



VOICES FROM A NEW DEMOCRACY

South Africans reflect on ten years in a democratic country,
and the challenges of the next decade



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South Africans reflect on ten years in a democratic country, and the challenges of the next decade



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Introduction

Ann Bernstein, executive director, CDE



LIKE most South Africans, CDE wanted to celebrate the many achievements of the first decade of democracy. Since we are an independent public policy think-tank, we decided to participate in the celebrations in the most appropriate way for an organisation such as ours. We wanted to talk frankly with diverse groups of people about what had been achieved during the first ten years of democratic government; about the challenges that will face us during the next ten years; and how best we should approach those challenges.

The support of the European Union's Conference, Workshop, and Cultural Initiative (CWCI) Fund enabled CDE to hold four workshops on these questions, and to produce this publication. The workshops were:

- a discussion with policy experts and academics on Friday 21 May;
- an informal 'town meeting' at the Ipelegeng Community Centre in Soweto on Saturday 22 May;
- a workshop with senior government officials from a range of departments on Monday 24 May; and
- a discussion with prominent business leaders, both established and emerging, on Tuesday 25 May.

The main part of this publication consists of edited transcripts of these four discussions, aimed at reflecting as clearly as possible the points of view expressed at those meetings.

This, then, is not a CDE policy document about the next ten years; such a publication will be released in a few months' time. It is primarily an account of what we heard on four days in May 2004, as four very different groups of South

Africans deliberated on the first decade of democratic rule, acknowledged what had been accomplished, and thought aloud about the challenges we need to address if we are to achieve 'a better life for all' by 2014. A summary of key points made during the discussions appear on pages 8 to 11.

However, the discussions produced a wealth of information and insights that have greatly stimulated our thinking. Below, we highlight those which we regard as most important, and pose some searching questions around them.

CHALLENGES FOR THE NEXT DECADE

There is a great deal to celebrate as South Africans look back at the first decade after apartheid. Overall, there is an enormous and very positive difference between the current government and the apartheid state. Achievements range from the introduction of stringent fiscal and budgetary discipline to the transfer of assets to black South Africans through government's housing and land programmes.

The hard reality, however, is that while South Africa has been dealing with the legacy of its discriminatory past, the rest of the world has moved on. The real test for the country is how we are doing compared to other middle-income developing countries. And here the sobering answer is that we are struggling to compete in a range of important arenas.

From the quality of our schooling to the competitiveness of our cities, the number of businesses we start and grow, and, above all, our attractiveness as a destination for investment, South Africa is being outstripped by its international competitors.

Major issues of concern include the following:

1. How should South Africa achieve a higher rate of economic growth?

Everyone agrees that higher growth is essential if we are to deal with poverty, unemployment, and inequality. Yet the most important questions about economic growth do not feature prominently in the national debate. Why is the country's investment rate consistently lower than we need, and policy-makers have anticipated? Can South Africa actually attain a higher rate of economic growth? If so, what is holding us back? What is our strategy for moving on to a higher growth path?

2. How should we combat growing unemployment?

Unemployment has risen significantly over the past ten years. According to the government, the economically active population grew by 35 per cent over this period, three times faster than the rate of job creation. South Africa's unemployed include some 30 to 40 per cent of the workforce. Why is this issue not the burning question of national politics? An Expanded Public Works Programme – even if it can be implemented at significant scale – is a stop-gap measure. What is missing is how we intend to change the dynamics of the South African labour market, job opportunities, and the climate for entrepreneurship so as to build a truly inclusive economy.

3. Have we chosen the right path to higher growth?

Since the early 1990s, South Africa has followed a high-wage, high-skill approach to employment and economic growth. The new labour law regime – the centrepiece of this approach – has certainly increased the stability of the formal economy, although this has come at a price for the wider society. The architects of the labour relations system argued that low-wage, low-skill jobs should move to South Africa's neighbouring states. Not only is this happening (for example, textile firms from Bloemfontein are moving to Lesotho), but, much more importantly, these kinds of low-skill jobs are being created in other regions of the world. South Africa is just not a competitive environment for these kinds of businesses. Is this the right approach for a country such as ours? What does international experience tell us is the most effective and sustainable way of improving the living conditions of millions of poor people? Isn't a job a better approach to a different and better South Africa than a social grant? Surely the central challenge is to decide what we need to do differently to include many more people in the economy.

4. What does the government's new notion of a 'first' and 'second' economy mean?

Categorising South Africa into a first and second economy is an important new development. Essentially, the government is saying that there is a first economy that is formal and part of global competition, and a second economy consisting of people who are not participating in this modern economy. Is this a helpful analytical tool? More importantly, what does it mean for policy initiatives and priorities? Significantly, a senior govern-

ment spokesperson noted that 'outsiders' – ie, people who are not part of the mainly urban modern sector of society – are more disadvantaged now than they were under apartheid. Are some commentators correct when they worry that the government might be prioritising welfare and job security in preference to getting the first economy to grow faster? Without significant growth, is it sustainable for the fruits of the first economy to subsidise millions of people in the second? And how does all this work in the context of large-scale migration to South Africa from across our borders?

5. Can South Africa sustain the developing world's most generous welfare state?

During the past five years, the number of people receiving social grants has grown from 2,6 million to 6,8 million. The numbers are rising so dramatically that a senior spokesperson for the Department of Social Welfare remarked that it was difficult to keep the figures up to date. Social grants, health expenditure to counteract HIV/AIDS, and government programmes to reduce unemployment are increasing state expenditure at a time when improvements in tax collection are tapering off. In the short term, expanded social security can only be funded by increasing the budget deficit or raising taxes, both of which would be undesirable. In the medium to longer term, the only sustainable way of financing social security is to make the economy grow faster than it has until now. At the same time, as jobs are created, the need for social welfare spending will decrease. Again, this points to the need to formulate a new approach to the central issue of economic growth.

6. What is the best route to empowering millions of black South Africans?

The focus of most black economic empowerment (BEE) is on the big equity deals taking place at the 'commanding heights' of the economy. What are the benefits and costs of such an approach? How does it compare with other approaches to providing opportunity for millions of black South Africans – for example, simply trying to achieve a far higher rate of economic growth? Is our current BEE strategy the best approach for this country and its long-term future? South Africa needs black millionaires, but, more importantly, it needs many more businesses that will spread wealth and independence throughout black South Africa. What we need is to build a truly inclusive economy. In the words of one workshop participant: we need

to include a million more South Africans in the economy every year. How are we going to make that happen? Hundreds of thousands of jobs are unlikely to be created by the billionaires, but rather by small, often family-owned, businesses, whose proprietors are complaining that they are being stifled by regulation. How are we going to turn BEE into a much deeper and more inclusive process? Are we going to take the bold steps needed to reduce the costs of doing business in South Africa, so as to make our cities and towns more hospitable to new enterprises?

7. How are we going to improve the quality of education?

In the 21st century, good education is more important than ever. Without language and maths skills, it is increasingly difficult for citizens to understand the world around them, and take advantage of economic opportunities. Although South Africa has been remarkably successful in expanding access to education of previously disadvantaged communities, our ability to provide a sound education in those schools has not improved, and might even have declined. Most South African schools are failing. According to recently released official statistics, the average reading and writing score in grade 3 is 39 per cent. The average maths score is 30 per cent. And close to 60 per cent of pupils are reported to drop out before matric. Yet South Africa spends a higher percentage of its GDP on education than almost any other middle-income developing country. There is no silver bullet that can transform our schools into effective institutions. But it is clear that a 'more of the same' approach is unlikely to work. We have to stop throwing money at the problem, stop expanding the education bureaucracy, stop piling ever more regulations on to schools. Instead, we should be searching the world for fresh ideas, harnessing the capacity of the private sector, and strengthening the schools that do perform.

We need to increase the capacity of the educational system far more rapidly. The only way to do that is to use the power of markets and competition to introduce effective performance criteria into what is predominantly a monopoly service, and to entice the private sector into providing more effective and appropriate education in order to improve performance throughout the system. Government intervention through incentives such as giving parents a greater choice of schools, and 'public money following learners', can give the most disadvantaged learners better access to better education. Why don't we experiment in one province or city with these kinds of innovative interventions? As one participant put

it, when we think of education, improved delivery, and social investment, why don't we use more incentive-based systems such as vouchers, rather than expecting the state to continue providing all those services?

8. New issues are emerging – they will require fresh thought

- In 1996–2001 the population grew modestly, by some 11 per cent. However, the number of households increased by 30 per cent. As the government acknowledges, this is an important social phenomenon with major implications for planning and service delivery, as the state now has to provide services to a far larger number of households. The one explanation for the huge growth in smaller households relates to the new freedoms of the past decade, and the new opportunities that families formerly cramped into apartheid townships now have. It might also be a dynamic that raises the issue of the unintended consequences of state policies. To what extent is the growth of smaller households in generally poor populations a consequence of, or influenced by, the benefits that can accrue to such a household? In other words, are the different social grants – from housing, to land, to exemptions from paying for water, electricity and so on – encouraging this new development?

- The government claims that a fifth of the urban population consists of people who have urbanised over the past ten years. In its view, this is negative for rural areas, and poses enormous challenges to urban communities. In our view, the reality of urbanisation requires a decisive policy response. We have to grapple with expanding urban populations and declining rural areas far more directly than in the past. We need to encourage local economic development where it makes sense for growth to take place. There are parts of the country that have no comparative advantages whatsoever, and policy-makers need to deal with this fact. Urbanisation is a positive phenomenon that has been associated worldwide with rising living standards. It is far better to accept the inevitability and desirability of this dynamic, capitalise on its advantages, and ensure that we strengthen our urban management capacity and strategies.

- The country is experiencing large-scale internal migration to its urban areas. Large but unknown numbers of migrants are also migrating to South Africa from elsewhere on the continent and further afield. These are the risk-takers of their home communities. Across the world, nothing is more common than to have poverty-stricken immigrants become prosperous in a new country, and to make that country more prosperous as well. South Africa's history bears testimony to

this universal truth. The country will be best served by adopting a positive attitude to this inevitable and desirable phenomenon, and ensuring that we have appropriate policies in place.

9. The challenge of the 'townships'

In apartheid South Africa, it was possible to talk about 'the townships', and in many ways this was seen as synonymous with talking about black South Africans. In the larger cities, strict segregation started to break down in the mid- to late 1980s, and since then cities and many towns have desegregated dramatically. Nonetheless, there are still large numbers of black people who live in the poorer parts of our cities and towns, often under very bad conditions. To what extent the past decade has opened up new opportunities for young urban black South Africans is a crucial question. To what extent conditions and opportunities have improved in Mangaung, Mdantsane, Winterveld, and other places in urban and peri-urban South Africa is also an important issue. How do we ensure that Soweto and Orange Farm are more effectively linked to the rest of the Johannesburg urban region? And what are their potential roles in the growth of smaller enterprises? Transforming the townships and informal settlements with a local business culture of small firms of electricians, building maintenance teams, specialised security services, IT service providers, caterers, and so on as opposed to an army of roadside retail hawkers, shebeen operators, or people dependent on heavy engineering or mining work is an important economic and urban priority. There is a growing feeling that entrepreneurial activity in many former townships is on the wane rather than exploding under new democratic freedoms. Is this indeed the case, and if so, what is causing this negative phenomenon?

10. Are the state and the business sector up to the challenge?

- The government's strategy for the next phase of national development places enormous demands on the capacity of the state. To what extent is this realistic? Have we actually built a developmental state, or are there one or two strong departments in government with many others struggling to meet the demands of expanded service delivery and rising expectations? Does government as a whole, and many individual departments, have too many priorities, with the result that capacity and resources are dissipated? Has enough been done to prioritise development goals, and to determine which activities would leverage others? Why does the government need a very expensive

army of consultants? Surely, if someone cannot do the job they should not be there? If they can perform, why do we need so many outside consultants? Have we put too much attention on one kind of affirmative action when we should be focusing far more on affirmative institutions, ie departments, organisations, universities, and corporations that deliver effectively, thus empowering millions of black South Africans rather than only a few? Have we thought deeply enough about the nature of and requirements for successful public-private partnerships? Have we kept up with international best practice with respect to delivery, and the most effective roles for markets, individuals, and states?

- Surprisingly diverse groups of people (among them Sowetans and small business owners) are expressing a strong sense of alienation from the formal structures of government. Is this a common problem in other communities? What can be done about it? To what extent is our democracy suffering from the negative consequences of a lack of constituency representation, and the direct accountability and voter empowerment that come with it?
- What social and political roles should business play over the next ten years? How can it be a constructive partner in South Africa Incorporated, but retain enough of its independence to promote its vision of how this country can become a great African success story? Does it still conduct discussions with government in an overly polite tone, to the point of not conveying its views effectively on issues related to economic growth? Does business sometimes allow itself to be co-opted on to an agenda that undermines its interests in higher economic growth? Alternatively, have business leaders really appreciated the political cost of the economic path that the government has chosen, and thought strategically enough about the role that private sector leadership and resources can play in helping the government to defend this approach?

Key points from the four workshops



A SUMMARY follows of key points made by speakers and other participants during the four workshops.

GENERAL

- A great deal has been achieved during the past decade. However, much remains to be done to create a sustainable democracy and stable society.
- Social grants are making a growing impact on poverty and inequality, but this is not a sustainable solution. The overwhelming challenge facing South Africa is to increase economic growth and create more jobs.
- At present, South Africa is politically stable. However, if it fails to address its remaining economic and social challenges, a major electoral reversal is possible, and social unrest may re-emerge.
- South Africa should also be discussed in its global context, which is hazardous and hostile to developing countries. The rand remains exposed to speculation.
- Problems of stability and accountability in the region are also affecting South Africa's prospects. These have to be addressed more vigorously, via NEPAD and other international instruments.
- While South Africa has made great progress, the real issue is how it is performing in the global economy. While it has been attending to its internal situation, it has been outstripped by its international competitors.

POLITICS

- South Africa's democracy may be endangered by insufficient political competition and great mate-

rial inequality. The ANC's dominance at the polls is not necessarily undesirable; it has brought the stability needed to consolidate new democratic institutions, and allowed it to make some hard policy choices. However, in the longer term, some form of electoral challenge will be beneficial.

- A dominant party can also produce good policy, provided it allows political contestation either inside or outside the party. The ANC brings together a wide range of constituencies, and usually produces a compromise on any given issue. However, these stances are not always coherent. Parliament is not playing a strong policy input or oversight role.

GOVERNMENT

- Rather than continuing to formulate new policies, the government should concentrate on implementation. Mechanisms for monitoring and evaluating policy implementation should be introduced.
- Too many objectives are being pursued simultaneously. Not enough has been done to prioritise developmental goals, and to determine which activities would leverage others.
- Accurate statistics are essential for assessing any country's performance, and formulating effective policies and programmes. South African statistics are poor, and need to be improved.
- Government weakens the further one moves away from the centre. It therefore has to collaborate with other major social actors, such as business, labour, and civil society organisations to compensate for this.
- The government's salary bill as a percentage of GDP is one of the highest of all emerging countries; yet service delivery remains poor. This is unsustainable, and the state's performance at all levels must be urgently improved.
- There is a huge turnover in senior government officials, which is detracting from the efficiency of the civil service and weakening public-private partnership. As soon as officials build up experience and begin to perform well, they are lured away by the private sector.
- Local government must be consolidated, to ensure that local councils end their services backlogs and then keep those services running. Large metropolitan areas have enough revenue to fund their social activities, but smaller ones do not. The 1994 compromise of supporting all municipalities equally is not working, and will have to be changed.
- Outside the metropolitan areas, local governments are struggling. They are expected to meet

growing demands for delivering services, and play an increasing developmental role, but have neither the managerial capacity nor the financial resources to do so. The national government should appreciate more fully that local government is at the coalface of delivery, and needs more resources and capacity.

- Institutional capacity is a major constraint on development. The Presidency has learnt that building new institutions is a slow and expensive process, and that it is better to consolidate and exploit existing institutions than to try to create new ones, which further stretch the country's limited managerial capacities.

THE ECONOMY

Macroeconomic stability has been achieved, parts of the economy have been liberalised, and some economic sectors have become more competitive. Nonetheless, major challenges remain.

- Economic growth remains low. It is significantly below the average for developing countries, and lower than the government has expected. Entrants to the labour market are growing three times faster than jobs.
- The rate of investment in the economy is low, and shows no signs of improving. Increasing internal investment and attracting more FDI is a major challenge. Among other things, the relative price of capital and labour needs to be addressed.
- State spending on infrastructure has declined 2,5 times in real terms since the early 1980s, and should also be increased.
- There is no single solution to the problem of economic growth. Running an economy is no different to running a company; a number of constituent components need to function well, and be effectively co-ordinated. Therefore, a new strategy has to be adopted for achieving greater collaboration between the key economic sectors. Business should play a role in this, but has to be given a more formal voice.
- Public-private partnerships are crucial to development and growth; however, PPPs are faltering because of huge turnovers in government personnel. Bureaucracies are so rigid that programmes often become completely paralysed.
- Much of South Africa's growth potential hinges on international confidence in the country and its economy. More needs to be done to convince foreign investors of the stability of South Africa's policy settings. At the same time, if local investors do not invest in the South African economy, it is difficult to persuade outside investors to do so.
- Foreign investors recognise South Africa's achievements. However, they remain concerned about the failure of GDP growth to address

unemployment; the impact of HIV/AIDS; and the limited effects of BEE, which they believe may compromise long-term political and social stability.

- Social grants, HIV/AIDS, and public employment programmes are putting sharp upward pressure on government expenditure. However, improved tax collection is reaching the stage of diminishing returns. In the short term, increased social spending can only be funded by increasing the budget deficit or raising taxes, both of which are undesirable. In the longer term, the only sustainable way of financing increased social expenditure is to achieve a higher rate of economic growth.
- Throughout the world, savings and investment largely derive from corporate profits. However, South African corporations are taxed far more heavily than those in many other countries. If savings and investment are to be increased, corporate tax must be reduced and replaced with increased taxes on consumption spending.
- The government's interventions in specific economic sectors are often unsatisfactory or ineffective. More effective microeconomic strategies must be devised, in collaboration with other social actors.
- The concept of the first and second economies must be clarified. The South African economy is highly interrelated, and more complex than this notion implies. There are also growing concerns in the private sector that the government is attempting to develop the second economy at the expense of the first.
- The new labour law regime has greatly increased stability. However, South Africa's high-wage, high-skills approach may be inhibiting economic growth. Low-wage jobs are being lost to other countries in the region. The government itself believes that the proper balance between job security and labour market flexibility has not yet been found.

Economic growth is significantly below the average for developing countries, and lower than the government has expected

- A common vision of employment is needed, evolved and supported by all the major sectors of society.
- The manufacturing sector has become more competitive; however, some labour-intensive sectors have been adversely affected by international competition. The government has not yet found an effective way of dealing with this.
- The manufacturing sector is still hampered by a shortage of skilled labour. Training needs to be improved, and matched with specific needs.

- The restructuring of state-owned enterprises (SOEs) has been only partially successful. More needs to be done to introduce competition, lower costs, and improve services. The government believes that liberalisation is more important than privatisation – ie, that privatising state-owned

The government's programmes to stimulate small business have not been successful. Moreover, it has acted in isolation from other social actors

enterprises without introducing effective competition merely means that public monopolies are replaced with private ones.

- While South Africa has a skills shortage, many skilled people are unemployed, and many graduates are unable to find work. This points to inefficiencies in the labour market, as well as a mismatch between tertiary training and the real needs of the economy.
- A major effort is being made in training, but much of it is unfocused and inappropriate. Many businesses are ducking their training responsibilities. Thus the government and SOEs are committing a lot of time and resources to training, only to lose those people to the private sector.
- The public procurement process should be rethought. Contractors should be allowed to use their contracts as collateral, so that they do not go into debt at the outset. Also, contracts should be awarded for longer periods.
- The extent to which rural areas can be uplifted and developed is limited. Migration to the urban areas is inevitable; this process should be welcomed, and its strengths exploited, rather than an attempt made to counteract it.
- Local economic development is lagging, and the failure rate of local development projects is very high. This is largely because they are difficult to manage, and programme management resources in both the public and private sectors are overstretched.
- When agricultural subsidies and other forms of state support to agriculture were abolished, this affected small farmers as well as commercial farmers. However, small farmers operate in fundamentally different environments, and state support for the emergent farming sector needs to be reintroduced.

SMALL BUSINESS DEVELOPMENT

- Small businesses are crucial to stimulating economic growth and creating sustainable livelihoods for more people. However, attempts thus far to develop this sector have been unsatisfac-

tory, and it is far from reaching its full potential.

- The government's programmes to stimulate small business have not been successful. Moreover, it has acted in isolation from other social actors. This is one area in which the private sector in particular has real expertise to put on the table.
- Small businesses run by black entrepreneurs could have a massive impact on the former townships, and could attract flows of revenue to those areas. Similarly, the property market in the former townships is a developmental explosion waiting to occur. However, the government has failed to protect property and business rights in these areas. Business should insist that government play this role effectively and consistently.
- Despite their potential value to the economy, small businesses face a number of disadvantages relative to larger businesses. As a result, they are very vulnerable, and far more likely to fail than bigger businesses.
- Small businesses experience huge difficulties in respect of employment. They cannot afford high salaries, and therefore have to train graduates who are lured away by bigger businesses as soon as they have some experience.
- They are also being stifled by over-regulation. Businesses are subject to scores of laws which, if not complied with, could lead to them being closed down. Again, medium-sized or large businesses are more secure because they can hire people to take care of these aspects. The entire regulatory environment needs to be reassessed.
- There is no point in dealing with medium and micro businesses together. They are different types of businesses, with different needs. The acronym 'SMME' is unhelpful, and should be abolished.
- In the previous dispensation, chambers of commerce effectively articulated the interests of local businessmen, particularly in small towns, and many served in local governments. Today, very few business people serve on local councils, and a gulf has developed between the small business sector and local political institutions.
- Many officials involved in promoting small businesses do not have a passion for what they are doing. They often regard their jobs as a gateway to better-paid jobs in the private sector.
- Financing is a major constraint on the formation and success of small businesses. Loan procedures adopted by financial institutions are unhelpful and inappropriate. Applications are computerised, and do not take account of personal circumstances. There are major issues surrounding the use of personal property as collateral for start-up loans that need to be resolved.
- Aspirant black entrepreneurs are often expected to start up their businesses with 100 per cent loans; however, businesses starting up with 100 per cent debt are almost certain to fail. The government should find an innovative way of

providing 30 per cent of start-up capital, perhaps by means of guarantees. Without this, efforts to advance this sector will not succeed.

- Several participants argued that the government should play a more active role in financing small businesses. Others pointed out that, throughout the world, most successful small businesses were started with personal savings and loans from friends and family rather than state or commercial loans.

BLACK ECONOMIC EMPOWERMENT

- BEE is a contentious issue, and major issues surrounding it remain unresolved. Much remains to be done to find sustainable solutions that will not only correct historical imbalances, but also contribute to economic growth and job creation.
- South Africa needs black billionaires, as they serve as essential role models. However, the almost exclusive focus on the enrichment of a few individuals is cause for concern.
- BEE must be broadened and deepened beyond a few wealthy people. It must extend to the operational level, and also create growth and jobs.
- The cosmetic appointment of blacks to companies tendering for government contracts has become widespread. This is clearly undesirable. Most small businesses cannot afford skilled or experienced black people who could immediately add real value to their businesses.
- One consequence of BEE that has been inadequately recognised is that many family businesses are being closed down because their owners don't want to share equity with people they don't know.
- Much of the money being spent on development in rural areas is flowing back to urban areas. While black businessmen win these contracts, and pocket some of the profits, much of the actual work is done by white-owned companies based in urban areas.

SOCIETY

- South Africa is a country of multiple communities, with multiple identities. Many South Africans do not share the liberal social values underpinning the new constitution. This may impact on public institutions in the future.
- The number of households is increasing much faster than the population. This has major implications for planning and service delivery, as the government has to provide services to a far larger number of households.
- Many people continue to migrate from the rural to the urban areas. A fifth of urban dwellers are people who have urbanised over the past 10 years. In the government's assessment, these

inflows are disrupting urban communities, and depriving rural areas of social capital. Some other participants felt that urbanisation was a positive dynamic, which should be encouraged.

- While expenditure on education has risen hugely, this is not mirrored in the results from the education system. Graduates from schools and tertiary institutions often do not have the skills the business community needs. Much teaching in key subjects such as maths and science adds little or no value.
- Schools, technikons, and university programmes are not effectively geared towards employment, and career guidance at school is inadequate.
- While spending on health services has been significantly increased, and a major attempt made to reorient them, this has not been adequately reflected in the outcomes.

VIEWS FROM SOWETO

- Physical conditions in Soweto have improved, and the fact that residents now live free from the fear of state repression is a major advance. However, many problems and challenges remain.
- Young people are leaderless, and do not have a sense of direction. Many schoolgoing children take drugs. This is partly because they have no hope of finding jobs.
- Crime remains the scourge of Soweto and surrounding areas, and policing remains weak. Residents believe they cannot fully enjoy the fruits of South Africa's democracy before crime has been brought under control.
- Symptoms of social dislocation persist; among them are high levels of sexual abuse of children as well as domestic violence.
- Sowetans feel the area has great economic potential, but do not know how to translate this into concrete business activity. Much of Soweto's buying power is currently being exercised elsewhere, and the area is not benefiting from it.
- There is widespread dissatisfaction with the quality and state of schools in Soweto. Many teachers are not motivated, and some abuse children.

Sowetans remain distanced from democratic political institutions. This points to the shortcomings of proportional representation

- Sowetans remain distanced from democratic political institutions. This points to the shortcomings of proportional representation. Constituency representatives, who are directly elected and can be held directly accountable, need to be introduced.

Participants, workshop 1

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Dr Stefan Schirmer, senior lecturer in economics, University of the Witwatersrand
Charles Simkins, Helen Suzman professor of political economy, University of the Witwatersrand
Gordon Smith, director: economics research, Deutsche Securities (Pty) Ltd
Vish Supersad, general manager, The Banking Council South Africa
Xolisa Vitsha, researcher, Africa Institute of South Africa
Carmen Zwonnikoff, economic researcher, Deutsche Securities (Pty) Ltd

ANALYSTS AND ACADEMICS

Chair: Ann Bernstein

Chair: This is the first of four workshops at which South Africans from different sectors, disciplines, and backgrounds will be asked to reflect on achievements during our first decade of democracy, as well as the challenges facing us during the second. Part of CDE's role is to encourage forthright debates on matters of public interest, and the expression of divergent views. We therefore invite you to reflect frankly and honestly on the issues on the table – about what has gone well, what has gone less well, and what may be cause for concern going forward.

SPEAKERS

Prof John Daniel

Research director, democracy and governance programme, HSRC

I intend making four points of a primarily political nature. Over the past 10 to 14 years South Africa has moved from being an authoritarian dictatorship to constitutional democracy. We are free from the whims of the legislature of old, and now live in a situation where supreme authority is lodged in the constitution, which contains an extensive range of enshrined rights.

The apartheid state of the late 1980s was a national security state, a hybrid political–military state dominated by securocratic thinking, in which the security forces had unfettered powers to ban, detain, arrest, torture, abduct, and even kill. Those of us who were active in politics, whether inside or outside the country, lived in a state of fear. It's an enormous achievement that we have, in these ten years, dismantled all the trappings of this condition of fear. We now live free from fear to the point where we take for granted our rights to speak out, to organise, to march, to protest, to proselytise, and so on.

