor and cross-disciplinary;
- involve multiple competing solutions and bottom-up experimentation.

The pandemic and its aftermath offer an opportunity to rethink the foundation of public sector capacity and align them with the needs of the twenty-first century, and especially to address long-standing developmental challenges in South Africa.

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