Even though we have this great liberal constitution, envied throughout the world, average South Africans, both black and white, remain socially and politically unreconstructed. They are still deeply conservative in their social and political views. They are still racially bigoted, homophobic, hostile to foreigners, puritanical, and deeply hypocritical in respect of sexual beliefs and practices.

This has been confirmed by many surveys. In a survey on social attitudes conducted by the HSRC in August last year, 73 per cent of 3 000 respon-



dents agreed with the view that different race groups in South Africa did not like each other, and 63 per cent believed they would never like each other. A similar percentage said they did not trust members of other racial groups. Only 33 per cent said they welcomed immigrants; 34 per cent said they welcomed some immigrants, mostly Europeans; and 32 per cent said they didn't want any immigrants at all. Who do they not want? Most of all, at 28 per cent, they don't want foreign Africans, followed by Americans and returning South Africans. Four times as many were anti-African than any other category.

Seventy five per cent of respondents were for capital punishment, and only 18 per cent against. Fifty-seven per cent said abortion was always wrong, even when the life of the mother or child was threatened, and only 20,8 per cent approved of abortion. Eighty-six per cent thought gay sex was wrong, and over 90 per cent were opposed to same-sex marriages. Some 50,9 per cent said pre-marital sex was always wrong, which just goes to show that we don't practise what we preach or believe.

What this shows is how out of step South African social and political attitudes are with the values and principles enshrined in our new constitution. The constitution was drafted largely by left-

leaning lawyers, some of whom are now on the bench of the Constitutional Court. But some of them are approaching retirement, and will probably be replaced by more conservative black jurists.

Likewise, as power passes in 15 to 20 years' time to a post-struggle generation, and particularly if current crime levels persist, there will be enormous pressure to amend the bill of rights, for example, by reinstating capital punishment, and restricting certain gender-based rights. So I sometimes wonder whether, in 10 to 25 years' time, we won't look back on these first ten years as the golden age of freedom in this country.

The HSRC survey still compartmentalises South Africans into the four old categories of black, white, coloured, and Indian. But we need to recognise that we live in a far more heterogeneous society than those four categories suggest, and that a range of important social currents is creating a changing sense of identity, and even changing South Africa's demographic profile. We are becoming a country of multiple communities, with multiple identities. Important differences of class, religion, and national origin, especially if that origin is an African country beyond our borders, are opening up new cleavages in this society, and the face of South Africa is changing as a result.

For example, 10 per cent of Africans in this country are of non-South African origin, and not all of them are the unskilled and illegal immigrants that the press often talks about. Many are highly qualified, occupying important posts in business, academia, banking, and so on. They speak different languages, and practise different religions.

We need also to refer to the growing Chinese communities in our cities, not just in Johannesburg but also in Northern Natal and the Free State.

'I sometimes wonder whether, in 10 to 25 years' time, we won't look back on these first ten years as the golden age of freedom in this country'

As regards the Muslim community, a recent HSRC study has produced fascinating evidence challenging the traditional view that this community is a monolithic one, and showing how factors of race, class, migration – especially from other African countries – gender, and the politics of the Middle East are fashioning and re-fashioning South African Muslim identities.

The Hindu community is less heterogeneous, but also much less homogenous than most whites and especially the Democratic Alliance and the New National Party believe.

The last factor is the whole question of South Africa's role in Africa. Among the many dramatic policy shifts of the past few years, the change in

our international position has been as spectacular as any, and nowhere is that more evident than in respect of Africa. Our relationship with Africa stretches back over 120 years. Up to about the 1990s, it was unequal and largely exploitative.

Twenty years ago, economic links with Africa were limited to the Southern African Customs Union (SACU), and were overshadowed by our aggressive interventionist and militaristic approach to the region. At that time South Africa was involved in direct or covert wars in three southern African states; was trying to destabilise two or three others, and staged constant cross-border raids into neighbouring countries.

Today, South African corporations are fanning out all over Africa. While still way behind Asia, Africa is now South Africa's third largest export market. South Africa is the largest source of foreign direct investment (FDI) in the Southern African Development Community (SADC), and possibly also beyond that. This has given rise to talk among my academic colleagues to the left about a new imperialism, a new political and economic hegemony, a new era of colonialism, and so on.

South Africa's economic penetration cannot be denied, but this is not being translated into political hegemony. The Mbeki project has specifically been to eschew the hegemonism that attended South African attitudes to Africa in the past, and to firmly locate South Africa's foreign policy in Africa within the framework of co-operation outlined in a series of international agreements and organisations such as the African Union, the Non-Aligned Movement, and the Commonwealth.

In fact, we might sometimes wish for some more muscle-flexing and old-fashioned hegemony, especially in respect of Zimbabwe. But it isn't there, and it's not part of the process. I believe our engagement with Africa is part of the forging of a new identity, of firmly locating South Africa as an African country, and its people as citizens of Africa. However, given the mindsets and attitudes I discussed earlier, this will be a difficult task.

Charles Simkins

*Helen Suzman professor of political economy,
University of the Witwatersrand*

I want to cast my comments in the framework of a very interesting paper delivered by David Collier at Stanford in 1994 in which he identified what he described as the dangers of democracy – the lines along which democracy might be defective. Two of the factors he mentioned struck me then, and I think still matter now: insufficient political competition, and great material inequality.

Why worry about insufficient political competition? Because it might impede innovation; because one might have a deficient error correc-

tion mechanism in society; because it may lead to permanent patronage networks and the exclusion of constituencies; and because it may lead to a succession crisis. I want to say something about each of these reasons.

In respect of innovation, the government has done well over the past ten years. During the last years of apartheid, South Africa fell further and further behind in terms of international best practice in a number of spheres, and the ANC government has restored normality in numerous areas, among them the management of the public debt.

However, there is cause to be concerned about deficient error correction. The litmus test for me is the government's attitude towards HIV/AIDS. Realising that its original stance on HIV/AIDS was likely to be a vote loser, and following pressure from civil society organisations, the government did modify its stance. How that will turn out, and how sustainable this new commitment will be, is an open question. The outcome will probably be uneven, and will depend to a significant extent on the commitments and energies of provincial administrations and pressure groups.

The current government is highly ambitious in the role it assigns to the state. There is considerable cause for concern that a permanent patronage network may develop. This is what underlies all the concern about political alternation. Samuel Huntington is not right about everything, but he is surely right when he says that a democracy is only consolidated once you've had two alternations in power – ie, successfully gone from A to B and then back to A. This can take a long time; in terms of this criterion, democracy in the United States was only consolidated in 1828. Until this criterion is met, you run the risk of a succession crisis.

We now turn to Collier's second factor, namely inequality. Why worry about inequality, particularly in a middle-income country such as South Africa? One worries about it because it weakens the social fabric; excludes people from participation in the mainstream as a result of very low levels of nutrition and so forth; worsens crime; and may lead to strong redistributive claims arising at the expense of growth. In fact, although more recent studies question this, a series of studies in the 1990s argued that there was a negative relationship between inequality and growth.

When we try to establish how we are performing in respect of reducing inequality, we find that we are beset by informational problems. South African statistics have always been shaky, but since I've been sitting on the Statistics Council, I've realised more fully just how shaky they are. In many instances we don't have the information framework to assess things. To assess one's social fabric, one really needs an official demographic model, which we do not have. All we have are

two population censuses which have been adjusted but through which no official demographic model has been fitted.

'When we try to establish how we are performing, we find that we are beset by informational problems'

The 2000 income and expenditure survey (IES) in particular is highly defective, and worse than the 1995 survey. This matters because the IES is the best guide to income distribution and poverty we have. All the evidence points to poor supervision in the field, and poor data editing. Various people have tried their hands at salvaging it, but no definitive product has emerged, and any product that does emerge from the adjustment will be subject to considerable levels of uncertainty.

Then there are breaks in the employment and unemployment series between the October Household Survey up to 1999 and the Labour Force Survey from 2000 onwards, and there was also a breakdown in the Survey of Employment and Statistics in the late 1990s. That has been changed, so we're unsure of what's happening.

A revision of economic statistics is under way. Until very recently, the government used a 1988 round of censuses to draw its sample for economic statistics; now, it is moving to a continuous business register. This has resulted in a 17 per cent upward adjustment of manufacturing output, and there are many more adjustments to come, including re-benchmarking GDP towards the end of the year. So we'll have to wait and see.

We do know that we have great material inequality, even by middle-income country standards, and we also know that we have major problems that are going to put sharp upward pressure on government spending.

One of them is social security. About 18 months ago I did some projections for the National Treasury on what was going to happen to social security, and concluded that social security expenditure would grow by 60 per cent in real terms between 2002 and 2012. This may even be an underestimate. Social security has emerged, and will increasingly emerge, as a large item of social spending.

AIDS is putting upward pressure on health expenditure, which has not yet peaked. Thirdly a new Public Works Programme has been announced to alleviate unemployment. These pressures are building up in a situation where improvements in tax collection are reaching the stage of diminishing returns.

Given these upward pressures on state expenditure, one has two alternatives. One is to increase the budget deficit, with all the dangers that that involves. The other one is to raise taxes.

Therefore, major issues remain in respect of both material inequality and insufficient political competition. We have made some progress, but it is far from sufficient.

Anthony Butler

Professor of political studies, University of Cape Town

I have been asked to talk about investment, particularly foreign direct investment. I am going to approach this by looking at some of the political and policy factors that might deter investment, and particularly at the fairly simple notion that political or policy instability deters investment.

More specifically, I want to argue that, over the past ten years, political instability has declined, but policy instability has grown.

The problem with current policy uncertainty is that it seems to have contradictory roots in insufficient policy contestation in some cases, and excessive contestation in others. In some instances, the former is clear to all of us; nobody can look at the plans to recapitalise the taxi industry, for example, without wondering how this framework has remained in place for so long, with so little progress. Another, more important, example is the restructuring of the energy sector, which has shown little movement over the past three years.

These problems often have to get too close and become too urgent before the core issues are thrashed out. This is also true of numerous other areas, including immigration policy and outcomes-based education. We can all think of many areas that have not been systematically evaluated, and in whose case those who should have been involved in policy debates were not involved until it was too late.

At the same time, in some areas there seems to have been too much of a consensus over the past ten years which is in fact not sustainable. This

includes the area of economic policy. Laudable and seemingly sustainable reforms have been made – in respect of fiscal policy, debt reduction, trade policy, and others – but it now emerges that these issues have not been sufficiently settled, and that contestation is emerging around such fundamental issues as the role of the state in the economy, notably in respect of privatisation and parastatals, and also possibly around social spending. More generally, it is not clear what the relationship is between the initial ten years of relative fiscal austerity and the fairly ambitious current plans, particularly in the social development sector.

I wanted to argue that, whereas policy uncertainty had increased, political stability had also increased. Given Charles's remarks, this now seems overly optimistic. Perhaps he was saying we have too much political stability. My view is that there isn't very much to be drawn from comparative political science literature; when political scientists such as Huntington say, wait for two turnovers in power, or even for one, they are saying, we've got nothing to say to you in the interim about the quality or the value of your democracy, which seems to me to be inadequate.

When analysts, particularly those outside South Africa, look critically at South Africa's democracy, they often focus on low per capita income and high levels of inequality. But these also occur in democracies that have already had a turnover. So we don't really know what these factors mean in our particular context.

I want to make two points about the recent election, in order to bring out my thoughts on political stability, and what its good and bad features are. The first concerns the election result itself. Many people have commented on the low turnout. In fact, it's very difficult to calculate the turnout, because it's very difficult to work out how many eligible voters there are. However, according to some dependable analysts, it was somewhere around 55 per cent, which is pretty low for a third election.

The second is that, although the ANC maintained its vote, its triumph was primarily organisational. In fact, the ANC waged two campaigns. The first took perhaps two years, and involved reconfiguring branches, reactivating members, and mobilising activists. The ANC managed to knock on doors in urban, peri-urban, and rural areas, got people out to register, and also got them out to vote. Other parties were not as well organised for getting people to register in a situation in which there was no real heat in the campaign. And they also weren't very good at getting people out to vote.

The ANC itself didn't make much of the electoral campaign proper during the few weeks before the election, and it didn't target the youth vote. South Africa has a young population. In



each of the elections since 1994, between 15 and 20 per cent of voters were young people who had come on to the voters' roll for the first time.

Despite this, none of the parties targeted the youth vote – but it's particularly odd that the ANC didn't do so. It seems as if its route to campaigning will continue to be organisational, turning out the vote it has by knocking on doors.

The one consequence of this approach – which has been very successful, and is the right strategy for any sane political movement to pursue – is that the ANC's organisational alliances, particularly with COSATU, which is key to its support in peri-urban areas, are very important. But it also seems as if the ANC has learnt that the one tangible gain for people in rural areas has been social grants. People constantly stated that the social grants had tangibly improved their lives, and would be even more valuable if they were more efficiently and more fairly delivered.

COSATU is clearly an important ally of the ANC in certain areas of policy. But big business and the parastatals have also become significant and influential partners, and it is not clear whether having them as well as COSATU as senior partners of the ANC will produce good developmental policy.

The second point I want to make about the election relates to Charles's question whether single-party dominance is good, bad, or necessary; while Charles seems to be arguing that it is primarily bad, I would currently argue all three. It is good in that we need the political stability which the ANC brings to entrench our new democratic institutions, which in fact do not have very much legitimacy. The courts, the constitution, parliament, and the rule of law are not deeply entrenched, and this will not occur through intensified parliamentary and political competition.

In addition, the ANC's dominant position has allowed it to make some hard policy choices which it could not have made otherwise, particularly in respect of economics. However, over the next decade it would be ideal for the ANC to face a real but unrealised threat of losing a substantial part of its electorate, or suffering some kind of fragmentation. And then, in a decade or so, the rules of the game might have been established, and there would be more scope for political conflict to be accommodated and managed, and a more fluid party system to emerge.

Soto Ndukwana

Executive chair, Global Makana Strategies

I want to present a slightly different perspective: a political view of the rural areas and the enterprise process.

Just imagine this situation: you are told collateral is everything, so you go to see your bank

manager and say: I have a house as collateral. Can I please have a loan to start a small business? The first thing they will say is: Where's your business plan? If you produce one, they will actually be puzzled, because it would not have been their original idea.

'Over the past ten years, political instability has declined, but policy instability has grown'

At the end of the process the manager tells you: if I give you a loan, and the business fails, you could actually sue me for having given you the loan while I knew you couldn't pay. Therefore, I can't give you a loan unless I'm satisfied that this business plan is 100 per cent foolproof.

This is what we deal with every day – the banks don't give you loans unless they are totally convinced that you can make that business work, because if you can't, you can say, you can't take my house because you knowingly gave me a loan I couldn't pay.

This process is contributing to the erosion of enterprise in black townships across the country. Businesses in Mdantsane are no longer owned by residents, and I suspect the same thing is happening in Soweto.

We haven't talked about the erosion of this natural component of enterprise that existed in the townships in earlier years. What has happened to it? Why are we not addressing this as our point of departure? These are the shop owners, butcheries, and so on. Yet these are people who are unable, with the property that they actually have, to migrate to a second level of growth, so that they become part and parcel of the greater economy of the country.

All the shops in East London townships now belong to the Indian community, or people from elsewhere in Africa; the former tycoons of the township are no longer there. Where are they? I hope some research will be done to find out what has happened to them.

I have given you one example of a process of regression in the interface between aspirant entrepreneurs and financial institutions. But this doesn't happen in the rural areas only; urban entrepreneurs also find that they cannot convert property into a source of funding. There is a mediation process there. Collateral is no longer the issue.

Business development, particularly in the rural areas, actually depends on the banking bureaucracy. Billions of rands are involved, and I'm surprised that we have ignored this dimension thus far. Billions of rands are being spent on the rural areas, on road-building and other developmental aspects. What is happening to it? Who gets the

tenders? Why are no sustainable businesses being generated?

We need to find out what is happening to this process on the ground. For example, I win a contract to build a road. But I don't have the necessary plant, so I try to source it locally. I am told the only plant available is in Johannesburg, because there isn't a single black person in the entire Eastern Cape who owns any plant of this nature.

And if I can't source the plant from a black person in Johannesburg, I eventually get it from a white person. But by that time I have been reduced to nothing more than a manager; the white contractors have taken most of the money, and the pauperisation of the rural areas has been perpetuated.

The money actually has to be spent. If a DG reports back to his principals and says, unfortunately, I couldn't find one black person who could build this road, so I have decided to bring this money back into Treasury, what do you think will happen to him the following day? They know that people don't have the capacity, but they have to take this money to them.

We need to investigate what is happening to the billions of rands being spent on BEE contracts. Because there is a new kind of entrepreneur: the entrepreneur of the tender. These are people who collect tenders to sell to white companies. And the business actually flows back to Johannesburg.

We need to examine this, because it is the scourge of attempts to alleviate poverty in those areas. And even if I do get the contract, it stimulates consumption rather than creating growth, because the first thing I do after receiving the funds is to buy a luxury car. I don't invest that money, because the link between building the road and actually buying the equipment is so long. I have money in the bank which I got for building a road which I'm not going to build. Somebody else is going to build it, so what do I do with the profit? I spend it.

'Billions of rands are being spent on the rural areas. Why are no sustainable businesses being generated?'

Thus a disjuncture has developed between the people who win the contracts and deal with the finances, and those who actually do the work. In Johannesburg, BEE is based on shares – I go and organise a company, and I take half the shares. But the people who should have been involved in empowerment, because they would have real value to deliver operationally, are the ones who don't get the support.

There is a disjuncture between what is spent, what should have created a class of entrepreneurs

in small towns, and the people with the intellectual capital. While people elsewhere deal with the operational issues, others in the urban areas deal only with the shares, and special networks have developed at this level.

Out there, there are people who would have really contributed to development because they would have focused on real BEE. But those people lower down who deal with the operational issues are the ones who never receive the support.

Billions are being spent in Limpopo, Mpumalanga, the Eastern Cape, and so on. But those people are isolated. There is no network to ensure that intellectual capital is linked with operational capacity – to merge the dimension of the shares with that of operations, thus delivering a real company on the ground. It is almost as if there is a dichotomy between urban BEE, which is share-based, and operational BEE, which is languishing somewhere in the rural areas.

We therefore need to think about the role of the bureaucracy in fostering economic growth and BEE. The officials in charge of those tenders have enormous power to make people, or not to make them – in construction, the distribution of food, transport, and many other fields.

Lastly, there is the question of the democratisation of the economic sphere. This also seems to be taking place in the urban areas only, and not in the real world out there. For example, who gets access to Telkom or Transnet shares? Not organisations based in the rural areas. There is almost a skewed beneficiary status that benefits people in the urban areas.

All this is important because, until we deal with real agents who work with real money on the ground, we are going to keep on saying, government policies aren't focused, there's a lot of money that is being budgeted but isn't being spent.

We need mediating institutions that can actually do real empowerment in those areas, that can ensure that money that is spent there stays there, and that it actually cultivates more talent there. Who says that Butterworth doesn't need its own millionaires? But they can't employ anyone if they are poverty-stricken themselves, and they have no access to capital.

DISCUSSION

■ Why were the ANC's recurring election victories so widely regarded as the result of inadequate competition, as opposed to simply successful competition? Also, the common assumption that crime was a by-product of unemployment or poverty was not supported by empirical evidence anywhere in the world.

The biggest issue was that real GDP per capita was lower now than in 1970. The first few years

after 1994 saw a modest increase in nominal growth rates, but this still remained zero growth in per capita terms. The so-called neo-liberal economic policies embodied in GEAR and more recently NEPAD were never properly implemented. This year, for the first time, economic indices showed a small shift towards a market economy, but this trend had once again been reversed.

All this meant that the policies that had caused 30 years of stagnation were still in place, with no evidence that they would change. For how long would South Africa continue to stagnate, while other African economies were growing? African countries grew for the same reasons that any other country grew, namely by developing market economies; there was nothing special about Africa in this respect. South Africa still showed no evidence of having realised this.

■ South Africa's role on the continent was not as innocent as Daniels had argued. For example, while South Africa claimed to support economic integration in the region, it had not yet abolished its own tariff and non-tariff barriers to trade. When other southern African countries exerted pressure on South Africa in this regard, it merely reduced its barriers by one per cent or so. In 1998 South Africa had pressed ahead with its intervention in Lesotho despite strong opposition from other African states. Also, South Africa had sent troops to Liberia without getting permission from the SADC, despite the fact that this was really an ECOWAS issue.

■ A participant said he was consistently more optimistic about the future of the South African economy than the reigning consensus. Prospects for growth were better than people gave South Africa credit for, and the outlook for inflation was better than interest rates and exchange rates seemed to reflect.

South Africa was also politically very stable. The ANC's substantial majority meant that the policy settings were not threatened by political competition. He agreed with the previous participant that there was effective political competition, and that the ANC just happened to win. He wasn't sure that he would like to see more closely contested elections, because this would provoke competition around populist policies, such as throwing more money at social security to buy votes. This would not be in the country's interests.

He therefore took some comfort from the fact that the ANC was very popular without having to be highly populist. Also, its fiscal policies had been austere to a fault. Government expenditure was well below GDP, and government revenue well above. In fact, the economy would benefit from somewhat less austere settings.

For example, it could be argued that tax should be reduced, and state spending, particularly on

infrastructure, increased. Remarkably, this had declined 2,5 times in real terms since the early 1980s.

'African countries grow for the same reasons that any other country grows, namely by developing market economies'

South Africa did not have reliable figures on GDP or its population. Until it did, one had to rely to some extent on intuition, of what was happening in the marketplace, what people were spending, and the kinds of incomes they had to be generating in order to spend as much as they were. The population census seemed to be more of an employment creation exercise than anything else.

The recent 17 per cent upward adjustment of the official figures on manufacturing output was an extraordinary change. It was clear that GDP growth had also been underestimated, inter alia by giving insufficient weight to the fast-growing motor manufacturing sector. Also, the survey of retail spending largely ignored spending outside supermarkets.

However, it did seem as if income differences had widened, and they had certainly widened within each racial group. People, particularly black people, with talent and opportunities that they had not had before were doing well. A black middle class had developed, while the protected lower end of the white population had declined – exactly the post-apartheid results one might have expected.

If one wanted to look at sources of economic and political stability, one should look at what was happening not so much to the poor but to elite groups, and how well their interests were being served. This was because political competition would emanate from the ranks of the talented, the ambitious, and the frustrated. South Africa had done a very good job of containing those frustrations. If one was politically ambitious, it made little sense to start an opposition party – one joined the ANC, and worked within it. Therefore, the situation seemed to be stabilising.

However, he agreed with Prof Butler that interventions in specific economic sectors were often unsatisfactory or ineffective. Officials were not doing a good job of appreciating just how people behaved within particular economic settings. This was cause for concern.

As regards poverty at the macro level, some policies adopted to counter this did not encourage employment, for generally good political reasons. The delivery of increased social security in particular was helpful politically. Particularly in rural areas, people seemed to prefer to be poor and not

working rather than to be poor and working. If South Africa had more employment-friendly policies, far more people would be working, especially in the formal sector. But they wouldn't be earning anything near what they would regard as necessary for a good standard of living.

■ In Africa, two turnovers in power would not necessarily prove a point for democratic consolidation, because they were normally effected by very fragile coalitions which brought about still more political instability and uncertainty. While South Africa did not have enough political competition, civil society organisations and even citizens were able to challenge the state on constitutional issues, and were in fact taking up this opportunity. The way in which the citizenry was claiming its rights was promising for the future of consolidation and the creation of a democratic political culture.

■ A participant from abroad said he was struck by the relative lack of debate in South Africa about economic growth and unemployment.

There was a consensus on the need for a far higher rate of economic growth. This was not new; even in the 1960s the old department of planning regularly stated that if South Africa was to halt the rise in unemployment, let alone reverse it, it would need a sustained rate of growth of up to 6 per cent a year.

Expectations that the advent of democracy and the end of apartheid would automatically unleash the growth impulses in the economy were clearly unrealistic, because the previous 15 years had been a period of severe stagnation.

The ANC government's conservative macroeconomic stance had helped to open what had been an extraordinarily closed economy, and integrate it with the world economy.

'If South Africa had more employment-friendly policies, far more people would be working, especially in the formal sector'

Fiscal policy had not been too austere. The obvious objective of that policy was to reduce the debt and interest rate burdens, thus creating the space that was now being utilised to increase social spending. To have tried to increase social spending at an earlier stage would not only have been irresponsible in the broad fiscal sense; at that stage the state also lacked the capacity to spend a great deal more.

Therefore, the government's macro policies had been very positive. However, economic policy-makers seemed to believe that there was potential for a trade-off between a neoliberal stance on the macro side and a more interventionist stance on

the micro side. Thus, over the past few years, he had become increasingly worried about the increasing degree of intervention in microeconomic policy.

He had been present when the government's new privatisation programme was presented in August 2000. It was clear that, if that agenda was going to work, a state-of-the-art regulatory framework would need to be created for the various utilities. This had not emerged, and instead of government's efforts being concentrated on putting that in place, it was increasingly going the interventionist route. Today, for example, one was seeing increasing price controls, whether in pharmaceuticals or in transport, and uncertainties about mineral rights.

Another contentious issue was BEE, which had not been properly debated. A few months ago he had attended a conference in London where someone asked a question about the costs and risks of BEE. South African speakers, including several prominent figures in the public sector, responded with a stream of accusations about racism and the denial of people's rights. It therefore seemed as if South Africa was unable to have a proper discussion on this topic.

Another issue that had not been properly addressed was that of relative factor prices. No investment was taking place. Sixteen per cent of GDP was barely enough to maintain the size of the capital stock, let alone increase it; by contrast, investment of around 25 to 33 per cent of GDP was needed. It seemed clear that the relative prices of capital and labour needed to be addressed.

Therefore, it seemed as if the macro framework for producing increased growth was in place – although this was also increasingly being questioned – but the micro framework was simply not there, and was moving in the wrong direction.

■ Ann Bernstein asked participants to focus on two key issues. The first was why so little attention was being paid to how economic growth could be accelerated. The second was whether BEE was contributing to economic growth, what the costs and benefits were of the approach South Africa had adopted, and whether this should be changed.

■ A participant said the latest literature on economic growth in developing countries distinguished between factors that ignited growth, and factors that created sustainable growth in the long term. Identifying the first set of factors in South Africa was relatively easy; growth had been ignited by the advent of democracy and the opening up of the economy. Democratisation had also been an igniting factor in Mozambique.

However, identifying the second set of factors was less easy, and this was precisely what South Africa needed. Key factors identified in the litera-

ture on developing countries were good infrastructure, good education, and sound institutions.

Most importantly, what should be in place was what the previous speaker had also referred to, namely macroeconomic stability in combination with effective microeconomic strategies. In other words, planners should ask how production could be stimulated, and how the structure of production could be expanded in the long term. In South Africa, the macroeconomic factors were more or less in place, but the production structure was not. This would include measures to stimulate production in general, and also to encourage private investment.

She had recently helped to write a business guide for foreign investors, and was shocked by the number of labour laws that potential investors would have to comply with. While income tax was needed for redistributive purposes, the tax laws also seemed too restrictive.

■ The issue of BEE was clouded by racial issues, and there was a need to pursue it at a more rational level. Much attention had been paid to the emergence of a few wealthy black entrepreneurs. However, this merely amounted to a deracialisation of the capitalist class, and did not constitute mass empowerment of the black population. As such, it was just one aspect of BEE.

There were several others. One was the programmes launched by the DTI to stimulate SMEs. Another was employment equity, in terms of which black people were being absorbed into the petit bourgeoisie in some companies.

The main challenge was to produce a black capitalist class that would be more productive economically. At this stage, the emerging black capitalist class had an enhanced capacity to consume, rather than to produce. If one wanted to grow the economy, and make these people more meaningful as part of a broad-based BEE, one needed to turn that class into a more productive one.

■ One of the possible costs of the way in which BEE was currently playing out in South Africa could be illustrated. A banker had recently told her that much of the capital stock that could be used for growing new businesses was being used for redistributive-type loans, and expressed his concern about this.

■ One of the problems with the debate about economic growth was that people looked for silver bullets. Some said all one needed was a more flexible labour market or labour law regime; others said all one needed was more consistent privatisation; and so on. In fact, the problem was far more multifaceted.

According to a recent World Bank survey, South Africa's labour market was the 12th most flexible out of 133 countries surveyed. However, this had obviously not resulted in a significantly higher growth rate.



There seemed to be an idea that, to be a successful entrepreneur, all one needed was a workforce that did whatever one told them to do. However, to be a good entrepreneur one had to be a good manager as well, and work out how to develop decent working relationships in one's firm, whatever size it might be.

A key factor, given South Africa's location on a largely poor continent, was what would happen to the markets in neighbouring states. In this respect, the high growth rates in countries such as Mozambique and Botswana were crucial.

Although Mozambique was growing at 6 to 8 per cent, this was off a very low base, so it would take a while before it reached a level that would make a significant difference to the South African economy. More countries in Africa should adopt expansive economic and political systems, which was why NEPAD was so crucial.

This led on to the issue of the new South African imperialism. The political elites in African countries generally welcomed investment by South African companies. The problem was that companies came with political baggage, whether an apartheid legacy, a colonial legacy, or, in the case of North American companies, an imperialist legacy.

As a result, there was a lot of suspicion of and aggression towards multinational companies. It was important for those companies to be sensitive about the way in which they dealt with these issues, and too many were not. Until they were, resistance to foreign investment would continue.

■ The way in which BEE was being portrayed in the media, namely the creation of a small number

of black oligarchs without serving a broader purpose, was cause for concern. This was particularly dangerous because BEE was still a highly emotional issue.

At the same time, people shouldn't be too concerned if the debate became emotional. Africans too were still trying to understand what BEE meant, and how it should be implemented.

One of the challenges was to decide who should take ownership of BEE. This went back to the first speaker's point that South African society was still sharply divided, along class and racial lines among others. South Africans needed to continue debating this issue. It was new to everyone, and it was only through debate and interaction that South Africans would come up with something that worked.

■ The only way in which South Africa could improve both growth and equity – including improving its poor showing in terms of Gini coefficients – would be via economic growth, and the ability to generate employment.

A new debate was emerging around the contribution of the real rates regime to the economy, and how that could help growth, bearing in mind that employment creation tended to occur at the end point of successful structural adjustment regimes.

The reduction in the budget deficit had been necessary to help stabilise the savings rate. To the extent that some scope had developed to increase the budget deficit, this was only because the bond yield had come down, which, in turn, had occurred partly because the savings rate had stabilised. This now allowed economists to think about more creative options for the economy.

When discussing the bond yield, one could become quite simplistic about what had to be done, because the bond yield allowed one to disaggregate risk very precisely. This had three components. The first was the risk-free rate; in South

'BEE is creating a few black chairmen of companies, but not penetrating to the operational level'

Africa, as everywhere else in the world, this was whatever the US government had to pay for its debt. The other two were a country or sovereign risk, and a currency risk.

Largely because of improvements in the fiscus, South Africa's country risk premium had improved significantly; it had had four credit rating upgrades since 1996. All of this was pretty standard in terms of the improvements that had come through from the financial market perspective. However, currency evaluation was not necessarily the most enduring problem; in fact, many economists argued that South Africa needed a cheap currency.

The real problem was volatility. Another way of saying that South Africa had high real costs of capital was to say that it had a highly volatile currency, because it was the currency risk premium more than anything else, that prevented the achievement of the inflation target in this country.

There was a debate about the extent to which one could link a successful monetary policy to managing down currency volatility. However, given that the government had managed to improve the savings rate, and the country was no longer under water in terms of its net foreign assets position, it could probably look to making its currency less volatile. It should try to identify quite empirically what could be done.

South African statistics were problematic, but were a lot better than those of most other emerging markets. If one was dissatisfied with the national income accounts, one could simply look at bank returns. The banks' reporting around their asset and liability sides provided a pretty good gauge of what was happening to the savings dynamics in the economy. Therefore, there was actually plenty of data on which to make fairly intelligent conclusions about what was happening economically.

As regards growth, it was fatuous to talk about South Africa's performance over 30 years, and compare it with Mozambique's over the past five. South African growth was improving; it had averaged 3 per cent since 1999, and would be revised up in November. A sea change had started, which would be consolidated by declining currency volatility around the perception that this was a low-growth, no-hope place. However, countering those perceptions and building sustainable growth would be a long slog.

■ South Africa had just begun to implement its BEE programme, and it was too soon to judge it one way or another.

One needed to ask who benefited from BEE. Often, white companies sold shares to blacks, who then brought capital into the company. It then got more work from the government because it was a BEE company. Therefore, not only blacks benefited, but whites as well.

His greatest concern was that BEE was currently creating a few black chairmen of companies, but not penetrating to the operational level. Therefore, one needed to examine whether BEE was only benefiting a few individuals, or a greater number of disadvantaged people. However, BEE had created major black players in the economy, which had not been the case before.

■ Ann Bernstein said that, at conferences and elsewhere, people were assessing South Africa's performance by comparing it to the apartheid past. This was a valid measure, but a very low one. Obviously, South Africa was doing far better in many areas than under apartheid.

However, the real issue was how South Africa was doing in the global economy. While South Africa had made a great deal of progress in attending to internal problems, countries that weren't even on the map 20 years ago were overtaking it in terms of a number of indicators. In the 1960s, for example, Johannesburg was high on the list of world-class cities, but had now slipped to near bottom.

Therefore, the issue was what indicators one was using. In numerous areas, South Africa was doing much better than under apartheid. However, it was not attracting the levels of foreign investment it needed, and that had been anticipated. And everyone knew South Africa could not grow on its own savings rate.

Everyone also knew that growth was the key to successful BEE that would reach a larger number of black people; to dealing with poverty and inequality, and to consolidating South Africa's democracy. Therefore, the key question was whether South Africa would achieve significantly improved growth based on its current approach.

■ Given its transformation, South Africa presented certain uncertainties in respect of the stability of its policy settings which had a negative influence on foreign investment. While these negative perceptions were largely unjustified, it was perhaps naïve to have expected anything else.

At any rate, a major task now was to convince people and institutions elsewhere of the stability of those policy settings, and to improve policies and delivery at the micro level in order to reduce uncertainties in that respect as well.

South Africa's investment and savings rates were very low. Throughout the world, almost all savings and investment came from corporate profits, which were reinvested. In his budget speech earlier in the year, the minister of finance, had stated that he wanted to halve the unemployment rate and increase the investment rate to some 25 per cent of GDP. One had to look at the corporate sector to do this. It had to become more profitable, and had to invest more of those profits.

The biggest implication of this was that one had to reduce the corporate tax rate. By international standards, the South African corporate sector was paying a very high proportion of all taxes collected. The issue was therefore whether the state could relinquish some of its taxation of corporations, thus enabling them to increase their profits and invest more.

Gini coefficients were often calculated before taxes and before welfare benefits, but doing so after that created a completely different picture. Some 7,7 million South African families were now receiving a social grant of one kind or another, which made a very big impact on income inequalities.

■ South Africa had achieved more over the past decade than any other country since World War 2. If one compared South Africa's performance to post-colonial activities elsewhere, and post-Soviet events in eastern Europe, it had done extremely well in terms of its political transition, and reasonably well in terms of the economy. It still needed to do much better, but to have kept these elements in balance to the extent that it had was an extraordinary achievement.

'The biggest task facing the country is to build sustainable job creation and poverty relief into the lower levels of the economy'

As regards the dichotomy between the local and the global economy, it was unfortunate that the South African motor industry was doing extremely well globally but not creating any new jobs.

The main issue in respect of the second economy was not a shortage of funds, but a lack of capacity to absorb them. There was no globally proven model for poverty alleviation and empowerment that worked with any kind of consistency. However, South Africa was not very good at that either. The biggest task facing the country was to build sustainable job creation and poverty relief into the lower levels of the economy.

■ There was plenty of empirical evidence that employment creation went hand in hand with small business development. It was puzzling why small enterprises had not taken off in South Africa in the way expected, given the previous levels of disempowerment of the majority, and the opening up of new opportunities. One wondered whether this was not a consequence of the culture of dependency that apartheid had created, particularly via the Bantu education system. Schemes introduced for financing small business development had not been very successful.

One consequence of BEE that had not been adequately recognised was that many families were opting to close down family businesses instead of taking on black partners because they did not want to share equity with people they did not know.

■ Ann Bernstein said the World Bank had conducted a study of manufacturing businesses in Durban and Johannesburg to ascertain, among other things, what constrained their growth. The results from both cities were the same. Crime was a major factor, as it prevented the companies concerned from running double shifts. Other important factors were the costs of transport, and the panoply of legislation affecting labour, from equity to hiring and firing.



In terms of the labour relations system established in the early 1990s, South Africa's economy was meant to take off with high wages and highly skilled jobs. There were some big questions to ask about this. Among them was whether there were any countries that had taken off economically without very poor working conditions for a significant period.

■ People migrated to countries that were experiencing rapidly improving living conditions. African countries whose economies were taking off, such as Botswana and Mauritius, were attracting immigrants, which meant they believed their living conditions would improve.

The most spectacular current example was China. China was not one country; it was a multiplicity of economic systems. Spectacular growth was occurring in a few special economic zones, while the rest of the country was stagnating. People in the special zones were experiencing huge improvements in their living conditions. Those in the rest of the country were desperate to go there, which is why they had internal passes and passports. Quite correctly, the government was also trying to create such zones in the rest of the country.

Here was a country starting from a very low base, experiencing extremely rapid growth in the only possible way, namely via market economies. Its five special zones were probably the freest economies in modern history – essentially zero tax and zero regulation – but were also delivering the most rapidly improving living conditions for the most disadvantaged people. Clearly, this held important lessons for South Africa.

■ South Africa was not doing enough to finance small entrepreneurs. There was also some discomfort about financing new types of businesses. In seeking growth, many factors had to be balanced, including protection of the environment. In the Eastern Cape, for example, it was difficult to implement major development projects without tampering with sensitive environmental areas. A

trade-off seemed necessary, because the potential of tourism and ecotourism to transform the lives of people in those areas was limited.

■ The notion that small businesses were primarily shackled by a lack of finance was incorrect. There were loans worth R16 billion on the regulated industry's books, and about 4 per cent of this were to small and medium businesses. In the case of the unregulated industry, this figure was far greater.

One couldn't cause business success with finance, but could cause business failure with debt. The Global Entrepreneurship Monitor had showed that, around the world, small businesses were started with personal savings and loans from friends and family.

All businesses, but more particularly small businesses, needed networks. If potential networks were impoverished because there was no business history, or because the people involved in business were either financially corrupt or political collaborators, thus precluding them from serving as role models, it was difficult to start building such networks.

South African businesses had to comply with 45 tax, labour, and environmental laws, or risk being shut down quite quickly. Medium-sized businesses were secure, because they could hire people to take care of these aspects. By contrast, 70 per cent of small businesses and 90 per cent of micro businesses failed.

At the same time, South Africa could not follow the Chinese route and say, let's stop being a democracy while we sort out the growth issue, and then perhaps, if the people in charge feel like it, we can go back to being a democracy. It could not go back to treating labour the way it did under apartheid. Other ways had to be found of resolving these problems.

■ If South Africans were offered a choice of living under the current liberal constitution, which might constrain growth, or under an authoritarian government, which might allow more unbridled growth, most would probably prefer the former.

There was mounting evidence that child support and other grants were increasingly being used for productive purposes, and not only to subsidise consumption; for example, micro businesses had arisen around pension pay points and so on. The Department of Social Development and the Western Cape government had commissioned studies on these developments. It should not be assumed that social transfers functioned merely as subsidies.

■ Research has been conducted for NEDLAC on the metals and engineering sector. Some 700 companies were surveyed. One aspect studied was whether the Employment Equity Act constrained their growth, but no evidence of this could be found.

The study also showed up massive growth in atypical employment, including an eightfold increase in casualised labour and a fourfold increase in the use of labour brokers over three years. This was direct evidence of a highly flexible labour market. This was not because companies were trying to avoid the effects of labour laws, but because they were uncertain about both domestic and foreign markets. Therefore, they took on extra labour when they had large orders.

■ BEE was partly motivated by political considerations, which had some positive consequences. A major reason for civil wars in African states was that people had always assumed that participation in state institutions was the main route to a good life, and therefore began contesting ownership of the state. However, in South Africa BEE was making it possible for some people to enjoy a decent life outside of the state apparatus. This political element of BEE needed to be appreciated. The challenge now was to increase its economic benefits.

THE SPEAKERS RESPOND

Prof John Daniel: We have been asked to identify the big things that have happened over the past ten years. From a political science perspective, I want to focus on two. The first is the dismantling of the authoritarian state, the establishment of a liberal democracy, its consolidation, and the achievement of stability. Even if we have had less economic growth than we hoped for, without stability we would have had even less.

It has been stated that Mozambique and Angola started to grow when they became democracies. This is not necessarily true of Mozambique. One would have to debate how democratic Mozambique actually is. Its economy started to revive when the war ended, and stability and peace returned. Similarly, in Angola, the economy started to grow after the death of Savimbi. In South Africa, we now have stability as well as democracy.

Are we going to have more or less political competition in the years ahead? I think the answer is less, because I think the ANC is going to start swallowing up the IFP and NNP. Thus the two parties which represent particularistic nationalisms will be absorbed by the truly national party of South Africa.

The second big feature is our growing relationship with Africa. Our exports into Africa have grown from 4 per cent in 1994 to 16 per cent in 2003. This is not insignificant – it means there are many South African businesses that are making money in Africa.

Is this hegemony? You have to unpack this term. Simply being big doesn't make you hegemonic. Hegemony is a power relationship, like

imperialism. It's a power relationship of domination and subordination, which is created and then perpetuated. There is no evidence that the Mbeki government has set out to achieve this.

Also, one has to distinguish between the first five years of democratic rule under Nelson Mandela, which was ad hoc in foreign policy terms, and the later years under Thabo Mbeki, during which there has been a concrete plan in respect of Africa, involving the African Renaissance, NEPAD, the African Union, and so on. South Africa has a clear policy towards Africa, and there is no evidence that, within that framework, South African businesses are being manipulated for political ends.

Prof Anthony Butler: The ANC's political dominance has been seen as good, bad, and necessary in a variety of different ways. It has been seen as good particularly because it has produced stability, and enabled the government to take difficult decisions. But I think there are problems surrounding the way in which such policy is made. A long-term dominant political party of that kind may or may not produce good policy. One of the things that is likely to allow it to produce good policy is contestation, which can be either internal or external. There is a good deal of contestation within the ANC, but the way in which it is resolved slightly worries me.

As we all know, the ANC brings together a huge range of constituencies, voices and interests – communists, Christians, trade unionists, traditional leaders, and others – and manages to reach an accommodation on almost every issue. However, they are not always entirely comprehensible. When one listens to an ANC politician talking about policy, one can usually work it out eventually, but this may not be so easy for people overseas.

A second problem is that parliament does not play a particularly strong policy input or oversight role.

'South African businesses have to comply with 45 tax, labour, and environmental laws, or risk being shut down quite quickly'

A third problem surrounding contestation in the current system is that individual responsibility is largely absent, because individuals are putting forward ANC policy and not their own positions.

A fourth problem is that certain kinds of knowledge creation cannot be incorporated into the ANC consensus-producing machine. Notably, economic policy analysis doesn't fit well with the ANC's way of thinking about what it should be doing, but this also includes science and medicine, as we've

found. Although it can embrace science and medicine, this is not an easy digestive process, and policy development is protracted.

My second main point is that, given all this discussion about BEE and the private sector, we should not lose sight of problems surrounding

'We have millions of hours of maths instructions in our schools each year; however, much of it adds no value whatsoever'

the public sector, and the fact that many government institutions, be they national departments a bit further away from the centre, or provincial governments, are not very good at making policy, let alone implementing it. Many national departments in fact do not have the capacity to make policy. One reason for this is that graduates want to work in the private sector; they're not interested in public service, even as a stepping stone.

Thirdly, one big issue we haven't discussed is education. This is important both for achieving BEE and for good public sector policy-making, but also represents a big black hole in public finance. It not only soaks up a fifth of the national budget, but also other expenditures such as social development grants. Education and skills development are major long-term issues.

Prof Charles Simkins: I have no doubt that the background conditions for the third election were better from a democratic point of view than the first. And I have no doubt that the ANC is in government with the will of the majority. All I am saying is that, if a single party dominates for a long time, this can work out in very different ways.

In Sweden, for instance, the social democrats had been in power for 50 years by the mid-1970s. When the electorate turned against them, they went. No problem. Going down the list, Japan has also been dominated by a liberal democratic party since World War 2, but Japanese politics have their murky side, which makes Japan a less than perfect democracy.

A bit further down you find Mexico, where the PRI had been in power for 80 years by the mid-1990s, with some bad things happening en route, including the way in which they turned on sections of civil society in the 1930s. The 1988 election was stolen from the left rather than from the right. But eventually they managed a political transition in the presidency.

Going even further down the scale, we have our northern neighbour, where there should have been an alternation in power, and there hasn't. The background conditions of democracy have

closed down very substantially, leading to economic ruin.

Which of these trajectories will we follow? The only way you can tell is by looking at process. It's not enough to say that the policies are sound; you have to consider questions of process as well. An example of miscalculation: the Iranian Communist Party in 1979 thought, we'll collaborate with the Theocrats. The masses were on the move, we're going to have a revolution, and we will take over from the Mullahs. Three years later, the Mullahs turned on them and simply wiped them out.

As regards crime and unemployment: there are many theories relating unemployment and crime to defects in the social fabric. Another important factor is the efficacy or otherwise of mechanisms for its deterrence, and if those are relatively weak, as they are in South Africa, this pushes up crime levels.

As regards BEE, its cost can be measured in terms of the write-down in the human capital in the hands of minorities. Since human capital is not easily produced in South Africa, a significant write-down can have serious consequences for economic growth. The education system is not very good. I recently analysed the results of a survey of maths competence in grades 9 and 11 in 102 rural and township schools. The average mark in both grades was 8 per cent. In grade 11 they tested everyone, whether or not they were taking maths for matric, and there was no difference between the two groups. We have millions of hours of maths instructions in our schools each year. The problem is that much of it adds no value whatsoever.

What a previous speaker has said is obviously true: the more growth you have, the less conflict there will be, and, ultimately, the less need for a BEE policy at all. People will simply be sucked in; the whole country will be hungry for whatever human capital exists.

THE PRESIDENCY'S TEN-YEAR REVIEW AND BEYOND

Chair: Ann Bernstein

SPEAKER

Alan Hirsch

Chief director: economic sector, The Presidency

This is an abbreviated presentation of The Presidency's 10-year review, focusing on social and economic issues, and supplemented with issues of concern looking forward.

In preparing the review, we basically asked ourselves: what did the government set out to do in 1994, as set out in the Reconstruction and Development Programme, and what has been achieved?

It is based on both internal and external research; while some research was done by ourselves and other government departments, we also commissioned analysts and researchers at universities and in academic think-tanks to do some work for us.

SOCIAL SECTOR

The central focus of the democratic government's social programme has been to alleviate poverty via a range of programmes addressing income, human capital, and asset poverty. Poverty and inequality remain severe. When the President talks about the 'second economy', he is really talking about households that have no assets and no steady source of income, either from the formal or the informal sector. About 30 per cent of households, amounting to more than a third of the population, fall in this category.

Income poverty alleviation

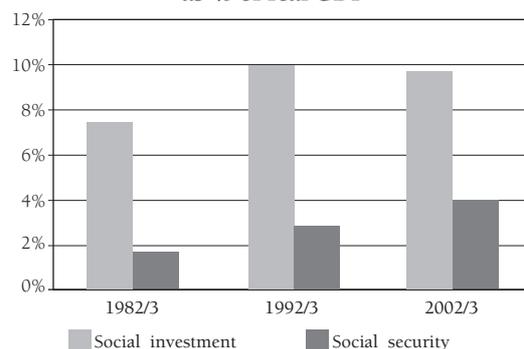
Social grants comprise a major component of the government's income poverty alleviation programme. Expenditure on social grants has increased very significantly, from R10 billion in 1994 to R34,8 billion in 2003, and the number of beneficiaries has grown from 2,6 million to 6,8 million. From 1995 to 1999, the number of households below the poverty line increased slightly from 28 per cent to 30 per cent. However, research has shown that the current system of social grants has the potential of reducing the number of individuals in poverty from 42 per cent of the population to 24 per cent.

This has led to the problem illustrated in figure 1. While expenditure on social investment – ie



health and education – has flattened out, expenditure on social security is rising rapidly, and will continue to do so for some time.

Figure 1: Social transfers and social investments as % of real GDP



Human capital poverty alleviation

Enrolments at early childhood development institutions and primary and secondary schools have improved. Class sizes have declined, and the ratio of female to male enrolment is now greater than one.

Literacy rates and matric pass rates have improved as well. However, we don't think the literacy

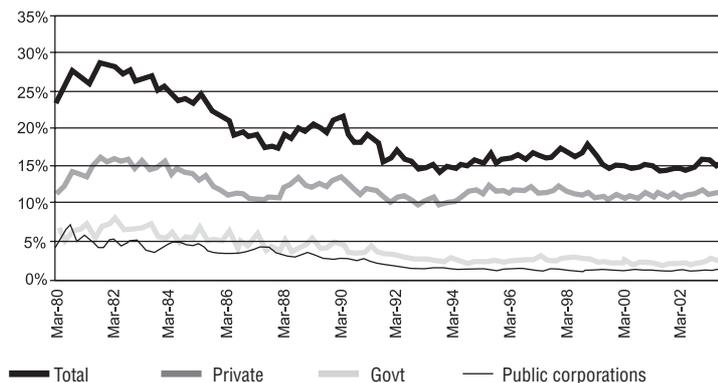
figures are a true reflection of functional literacy, which is still lower than these figures reflect.

HIV/AIDS has spread massively, from 0,7 per cent of the population in 1990 to 22,4 per cent in 1999, but expenditure has increased from R30 million in 1994 to R342 million in 2001–2, and the government has made a very significant commitment to further increase expenditure by R3,6 billion over five years, starting in 2003–4.

The proportion of households with access to clean water has increased considerably from 60 per cent in 1996 to 85 per cent in 2001. Access to sanitation has also increased, from 49 per cent of households in 1994 to 63 per cent in 2003, but not to the same extent as water. This area is now receiving attention.

Electricity connections have increased hugely from 32 per cent of households in 1996 to 70 per cent in 2001. However, 49,1 per cent of households still don't use electricity for heating because of its cost.

Figure 2: Gross fixed capital formation as % of GDP



Asset capital poverty alleviation

The lead programmes in this area have been those in housing and land. Since 1994, R50 billion of assets have been transferred to poor households under these programmes. Huge advances have been made in housing: almost two million subsidies have been approved, at a cost of some R24 billion. Almost three quarters of these dwelling units have been built, and six million citizens have received new houses. The subsidies are effectively gender-neutral; 49 per cent have been awarded to women.

Since 1994, 1,8 million hectares of land have been redistributed to 137 478 households. By 2002, 68 000 claims for land restitution had been lodged – 72 per cent in urban and 28 per cent in rural areas. By 2003, 36 489 claims had been settled, involving 85 000 households. By December 2002, R1,2 billion had been paid out in compensation in urban areas, and 571 232 hectares had been restored in rural areas at a cost of R442 mil-

lion. However, the land redistribution programme is not proceeding as urgently as it would without any financial constraints.

ECONOMIC SECTOR

The government's main goals in this area have been to create jobs; eliminate poverty; reduce inequality; and increase the country's wealth.

The budget deficit has been reduced from 9,5 per cent of GDP in 1993 to 1 per cent in 2003, and public sector debt from 64 per cent of GDP in 1994 to 50 per cent in 2003. The net open forward position of the SA Reserve Bank has improved from -\$25 billion in 1994 to an expected +\$5 billion in 2004, and foreign reserves have risen from one month's import cover to about four months' cover.

As a result, South Africa has achieved a level of macroeconomic stability not seen in 40 years. This has created opportunities for real increases in expenditure on social services, reduced costs and risks for investors, and increased investment and growth.

However, total investment as a percentage of GDP remains very low, between 15 and 17 per cent of GDP, compared with 25 to 30 per cent in the early 1980s and previously. More importantly, it shows no signs of substantial improvement (see figure 2).

As the graph shows, private sector investment has been relatively steady; while it has risen slightly since the late 1990s, it remains at a low level. Up to 1999 in particular, this was fuelled by concerns about government policies, levels of economic growth, crime, labour legislation, and interest rates. Since then, perceptions have improved, but there is still much work to be done before all potential investors will fully understand South Africa's prospects, and have full confidence in our new democracy.

Up to the late 1990s, state investment was constrained by fiscal policy, public sector transformation, and the restructuring of SOEs. While, since 1999, state capital investment has risen as a percentage of overall state expenditure, it has continued to decline as a percentage of GDP.

Foreign investment rose from less than R50 billion in 1994 to more than R200 billion by the end of 2002, but this is still less than expected. There have been quite good inflows, particularly of portfolio capital, but less of direct investment. If we exclude the Anglo American De Beers deal of 2001, our investment inflows more or less equal our outflows.

Since 1994 the economy has grown at an average of 2,8 per cent a year (3,25 per cent a year if 1998–9 are excluded). These figures will also be revised, and will probably be slightly increased,

particularly for the past six years or so. However, they will still not be high, and are lower than the government expected.

Our rate of economic growth is significantly below the average for developing countries, as well as the average for Asian newly industrialised countries. We're moving in roughly the same band as the OECD economies.

Employment has increased by about 2 million jobs, but this could be anything between 1 million and more than 2 million. Work is being done to improve these statistics. However, the number of unemployed has increased from 1,9 million in 1995 to 4,2 million in 2002, as has the rate of unemployment. At the same time, there is a shortage of skilled workers, particularly in financial service, information, and communication technology.

Trade reform, industrial restructuring, and industrial policy

Our balance of trade has improved, and there has been a shift from primary exports to higher value-added secondary and tertiary sector exports, resulting from our interaction with a range of international opportunities.

We have also implemented the tariff reforms in line with our commitments to the World Trade Organisation. This has led to a modernisation of industry, some increases in productivity, and some improvements in exports in certain sectors.

State enterprise restructuring

Our objectives in this area have been to improve the access of historically disadvantaged people to services such as electricity and telecommunications; increase efficiencies and reduce costs; reduce public debt; and promote BEE. These objectives have not always been compatible, and there has been some confusion about what our priorities are. In the initial period there was probably too much emphasis on privatisation and not enough on liberalisation. Also, the government now recognises that public enterprise restructuring will not play a major role in reducing our debt, or supporting the budget. The other objectives, particularly that of reducing costs in the transport and telecommunications sectors, are now regarded as far more important.

We have reduced public debt, raised funds from the private sector via the sale of shares, and increased competition in some sectors. However, in some sectors the policy objectives of low costs and high quality have not been achieved to the extent we think possible. In general, the situation has improved, but not nearly to the extent that it could, or to the extent achieved by some of our competitors.



Jobs have been shed as a result of improved business processes and the introduction of new technology, and the regulatory environment and levels of competition are not what they should be, particularly in some sectors.

Regulation, labour legislation, and taxation

A new labour law regime has been introduced which has increased stability enormously, as attested by the massive drop in person strike-days a year. However, we are still in the process of finding a balance between job security and labour market flexibility.

The tax system has been improved, and levels of taxation have been reduced. However, there are still concerns about the tax system, which may be encapsulated in two conflicting perspectives. On the one hand, the business community is concerned about 'creeping' forms of taxation, and it is argued that the skills levy, empowerment programmes, municipal levies and others constitute unpredictable additions to the tax burden on firms. On the other, if we were to significantly reduce the tax burden on the private sector, this may lead to social polarisation, and make some of our social objectives more difficult to achieve.

Competition

A new competition regime has been introduced, which has improved merger control, but has been less effective at combating prohibited practices in both the public and private sectors. Industries are still highly concentrated, and price mark-ups in certain sectors remain high.

Small business development

We have had one real success in this area, namely the manufacturing advisory centre (MAC) programme. Other components of the programme have not been very successful. However, it is

being reviewed, and policy will be changed. As the President announced in his state of the nation address earlier today, the Ntsika Enterprise Promotion Agency and the MACs are to be merged, and the micro credit area rethought.

Skills development

The National Skills Development Framework is probably the biggest social experiment in South Africa post 1994. It is too soon to say whether it has succeeded or failed. Many people are very impatient about the lack of progress in some sectors of industrial training.

Significant resources are being directed at general education and skills training, and institutions delivering human resource development and skills training have been restructured. However, some sector education and training authorities have been slow to meet their objectives. Their legal environment is being reformed, which we hope will improve the situation.

As noted earlier, many employers cite a shortage of semi-skilled and skilled workers as a constraint on expansion. Despite this, both public and private sector employers have been slow to take advantage of the training opportunities available.

At the same time, the number of unemployed graduates – particularly African graduates – has increased. It therefore appears that school, technician, and university programmes are not always effectively geared towards employment, and that career guidance at schools is inadequate.

‘We have significantly improved social services, and have made a dramatic impact in respect of the delivery of pensions and other social grants’

Innovation and research and development

After the apartheid-era investment in strategic projects in energy, defence, and so on, domestic R&D declined considerably. However, the 2002 Research and Development Strategy has established new and relevant goals, and the country’s expenditure on R&D is rising again as a percentage of GDP.

Economic competitiveness

This has improved since the early 1990s. The growth and diversification of exports is one indication; the improvement in labour productivity is another. Our figures for the latter are based on industrial sector employment data,

which need to be revised. However, even if the improvement in labour productivity has been overvalued by 30 to 40 per cent, it is still very substantial.

The shortage of skilled labour remains a key weakness. Other areas of concern are the cost of transport and telecommunications.

FINDINGS

Social sector

We have significantly improved social services, and have made a dramatic impact in respect of the delivery of pensions and other social grants. However, many actual or potential recipients of social grants are still unregistered, or poorly serviced.

We have also made notable advances in providing services such as electricity, water, sanitation, and housing. However, the levels of municipal debt and illegal connections suggest that many municipalities have poor capacity on the one hand, and that many citizens do not understand their obligations to the state on the other.

While spending on health services has been significantly increased, and a major effort made to reorient them, this has not been fully reflected in the outcomes.

Housing and land reform have made some impact on asset poverty and on women’s rights, which the communal Land Bill will advance further. However, micro credit for productive purposes and general access to finance remain major impediments.

Economic sector

We have progressed significantly in some areas under central government control, such as fiscal, monetary, trade, and some aspects of industrial policy. However, the successes in fiscal reform have not yet reached all the provinces and municipalities.

In particular, much still needs to be done to improve the municipal sphere. We have also been less successful in areas such as competition policy, restructuring and improving the performance of government, improving regulatory institutions, and agrarian reform.

Improvements in macroeconomic policy and industrial strategy are beginning to improve investor attitudes. However, less progress is evident in small business and human resource development, innovation and R&D, the restructuring of SOEs, BEE, and employment equity. We have often not been successful enough in areas where the relationship between the government and the private sector plays a key role.

One of the key lessons we have learnt is that institutional capacity is a major factor in the implementation of economic policy. More specifically, we have learnt that institution-building is a slow and expensive process, and that we should exploit successful existing institutions rather than trying to replace them or creating additional institutions that will further stretch our very limited managerial capabilities.

Similarly, some rationalisation of existing institutions might lead to medium-term gains, but these need to be weighed against the costs of rationalisation.

I hope this lesson will be learnt and retained throughout government, because it's difficult to do so at a time when transformation and transition are the order of the day.

MEASURING THE IMPACT OF GOVERNMENT POLICIES

In order to provide a quantitative measure of progress made, we have developed a set of human development indicators comprising comparative scores on seven indexes. The scores are shown in table 1.

The table shows that our performance has improved in four of the seven areas. As regards safety and security, while the overall score has dropped, it reached a trough in 1999 and has been improving since then. However, it is still very low.

Economic participation has deteriorated because, even though employment has increased, unemployment has increased by a greater margin. Economic preparedness, which relates economic participation to levels of education, has also deteriorated. However, I think the situation in the schools is beginning to improve, and hopefully this will feed into the universities.

Changes in South Africa's Gini coefficient are reflected in table 2.

Table 2: SA's Gini coefficient, 1997 and 2000

	1997	2000
Excluding social transfers	0.68	0.59
Including social transfers	0.44	0.35
Percentage change	33	41

If social expenditure is excluded – as it conventionally is – South Africa's Gini coefficient worsened from 0.59 in 1995 to 0.66 in 2002. However, if social expenditure is included, the Gini improves massively, as the table shows.

Due to different data sources, the Gini between 1997 and 2000 aren't really directly comparable,

but the differences between them have been calculated in the same way. Most importantly, the table shows that social spending is having a major and growing impact on inequality.

THE SOCIAL TRANSITION

We have identified four major social trends.

Changes in South Africa's demography

In 1996–2001 the population grew only moderately by about 2 per cent a year, or 11 per cent over the whole period. However, the number of households increased by 30 per cent. This is a really important social phenomenon, with major implications for planning. More specifically, it places a far bigger burden on the state in respect of service delivery.

It also has major implications for service delivery by the provinces. This is why, in his address this morning, the President announced a review of housing policy. Should we continue with our extensive programme of small owned houses, or formulate one that fits in more effectively with other planning strategies? The President has promised a report on this in about three months' time.

Table 1: The government's seven human development indexes

Index	Period	Score
Safety and security (violence crime, prosecution, and conviction rates)	1997-2002 1999	0.53-0.49 0.41
Economic participation (employment, the non-poor, and earnings)	1995-2002	0.63-0.60
Economic preparedness (relates economic participation to levels of education)	1995-2002	0.52-0.4
Infrastructural services (access to housing, water and sanitation, electricity, and telephones)	1995-2002	0.46-0.60
Quality of life (access to health services, adult functional literacy, environmental quality)	1995-2002	0.52-0.67
Political participation (political and trade union participation, and social trust in government)	1995-2002	0.37-0.47
Social inclusion (household stability, inclusion in society, participation in cultural organisations)	1995-2002	0.27-0.36



Dramatic increase in the economically active population

Up to 2002, some 1,6 million new jobs were created, but the number of economically active people grew by 3,9 million, leaving 2,3 million unemployed. Put differently, the economically active population grew by 35 per cent, three times faster than the rate of job creation.

Change in the structure of the economy

There has been a huge shift away from public services, construction, and mining towards the commercial, financial, and services sectors, in terms of employment as well as investment. Also, the economy's long-term prospects for expansion are mainly in the services sector.

This has compounded the problem of a society divided between insiders and outsiders; outsiders, without access to skills, are even more outside the system today than they were under apartheid. At that time there was a forced process of redistribution through the migrant labour system. Now families are separating and segmenting, and traditional ties are breaking. So, in some ways, this problem is greater today than it was previously.

'Outsiders are even more outside the system today than they were under apartheid'

It is in this context that we are talking about two economies. The first economy is an advanced and sophisticated one, based on skilled labour, and becoming increasingly globally competitive. The second economy is mainly informal, populated by people who are marginalised, unskilled, unemployed, and largely unemployable in the formal sector.

The first economy has made impressive gains, but these have not adequately reached the second

economy, which risks falling further behind if the government does not intervene.

Migration

This is the major phenomenon of migration to the urban areas, that started in the 1980s but has grown in the 1990s. Twenty per cent of urban dwellers are new migrants; or, stated differently, a fifth of our urban populations are people who have urbanised over the past 10 years. These huge inflows are disrupting urban communities on the one hand, and depriving rural areas of social capital on the other.

MAIN CONCLUSIONS

We have made major advances, which far exceed remaining weaknesses. We are reaping the fruits of good macroeconomic management; have gained experience in implementation; and have put programmes in place for microeconomic interventions. However, there are weaknesses in areas that are least dependent on direct government action, or furthest away from direct government economic intervention. The key question is: should we continue on the same trajectory?

The answer to that question is, yes and no. Yes, in the sense that we have to build on the foundations of the past 10 years. No, in the sense that if we don't address the social challenges emanating from residual inequality and social divisions, we will run into difficulties. The elections in India have demonstrated the problems that can arise in a society that is growing well but is unable to deal effectively with some of its social challenges. Fortunately, they are continuing their attempt to do so in a democratic environment. Hopefully, if we don't succeed in eliminating the remaining divides in our own society, we will be able to continue doing so as well.

CHALLENGES AND OPPORTUNITIES

Our fundamental objective is to create a united, non-racial, non-sexist, and democratic society. This will be realised by means of two major interventions: consolidating democracy, and eliminating the 'two economies' divide, thus ensuring that all South Africans benefit from a growing economy. These two interventions form the basis for four big ideas:

1. A framework of encompassing interest – a social compact: Because the government has not been very effective in areas further away from its powerful central instruments, it has to collaborate more effectively with the other major social players, namely the business com-

munity, labour, community organisations, and others. We are hoping that the agreements to improve our growth performance and development initiatives made at the Growth and Development Summit will be implemented, and that we can build on the understanding that was reached in it.

2. Improving the performance of the state: The quality of state services is still very poor in some areas, and rectifying this will be one of this government's major themes.

3. Addressing the consequences of the social transition: The challenge of reducing inequality requires us to reach a better understanding of patterns of demographic change and changing employment opportunities, and developing and implementing suitable policies and programmes.

4. Improving the regional environment, and implementing NEPAD: There are problems of stability and accountability in the South African region and in Africa more broadly which we need to address through our participation in effective African and global multilateral structures.

THE WAY FORWARD

Governance and administration challenges for the next decade

- Improve service delivery;
- Improve the capacity of provincial and local government;
- Improve monitoring and evaluation systems;
- Forge partnerships with civil society;
- Provide leadership to our social partners; and
- Make use of the national spatial development perspective.

Social challenges for the next decade

- Efficiently deliver social grants in a system of comprehensive social security;
- Expand the Public Works Programme;
- Effectively combat HIV/AIDS and other diseases;
- Match skills to the requirements of the economy;
- Devise support programmes for farmers;
- Meet the increasing demand for housing and services; and
- Foster national identity, pride, and social cohesion.

Economic challenges for the next decade

- Formulate policies to increase growth and employment, and reduce inequality;

- Pursue macroeconomic policies for sustainable growth;
- Increase public sector investment, in order to 'crowd in' the private sector;
- Formulate focused sector strategies in key growth and employment industries;
- Restructure industries in order to compete effectively and grow jobs;
- Increase the efficacy of SOEs through restructuring and/or reinvestment;
- Improve empowerment and micro credit;
- Improve targeted skills development and general and technical education;
- Address the challenges of the second economy;
- Introduce a programme emanating from the Growth and Development Summit, including investment and learnership targets; and
- Pursue an R&D strategy both in high-level niche areas and for poverty eradication and protection of the environment.

RESPONDENTS

Prof Brian Kantor

Investment strategist, Investec

My first impression is the positive one that there is no sense of complacency on the part of The Presidency. There is a recognition that the government is faced with huge and difficult tasks, and that a major effort is needed to improve performance. At the same time, no miracles are being promised, which is very sensible.

On the issue of economic growth, one conclusion I have come to is that we shouldn't look to the government for a dramatic change in performance or delivery. Put differently, I don't think we should look to dramatic improvements in the government's performance as the mainspring of higher rates of economic growth. We would hope for incremental improvements, more of the same, better of the same. This isn't really a criticism; it's just an appropriate reality.

'It is not the business of government to do business; instead, we have to look to the business sector for improved performance'

Having said that, where do we look for growth? I think we have to look to the institutions that have performed well thus far, and could perform better going forward, given a greater sense of a stable environment. That, of course, is the business sector. I think the government recognises this as well. It is clearly not the business of government to do business; instead, we have to look to the business sector for improved performance,



improved profitability, improved investment, improved skills transfers, and improved competitiveness. Again, given what we've heard here, I'm not pessimistic about this possibility.

One point in Dr Hirsch's presentation really resonated with me, namely the problems surrounding institution-building in the midst of transformation.

It is very difficult to reform existing institutions, or build new ones, without good institutional memory. Institutions such as businesses and perhaps some universities that have held up best in terms of their ability to deliver are those where the transformation process has been well managed, and not forced.

'We should reinforce the economic strengths of the urban areas rather than try to compensate for the weaknesses in the rural areas'

If you want to preserve your institution and your human capital, you have to be very careful about transformation. In some senses, we have been careful, and in others perhaps not careful enough. Therefore, the recognition that government institutions and their capacity are so important going forward is welcome.

Another point: I don't know whether it makes sense at all to think that one can uplift the rural areas – in other words, one cannot rely on anything other than continued migration away from the rural areas towards urban areas as part of the process of growth.

Almost all those in the rural areas who are classified as unemployed are in fact not unemployed, because they have no reasonable prospect of finding a job, unless the Public Works Programme brings those jobs to them. If they are in the rural areas, they are effectively out of the labour market. And when they migrate to the cities, they enter the labour market. I have been struck by just how dramatic that rate of migration is. We should regard this as inevitable; we have to address ourselves to that process, and indeed welcome it and build on its strengths rather than trying to counteract it. In other words, we should reinforce the economic strengths of the urban areas rather than try to compensate for the weaknesses in the rural areas, because I'm not sure that such an attempt will work.

I want to conclude by addressing the four big ideas mentioned in Alan's presentation.

As regards the social compact, If you mean by that increased involvement of business in policy-making: I was recently asked to advise on policy on price control in the medical industry, and it seems to be an absolute mess. The industry was involved in the policy process, but this does not seem to have borne fruit. There is a congruency of interests, but the actual implementation of policy is not producing the right results.

Be that as it may, I would hope we can help to improve the performance of the state. Again, for me, it comes back to incentives. When we talk about education, improved delivery, and social investment, why don't we use more incentive-based systems, such as vouchers, rather than the state providing all these services? For example, can we not contemplate providing vouchers for children to learn maths at private schools?

As regards addressing the consequences of the social transition, I think the government has performed very well. Delivering money to poor people via the welfare system has been very effective, and very supportive of government and its popularity. I think we can get more of it. However, one has to remain aware of perverse incentives, particularly when minimum income grants are considered.

The reserve price of labour rises because of social welfare grants of one kind or another. As I said earlier, many people may well prefer to be poor and not working rather than poor and working. In fact, the social welfare system does give them the first option, as well as the option to stay in the rural areas. One has to recognise that those kinds of trade-offs exist.

The regional environment is obviously also important, but I'm not sure there is much we can do about it. We can certainly benefit from growth in Angola, Mozambique, and so on. Actually, it is interesting to note that the low-paid jobs in our formal sector have migrated to Botswana, Leso-

tho, and Swaziland. This is obviously because wage rates are lower, and the regulation of employment far less onerous.

If you want low-wage employment, you can get it, but you've got to give up some of the protections of established labour, and it's not clear that South Africans are willing to do that. So I think we have to continue to live with policies that do not encourage the employment of low-skilled people. And we have to turn to the other exercises to raise skills and so on.

To conclude, we need to recognise that the source of strength in our economy is the market economy. And we must do our best to make it work better, and attract more investment. On that point, why should it be politically impossible to shift taxation away from income towards consumption and the encouragement of investment and savings, combined with the effective delivery of social benefits to the marginalised?

If we want to raise the investment and savings rates, we have to give up our dependence on corporate taxation. We cannot continue to rely on it to the degree that we do. We're talking here of about R60 billion or more, which could and should be used to finance more investment rather than be paid in taxes. Of course, this source of government revenue would have to be replaced with taxes on consumption spending.

Ann Bernstein

The government needs to be complimented on its comprehensive review. It is a solid base on which to go forward.

Some crucial issues immediately present themselves. The first is urbanisation. South African has been ambiguous about this, historically and also during the past ten years. Do our best development rand returns lie where the chances of economic opportunity are greatest, or do we want some kind of geographic spread? The Presidency has done a lot of work on this issue, but the country is not yet resolved on it.

It is also not resolved on immigration, a crucial issue for economic growth. Immigrants are in fact helping to drive the South African economy. While the President speaks of two economies in South Africa, the low-wage jobs are going to our neighbours.

This was the intention of the Labour Relations Act, and the people who drafted it. They never went to Limpopo and the Eastern Cape and said to people, this is what you're voting for, we're sending these jobs and any possibility of similar jobs away from here. And that is what has happened.

CDE would support the new Public Works Programme and the President's ambition to create a

million jobs. I would be bolder, and say that any South African who wants to work in the Public Works Programme should be given the chance to

'If we want to raise the investment and savings rates, we have to give up our dependence on corporate taxation'

do so.

But this is a stop-gap measure. It deals with the plight of many South Africans, but it also enables the politicians to push harder on the different reforms needed to turn South Africa into a high-growth economy. It is not clear whether the government will use this opportunity. This also raises the issue of what will be created by the Public Works Programme, and whether it can be made to yield economic returns, so that the infrastructure created will help the country to become more sustainable and outgrow the need for this kind of programme.

This involves the politics of economic reform, which South Africa has managed until now because it has had increasing revenues, and it has been able to expand the social wage. But this is not sustainable, as the presidential review has indicated, and the President himself has stated. So one returns to the dilemma of the so-called two economies. Whichever way one massages the figures, what are we going to do about them? Also, South Africa is not an economy in isolation.

As regards internal migration, we are not entirely certain about those figures. But, in many ways, the real migration challenge involves migration across South Africa's borders, and its impact on the two economies. I am surprised that the President did not raise this issue in today's address, given that it is something he has been thinking about and has commented on.

DISCUSSION

■ A participant said he was worried by Dr Hirsch's statement that the second economy risked falling further behind without decisive government intervention. He asked what this might mean, because all the available evidence suggested that the more the government intervened in the second economy, the less effective it was. He hoped that, whatever the government was going to do, it would avoid adding to the disincentives in that sector.

Soto Ndukwana's account during the first session of the failure of rural spending to generate local multiplier effects was a disturbing one, and he hoped research would be done on this. However, why were people in the townships or rural



areas relying on banks for their finance? Where were the informal financing institutions? And what were the development finance institutions doing? The last place these people should be going to for finance was a commercial bank.

■ The presidential review had acknowledged that, besides upward pressure on social grants expenditure, there would be further upward pressure on health expenditure because the AIDS crisis hadn't peaked, and there might be upward pressure on programmes to reduce unemployment as well. Given that tax collection had reached a stage of diminishing returns, he asked what The Presidency's thoughts were on how all this could be financed.

■ Responding, Alan Hirsch said the 'second economy' was a metaphor with a powerful political resonance, but less useful analytically. Therefore, it was important to explain exactly what The Presidency meant by it. It did not mean the informal sector; parts of the informal sector were part of the first economy, with people earning a good living. It also did not mean the rural areas; the second economy was distributed between the peri-urban areas and different types of rural areas. It really meant marginalised people who were not effectively integrated into the economic system in

'Societies that have effectively addressed severe inequality have generally achieved higher levels of economic growth after doing so than before'

the sense of being forced to draw on resources other than their own skills or assets to survive.

There was very strong evidence in the latest economic literature that inequality as severe as South Africa's did not reverse itself. There was no automatic trickle-down; therefore, the government had to intervene. The question was how –

what instruments it should choose, and what kinds of resources it should utilise.

Secondly, intensive cross-country research had shown that societies that had effectively addressed severe inequality such as South Africa's had generally achieved higher levels of economic growth after doing so than before.

So the question was what sorts of interventions should be adopted. The kinds of interventions the government was talking about were those aimed at building a bridge between the two economies. There were two types of people in the second economy: those who were potentially employable in the modern or first economy, and those who would probably never be employed in it. People in the latter category were usually too old and not educated enough, compared to younger people who were better educated.

Therefore, strategies were needed to help those people whose role was to sustain those communities. At the same time, the state had to find ways of providing information, skills development, and possibly even capital to those people who had the potential to join the first economy.

Therefore, government intervention would consist of human resource development, micro credit, and public works programmes, not only as a stop-gap but also as opportunities for people to come into contact with formal labour activities, gain access to information about labour markets, and undergo some training.

Small business development and the small business aspect of empowerment was a definite problem. The issue of collateral and the conservatism of banks meant that those businesses with the greatest potential to create jobs were prevented from doing so. Indeed, the South African GEM studies had indicated that, if given a chance to expand, small township businesses had the greatest potential to increase employment.

The government was trying to address this problem in several ways. The first was via reform of the banking system. Opportunities had to be created for effective second-tier banks to emerge that were better structured for communities that did not require foreign exchange and many other unnecessary services.

In addition, an apex fund was being created to address the problems that Khula wasn't able to address, namely how to deal with very small loans through intermediaries. Then there was the whole issue of the collateralisation of property, which had not yet been resolved, and needed careful consideration. He would welcome suggestions on how assets that were not currently being accepted as collateral could be put to use. Perhaps insurance companies could play a role by managing risk for banks in some way. At any rate, the government regarded this as an important problem.

As regards procurement and business formation in rural areas, the government was trying to resolve this via the construction builder programme under the Expanded Public Works Programme, which included a certification and a tendering system. The Department of Public Works was identifying projects that could be undertaken as cost-effectively with labour-intensive methods as they could with capital-intensive ones. It was developing protocols for how those projects could be undertaken, and providing skills in terms of those protocols to small contractors in the rural areas. The current target was to build 500 small but hopefully growing construction companies. This was a good method, but how widely it could be applied was unclear.

The role of domestic savings was the subject of a major debate in economics. Again, the cross-country studies offered contradictory evidence. However, some people argued very strongly that savings in developing countries rose in the wake of rising investments. This certainly seemed to be the case in East Asia.

The next question was how that investment should take place. It was obvious that savings rates should increase. There were some disincentives for saving, and it would be interesting to see whether the retail bond being offered by the National Treasury would have an impact. It did show that the government was concerned about the savings rate.

■ A participant asked how the current account deficit could become sustainable if the traditional source of financing South Africa's savings shortfall, namely portfolio investment, had peaked at about \$7 billion. Foreigners were mature owners of South Africa's financial assets. He asked who would replace them to sustain the savings–investment mismatch.

■ Responding, Alan Hirsch said that, seeing South Africa was underborrowed as a country, the possibility of project-oriented loans should not be discounted. This was a personal view, and not necessarily that of The Presidency.

■ Brian Kantor said it was clear that one couldn't achieve growth without investment. However, it was equally clear that one could not get investment without growth. Thus improved growth would result in more savings and investment. The trigger for greater growth did not lie in the second economy. He was also not sure how sustainable the first economy's support of the second economy was, unless the government had the will to adopt labour-intensive employment policies, which did not seem to be the case.

■ Responding, Alan Hirsch said Brian Kantor and others were correct in saying that the current labour regime could inhibit investment in labour-intensive and smaller businesses. Those agree-

ments were concluded between private sector employers and trade unions, and the government was not involved in them; however, this was a problem. He had referred earlier to the need for some sort of balance between job security and labour market flexibility, and had stated that this balance had not yet been reached.

'There are growing concerns that the government is flooring the accelerator on the second economy, but taking its foot off the pedal on the first'

This clearly presented the government with a political challenge. One of the ways in which it was trying to address this was to experiment via the Public Works Programme with possibilities for offering wage employment that did not, during their public works phase, comply with centralised bargaining standards. This was not only in the construction industry, where the standards were probably not that meaningful in any case, but in some service sector industries as well. The major service sector initiatives under the Expanded Public Works Programme were in education, early childhood development, adult basic education and training, and home-based and community-based health care. It was not that professionals in these sectors were overpaid; rather, it was with regard to the possible deployment of auxiliary workers and assistants in health and education.

The government had agreed with labour that it could use the provisions agreed on after the Growth and Development Summit allowing it to obtain exemptions from centralised bargaining decisions, and then see how the situation developed. This formed part of a process of trying to find a balance.

As regards urban–rural issues, jobs had to be created where it was cheapest to do so, and that would mostly be in the urban areas. However, if one could slow down the rate of urbanisation, this would help to avert some of the potential social problems that might be encountered. One should not be too complacent about the second economy. If the current situation was not addressed, people who had been patient for a very long time might become far less patient.

Brian Kantor said it people were given freehold rights in urban areas, this would give them collateral. Alan Hirsch pointed out that many areas in urban areas were red-lined, and the market wasn't operating very effectively in many townships.

■ A participant said business would not do much in the short term to improve the lives of people who faced a daily survival struggle. Therefore, he was comfortable with what the govern-

ment was doing around the second economy, which seemed to be thoughtful, aggressive, and within its means.

However, there were growing concerns in the private sector that there was a trade-off between government attention on the first and second economies, and that, while it was flooring the accelerator on the second, it was taking its foot off the pedal on the first.

Recent statements about Eskom and Transnet also seemed to illustrate the current momentum in the economic debate, namely towards using state enterprise as a lever for addressing the second economy instead of freeing up the first.

If Transnet was better managed, it would decrease the price of production for the first economy. However, having Eskom as a state monopoly, or Telkom as the only fixed line operator in the country, would not create the basis for investment. If one assumed that the difference between a growth rate of 3 per cent a year over the next ten years and 6 per cent – which was needed to halve the unemployment rate – would be foreign investment, the question was how the country was doing on foreign investment, and what the drivers were that would facilitate it.

Given his experience of practical economic activity, the issues that were key to foreign investment were exchange controls, which limited the flexibility and openness of the capital market, and the activity of foreign investors; the domination of certain sectors by SOEs, which left little room for foreign investment in those areas; and trade-offs being made to move towards using those public enterprises for the public good rather than for attracting market investment. Was the government starting to overemphasise the second economy at the cost of opening the first?

■ Small businesses were far more likely to fail than larger ones. If people were given title to their houses or land so that they, rather than the banks, carried the risks of start-up loans, then, when their businesses failed, they would not only

‘There is a plethora of measures which make it practically impossible for small and even medium-sized money-lenders to operate’

have lost their businesses, but also their homes or land. One had to ask whether this was either a sensible or an ethical route to take.

■ It appeared as if the purpose of the Public Works Programme was to create jobs that did not comply with the various labour standards. Why should the private sector not be allowed to create those same jobs? And why would a worker somehow be more comfortable with inferior condi-

tions under the Public Works Programme than elsewhere?

Should job-seekers themselves not be exempted from labour standards, and permitted to seek jobs subject to less stringent controls? If South Africa was really worried about unemployment, employer associations, trade unions, and NEDLAC should not even be in the equation. The issue was what needed to be done about people who were destitute. And if the focus was on them, they should be allowed to choose.

There was a plethora of measures, including the Financial Adviser and Intermediary Services Bill, the new Credit Law Review, and dozens of others which made it practically impossible for small and even medium-sized money-lenders to operate. Every *stokvel* and informal money lender in South Africa was technically illegal.

If the banks were not going to lend to the poor, which he did not expect, other ways had to be found of providing them with finance. If land was going to be red-lined, non-banking finance providers should at least be allowed to use such land as collateral and to operate in that market, which the government had effectively made impossible.

He could also not understand why apartheid land title still existed. There were still about nine types of land title that had originated under apartheid. The majority of South Africans still lived under the Verwoerdian Native Affairs Act, now called the Public Administration Act, under which historically black areas were still governed, and were still subject to traditional forms of land title under the act.

The President should simply declare all land lawfully held by black South Africans to be owned by them; the apartheid land legacy had to be wiped out by simple decree. Then the market should be left to decide how much of that land was bankable, and could be used as collateral.

■ Responding, Alan Hirsch said he was not concerned about a tradeoff between the government’s focus on the first and second economies. In his speech earlier that day, the President had addressed first economy issues in a way that would have given comfort to people in the private sector. And then he had dealt with the second economy as a counterpoint to that.

He did not think that the approach to SOEs had changed, because the government had never believed they could solve all problems with the same solution. The government had learnt that liberalisation was more important than privatisation for some industries, for example.

The government had had a learning experience with Telkom, which showed that privatisation without effective competition merely meant that a public monopoly was replaced with a private one. However, a tender would go out in Decem-

ber for a private electricity provider, and the President had announced that additional sources of investment would be sought for South Africa's ports. Therefore, if one read his speech carefully, one would see that the process of restructuring included a significant increase in private sector participation.

The point about collateral was correct. That was why he had raised the idea of insurance companies insuring loans as part of their contribution to the Financial Services Charter. A conference would be held soon on the role of the insurance industry in addressing the second economy. Perhaps this would provide the industry with an opportunity to start thinking about these kinds of issues.

As regards labour standards, there were no simple answers to these issues. Clearly, there were major political and social issues that had to be addressed in this society, and the government had chosen to do so in a gradualist way, both because of its own political interests and because of its perception of what was good for the country.

On the question of micro lenders being technically illegal, he wasn't sure what the latest situation was. However, that certainly was not the intention of the legislation.

On the issue of apartheid land titles, he had no detailed knowledge of that either. The Communal Land Tenure Bill was clearly an attempt to move towards a private property system in the rural areas. This was a careful but possibly decisive step, and one would need to see how it played itself out.

On the issue of how increased state expenditure should be financed, the simple answer was to say that commitments to the defence package would peak in 2006 and decline thereafter, thus releasing revenue for other uses. However, the defence package was not as large as some had made it out to be, so this was not really the answer.

The only way in which the government could pay for health and social welfare was if the economy managed to grow a bit faster than it had up to this point. It had already been discovered that provinces were redirecting funds from really important services to social grants, which was an untenable situation.

Some funds would become available over the next few years, but this would not be enough to fund the anti-retroviral programme and the larger social grants.

■ Ann Bernstein said one answer to the question of why South Africa still had apartheid forms of land title had been given to her by the previous minister of housing, namely that the deeds registry was in chaos. Therefore, it would be difficult to reform the system in the way suggested because it was already unclear who owned what.

The first step would be to correct the deed register, and she did not understand why this had not been done already.

■ The question of land title was the single most important issue raised in the course of the discussion. It had first emerged in Soto Ndukwana's account about the Eastern Cape earlier in the

'The only way in which the government could pay for health and social welfare is if the economy grows a bit faster than it has up to this point'

day; Alan Hirsch had dealt with it as well, and it had gone round the table ever since. This was the answer, but it wasn't being addressed.

■ Anyone who had read any of Hernando De Soto's books would know that this was a problem. De Soto argued that capitalism was not working outside western countries because their property systems did not accommodate it. On the way to the workshop, someone had said on the radio that 40 per cent of the people in this country were concerned about their security, and the other 60 per cent were concerned about their survival. The 60 per cent was the present electorate. If the issue of land title was effectively addressed, this would go a long way towards resolving the country's problems.

Participants, workshop 2

THE overwhelming response to this CDE workshop held at the Ipelegeng Community Centre, Soweto, made it very difficult to record every person and organisation who attended. The following people signed our register; about 20 more attended.

Ann Bernstein, executive director, CDE
Baba Gibson Boikhutso, chief executive officer, Boikhutso Association
Freddy Chauke, managing director, South African Drug Abuse and Aids Council
Dr Simon Dagut, research manager, CDE
Peter Delius, professor of history, University of the Witwatersrand
Jabu Dladla, Thesele Creative Society
F Francis, Ipelegeng Community Centre
Dr Sandy Johnston, senior associate, CDE
Zwelethu Jolobe, researcher, CDE
T Lehana, director, NACOLIO
Baqinile Macinda, Rosebanas
Ntswaki Madia, South African Drug Abuse and Aids Council
Dan Mahasha, director, Khumelo
Sipho Mahlobo, manager, African Aramaic Christian Fellowship
Audrey Majobozi, chief executive officer, Umthunzi Wokuphumula
Pastor Harry Makwela, Tirisano Community Church
Phyllis Malope, programme manager, Philani HIV/AIDS Programme
R Maluleke, Eldorado Park Community Policing Forum
Teddy Martin, chair, Orlando West Community Policing Forum
Jabu Mashinini, AME Bible Church
Lordwick Mathake, co-ordinator, Philani HIV/AIDS Programme
Rev Tim Mcube, Ipelegeng Community Centre
Sarah Meny-Gibert, researcher, CDE
Ishmael Mkhabela, chief executive officer, Interfaith Community Development Association
Neo Mlobeli, president, Gauteng Emerging Development Forum
Dan Mojaki, AME Bible Church
Pastor K Molekwa, United Apostolic Faith Church
Anibal Mondlane, co-ordinator, Philani HIV/AIDS Programme
Ellen Mothlabi, chair, Rebone Botshelo
Pastor S Muqiuhi, Dialconia Aids Ministry
Mamsey Ndlovu, AME Bible Church
Pious Ndode, chair, Greater Protea Glen Community Policing Forum
Soto Ndukwana, executive chair, Global Makana Strategies
Lawrence Nkwana, deputy chair, Rebone Botshelo
Zola Nojiwa, organiser, Ikemeleng
Theresa Radintha, Ratanang Group
Margot Rubin, researcher, CDE
Sam Senoko, Lialps Printing
Xavier Sentereng, finance manager, Ipelegeng Community Centre
Margaret Seuache, Ratanang Group
Kehla Shubane, director, Simeka Financial Services
Pastor S Sibanyo, Church of the Nazarene
Frank Sievers, senior manager, CDE
Pastor T Tebogo, African Evangelist Church
Sifiso Ziqubu, Thesele Creative Society
Pastor F Xoyiya, Grace Bible Church

VIEWS FROM SOWETO

Chair: Ishmael Mkhabela

Chair: We're here in Soweto today to have a conversation with people from different organisations and groups – churches, NGOs, youth groups, community policing forums, business, women, the disabled, and so on. I would like to say that it is a pleasure to come together freely, not like we did many years ago, when a meeting of this nature would have been defined as subversive.

Ann Bernstein: CDE is celebrating our 10 years of democracy with a series of workshops in which a broad range of South Africans are reflecting on what we have achieved during the past decade, and the challenges we need to address during the next. We decided to stage one of them in Soweto, one of the birthplaces of democracy in our country.

The first session of today's workshop is aimed at getting a picture of life in Soweto since 1994. What has happened here since the transition to democracy? What has it been like to live and bring up a family in Soweto during the past ten years? Has it been better or worse than before? Are some things better, and some worse? How does it look from the perspective of an ordinary person trying to live here and run a business or an organisation?

These are among the questions we would like you to discuss. In our second session later today, we will focus on what you think needs to be done during the next decade, in Soweto as well as in the rest of the country.

SESSION 1: LIFE IN SOWETO SINCE 1994

A number of positive things have happened since 1994, but also a number of negative things. We have a serious problem in Soweto of the youth being leaderless.

There doesn't seem to be any sense of direction. People say we've lost our culture, whatever that culture is. The people of Soweto really have to think seriously about trying to organise the youth, and trying to rid them of this Hollywood culture of materialism.

Church leaders must ask themselves why God put them in Soweto, what it is that they're supposed to do here. Another closely related problem is HIV/AIDS and, of course, all those issues of sexuality.

In the past, people were saying: 'God, let me wait.' But now we are changing, to give people



the view that we need to work, because life is full of challenges that we have to meet ourselves.

I was born and bred in Soweto, and I've run my business here for three years. I have realised that there is so much to be done, yet there is so little being done by us Sowetans. Soweto is being marketed by other people. We should be selling Soweto for ourselves. Tourists are guided around by people with minimal knowledge. We have so much to give to the outside world, and more tourism would really alleviate a lot of poverty. Our youths come to me saying, 'Mama, we need jobs.' And my heart goes out to them, because they go to school and after that they do nothing. They stay in the location, and they're not being directed to what they can do as tourism students or future emerging tourism businesses.

Many positive things are happening in Soweto, but most of us were not taught to create jobs. The education we got was enough for you to go and ask for employment somewhere, which creates



problems because big businesses are no longer hiring, they're retrenching. We need people who'll create jobs, whether small business or whatever. I think that can be the solution to what is happening in Soweto.

We were powerless for all those years since white people came to this country. They've been making decisions for us, so we were not taught to make decisions. That is why we are lagging behind.

I enjoy being in Soweto, because I was born in this place and I grew up in this place, and I've seen a lot of changes happening over the past ten years. I see a sense of identity as Sowetans. We are beginning to talk together to see what we can do, even if the efforts are not visible. And I see a lot of quality leadership in Soweto. For people who were not able to lead themselves before, because they were not given a chance, when I see them as councillors and in other areas, in business, I become very proud that these people came from Soweto. That makes me very thrilled.

'Many positive things are happening in Soweto, but most of us were not taught to create jobs'

However, we have a large number of workers, and generate a lot of income, but we are not given a chance, in terms of the infrastructure, to bring this money back to Soweto so that we can improve it. We don't have malls, we don't have amenities, or places of interest that we can develop ourselves. You'll find a lot of malls out-

side Soweto targeting our people, whereas we could be improving our community by having shopping centres here. And also, I'm sorry to say, there's been a lot of moral decay since 1994.

Good things are happening in Soweto. For instance, in this place, Ipelegeng, a group of young people have started a book club. Now they are writing a newsletter. They're going around in the community, encouraging other young people to be readers.

We need to motivate young people, but a lot of them are already self-motivated. You see very few still standing on street corners, or basking in the sun. They are doing something. Some are washing cars; some are starting small businesses. They have realised that they need to start businesses to create employment for other people.

I am born, bred, and buttered in Soweto. Now, a nice thing about Soweto is that we've got the fastest-growing tourism industry. We have not been able to strategise in terms of how to develop that to our own benefit, but what is nice is that there has not been a serious incident where tourists have been attacked. Around the Hector Pietersen memorial, and Mandela and Tutu's place, you find tourists almost every day. I think there were one or two incidents some years back, and the people selling there, who have a very good understanding of what tourism is, apprehended the culprits. And the tourists have brought in a new culture; they've brought knowledge, they've made us aware of the world. It's for us, as Sowetans, to strategise and think of a better way of getting into the mainstream in terms of tourism.

The other nice thing is that before people from rural areas go to parliament and so on, they must come and be buttered in Soweto. If you have not passed through Soweto, you're not going to be a success. You talk of music, you talk of dancing, you talk of the late Brenda Fassie – for her to be famous, she had to come to Soweto. We are not saying the talent is only in Soweto – the talent is all over the country, but for it to become successful across the nation, it must be buttered in Soweto. Soweto has always been in the lead. It's a challenge for us that, in this democracy, we need to keep that leadership.

And another thing: in Soweto, if you are greeted in a language and you don't know how to respond, then you're not a real Sowetan. You become multilingual. I even speak a little bit of French. That's what Soweto is all about. It's very vibrant.

And we still have *ubuntu*. People who buy houses in the suburbs, sleep in the suburbs, but

they still party in Soweto. When you're in Soweto, if you don't have sugar, it's not an issue to go next door and ask for sugar. In the suburbs it's a problem. You have to think of your status and so on. In Soweto, if you go to a nice joint and you want to have a beer, even if you've only got R5, you're going to drink for the whole night. Because you meet your friends there, it's not an issue. So we have the skill of networking, but we need to take it to a higher level where we build businesses.

We are meeting some of the challenges in Soweto. A lot of old people, disabled people, and orphans are being looked after now by government, and there are also lots of community projects – food gardening, people selling articles made with their own hands, without the help of any other organisation, without the help of the government.

Ten years of democracy have made no changes, especially when it comes to children. They are not part of the democracy. With the high number of children being sexually abused, with the high number without food and without birth registration certificates, I wonder if people will say, democracy has done something for us. We discriminate against children. We are not listening to them. Children are suffering out there.

I have a lot of cases of sexually abused children. The cases are reported, but they just die out. Dockets are lost, also because of what we call *inchoncho*, whereby people give police money and they drop the cases. And I have cases where the abuser is the father, and he will threaten the wife and say, 'I will kill you.' It's difficult for the women out there, more especially those with young children. Maintenance is a very serious problem. Fathers are not supporting their children. A large number of single women with children are very poor. The people elected, who are individually enjoying their own democracy, are depriving other people on the ground.

A lot of people are struggling. People collect food parcels from my house. The date for them to come is tomorrow, but they have been knocking at my door since 6 o'clock today – and you tell me democracy has made changes in our community.

During apartheid things happened through the NGOs. It looks like the NGOs have been sidelined. There's a big problem with our councils. I'm sorry for those councillors present, but take it as a challenge. Do we have the right people and, if yes, why all of a sudden are the things that used to happen not happening?

Our councillors, please, when you talk delivery, it's local. Stop the red tape, stop the corruption. That's the message I want to share with the councillors.

'Ten years of democracy have made no changes, especially when it comes to children'

We've seen quite a number of achievements by the current government, and improvement in the lives of some of the people. Small businesses have mushroomed. Soweto is a very good area, a bright area. I'm proud to be here.

But people haven't really accepted themselves. They don't truly believe that they can achieve. And we have challenges in skills and training, human capacity development, and financial assistance. Many people want to start up businesses but are listed with the credit bureaux or don't have assets that can be measured against a loan, which is one of the critical challenges in our community. Those who finally have acquired funds need mentorship. Some people decide to do things as individuals rather than within the community structures. So that's why some efforts are fruitless, because they lacked consultation.

As a place to live, to do business, to invest, the most important things that we need to focus on in Soweto are education, housing, jobs, and health – the HIV/AIDS epidemic and other illnesses. Those are critical, and we still have a long way to go to fight them.

We have heard a lot of the beauty about what Soweto has achieved in the past ten years. We have heard the good things about our democracy. Personally, I rate that at 50 percent.

Coming to the bad, there's a squatter camp next to us called Umshengoville. There was an outcry



from the Mofolo people that we need these people removed because that place is not healthy. It is damp. Others are saying, where must they go? Must they live in the same conditions as they are now, unhealthy situations, no water facilities, no electricity? It's a disaster. Children suffer from flu, pneumonia, the toilets are a health hazard. Summertime, when there are rainstorms, you cry.

'We cannot live happily, we cannot be free until the government has done something about crime'

People are doing crime and running away to Umshengoville because there are empty houses there; it's a quiet place to hide. And the police will not go into Umshengoville because it's not safe for them. If there is a solution to help these people to get houses, we'd be very pleased to hear that.

Many years back, there was no hijacking. We were free because we were not scared. But today you can hardly travel two streets to your house. There are people there with guns, they hijack you. Some are killed, some are raped. My house faces Mofolo Park. The things that happen there are unreal. Sometimes couples sitting there are hijacked. I've had three, four people being shot, running, falling right in front of my gate. I must use my car, I must ask my children to take them to Baragwanath. I must call the ambulance. The ambulance wants money from me.

Crime is really, really bad in Soweto. We cannot live happily, we cannot be free until the government has done something about crime. I'm standing by my window, watching a young child being raped. I phone 10111. The police will come after two, three hours. Why is it like this?

If the government can sort out the issues of crime and accommodation for people who have no houses, then for sure, we will be living better. We would like to see Soweto living free. Then we

can entertain our tourists, people from other countries, without fear.

Yes, the biggest challenge we face is crime. We parents need to look back and see where we have gone wrong. Our youth are using drugs. We like saying our youth have no direction, but I'd like to say, what made our youth lose direction? It seems as if we've forgotten what it is that you must do as parents.

There is domestic violence. We fight in front of our children. I don't know why we bring children into this world when we know we cannot take care of them. Hence we have this crime that you are always crying about, and you are doing nothing about it.

But we have the community policing forums (CPFs). We have Churches Against Crime, Businesses Against Crime, Youth Against Crime. If you don't get help from the police, go to the CPF. If you don't get help from the CPF, go to the station commissioners. If you don't get help from them, you go to the area board. There are people who can help you.

Let's start from today and know that we have these structures to fight crime. We know that it is difficult for the police to fight crime alone. Let's hold hands and see whether we can fight this. We've done that before, so why don't we do it when it comes to crime?

I think I've done my parenting. I've got two boys, 28 and 22. I was able to take the senior one to university, and he dropped out because he didn't have money to finish one subject. He was doing a BA education. He went on to learn journalism, computing, things like that. But he is now working in retail and not doing anything with the experience. We were saying that in the past, people were deprived. But today our youth learn, and they still never get a job.

But I hate this thing of saying, we didn't see anything getting better in the ten years. We are in denial. There is a change in South Africa, and I'm very proud to be a Sowetan. I have seen what the government has done for us.

RAPORTEURS

Khehla Shubane

Manager, Simeka Financial Services

Numerous themes have emerged. One is that of young people who are not rooted in a culture that is useful to the community. The second is that of young people who emerge from school, some of them with training, but are unable to find work.



The third is the impressive array of organisations that are attempting to tackle the problem – church groupings, community policing forums, and many others.

The fourth is the usual one, crime. Again, I was impressed by the array of groups that are focusing on this problem.

A fifth issue was not canvassed as fully as I thought it should be: the question of the quality of the links between all of these organisations and the official state structures, in particular local and provincial government. There's still a big question about how you link those two sets of resources.

Lastly, I want to support what the last speaker said: the progress made during the last ten years should be viewed relative to what happened during the ten years before that. I would have thought small victories would get more attention. I mean, I lived in Soweto, and I'm one of those people who still come here on Sundays. I can remember a Soweto in which you weren't settled in your house because cops could arrive at any time and just mess up your life. The fact that you don't have that, I would have thought is a huge movement forward.

Peter Delius

Professor of history, Wits University

One thing that has emerged strongly is a sense of pride in Soweto, the distinctiveness of this place – that, unless you've been 'battered in Soweto', you're not really a finished person. That came through very clearly, that this is a dynamic and distinctive place.

But people are concerned about why that cultural dynamism isn't being translated into more economic activity in Soweto itself. Somehow it's being exported. It's ending up in the malls on the outskirts, rather than in the town itself. How would one channel that more effectively?

But the most powerful thing – and it was very striking the way it ran through almost every contribution – was the issue of the youth, of how we create a context which allows the youth to have a real future.

I was very taken by the sense of responsibility that one was hearing in this room, but coming through in a number of different ways. There's a sense of the youth as having lost their way, of being without culture; that it's critical to find ways to re-route a younger generation in the sense of culture and identity, and who they are.

Then there's a whole array of difficulties that are confronting young people – the issue of where their education leads to, and the quality of education in the schools. How should teachers engage with children more effectively? Do youths have real skills at the end of it? And,



most important of all, what are their employment prospects?

Soto Ndukwana

Executive chair, Global Makana Strategies

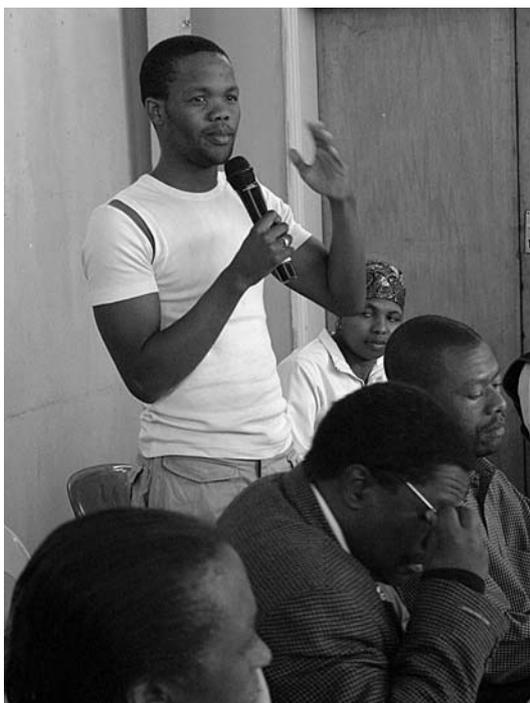
It looks as if most people believe that there has been a change in the right direction. And it is amazing that so many groups have voluntarily taken up initiatives to try and resolve those problems. This is the kind of self-reliance one should be proud of. We have all these organisations that make all these efforts.

'There is a very serious disjuncture between community structures and the formal structures of government'

But I'm getting a sense that there is a serious disjuncture between the community structures and the formal structures of government. For example, if you are a cultural activist, how linked are you to state funding and promotion agencies? Where are the people who are supposed to lead us directly to the power structure?

Another issue is the absence of an internal economic dynamic retaining the value in Soweto. The malls have become collection points for guys that already have money. And Sowetans are supposed to deliver more money to them.

Life before ten years ago was hell. We should be proud of the change that has taken place. The



pass laws, the Group Areas Act, the Immorality Act – all those acts were upon us. Why is nobody feeling that, my God, those laws are gone? There's been so much change. I thought maybe I was the oldest here, but I'm not that old. We should celebrate our freedom.

SESSION 2: FUTURE CHALLENGES

Chair: In this session we would like you to formulate an agenda for the next 10 years, for Soweto and for the country as a whole. What are the things we've really got to work on to make the next ten years as positive as most of us here are saying the first ten years have been?

'I think the government has done great work in BEE, but we don't know how to make use of it'

Ann Bernstein: I want to ask a question about an issue that emerged from the last session. How are you connecting to the power structure; how would you like political representatives to interact with Soweto during the next ten years? Do you find that having a local councillor, an MPL or an MP whom you have elected makes a difference to your lives? Is there a politician available to help resolve problems that you face?

We have seen a lot of changes. Maybe our youth don't know where we come from. We carried that *dompas*. Even in town you could not move

around after six o'clock. But today, anybody can go everywhere. I'm proud of our ten-year-old democracy.

Our local councillor doesn't even know who's in the department of arts, culture, sport and recreation. He doesn't even know how many community centres with arts programmes there are in his community. Or look at SMME development – people get skills development training, but there is no money to start up businesses. There are no mentorship funds in the location. Khula and Ntsika – they're both politicised. You only get money there if you know somebody. And look at who is at the head of these structures; all of them from a particular political party. Delivery is slanted. Money goes to people who already have money.

I'm going to speak generally, as a South African. We, as communities, need to make use of the council. In the past, we used to fear those places. We never went there. And that is where a lot of decisions are taken for the community. We need to attend the meetings, to put those challenges as a community. Maybe, in these coming ten years, most of those challenges will be solved. But sometimes we lack the knowledge of where and how to solve our problems. In my experience, it is the local government.

I don't think we as communities are using the council offices properly. But I also think that more people would go to the council office if you knew that if you went there you would be confident to find the services you want.

I think the government has done great work in BEE, but we don't know how to make use of it. BEE is a good platform. Companies now want to see you involved and integrated into management. But we still need to know more about it and how it is implemented, and to get people who know to give us guidance so that we aren't always stuck with informal shops. Somebody once said that the government has laid the table, but we decided to go under it to get the crumbs. So let's sit around the table with the big business people.

Ann Bernstein: Do most of your children go to school in Soweto? My understanding is that a lot of the schools in Soweto are not great. What do you think should be happening with the schools? Do you think the local community has enough power over schools?

Chair: Have we reached the stage where we need to close our schools, and send all our children to schools in the suburbs?

Our local schools are beset with problems. Most parents send their children to schools in town, because they know the local schools do not adequately prepare them for the matric exams.

We shouldn't only focus on academic education. We need training. There are schools in Pimville standing empty. Why not utilise them to occupy those children who are standing there thinking of hijacking cars? Keep them busy. Train them.

I believe education is a function of culture. The education system isn't informed by our culture and our moral values. We become this western, disjointed African, because we are not rooted in who we are.

Most of our black educators don't seem to understand what is happening, even since the new democracy dawned. They are the most ignorant people I've ever met in my life, and they cannot provide leadership to our youth.

Should the schools close? No. I've been working with a lot of schools in Soweto – as a young person, I've got a passion for young people – but it's unfortunate that most of our educators are demotivated. We lack mentors in our schools, our societies, our communities. There are no role models. There are no business people to invest in the education of our young people. I'm one of those young people who are still crying for help.

Working with the schools, I discovered learners doing the same grade for five years. You ask an educator what the problem is, he'll tell you: 'It's not my problem.' I had to sit down with those learners and ask. With most, it was family problems, empty stomachs, bad concentration, slow learners. The staff tell you: 'We cannot promote these kids.' At the age of 22 they're doing grade 10? It's a taboo. In a nutshell, our educators cannot take us to the next level.

The problem of the schools won't be solved if we, as communities around those schools, don't help. Like the police reservists, doing their best to fight crime in our area. They are there for the day without any payment, maybe at the end of the day they eat at the police station. We know our kids sometimes get out of hand. The principals,

the teachers, the school governing bodies cannot control that. We as parents in the community must help them. Our teachers are also people.

'Have we reached the stage where we need to close our schools, and send all our children to schools in the suburbs?'

I decided on my own to investigate the situation at a school because I could see the children bunking. The community does nothing about that – we even get parents selling liquor and cigarettes during the day to those kids. I found the situation is quite bad. The teachers tell you they can't reach out to those children in their line of duty, so I was fortunate enough to be asked to do that. A child doesn't have shoes, but the teacher just goes into the classroom, teaches them, walks out, and gets paid at the end of the month.

What happens to the children? They go home, they can't learn. On a hungry stomach you can't perform. So I asked the principal to start a school feeding scheme, even though it's a high school.

Some teachers come to school drunk. There are teachers who beat children up. But schools in Soweto can't be closed just because of some bad teachers. I, as a youth, ask the community, our parents, can we please work together? If you see that a child is wearing a uniform on the street, take that child to the school, and find out what the problem is. If there's a problem at home, go to the house and take it from there. If you see I'm starving, please provide me with bread so that I can go to school on a full stomach. Then I can concentrate. So, our parents, please love us. Please help us to make a better future for ourselves.





I've been to a number of discussions about social and economic development, and some have centred on one area, that of BEE, creating very rich guys. But I've always felt it very important for us to believe that there is an alternative approach. Of course government has a responsibility to ensure that, among others things, it deracialises capital. The majority of black people have not been part of the economic mainstream. It is very important for us to be part of that. But an alternative will seek to look at a broader economic and social development of our own people. It's not selective. It's not about me having a company. It's really about co-operatives. These are the types of development we want to see, particularly in Soweto.

It's not only developing young people to be car washers, to own spaza shops or public phones,

'How are people on the ground being served by their political institutions? How we connect to the power structure is the critical issue'

but broadly looking at young people forming serious economic and social development initiatives. We need that type of engagement, a viable social movement. But not an extreme one. We know that there are extreme forms of social movements with no direction. But with clear and sober minds, we know our objectives, we know what we want.

Education is a triangle. It doesn't just happen at school. It starts at home, and when that child comes to me at school, I'm there to formalise everything. It is informal at home, and when this child comes to me I just make it formal. Ten years of this democracy have seen good things happening in our schools. The government is saying, let's restore the culture of learning and teaching. And that is what is happening in

Soweto. The school where I am today, a few years ago, before 1994 when the youth was staying away from all government structures, everybody was saying, 'Ooh, that school!'

We are aware that children go to school with empty stomachs, and for that reason you can visit my school any time, you'll see a group of children whom I have identified sharing lunch with me. What happens with your leftovers? They go into the dustbin. We don't even think of that person out there – not only the child in school, but your neighbour next door.

We need feeding schemes at high schools as well; not only at primary schools. And we shouldn't forget that there is a Saturday and a Sunday. We should come up with projects like a food bank, so that these children are not going to be told: 'Go home and starve. If you survive, come to school on Monday and we'll feed you.' We must have a way of communicating with social services that these children come from very needy families, and then on weekend, provide them with food. Yes, we still have problems here and there with teachers, but there are systems to upgrade them. With the introduction of out-comes-based education (OBE) we were all workshopped along those lines. We are still grappling with it ourselves, but things are happening.

The catch is that our youth are not ready to meet anybody face-to-face. They shy away. Even at a classroom level we are unable to communicate with them. When these people go for an interview, they should know what to say. Give us time.

A lot of drugs are being used in our schools; 75 per cent of our children between the ages of 14 to 18 are using drugs. And a lot of teachers and some of the kids are carriers of drugs. We need to fight this, to say: 'Parents, ensure that you know what is in your child's bag, whether he's going to school or coming back. Teachers, please, those of you who are taking part, help us get these druglords.'

And another problem is that we say, we are all Sowetans, we love each other and whatever, but we don't understand the needs of our community. Youths today are looking purely at money, not at what we want to achieve and where to go from here. One reason for crime and drugs is that we're looking at getting things too fast.

RAPORTEURS

Peter Delius: There does seem to be a limited sense of how you can get leverage. How do you get councillors or teachers or business opportunities to work?

A sense of failure in the schools has surfaced as a key issue. Yet there seems to be no real organisational strategy. How does one get leverage on this problem? How do you make the schools more responsible? Who do you have to interact with? And again, I suppose these things come down to questions of power. How do you mobilise power to make things change?

The other issue is a great sense of the economic possibilities and potential dynamism of this community. But there's a limited sense of what the opportunities for entrepreneurship might be. What are the economic routes? What are the strategies to take the resources in this community and turn them into forms of economic growth?

Khehla Shubane: Soweto has basked in a very central place in the past. There's still a sense that it is a central place in South Africa, but we don't know how to use that centrality to answer very concrete, day-to-day problems. The point is that Soweto is hugely important in South Africa, but it was fairly easy in the 1980s to know what its place was, relative to South Africa. We're not articulating it now as well as I expected we would, and I guess that's because it's very difficult.

Soweto has contributed immensely to the leadership of the country, of a whole range of institutions. The challenge now is to replace leaders who, as soon as they're good enough, leave Soweto. We constantly have to replenish those folks. It would be interesting to see how many of the people articulating the problems of Soweto in this meeting will be working with issues in Soweto in the future. I suspect they'll be removed from Soweto, and there'll be new issues emerging for them, and the leaders after them will face the same sort of challenges that people are facing now.

Soto Ndukwana: People need to understand all the processes of decision-making, because if you don't understand them, you can't get a good decision. Somehow, a process is needed of enabling people to understand whether there is an advisory service or something like that. If you don't have somebody to help you with your business plan, you can have the greatest ideas but you can't have those ideas being helped or taken along. And maybe it's having institutions that help to move the process forward, such as advisory service institutions.

I suspect that if you were directly electing the leaders, and put them into parliament on a direct vote basis, you'd be in a position to say: 'We will recall you next time if you're not accountable to us.' Saying that is against my self-interest, because I think my party does well on the basis of the system as it exists now. So I'm ambivalent about it: I don't know what to do about it.

I think we know very well that people have

complained that an aspect of BEE that has been most difficult to deal with is that a couple of individuals do get quite rich, and it doesn't filter to the lower levels.

'There is a great sense of the economic possibilities of this community, but a limited sense of what the opportunities for entrepreneurship might be'

But what was really interesting was the way in which the question of education came to prominence. In fact, it came to dominate the whole discussion. Everyone started being quite aggrieved about the conditions of our schools. It's like somebody touched a very raw nerve. People were pouring out how worried they are.

In the end, all the issues we have talked about this morning come back to one thing: how people on the ground are being served by their political institutions. How we connect to the power structure is the critical issue.

Ann Bernstein: This has been a very valuable conversation. Thank you all for coming. What often happens is that those people who influence the public debate all talk to each other, and don't go out into communities outside the big power centres. So this has certainly been very instructive, and I thank you for that.

Chair: This was our first Soweto town meeting. I'll be sad if it is the last. There are two issues I'd like to highlight. I think accountability by leaders, by institutions, needs to be taken seriously during the next ten years. Don't have a hospital that doesn't cure diseases. Don't have a police station that doesn't arrest criminals. We need accountable institutions fulfilling their mandate.

You talked about mobilising power in the community. Essentially, if you are powerless, democracy is meaningless. What is democracy, if not exercising power? So I think if Soweto people, and, in fact, all the cities and villages in South Africa, can learn to mobilise power so that the institutions that are supposed to serve them are accountable, open, transparent, and work for us, we will have done well.

Last, we all repeatedly talked about access – access to a councillor, a minister of religion, opportunities, and jobs. There are jobs open to people with certain advantages, but not available to you. Let's look at why people are being excluded and marginalised. Over the next ten years, we need to work to get people access to those opportunities and jobs.

Participants, workshop 3

Judge Fikile Bam, president, Land Claims Court
Ann Bernstein, executive director, CDE
Dr Simon Dagut, research manager, CDE
Dr Sandy Johnston, senior associate, CDE
Siyabonga Kheswa, Department of Minerals and Energy
Kalipile Mabentsela, superintendent-general, Eastern Cape Department of Social Development
Dorothy Mahlangu, MEC: development planning and local government, Gauteng
Dr Jeff McCarthy, consultant, CDE
Clr Itumeleng Mokoena, executive mayor, Mangaung Local Municipality
Mike Muller, director-general, Department of Water Affairs and Forestry
Dr Jabulani Mzaliya, head: policy unit, Department of Public Enterprises
Lionel October, deputy director-general, Department of Trade and Industry
Koos Roelofse, director: enterprise and industry division, Department of Trade and Industry
Margot Rubin, researcher, CDE
Prof Stan Sangweni, chair, Public Service Commission
Prof Lawrence Schlemmer, consultant, CDE
Barbara Schreiner, deputy director-general, Department of Water Affairs and Forestry
Prof Siphso Seepe, acting vice-chancellor, Vista University
Howard Yawa, MEC: public works, North West
Jacques van Zuydam, chief director, Department of Social Development

GOVERNMENT PERSPECTIVES

Chair: Judge Fikile Bam

Chair: This workshop is aimed at eliciting the views of senior government officials on our achievements during the past decade, the lessons we can learn from this period, and what our priorities should be during the next ten years. We are delighted that several directors-general, deputy directors-general, and the chair of the Public Service Commission have agreed to join us and share their views. This workshop is particularly important, as the state has played a key role in restructuring South African society after apartheid, and there are major issues surrounding its future role and its relations with other social spheres that we need to address.

DEPARTMENTAL PRESENTATIONS

Department of Social Development

Jacques van Zuydam

Chief director: population and development

I want to reflect on the achievements of the first decade of democracy, identify the challenges for the coming decade, and present the department's interpretation of the recommendations emanating from the government's ten-year review.

For the past ten years the department has found itself at the centre of the transformation challenges facing the government, mainly because we inherited a welfare system as well as a population policy defined on the basis of race, and fragmented into more than ten administrations. Today, we stand at the centre of the government's development challenges.

During the first five years of democracy, the department spent most of its time dealing with the racially defined policy environment it had inherited. It produced two important policy documents – the white papers on social welfare and population policy – which created a non-racial policy environment, aligned with the RDP.

Since 1999 there has been a shift towards taking the benefits of this new policy environment to the people via improved service delivery. As far as social development was concerned, the media coverage was extensive: everyone will remember those parliamentary debates on the underexpenditure of Poverty Fund money, and so on. With a fairly big bang, we realised we had huge challenges to confront.

The framework for doing this was a ten-point plan announced by minister Zola Skweyiya in



January 2000. In essence, this focused on three sets of issues. The first centred on social problems, including domestic violence, social disintegration and integration, and HIV/AIDS. The second centred on service delivery: poverty alleviation, social security grants, and so on. This included developing the capacity of social development workers, and making the co-operative governance framework work in the social development sector. The third centred on vulnerable groups, including older persons, women, children, youths, and people with disabilities.

As regards social problems, over the past five years we have implemented various programmes aimed at empowering members of vulnerable groups. Services responding to the impact of HIV/AIDS were included in all the department's programmes. Also, the needs of children and orphans were prioritised. Some achievements we can highlight are:

- rolling out the community-based care programme for HIV/AIDS sufferers, in partnership with the Department of Health;
- entering into partnerships with non-governmental groups, faith-based organisations, and community-based organisations;
- implementing a primary HIV/AIDS capacity-

building course under which about 2 000 people in all three spheres of government have been trained to respond to the epidemic in their planning environments;

- conducting research to improve the government's knowledge base on HIV/AIDS, often in partnership with other government departments;
- producing resources such as guidelines and directories to support all organisations working in the sector; and
- staging annual joint population conferences at which government officials and academics discuss the country's demographics, with a particular focus on the impact of HIV/AIDS.

As regards service delivery, we set out five years ago to design an integrated poverty eradication strategy for providing direct benefits to those in greatest need, especially in rural areas and informal settlements. Since then, the department has funded more than 1 000 poverty relief projects with a very strong bias in favour of the poorest provinces, and women, children, older persons, and people with disabilities in those provinces.

Within this framework, a programme has been designed around the National Food Emergency Scheme, and the department also co-ordinates the Expanded Public Works Programme within the social sector.

In 2000 some 3,2 million people benefited from social grants; by November last year, this figure had risen to 7,3 million. The figures have been rising so rapidly that it has been difficult to keep count. Also, a framework has been created for establishing a national social security agency, which will administer the entire social grant payment system. As regards vulnerable groups, considerable progress has been made, including training, retraining, and re-orienting employees.

As regards the challenges for the next decade, many of the conclusions arrived at in the ten-year review are particularly relevant to our department.

'We anticipate that HIV and AIDS will continue to impact on demographic trends, as well as on communities and households'

The first is that South African households have substantially changed in recent years. They are much smaller than they were a decade ago, and have become more urbanised. Policy and strategy on families, communities, and social relations should take cognisance of these changes.

One of the most striking features of South Africa's social transition is the large growth in the number of young people joining the economically active population. Until five years ago the

largest age cohort was 0 to 5; today, we see a bulge emerging between 10 and 19.

Each one-year age group between 10 and 19 comprises roughly one million people. These are the young people who are in primary school, enter secondary school, leave school, seek employment or further education and training, become sexually active, and become vulnerable to HIV/AIDS. Every year a million young South Africans go through one of those phases.

Obviously, the social and economic integration of these young people should be a national priority. Welfare services have to respond to the effects of the social transition on families and communities. The state's performance in rendering welfare services should therefore be a priority; in particular, the ability to respond to the impact of HIV/AIDS should be strengthened.

We anticipate that HIV and AIDS will continue to impact on demographic trends, as well as on communities and households. Therefore, we should continue to develop integrated multisectoral responses to the epidemic, along the lines of the four big ideas that emanated from The Presidency's ten-year review, and within the programmes identified for the next decade.

In essence, recent legislative reforms in our department should be translated into programmes that empower people to exercise their constitutional rights. A holistic approach to the protection of vulnerable groups should be adopted.

People with disabilities are still under-represented in the public service, and have also not been adequately reached by poverty relief programmes. We should now build on the improved administration of disability grants, extending the achievements in this area to others.

Social development has become a central theme of the intergovernmental system, and the department has begun to play an increasingly important role in this. It must now begin to define its role in respect of certain other frameworks, such as the National Spatial Development Perspective. It should also define its role in relation to local government.

As the department interacts with the most vulnerable members of our society, our capacity to render services in accordance with the Batho Pele principles should remain a priority. Therefore, capacity-building to improve service delivery will remain central.

Department of Water Affairs and Forestry
Mike Muller, director-general

I would like to look back at some of the policy compromises that were made in the heady days from 1992 to 1995, whose consequences we are now living through. Compromises are an

exchange of promises, and if some have been broken, we have to deal with the consequences in the course of addressing the challenges I will outline.

I want to provide some perspectives on this theme in the areas of managing our water and forestry resources, as well as municipal water supply and sanitation – the two areas dealt with by the department – while grappling with the overarching structural challenge presented by the first and second economies. What can we do to address this challenge in our different sectors? But let's start with the good news, namely that we've achieved a great deal during the past ten years.

As regards water and forests: The National Water Act of 1998 has provided a framework for us to live within our means. We must remember that South Africa is a water-stressed country; there are only 30 countries with less water per person than South Africa.

We're not quite Kuwait, but we've got less water than Afghanistan, and probably less than Iraq. We tend to forget this, partly because we manage it so well. Efficiencies are particularly improving among municipal and industrial water users.

Agriculture uses about half of our water, and we have to look to this sector to assess the real impact of policy. The answer is that we've seen substantial development and progress. We have broken a long tradition that the state provides free water for farmers.

Throughout the country, farmers are now investing in water under the conditions we have prescribed, namely that they had to share its benefits with more people.

We have placed greater environmental constraints on forestry, but despite this, production in the sector has increased. Sappi's recent results show that much of the revenue of this large multinational forest and paper company is coming from South Africa; its challenged natural resource base is underpinning Sappi's worldwide expansion. In fact, we're seeing this right across the economy: that South African enterprise is being used as a base for external investment and activity.

For a series of reasons, though, we're still not making enough progress in the second economy in forestry and irrigation farming.

As regards water supply: South Africa has been internationally acclaimed for the way in which it has turned the right to water into a practical reality. Later this year, we will celebrate the fact that the department's water programme has reached ten million people, largely in the rural areas. However, if government programmes at all levels are taken into account, we've actually provided some 19 million people with safe water since 1994. This is a major achievement: no other

country has achieved anything like this in this sort of period.

The sustainability of the programme has been questioned. We need to remind these critics that we've only had ten years in which to implement an entirely new system of local government. This is a huge framework to put in place in such a short time, and expect to work effectively.

'The challenge is to intervene in both the first and second economies in order to improve sustainable livelihoods and create work'

Also, we've been doing different things in different places, which is why I have drawn a distinction between the 10 million who have received water from DWAF and the 9 million who have received water via other channels. We've had one set of grant programmes in the marginalised areas, in the second economy, and quite another set in the first. You can't run a first and second economy in the same way – you need different instruments and different structures.

The Lesotho Highlands Water Project is another major achievement. Phase 1B is coming in within a few percent of its budget, which is almost unheard of for a project of this nature. This project was started at a time when it was thought that the private sector could solve everything; however, in this instance a public sector has delivered one of the largest pieces of infrastructure in the southern hemisphere during the past decade.

Many challenges remain; crucially, we have not opened up opportunities for the structurally marginalised on the scale we would have hoped for. There might have been a substantial expansion of social welfare, but, as the President said on Friday, a society in which large sections depend on social welfare cannot sustain its development.

The challenge is to intervene in both the first and second economies in order to improve sustainable livelihoods and create work.

More specifically, as regards water and forestry, we face ongoing challenges. The first is to deal effectively with our resource constraints, which includes managing the balance between social and ecological priorities.

This means that, in the second economy, you can't allow the gross mismanagement of natural resources, and then expect to improve your efficiencies over time. Emerging farmers have to be efficient from day one, because if they're not, they will put other farm workers out of work down the river. This is a constraint we still don't fully understand.



The second is to realise the potential of the forest industry to contribute a great deal more to rural development. This is because technical support and marketing structures are in place, and also because forestry is more forgiving than high-value, intensive irrigation agriculture. However, we have learnt from both forestry and irrigation that if you're going to use your natural resources to benefit the second economy, you need technical, financial, and commercial support as well as material inputs. And, crucially, once you've produced something, you need to be able to market it.

In this area we continue to confront a dichotomy: after 1994, state support was correctly withdrawn from the self-sufficient commercial areas, but many of the support structures for the second economy were closed down as well.

In his address on Friday, the President announced some agricultural interventions that will begin to rebuild what was sacrificed as part of those historic compromises. People did not help small emerging farmers in a market-related manner, so the government is having to step back in again.

We haven't achieved nearly as much on sanitation as we need to. This has to be a major target for the next decade, for the sake of the health and dignity of poor communities.

As regards municipal services, the main drama will continue to be the consolidation of local government, to ensure that those institutions are able to end the services backlog and then keep those services running.

And then there is the spatial challenge. Municipalities such as Mangaung and Johannesburg can balance their economic and social activities, but the Butterworths and the Emfulenis can't. Their economies are just not going to underpin the kind of social activity we need to support. The 1994 compromise of an objective mechanism to support all local governments equally and to give

all local governments equal autonomy isn't working, and will have to be changed. The review of the equitable share announced on Friday will probably put in place a more structured asymmetrical approach.

We still have an apartheid structure. In the first economy, the majority can sustain themselves. In the second economy, the majority still depend on welfare or subsistence activities. Rural areas are starved of the infrastructure needed for income generation, including institutional infrastructure.

We also still have misplaced urban areas. How have they come about? Because of the historic compromise of not challenging the land markets, and allowing the poor to continue being driven to marginal areas – such as all those RDP settlements in the peri-urban areas, where people can't even afford to take a taxi to look for jobs.

We have interventions on the table, but the challenge remains of getting the right investment to the right places. If one of the compromises was that government shouldn't do it alone, it's also true that government can't do it alone. While we're addressing many of the challenges, where are the livelihoods for the people in the second economy, those structurally marginalised people, going to come from?

We don't want to hear the stuck record that, if only we would free up the labour market, everything would be okay. We all know Economics 101: you lower wages, you increase employment. But after ten years, there's Labour Market 301: lower South African labour costs are just as likely to see higher profits and more offshore investments by the Sappis, Anglos, and Old Mutuals of this world.

We really do need a common vision of employment. How will 50 million South Africans support themselves in 2014, and what instruments do we need to get there? If the government can't do it by itself, others will have to contribute.

So where is CDE's employment scenario? What, according to your researchers, are the key sectors where, with a bit more attention, a bit more work, a bit more development, we can start to generate the levels of growth and job creation we need?

As the President has stated, we don't need new policy – we need to start implementing existing policy, and it's important to remind people that implementing policy includes monitoring and evaluation, because policy is dynamic and develops incrementally.

We also need to move beyond the notion that, outside of government, all we need is a nice, big, happy business environment. We need to move more specifically towards a vision of an environment that would serve everybody. Where could we be in 2014? Once we have defined that, we

can start working, particularly as government, on supporting or creating the instruments that can get us there.

Department of Trade and Industry

Lionel October, Deputy director-general: enterprise and industrial development

I want to focus on what has happened in the real economy, especially the manufacturing sector, during the past ten years.

One caveat is that, in assessing performance, one should obviously have regard to some statistical base, but there is still some debate about exactly how many jobs have been created over the past ten years.

Figures on the manufacturing sector have also been revised; it now seems as if it might be 18-20 per cent bigger than previously stated. So, obviously, there is also a debate about the size of our GDP and, consequently, the economy's rate of growth.

But, leaving that aside, we are generally dealing with a mixed picture. It is common cause that we inherited an inefficient industrial structure in 1994. The economy was still dominated by the export of raw materials. We consistently ran into balance of payments constraints because we exported raw materials and imported quality manufactured products.

Also, in the 1980s and early 1990s, our domestic production costs continued to rise, while global production costs were falling. The economy and labour market were racially skewed, and, like many developing countries, we lacked a modern and diversified industrial base. At the same time, the economy was highly protected.

By the early 1990s South Africa had exhausted its import substitution model and was facing serious deindustrialisation. The clothing industry was falling apart, and the motor manufacturing industry was declining.

Following the change of power in 1994, the new government formulated a new industrial and trade policy, with three main components. The first was to move away from the import substitution model by gradually reducing import tariffs and improving access to international markets. The second was to expand into Africa, and southern Africa in particular. Part of our isolation had been a separation from the continent. The third was to participate in the World Trade Organisation, and help establish a rules-based world trade system.

Despite a gradual reduction in trade protection, we now have a far more competitive manufacturing sector. Many South African companies in numerous sectors have successfully internationalised; they are globally competitive, and do not

need tariff protection to survive. Therefore, trade policy has been part of the South African success story.

However, as I said earlier, the picture is a mixed one. Initially, exporters were given export incentives that were supposed to promote an outward orientation. This was an open-ended exposure to the fiscus, but also a highly corrupt system. We therefore replaced it with more focused supply-side measures.

The efficacy of those measures is open to debate, but the basic approach has been to create a globally competitive manufacturing sector that does not rely on high levels of subsidy and protection. Therefore, I believe the fundamentals of trade and industrial policy are pointing in the right direction.

The real economy faces two challenges: the first is that of employment. Countries such as South Korea and Japan started off with labour-intensive manufacturing, reached full employment, and then developed a more sophisticated manufacturing sector, or a deepening of the industrial structure.

In South Africa, manufacturing contributes about 20 per cent of GDP, but has not been able to deal with the unemployment problem in the same way. We need to debate whether it could ever do so. At the same time, some labour-intensive manufacturing sectors, such as the clothing and textile sector, face a particular challenge of surviving in the face of international competition. This is where we haven't been as successful as in other areas.

The second challenge is that of skilled labour. Ultimately, the economy will only grow, and remain internationally competitive, to the extent that it has skilled labour. However, we still face challenges in this area.

Overall, we have a far more mixed export profile – over the past decade, higher-value products have risen from about 20 per cent of the total export basket to about 40 per cent. Secondly, the proportion of exports of manufactured products to Africa has increased from 6 per cent to 13 per cent.

'Our main challenge for the next ten years is to find a way of stimulating the labour-intensive sectors of the economy'

This improved export profile is important because the biggest constraint developing countries face is their balance of payments. They need to import a large amount of manufactured and capital equipment, but usually don't have the export earnings to offset those transactions, and

rely on one or two agricultural or mining products to sustain their foreign revenue.

We no longer rely only on gold and platinum, and many of our industries are becoming internationally competitive.

However, the manufacturing sector has been unable to do its job for the second economy. One route from the second to the first economy is through the labour market, and labour-intensive manufacturing has survived less well than the other sectors. Therefore, our main challenge for the next ten years is to find a way of stimulating the labour-intensive sectors of the economy.

Public Service Commission

Prof Stan Sangweni, chair

I want to start off with two important landmarks. Before 1994 we had 11 separate public service systems. The interim constitution of 1994 prioritised their integration. This was a complex and traumatic process, but by 1996 we had one public service system staffed by 1 187 600 civil servants.

The second was the constitution of 1996, which created a clear framework for running the public service. Among other things, it stated that:

- the public service should be run according to a high standard of ethics;
- it should be governed by systems of efficiency, economy, and effectiveness;
- it should be development-oriented – in other words, it must aim at improving the quality of life of South Africans;
- services should be provided impartially, equitably, and without bias;
- it should respond to people's needs, and the public should be encouraged to participate in policy-making;
- public administration must be accountable and transparent;
- the public service must be governed by good human resource management; and
- it must reflect the demographic profile of our country.

'It is clear that social development is a major priority of the current administration'

Essentially, these values spell out how the public service should be governed, and how it should deliver services. The government's achievements should be analysed within this framework.

The constitution also created the Public Service Commission (PSC), which is tasked with monitoring and evaluating the extent to which the public service complies with these principles. Therefore,

last year we analysed, under each of these values and principles, how the government has addressed the issues of a developmental administration over the past ten years.

The review has been published, and is freely available; I cannot go into it in any detail, but will try to give you a brief sense of our findings.

The earlier presentations reflected aspects of an effort to apply the principle that public administration be development-oriented. How does the PSC see this? Firstly, we believe this concept should be interpreted to mean that the administration must address poverty and its causes. Development must also seek to improve quality of life, especially of the disadvantaged and most vulnerable.

The apartheid regime was fundamentally underdevelopmental. It focused on the enrichment of a small section of the population; social benefits were confined to a small elite, clustered around a few sectors in which limited economic activity occurred. Many of the problems we face today, such as the violent conflict in the taxi industry, have arisen from that skewed and inequitable economy.

By contrast, it is clear that social development is a major priority of the current administration; indeed, this is one of its main items of expenditure.

For instance, during the 2004/5 financial year, R370 billion will be spent on infrastructure and social services, rising to R439 billion in 2006/7. And more than a trillion rands will be spent on services in general over the next year. This is the essence of a development-oriented public administration, and is a major achievement. National and provincial departments have implemented a broad range of poverty alleviation programmes.

The picture is not only positive. The PSC has developed a monitoring and evaluation system for analysing the performance of various departments, and have found that some departmental poverty alleviation projects lack good management guidelines.

Programmes are also not well integrated cross-sectorally; there is a tendency towards silo operations. Also, they are often not well aligned with the integrated development programme. On the whole, though, we have found that much has been achieved in respect of the developmental principle.

As regards the principle that services must be provided impartially, fairly, equitably, and without bias: these concepts set a very high standard for providers of public services. Impartiality means no race, ethnicity, or family considerations in service delivery.

Fairness requires account to be taken of people's situations. Equity is a challenging concept; it calls for fair play, but also requires affirmative or

preferential access to services for certain groups. It may therefore pose a dynamic tension with impartiality.

Service provision under apartheid was unfair and biased, and caused many social conflicts. Budgets for service delivery were related to leaders' acceptance of separate development, and service delivery was rule-bound. It sought to deepen social control; it was oppressive, and also insulting.

Over the past ten years, the government has addressed fairness by enacting the Administrative Justice Act of 2000, which, among other things, requires departments to ensure procedurally fair administrative actions. The act gives citizens the right to be given reasons for administrative decisions. The Batho Pele programme specifically promotes fairness, equity, and impartiality, and provides a policy framework and implementation strategy for the improved provision of services.

However, compliance with the Administrative Justice Act is not satisfactory. Few departments have provided the training required under the act, and the users of services are seldom advised of their rights.

Also, Batho Pele is not effectively implemented. Research conducted by ourselves and the Department of Public Administration has shown that it has been poorly understood, and has not addressed inadequate performance in service delivery.

The processes of change over the past ten years have been very stressful, and one gets the sense that they have left the public service a little fatigued. There has been a lot of change; many public servants have been exposed to new things, and, to a certain extent, their environment is uncertain.

We in the PSC endorse the need to move away from formulating new policies towards consolidating existing policies, so that one can enhance them and also enhance their achievements, and consolidate the infrastructure that has been put in place.

More concretely, the state's performance must be improved at the individual level. This is a major challenge. You have heard references to the skills problems at various levels, particularly at the interface between the departments and the recipients of services.

That is a big skills bottleneck – the skill to transmit the services that people require. This is what we mean by the need to upgrade performance by the state, both at the individual and the institutional level.

In the Eastern Cape, for example, we were suddenly confronted with a frightful situation of non-delivery – a breakdown of the governmental machinery. In response to this, we want to introduce a specialised unit that will continually

assess the state's capacity for performance, so that we will not be taken by surprise.

The situation in the Eastern Cape suddenly thrust itself upon us, and the President had to call on the PSC and senior officials in various departments to deal with it. They had to put aside their own programmes to do so. This kind of problem may repeat itself, so a stand-alone unit to try to anticipate them and deal with them when they occur would be useful.

'We in the PSC endorse the need to move away from formulating new policies towards consolidating existing policies'

We also need to strengthen public management, as distinct from private enterprise management. This is a big problem. The reason for the migration to the private sector is that we have not perfected our public management to a point where we are able to create security for our senior managers.

Finally, we need to build a single public service – not local government here, provincial administration there, national departments there. These spheres must operate in unison, because they belong to the same system. This is what I mean by a single public service. The current proposals about subjecting local government institutions to the Public Services Act are a move in the right direction.

Department of Public Enterprises

Dr Jabulani Mzaliya, head: policy unit

My unit was part of the secretariat that developed The Presidency's ten-year review, and we also contributed to the scenarios for 2014, so we stand at both places: the past and the present.

To reiterate what my colleagues have said, what we inherited in 1994 was a mess. Some of the companies we inherited had huge debts. There was no corporate governance. You got a job if you happened to be somebody's son or daughter. SOEs were poorly managed, non-representative, and delivered services to a few. Services were segregated, and there was a lot of duplication. They were huge entities; effectively, they were governments within governments. Some of them even had their own police forces.

By 1994 a shift had begun towards a mixed economy, and the new understanding was that these huge enterprises would now perform a team role. The first task would be to make them efficient, and the second, to see to it that they contributed to the state's developmental agenda.



Questions have been asked about government's business in business, which is at the centre of what the Department of Public Enterprises does. This is a relevant question, but we cascade it down to the companies themselves, asking what an energy company such as Eskom is doing in telecommunications. What is it doing in transport? In housing? We are beginning to answer those questions.

We have to deal with powerful organisations. As a departmental director, you are in charge of the CEO of a company who earns seven times more than you do. This becomes problematic, because the power relations are not clearly defined.

If the President is the CEO of South Africa Incorporated, and Transnet is a subsidiary of SA Inc, how can the CEO of Transnet earn more than the President? Even within the SOEs themselves, remuneration is problematic.

We have been given a mandate to be the steward of the government's commercial interests. Therefore, our activities have to enable the government to make decisions on which businesses it should keep, which it should restructure, and which it should exit.

We must decide on the best methods of doing all these things, and also facilitate communication among government departments, because the responsibilities for these SOEs reside in different departments.

For example, we are in charge of the telecommunications shareholding, but the policy resides with the Department of Communications.

How do we integrate this, looking at the crucial issues affecting both departments, looking at the strategies, looking at the opportunities and seizing them, and looking at the threats facing the industry and how to minimise them?

We must also monitor the SOEs' financial and business performances by managing the process itself, interacting with stakeholders, and studying the markets. We've got the skills. We think we can provide the SOEs with clear mandates and strategies, working with them as a team to boost the economy.

When we started out in 1994, we had to bring in some structure. First, the department opened a small office in Pretoria. But by 1999 we had grown into a fully fledged schedule 1 department, and a department has to have a framework, which we established in 2000. We deliberately chose, because of our mixed economy, a flexible framework that would allow us to adopt any strategy for restructuring.

If the market conditions do not allow this, we don't want to be tied down by particular legislation that says, by the end of the year you should have exited company A. Among other things, we need to take market conditions into account.

This migration from a small office to being a fully fledged department is one of our achievements of the past decade. Also, during the past three financial years the auditor-general has given us a clean bill of health in respect of our internal financial management. The finances of the SOEs themselves are a different matter – it's part of the tiger we are trying to ride.

We have come up with just under R40 billion in proceeds over the past 10 years. The bulk of this, about R39 billion, has gone back to the National Treasury for expenditure on social and other pressing needs.

We have also reduced SOE debts, particularly those to do with pensions, medical aid, and housing. We are currently facing the problem of exiting Transnet housing; the workers are resisting this because they have been benefiting from cheaper services.

In transport, we realised about a billion rands extra when SwissAir collapsed and we had to recall its 20 per cent stake in SA Airways.

We emphasise BEE, and began doing so even before the term became fashionable. Five per cent of the Airports Company of South Africa (ACSA) equity was sold to employees in terms of an employee share ownership scheme (ESOP). Then, 100 per cent of Connex was sold to a BEE company.

We have also divisionalised the ports between South African Port Operations (SAPO) and the National Ports Authority of South Africa. And 100 per cent of Apron Services have been sold.

The Telkom initial public offer was one of our shining lights in disposal. We also have achievements in restructuring – I can't mention them all.

Among the issues in our sphere that received media coverage is the National Framework Agreement. The policy framework was thoroughly workshopped with workers, particularly the workers' federations. We went through 21 drafts with the workers' organisations, and sit with them at NEDLAC.

Labour has been involved in each transaction thus far. Of course, there are issues on which we will never agree.

We have developed some social plans with workers. Quite a lot still has to be done in that respect, but we face major problems in respect of the skills base we inherited, and the migrating technologies facing the SOEs.

Another challenge facing us is a migration away from restructuring towards shareholder management, in order to place all state assets into one basket, and achieve acceptable corporate governance. Some SOEs have no proper risk management structures, so we want to introduce and consolidate those.

We will not stop restructuring per se, but want to scale it down, and emphasise narrow shareholder management. We are still looking for a strategic equity partner for Denel. Current market conditions in the defence industry are very bad, but the industry itself is very secretive, so it is difficult to discover the latest trends. We are making progress. As the President has indicated, the Durban container terminal concession will be rolled out soon.

We are preparing Eskom for private sector participation, which will include BEE, and want to finalise this before the end of 2004. As a department, we have to fit into the President's state of the nation targets. Some timelines will be drastically changed.

In the medium term, we must complete our regulatory frameworks. As government, we are not going to be the regulators, but we are trying to influence the regulatory frameworks towards a developmental agenda. For example, if SOEs try to implement extraordinary tariff increases, we will need to intervene.

We need to strike a balance between several factors. On the one hand, the SOEs must come up with a bottom line, and we have to move away from state subsidisation. At the same time, we want them to contribute to our developmental agenda.

We are trying to finalise all the restructuring initiatives we have identified, but are faced with very shaky market conditions, which we are trying to respond to. We will continue restructuring through sound corporate governance structures,

and through the integrated government system in terms of which we are part of a cluster of departments whose activities influence each other.

RESPONDENTS

Prof Lawrence Schlemmer

Consultant to CDE

These presentations have been fascinating and informative. They create the impression that the public service has really begun to rise to the challenges of servicing and interacting with the first economy. Even in agriculture, progress has been made towards more cost-effective and resource-effective service delivery. The creation of a single social security agency will further improve the delivery of welfare.

However, I want to concentrate on the challenge posed by Mike Muller when he asked CDE for its employment scenario; this concerns the real problem of the second economy, which all the speakers touched on in one way or another. In dealing with these kinds of issues, any government faces a hierarchy of difficulties.

Providing established, routine services is the easiest of all. Providing services to non-established, expanding, urbanising populations is more difficult. Playing a co-ordinating and mobilising role in service delivery and development is the most difficult role of all.

Success has been achieved at various levels, but local economic development is lagging very badly; the failure rate among local development projects is very high. This is not necessarily a failure by the state – they are often local government or NGO initiatives. They are failing largely because they require sophisticated co-ordination, and our programme management skills are overstressed in both the private and public sectors.

South Africa has more programme management skills than most emerging countries, but they are still inadequate. When you deal with community development in particular, the tasks become very complex, and the demands very high.

'Success has been achieved at various levels, but local economic development is lagging very badly'

I agree with Mike Muller that we shouldn't hope that the first economy will solve all our problems, because it won't. I could debate whether some relaxation of labour controls might help, but our wage levels are not excessively high. More flexible hiring and firing may increase employment, but it won't solve the problem.

There are very few countries in South Africa's position, with a large unskilled population in relation to a modern economy that has to become more competitive. And we have become more competitive, as Lionel October has showed in his presentation.

The only way in which the mass of the population in developing countries makes a sustainable living is via small-scale agriculture, or rural family businesses, crafts, and small-scale production.

Unfortunately, our first economy is so efficient that it undermines small-scale production. If you travel from Entebbe airport to the centre of Kampala, you see thousands of people in one little workshop after another, making doors, burglar guards, and a host of other products. However, in South Africa those products are manufactured far more cheaply commercially than small producers can make them.

So we need to get co-ordinated, community-based development off the ground. How does one do this when the private sector does not have the skills to do so, nor necessarily the motivation to help? Whenever I've seen private sectors at work in local economic development, I've been taken aback by their lack of efficiency. Or when the public sector is overstressed when it has to deal with disaggregated services?

I understand the need for equity and empowerment in local economic development subcontracting, but we cannot afford to erect any barriers to the use of the most experienced and able private project co-ordinators.

This is the key challenge we should discuss. I believe the public service has a vital role to play in interacting with other social actors and getting this kind of dynamic going. We can become increasingly successful, but without co-ordinated development we will not address Mike Muller's challenge.

'When the majority are in the second economy, with unemployment wreaking havoc in our communities, you can't say we are succeeding as a country'

Prof Sipho Seepe

Acting vice-chancellor, Vista University

I appreciate the information we have received from our panellists. They have conveyed some of the successes achieved in the course of transforming apartheid institutions.

However, when we talk about our achievements, what criteria are we using? Many people, including Prof Adam Habib, have suggested that

measuring ourselves against the apartheid order is not very meaningful, because almost everything was wrong under apartheid. If you are going to use this as your point of departure, you can hardly go wrong.

He suggested that we should rather measure ourselves against what we said we would do for the people; then we could talk about whether or not we have been moving progressively towards those ideals.

Another issue is the notion of the first and second economies. This has become a new national discourse. But is it not becoming a cop-out? We say the first economy is doing well, but the second economy is not. When the majority are in the second economy, with unemployment wreaking havoc in our communities, you can't begin to say we are succeeding as a country.

You cannot fault the policies of the various departments. They seem to have identified the problems, and come up with proper strategies. But what is the experience of the majority? Statistics show clearly that poverty has deepened. Even though the government has done a lot in respect of a social wage, we are not doing well.

We need to ask why we are not moving our people to a state where they are better off. The massive increase in social grants is fascinating; it means we have become more successful in identifying recipients, but also that we are failing as a country.

I find it sad to see adults on TV rushing to receive food. In the past, we offered food to children attending school. Today, any day in Soweto is almost like a Sunday, because so many people are on the streets. In some areas, 60 per cent of adults are unemployed.

Dr Mzaliya raised an interesting issue which we seem to be avoiding, perhaps because it's politically problematic. Even if, as Dr Sangweni has indicated, we can make very impressive submissions in terms of the things we need to do, the policies cannot drive themselves. You can come up with very good time frames, but issues of quality have to go with issues of expertise.

I differ from him in one respect – the President does not necessarily have to earn more than everybody else in the country. However, the skills one needs to be president are very different from those one needs to be a corporate manager. In South Africa we have often deployed people without the requisite knowledge; what appears to be politically savvy and exciting takes over that which is known to be working. That problem needs to be engaged.

This also goes to the issue of BEE, which I've been trying to understand. I understand the need for redress, but some appointments under the rubric of BEE have undermined rather than promoted the so-called empowerment that's supposed to take place.

We do not rigorously ask the questions that should be asked, such as: is the person competent enough to fill this position, and are these plans and visions sustainable?

The ANC's strong mandate will probably help us to take accountability much more seriously. It now longer has the excuse that other political parties are diverting its attention; it has a full mandate, and must now deliver. Given the popular mandate, the political debate may even become more sophisticated.

Like Prof Schlemmer, I found the presentations interesting and encouraging. But we now need to focus on implementation, and ensure that we have the right people to drive it. Having the right people will increase efficiency, but will also build confidence in the system. When you have people who are simply there because they are politically connected, other people ask why they should work hard.

So we need to start moving; to start emphasising skills and expertise, and to start appointing people on the basis of what they can contribute, not the connections they have. Ten years is a long time to reward people. We need to think beyond that.

Things appear to be working right now, but I don't know whether this will still be the case in ten years' time. Ten years after Zimbabwe's liberation, things looked okay, but 20 years down the line they do not. We should not mislead ourselves on this score.

DISCUSSION

■ Service delivery was the key to evaluating progress against commitments and the strategic objectives of the liberation struggle, and to restoring human dignity. During canvassing for the 2004 elections, people acknowledged that progress had been made, and said they had hope for the future. That was why they had given the ANC an overwhelming mandate.

In his municipality, 97 per cent of households now had electricity, and almost 60 per cent of the population had access to potable water. Many people were receiving social grants. Some households were exempted from rates and taxes, and provided with a basic amount of free water and electricity.

Job creation was a major challenge. In the interim, the social net should be expanded, but democracy would only be realised when everyone entitled to a productive life could get a job.

The policy framework to tackle these issues existed, but for effective implementation national government should appreciate more fully that local government was at the coalface of delivery, and needed more resources and capacity.

■ More provincial and local government representatives should have been invited to the workshop, to balance the high-level view with the nitty-gritty of delivery.

'National government should appreciate more fully that local government is at the coalface of delivery, and needs more resources and capacity'

Democracy had given people pride in being South African; the achievements were beyond anyone's imagination. However, there was still scope for improvement; people expected service delivery to become faster and better. Provinces and municipalities were now expected to align themselves with the President's programme of action. Realignment with national policy would contribute to faster and better service delivery.

On the question of the two economies, local government was very active in local economic development; without some kind of realignment, it might be focusing on one area while the province was focusing on another.

Direct community involvement was also important, with communities using democratic forums such as ward committees and CPFs to feed into policy formulation and improve services. Civil society organisations had a role to play in making communities understand that they had both rights and responsibilities. Part of the latter was to play a role in governance structures.

Skills were crucial. SETAS had to be more functional, in order to respond to their customers' needs.

The Presidency's ten-year review had highlighted what the government had to deliver, and the government had done well. But there were difficulties with those tasks dependent on partnerships with other social entities. Better interaction had to be developed, because the government alone could not meet the challenges ahead.

■ The concepts of the first and second economy had to be clarified. Where was the first economy really located, and what influence did it have on the second? The President had alluded in his speech to investment by SOEs. How could this be used to elevate the situation in the second economy?

On the skills issue, where were the deficiencies – middle management, or top management? The answer would enable the problem to be addressed. SETAS fitted into skills development, but the contribution of the first economy should be probed.

Without positive impact on the person in the street, be that in Soweto or Mangaung, action would be meaningless. The kitty for social grants

would eventually run dry, so the country should not rely on them. A turnaround was dependent on innovation from South Africans, which had not been possible with the level of education in the past. That was now being corrected.

Achieving the goals and time frames established by the President would need an element of patriotism.

■ The gender aspect of South Africa's achievements had been missing from the discussions. Enormous achievements had been made, but there were also huge areas where these were still lacking. The last census showed that there was a huge overweighting of black women in the lowest-paid jobs, and gender was a major issue in unemployment and rural poverty. Achievements and challenges needed to be disaggregated in terms of gender.

THE SPEAKERS RESPOND

Dr Jabulani Mzaliya: I'm not trying to get more money for the President. I was just making the point that we, as government, don't have a grasp of the remuneration of top SOE managers. The department is beginning to work on a performance-linked remuneration policy. Currently, bonuses are skyrocketing even if the company has not performed well.

As the public sector is moving towards proper governance, it is declining in the private sector. We come back to benchmarking. When we started, we were told to see how the private sector did things, and then to emulate that example. But now the shoe is on the other foot.

I agree with Prof Schlemmer, and also respond to Prof Seepe, about the next 20 years. The role of the state in the economy is enduring; it will continue beyond 20 years. Its involvement is essential. We are not doing these things because they are fashionable, but because they are the right things to do.

'We're going to be measured on whether we actually achieve sustainable livelihoods over the next ten years'

A problem is that parliamentarians at national level want development in their areas, even if it is not in line with national development plans. In the United States, Amtrak trains sometimes run empty because a national senator comes from that state.

Here, particularly in the former homeland areas, people want underutilised railway lines to be revived even though there are no goods to be transported. We don't want to create white elephants.

We also have a problem with attracting board members, because it is said that the Public Finance Management Act is too strict. People can get away with things in the private sector which they cannot get away with in the public sector or in SOEs.

A problematic section of the act says that the wife of a board member is liable for his wrongdoings, and that a female board member must get permission from her husband to serve on a board. This issue needs attention.

And the government also gets bad press. This means we are failing to communicate. In the case of my department, the press says, 'show us the money'. It is not interested in improvements in efficiency.

They say: 'You said at the beginning of 1994 that by 2004 you would have delivered R140 billion as a result of fire sales.' But we said we were not going to have a fire sale and sell the family silver. Do we look at monetary value, or the worth of the company such as Eskom which is a world beater now when it wasn't when we started? We are trying to balance those things.

We started out by benchmarking against apartheid, but government departments are beginning to look at other benchmarks, including international models. Our shareholding model is informed by the Temasek model in Singapore, mixed with the New Zealand, Australian, and Canadian models.

We are doing so because we are not going to be dictated to by models in other countries; South Africa is unique. For the same reason, the government doesn't regard the World Bank and IMF models as the be-all and end-all of economic restructuring, because we have the benefit of having seen what these restructuring models have done.

A lack of delivery is articulated by people who are not beneficiaries. People may say their houses are too small, but you see the appreciation of those people who had nothing in the first place, to whom those things have been delivered. The problem government has with service delivery is that the products are not packaged. The delivery of housing is useless if it isn't linked to employment, because people are not going to be able to pay for services.

This is being gradually addressed by the cluster system, in terms of which every department has to know what the others in related areas are doing. But the media and analysts have not taken note of this. In a parliamentary briefing on the social sector cluster, for example, questions were directed at only one minister, the minister of health, and none of the other ministers present. It would help if analysts assessed government as a cluster, addressing the packages rather than looking at one issue at a time.

Lastly, I want to note that South African statistics are unreliable. This is unfortunate, because statistics inform our policies.

Prof Lawrence Schlemmer: This last point is crucial. A public service depends on accurate statistics to which it can relate its own progress.

Gender issues are often regarded as add-on considerations. They are not. One of the most underutilised resources for dealing with the central problem of the second economy is arable land. There are infrastructural and co-ordination problems, but a major problem is that women do not define their role as being the primary tillers of the soil. They feel that, until such time as the men return, they will continue to confine their activities to growing vegetables.

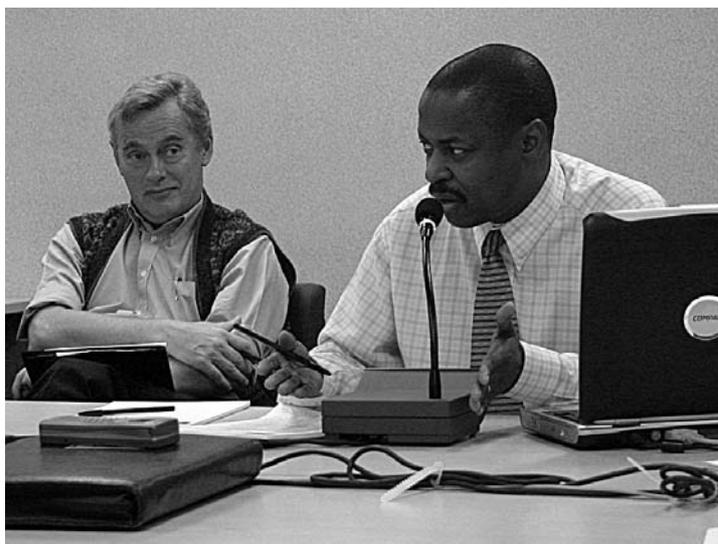
This is ridiculous, because what really keeps them out of agriculture is that they don't have ploughing services. The way in which gender is defined out of the system is unacceptable. One needs to redefine the role of women in that form of agriculture, communicate this effectively, and co-ordinate it.

Prof Siphso Seepe: On the issue of the first and second economies: there's a simplified view that one can have a first and a second economy, as if the second economy doesn't feed the first. In fact, you may find that the first economy feeds on the second, and that unemployment in the second is necessary for the exploitation the first requires.

The first and third worlds are marked by structural arrangements that always keep certain people as developing, and others developed. The third world has been trying hard to take prescriptions from the first world, but doesn't seem to be moving even towards the second. Instead, I would like to have one economy, and efforts made to productively engage people in it.

An important issue raised is sustainability. It may be possible now to install electricity and provide social grants, but how sustainable are these things? The Soviet Union provided all sorts of services, but this was not a sustainable economy. So while we like the way in which the government is responding to reality, we must understand that this reality is not a natural phenomenon; it has been brought about by certain decisions and policies. So, while we are reaching the unemployed, we should be asking how we should address unemployment so that this should not be a burden on the state. The state has many other issues to deal with.

The greatest challenges are where apartheid succeeded most in impoverishing the people. So, are our successes really successes? If we say, Gauteng is better off than the Eastern Cape, is this a success story? The successes may have less



to do with the people deployed than with the benefits they accrue. Gauteng may be what it is because it is highly industrialised. It may have to do with the momentum in the system.

Mike Muller: On Prof Seepe's statement that we shouldn't benchmark ourselves against apartheid: One of the purposes of the discussion about the second economy is to set a new benchmark. As I understand it, it means, among other things, that we need to measure ourselves against the extent to which we integrate people into sustainable activities.

I still don't think we have fully come to grips with the apartheid legacy. This relates to Lawrie Schlemmer's point about the role of agriculture in developing countries. In 1992 I co-wrote a paper which examined how many households could be sustained in an agricultural environment. We found it was a bit more than a million – ie, only 10 per cent of the rural poor. Despite this, our legacy is that large numbers of people were confined to those rural areas.

I agree that we ought to be looking at rural activities. Tractorisation ran into difficulties, but there is no doubt that, if we want to maximise rural opportunity in, say, the Eastern Cape or North West, we should put in some watering points for livestock as well. We need a series of initiatives on a programmatic instead of a project level.

We need to continue supporting small farmers. We might even want to make a special price for maize produced by peasant farmers. Under the current price regime you cannot even cover your costs. We haven't created an environment in which farming is economic.

It made perfect sense to close down the Maize Board and let commercial farmers earn an honest living, but this doesn't necessarily apply to small-scale peasant farming.

This leads on to the question of how we establish a society in which we run targeted support programmes in some areas, but not in others. Farmers who want drought relief say, it's not fair that you're giving fodder to the peasants. Why don't you give us fodder as well?

The answer is, because you should have known better than to overstock your land, whereas other people didn't have that option. We do have these challenges because we're trying to pretend we are a single society when in fact we're still a very divided and fractured one.

We're going to be measured on whether we actually achieve sustainable livelihoods over the next ten years. We do need to measure against the experience of people, and I think that is a useful conclusion to take from this workshop. We're going to need partnerships to help us work through the options. And we're going to need people to explain to AgriSA why one set of incentives is fair for some people but not fair for others.

Those are the kinds of intelligent partnerships we're going to need, and they're tough ones because most partnerships are about interest groups and people defending their corner and trying to get benefits – not about explaining why they aren't going to get any. So there are some big challenges there.

SUMMATION

Dr Jeff McCarthy

Consultant to CDE

Virtually everyone agrees that great progress has been made in many areas over the past ten years. As a participant pointed out, a 70 per cent vote reflects that ordinary people feel there has been progress, and there is hope for the future. And when one returns from overseas, one always says this is a great country to live in.

'The notion of the two economies is an overly dualistic and divisive one that doesn't fit with reality'

However, some differences remain around the challenges for the future. Not many were mentioned, except that one should consolidate existing policy and put it into practice rather than continuing to make new policy, and that poverty and unemployment need attention.

However, what worries me is that I also heard people say that the role of the state had to endure; asking whether privatisation had gone too far; and suggesting that the state should consolidate more.

What I'm hearing in other circles is quite different. According to surveys, major investors say they are not increasing employment in their firms because of crime, HIV/AIDS, and the social disintegration related to those factors. They are worried that we might be in a downward spiral, and that this makes South Africa an unsafe place in which to hire more people and to invest.

I became even more worried when participants began to talk in terms of the first and second economies, because there was a dualism here of 'us and them'. Other sectors of society are talking like this as well. In fact, the world is far more complex than two economies.

Let's take the construction industry as an example. The government supports at least five categories of small contractors in public works programmes. Then there are four categories of empowerment contractors, depending on the level of capital intensity. Then there are black-owned contracting firms that don't need government contracts.

And then there is the established contractor industry. All of them need machinery, either imported from abroad or from the local manufacturing industry. And each time any of these enterprises works, they employ people who get paid wages which they spend in shops, thus generating demand elsewhere.

All this points to the fact that our economy is a complex and highly interdependent one. Just the Public Works Programme is a very complex arena, with ramifying and interconnected effects throughout the entire economy. Therefore, I'm a bit worried that the notion of the two economies is an overly dualistic and divisive one that doesn't fit with reality.

CLOSING REMARKS

Ann Bernstein: Few people outside government sufficiently appreciate the magnitude of the task that faced it in 1994, and the extent of its commitment and progress made in so many different fields. In this sense, it's fair to compare the situation today to that prior to 1994. It is less helpful in a global perspective, because other societies we have to compete with have moved ahead while we've been dealing with the past. It's unfair, but that's the reality we have to deal with.

So, for me, the first major point to emerge from this discussion is that the wealth of energy and initiative in the public sector is not sufficiently appreciated by the media and other commentators.

Besides this, I am struck by three big challenges that face each department and the government as a whole. The first is unemployment. It's not enough to berate it or categorise it into the so-called second economy. We need to discuss

what we could have done during the past ten years that might have made things better or worse, and come to terms with that. But the central challenge is to decide what we need to do differently to include many more people in the economy.

The second issue, which is not talked about enough, is urbanisation. Are you in favour of it, or do you want to hold it back as much as possible? We have to grapple far more directly with this phenomenon than we have in the past. This relates to sustainable development, and how we think about urban and rural South Africa and their futures. We need to encourage local economic development where it makes sense for investors to invest.

This is about where we can get economic growth to take place. There are parts of the country where this is simply not possible. We have to recognise this reality. If necessary, we have to help people to move, and ensure that the places they are moving to are better managed, so they can deal with the consequences of in-migration.

The third issue, which worries CDE a great deal, is that of local government. Leave aside metropolitan areas – they're big and powerful, and they have capacity. But outside of the metros and a few cities on the next level, we're really struggling, and we have to be honest about that. Everybody talks about the things we're asking local government to do, from providing extension services for emergent farmers to local economic development, to managing water, to a million other things, and frankly I just don't believe it. It's not happening.

To say we must get more capacity is implausible, because we're stretched as a society already, and people with capacity are not going to go to rural areas. We have to come to grips with these realities.

I support Mike in terms of public-private partnerships. This issue is far more sophisticated and complex than it is made out to be. We need to pay far more intensive attention to this, both from the public and private sectors. We need to determine what works, and what prevents it from working on both sides.

Let me come to Mike Muller's challenge to CDE. I share Siphos and Jeff's concerns about the first and second economies. This notion is helpful in some ways, but dangerous in others. Many people are in the so-called second economy because of their poor education – due to the crime of Bantu education.

Access to education has been vastly improved; in fact, we're now better off in this respect than almost any other developing country. However, when it comes to quality, we are short-changing millions of learners and their families, and this is part of the reason why a lot of people are stuck in the second economy.

But the other reason for this concerns the labour market. South Africa is a democracy with a high-wage, high-skills approach to its formal economy. This was the intention behind the

'The low-wage, low-skill jobs which people in our second economy could get have now moved to other countries in southern Africa'

Labour Relations Act. As a result, the low-wage, low-skill jobs which people in our second economy could get have now moved to other countries in southern Africa.

It's not as simple as bringing wages down. There is a package of issues we need to grapple with: we need to say, we understand that it's politically complicated, but ten years of a much better government than this country has ever had in terms of its intentions for the population, and ten years of serious attempts at aspects of economic reform, have led to a phenomenal unemployment problem.

We have to think very seriously about why Lesotho's textile industry is growing at the expense of our own. Why are factories moving there from Bloemfontein?

Unemployment and education are crucial issues for the future. I can assure Mike and others that they are at the very centre of CDE's agenda for the next few years.

Participants, workshop 4

Ann Bernstein, executive director, CDE
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Dr Simon Dagut, research manager, CDE
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Bertie Lubner, chair, The Lubner Group of Companies
Gill Marcus, deputy governor, South African Reserve Bank
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Jayendra Naidoo, director, J&J Group
Jeff Osborne, chief executive officer, Retail Motor Industry Organisation
Sebastian Paredes, chief executive officer: sub-Saharan Africa, Citigroup International
Dr Mike Rosholt, chair, National Business Initiative
Adam Samie, chief executive officer, Lion of Africa Insurance Company Ltd
Prof Lawrence Schlemmer, consultant, CDE
Mike Schussler, chief economist, Tlotlisa Securities (Pty) Ltd
Venluxivan Hlakaza Sibanda, national marketing executive, Metropolitan Life
Heather Sonn, chief executive officer, Legae Securities

BUSINESS PERSPECTIVES

Chair: Ann Bernstein

Ann Bernstein: In the assessments of the past ten years published to date, the role of business has either been ignored or dismissed in one or two lines. Very little has been said about the enormous challenges the business sector has faced during the past 10 years, what it may have achieved, where it might have failed, and what its challenges are for the next decade. I am hoping we can focus on this today.

Saki Macozoma, a leading business spokesman, is one of few people who have reflected on the role of business during the past 10 years, and I thought it would be useful to raise a few of his ideas.

He believes the position that capital takes on national priorities such as poverty eradication and investment for growth will have a major impact on the character of the state during the next 10 years. He feels that the engagement of business leaders with the President and his ministers have been made less productive by business's inclination to conduct discussions in an overly polite tone, for fear of being perceived as unpatriotic or defensive.

He argues that very few business leaders really appreciate the political cost of the economic path that the government has chosen. 'As a result, business fails to act in ways that could help government to defend this course.'

By contrast, in an article published yesterday, a Stellenbosch academic writes that, since 1994, the big business sector has largely been guided by short-term self-interest. He argues that business is strangely failing to point out that much of the current investment in BEE will be unproductive.

In his view, business has also been too compliant; I have also heard others argue that we have a co-opted business sector. These conflicting views touch on some of the issues we at CDE are thinking about, and would like you to comment on.

SPEAKERS

Bobby Godsell

Chief executive officer, AngloGold Ashanti

I've ordered my thoughts around four aspects of the role of business in a transition, which is clearly not yet complete. The first is participating in a changing balance of power. The second is recognising new power realities. The third is negotiating new rules of the game. And the



fourth is making these new rules work. The first three are largely in the past, but the fourth is very much in the future.

On the changing balance of power: In the 1970s, black workers developed from largely unskilled labourers who could easily be exchanged into semi-skilled operators, which meant that the cost of firing your workforce began to exceed the cost of negotiating with it.

In 1971, stevedores went on strike in the Durban docks, and 1 000 were fired. The train that took them back to KwaZulu passed a train bringing in 1 000 replacements. The stevedores then were manual labourers, not operators, and one pair of hands was much the same as any other.

In 1973, between 50 000 and 80 000 Durban workers went on strike, some 30 000 of them in the Frame factories in Hammarsdale. Phillip Frame took a crucial decision that his interests would be better served by negotiating a settlement than by replacing those workers. By then, training semi-skilled operators would have taken three to six weeks, and the strike could be settled far more quickly by negotiation.

This represented a fundamental shift in the South African power equation, which had a far-reaching impact on subsequent events. If we get

into the difficult debate about what made South Africa change – Umkhonto we Sizwe, UN sanctions, a changed Broederbond – my answer is usually, all of these. However, a key aspect was that black workers had been empowered by the changed nature of the economy.

For a host of reasons I don't fully understand, business decided quite early on to recognise this power shift rather than resist it. Employers are very powerful; if they want to resist unionisation, they can generally do so. After all, there had been at least four prior attempts to unionise black workers, which had been crushed by a combination of state power and employer resistance.

But a variety of factors – including codes of conduct and others which were not very impressive in themselves – prompted business to recognise trade unions rather than resist them. A good example of this is the mining industry's recognition of the National Union of Mineworkers in 1983, when it represented only about 3 per cent of the workforce.

On negotiating new rules of the game: there were numerous big moments. One was when, after firing 50 000 workers in the 1987 wage strike, Anglo American negotiated a code of conduct with the unions. There was a dispute about how our property could be used – whether unions and workers could hold meetings, when they could do so, and so on. The question was really whether workers had civil liberties on our property, and if so, what those liberties would be. So we came up with a code which stated that workers had the right to strike, but that those who did not want to strike had a right not to do so.

In a hostel that was politically mobilised, this meant that workers had the right to picket but not to bar the gate to the hostel, thus shutting everyone in. We went into a long debate about the purpose of picketing: it was to morally persuade, but not physically prevent. And so we have rules about how many pickets there can be per metre, and these rules are implemented by union and management marshals.

'Every year, we have to fold a few million more South Africans into the good life'

Then there was the Labour Relations Amendment in the 1970s, which reversed the onus of proof in respect of intimidation: if the state accused you of intimidation, you had to prove that you hadn't intimidated. Not surprisingly, the unions thought this was unfair, and after a long struggle, business agreed with the unions, and we negotiated a change to that.

We then became involved in the Peace Movement, in which the next speaker played a huge

role. This was another important moment, because again we were dealing with the issue of what is democracy, and whether it comes at any price – what are the rules around democratic mobilisation, can there be 'no go' areas, and should others have the right of access to IFP and ANC areas.

While we were trying to engage politically reluctant brides, namely the ANC, the National Party, and the IFP, we and the union movement had already begun to address some of these issues, and had come to terms with talking to the enemy. We had got away from the high-flying moral issues, and were talking about matters at hand.

This facilitated the Peace Accord, which was a logical forerunner to CODESA because it said, we're going to share a country around a set of rules, we're going to respect each other's right to life, right to participate, and right to have a contrary view.

Now we come to the last aspect, namely making these rules work. There is one respect in which South Africa really has to grow up. We can't build a future by lurching to the edge of disaster, looking over and saying, that doesn't look too good, and then lurching back. This is what we did in the 1990s and 1980s – we would have a strike, fire 50 000 people, and then agree on the rules of the game. Union leaders would say, there will be blood on the streets, and then sit down and negotiate a sensible agreement. This is not a stable way to craft a difficult future that will demand all our energy, passion, and creativity to meet the difficult challenge of achieving inclusive growth.

With this, I absolutely mean economic growth. Without economic growth we're dead in the water, because we won't have enough resources to give everybody the kind of life they legitimately aspire to. But that growth really has to be inclusive, and when I say 'inclusive' I mean this as a verb rather than a noun – I mean that, every year, we have to fold a few million more South Africans into the good life.

So for business, if this only means that businesses grows but society doesn't grow richer, it is unsustainable. For the trade union movement, if it only means that their members have more job security and better pay but levels of unemployment remain the same, it is unsustainable. And for BEE, if it only means the creation of black Oppenheimers and Rockefellers, it is also unsustainable.

I must add that I believe it is racist to revere white Oppenheimers and criticise black Oppenheimers. We need enriched individuals, and we need symbols or role models of dramatic success in the black community as we've had them in the white community. But if we're merely going to

create five black billionaires, we're not going to become a competitive economy and a stable polity and society.

Jayendra Naidoo

Director, J&J Group

About 11 years ago, Bobby and I participated in a business–labour dialogue aimed at trying to create a charter for peace and democracy, which contained a series of concrete goals for staging an election, setting transitional processes in motion, and so on. The National Economic Forum which met at that time also formulated a series of concrete programmes.

While this has taken some time to develop, the government is now displaying the same kind of urgency about delivery that those constituencies did 10 years ago. This means we have finally reached the core of the transition, have worked through the political issues that have held us back, and are able to focus on those tasks in a more concentrated way.

No one can doubt that we have the best government this country has ever had. It's not perfect, and can be criticised from every quarter, be it the civics, the unions, business, and even parliament. But, on the whole, it is exceptionally competent. It has done a far better job of delivering and redistributing than any of its predecessors. However, it is still a very long way away from where we want it to be.

For business, this has been a challenging transformation. It has a new big customer, namely government, which is using procurement to drive change. It is also facing new regulatory pressures, as well as privately regulated pressures such as the empowerment charters, which are a very positive development.

Black business organisations have become more coherent. A more mature and grounded leadership is coming through, which is also a very positive development. However, they still don't pay much attention to social issues; they are still concentrating on improving conditions for black businesses and business people. Thus one may anticipate that, during the next 10 years, an increasing number of black businesses will begin to address issues that are more responsible from a social point of view.

Organised labour has gone through some very difficult changes during the past ten years. Since 1994 it has struggled with what its role should be, and I'm not sure it has found the right answer. COSATU remains aligned with the ANC, and I think won it a large number of votes in the last election, but there are internal pressures for COSATU to become more open and flexible politically, which is an interesting development. The

unions also need to clarify what they should be doing in the workplace, because workers are no longer joining unions simply because they want better wages – they also want certain services and other long-term benefits.

'We need to deepen and broaden BEE to include more and more layers of people. This will be strongly influenced by how successful we are with growth'

So labour faces the major task of trying to define a new role, and until it has done so, it has loose cannon potential. Labour leaders are trying to act patriotically by helping to promote foreign investment, which is a good national political instinct. But leaders change, and unless labour works out a clear role for itself, one doesn't know where the next crop of leaders will stand.

Lastly, although all of us probably feel positive about South Africa and its future, we need to recognise that the Indian elections may hold an important lesson for us. The ruling BJP was widely expected to retain power with a landslide victory. However, the Congress Party won, in alliance with the Communist Party, and will now run the country. This is a phenomenal change.

We're not necessarily far away from that situation. The ANC has won the election with an increased majority, which indicates that it is well grounded in all sections of society. But we have a huge underclass, a below-the-line phenomenon where people think differently, talk differently, and experience life in a totally different way. Integrating them into our democracy and economy is our biggest challenge.

What are the key issues for the next 10 years? In the early 1980s, workers could still easily have been replaced if it wasn't for their organisations and the way in which union leaders conducted themselves. Therefore, in my view, one of the key elements that has changed the balance of power is the quality of leadership and depth of organisation that has developed in this country.

So, while our national dialogue was previously characterised by this lurching to the edge and then retreating, I think we have moved away from that. We've become a country in which, happily, politics is becoming very boring – no one is going near the edge, or going to fall over. Younger people don't even know what the edge looks like anymore.

One of our big weaknesses is that, while we have leadership, it's a narrow one. When the Scandinavians invented their social system, they called it social democracy, which enabled different sets of ethics and values to be integrated around a single concept, and everyone to realise



what their place in the world was. We don't really have a name for our social system, and as long as we aren't sure what to call our game, there will be a lack in mobilising the intellectual and popular energy in this country.

The President has delivered a good state of the nation address; however, this was because it was a good speech, and not because it emanated from an ongoing interaction between the government, business, and labour. In that sense, the process of identifying what our common agenda is still needs to be stitched together.

Also, we need to deepen and broaden BEE to include more and more layers of people. This will be strongly influenced by how successful we are with growth as well.

Hopefully, we'll see some more South African companies becoming global players. Those that have gone out there seem to have done quite well, except, like our sports teams, in Australia.

I wouldn't be surprised if the labour movement assumes a far more secondary role, as it has in Europe and the United States, where it has primarily become a service organisation to workers and only exerts pressure at election times.

I also think increasing attention will be focused on government delivery and upliftment strategies at a community level. This is where the big game will be played over the next ten years.

DISCUSSION

■ A participant said she agreed with the creation of black Oppenheimers, as they were important role models for younger people. However, the big BEE deals reflected in the press had a negative impact on entrepreneurship, and support for small and medium enterprises.

Disagreeing with Jayendra Naidoo, she said small black businesses did play a socially developmental role because they found it more diffi-

cult to employ highly skilled people, and therefore had to find people with potential and develop them.

While many whites were being excluded by corporate employment equity programmes, entrepreneurship created opportunities for both blacks and whites. This was another reason why fostering the entrepreneurial sector of the economy had become so important.

■ South Africa should not be discussed in isolation but in its global context, which was a highly adverse one. Global power relations were disadvantageous to developing countries, and the world economic system was also fragile.

The international dimension was doubly important because much of South Africa's growth potential hinged on international confidence in the country and its economy. In this respect, South Africa was exposed to conflicting dynamics: on the one hand, there were high expectations of it; on the other, there was an automatic assumption that it would follow the same path as the rest of Africa. Therefore, part of the challenge involved South Africa's role in Africa.

A huge amount had been achieved over the past ten years, not only by the government but by the country as a whole. It had established a tremendous track record against which it could be measured. Despite this, it was regarded as riskier than many other countries, a perception which had no substance.

In this context, the role of business became even more important. There had been a great deal of debate about whether South African corporations should have listed in London. She believed this was very beneficial. The issue was not where a company was based, but who bought its shares, and where the dividends flowed to. If a company was listed on the JSE but a large proportion of its shares were held internationally, those dividends flowed out in any case. Many South African companies were largely foreign-owned.

South African corporations who had listed abroad had become world players, and would not have been able to do so otherwise. Also, they were still perceived to be South African companies. There was another layer of companies which were not listed abroad, but had a similar international focus.

Jobs would not be created by billionaires, but by small family-owned businesses. However, this sector was being stifled by over-regulation. This was a problem in other sectors as well. The whole regulatory environment needed to be reassessed; there were a large number of regulatory bodies which often worked against each other. The legal framework was also not adequately co-ordinated.

Many of these issues required engagement between government and other sectors of society, but she was concerned about the way in which

civil society had given up its voice. In previous years, South Africa had the most vigorous civil society; now, everyone deferred to ministers and senior government officials. This trend needed to be reversed.

One important issue on which engagement was needed was the value systems surrounding wealth and materialism. This applied not only to black entrepreneurs, but to all South Africans. Some people were earning three or four million rands a year, but felt poor because others were worth a hundred million rands. Meanwhile, most South Africans were living in poverty.

■ A participant said he was associated with an organisation representing thousands of small businesses. It and its members were mindful of the need for empowerment and employment equity, but faced a range of difficulties that were insufficiently recognised.

Many of his members did business with the insurance industry, which had signed an empowerment charter. It had appealed to his organisation and its members to help it achieve its targets in terms of the charter. However, empowerment was more difficult in small businesses than bigger ones. The association and its members were doing a lot to implement true empowerment, but these did not conform to the criteria prescribed by the charter. The insurance companies said they were under pressure to do business with true black empowerment businesses where the reins had been handed over to blacks. However, this was not going to happen overnight.

NAFCOC and Business Unity South Africa were referring aspirant purchasers of equity in SMMEs to his association, but the commercial banks often refused to finance these investments because these businesses weren't profitable enough. His association would like some direction, and also a recognition that it faced some unique challenges.

■ Phoney empowerment – the cosmetic appointment of blacks to SMMEs tendering for government contracts – had become widespread. This was clearly undesirable; however, most SMMEs could not afford fully skilled formerly disadvantaged persons who could immediately carry their own weight. They cost up to three times as much as formerly advantaged persons, whose skills were being devalued by the reigning norms created by the charters.

These problems were not being aired because the corporate sector was not aware of them. Corporations could buy the skills they need, but SMMEs could not. He doubted whether a single corporate executive had cut his or her remuneration for the sake of an empowerment deal. However, owners of SMMEs were regularly cutting their remuneration by up to 30 per cent in order to achieve empowerment deals.

In the past, these sorts of difficulties had been articulated by chambers of commerce. However, the chamber movement had fallen silent. The Afrikaanse Handelsinstituut in particular used to be very effective at articulating the interests of entrepreneurs in smaller towns. Today, they had gone quiet because the climate was running against them. Also, in previous years, its members often used to serve on local councils as well. Today, there were almost no business people on local councils, and a gulf had developed between the SME sector and local political institutions.

■ In Durban a growth coalition had been formed between the city government, the local chamber of commerce, and the business community, which was very successful. Most of the chamber's members were SMMEs. Many projects had been unlocked as a result.

Foreign investors took their cue from local investors. If local investors did not invest, it was difficult to persuade outside investors to do so.

The government and business were far closer to each other than they had been before. Strong words were exchanged at meetings of the President's big business working group, but this did not mean that the businessmen were not accepted. The impression should not be created that the government was unwilling to listen to business and to engage with it.

The fact that enterprise development and entrepreneurship were the keys to a sustainable South Africa could not be overemphasised. He agreed that some laws were counterproductive to achieving this goal.

■ Ann Bernstein said participants in all the workshops had agreed that South Africa had made phenomenal progress over the past ten years. However, while it had been attending to its internal situation, it had been outstripped by many of its international competitors.

'If local investors do not invest, it is difficult to persuade outside investors to do so'

A key question was how South Africa could achieve enough economic growth to make a significant input on unemployment. She asked participants to comment on the obstacles to higher economic growth. For some years there had been common references to growth targets of 5 to 6 per cent a year. These had slipped away, and no one was predicting anywhere near those levels of growth for the next few years. Perhaps it wasn't possible at all, but perhaps it wasn't possible because of the high-wage, high-skill growth path South Africa had chosen. It was significant that the low-wage, low-skill jobs in southern Africa were going to other countries in the region.

■ A participant said that, while he himself was a beneficiary of BEE, he was concerned about the 'big deal' syndrome in respect of BEE. Every large equity transfer to either a small group of people or to individuals was hailed as a big empowerment deal. However, these transactions did not create jobs.

Big business was also to blame, because it was making these deals with a few individuals only. Even government funding institutions were not interested in funding SMEs because they said it was too costly.

While these problems had been tabled, participants had not suggested any solutions. He asked at what stage business should address these problems collectively. During the past 10 years it was good to be seen creating the black Oppenheims. However, going forward, the focus of BEE should change, as should the approach to and funding of SMEs.

It was often stated that there was a skills shortage in South Africa; however, many skilled people were unemployed, and many people who received training in industry-focused skills could not find jobs. Similarly, many young people who received training overseas could not find jobs when they returned.

■ Big business seemed to prefer doing business with a few empowerment gurus only. Yet, when it sat around a table, it preached about SME development and forms of empowerment that would reach a greater number of people. When would black Oppenheims be encouraged to start incubating SMEs, so that the issue of growth could be addressed? A system should be devised for businesses to measure the impact of their BEE transactions.

'Jobs will not be created by billionaires, but by small family-owned businesses. However, this sector is being stifled by over-regulation'

■ There was no magic wand solution to growth; a combination of issues was at stake, as well as questions of mindset. Running an economy was no different to running a company; all the constituent parts needed to work together to achieve success.

A new strategy had to be adopted for bringing together the key sectors making up the economy. Business should play a role in this, but had to be given a formal voice before it could do so.

Public-private partnerships were potentially very important; however, PPP delivery was faltering because of huge turnovers in government personnel. This was because as soon as people began to perform well in the public sector, they

were lured away by opportunities in the private sector. They were attracted by financial opportunities, but also because the private sector was less constrained by bureaucracy. They could be more innovative in the private sector, and wield their authority more freely, whereas in the public sector there was such a rigid chain of command that programmes often became totally paralysed.

In a few instances where he had been involved with government, business had tried to introduce an attitude of accountability, benchmarking, and responsibility. Businesses had to be accountable; if they weren't, their stakeholders would desert them. The government's stakeholders couldn't do so; they were taxpayers, and the taxes would continue to come through. This was why accountability and responsibility were lacking throughout government.

This was a huge problem, because there were delivery problems at the national, provincial, metro, and local levels. The only way to resolve these would be for government and business to accept that they had a responsibility to work together.

Organised labour was also an important player, but when labour leaders were invited to meetings and discussion forums, they often did not turn up. A closer working relationship was needed between the key sectors in setting strategies, and mechanisms of accountability needed to be introduced to take the country forward.

■ Many black people still felt excluded from the mainstream economy. One of the obstacles was that, flowing from the apartheid years, large corporations still dominated local economies. This tended to consolidate markets within certain sectors, and determine the agenda for how business was done throughout the country. This was the old syndrome of the big names only dealing with big people.

SMEs run by black entrepreneurs could have a massive impact on the lives of people in townships, and could attract huge revenue flows to those areas.

It was simplistic to argue that ownership of white-owned SMEs could not be changed overnight. An effort had to be made to introduce the necessary changes. The opportunities certainly existed.

If South Africa was to advance economically, the idea of partnerships had to be taken seriously. The whole discourse of negotiation implied that people should take each others' hands across the racial divide. In certain sectors of the economy, business had not taken that message seriously. He had been intimately involved in the negotiations around the financial services sector charter. Initially, businesses participating in the negotiation were antagonistic, but by the end of the process all the participants had reached an understanding

that the way forward lay in all these groupings embracing each other and evolving common goals.

■ A participant said he had been involved in a pilot scheme to stimulate small businesses. A major problem was that aspirant entrepreneurs were expected to capitalise their companies entirely with borrowed money. White businessman would never go into a venture 100 per cent geared. He also did not see why private sector lenders should be expected to take those kinds of risks. If the government really wanted to get this sector going, it had to find an innovative way of producing 30 per cent of start-up capital – not necessarily in cash, but in the form of a three-year guarantee. Without this, efforts to advance this sector would not succeed.

They had also learnt that, if entrepreneurs failed, this happened within two of three years. As a result, they mentored entrepreneurs for the first two years.

■ International investors recognised South Africa's achievements over the past decade, and expected further positive developments in the medium term. However, they still had four long-term concerns, namely the failure of GDP growth to address unemployment; the impact of HIV and AIDS; that BEE would continue in the medium term, but that this window of opportunity would cease; and that, flowing from these, political stability might be compromised.

The country had a great window of opportunity for addressing these issues during the next five to seven years. SMEs had to be promoted; however, the biggest challenge remained raising levels of internal investment, as well as attracting higher levels of FDI. This was a very serious issue, because the largest South African corporations were now investing most of their capital offshore.

Offshore investment was important for the growth of those companies, as well as South Africa's profile, but was detracting from internal investment, and thus from economic growth. Because South Africa's currency was so volatile, it was crucial that a new level of stability be reached over the next five years, in order to reassure international investors and attract long-term FDI. This meant that the transformation stage of BEE had to be finalised.

Foreign investors saw HIV/AIDS as a key factor because, unless checked, HIV/AIDS plus unemployment could create a huge number of unemployed youths, some without parents, which could become a source of social turmoil.

■ Allegations that skilled graduates could not find work were worrying. The United States had passed legislation providing for a partnership between educational institutions and corporations in certain sectors in terms of which pupils coming out of schools and colleges knew exactly

where they were going to work. A similar approach should be adopted in South Africa.

People were constantly phoning him for jobs, and said they were prepared to do anything. When SAA advertised for 64 flight attendants last year, it received 10 000 applications, and there was a riot outside on the closing day.

'South Africa has achieved a great deal over the past decade, but is trying to do too many things at once, and losing focus as a result'

■ Many officials involved in promoting small businesses did not really have a passion for what they were doing. They often regarded their public sector jobs as a gateway to better paid jobs in the private sector. Similarly, many entrepreneurs sold their small businesses when they got bigger opportunities.

South Africa had achieved a great deal over the past decade, but was trying to do too many things at once, and losing focus as a result. Instead of trying to stop the war in Iraq, which it couldn't achieve, it should concentrate on other things. Trying to stabilise Africa before attending to its own problems might also not be the the best way of improving investor confidence.

Also, too many businessmen were chasing the same opportunities. Following the successful bid for the 2010 World Cup, everybody was forming construction companies. Many of these businesses would be unsustainable.

■ A participant associated with a motor manufacturing company said some people graduating from training colleges were placed in the industry, but this also depended on their abilities. People's expectations needed to be managed as well. The motor industry offered a wide range of jobs. Her company did what it could to guide and employ new entrants, but could not employ everyone in its area.

Companies such as hers had to help government to achieve its aims, help its employees to build safe communities, ensure that they had good homes with essential services, and help them gain further education. If they went into an SME environment, they would hopefully become suppliers.

Her company was gearing up to build a new model for the international market. The first thing it had done was to appoint somebody to investigate BEE suppliers in the Eastern Cape – to establish whether they existed, or had to be created.

The Eastern Cape was a very poor community. While this might sound paternalistic, it was incumbent on companies such as hers to play a

broader role and help to improve conditions within that community. Her company had not created its HIV/AIDS programme for the sake of publicity or awards, but because it had a workforce that needed to be taken care of.

However, their families were on the same medical aid scheme, so one couldn't stop the programme within the plant – it had to be spread into the community. Then one took it to one's supplier base. Her company had a balanced scorecard with its suppliers. It wanted to know whether they were black economic empowered, and whether they provided HIV/AIDS education and training. In this way, a company could continue to extend its contribution to the surrounding community.

Corporate social responsibility had been a soft issue until now, but this would change as companies would have to prove, via various indicators and interactions with staff and unions, what they were doing to make a difference.

■ Access to finance and the price of finance were key issues. Another was who owned all the BEE taking place. It certainly wasn't the black entrepreneurs themselves. Should these businesses go down, the funds would probably flow back to the banking sector, which would do very well out of it.

Banks had the wrong bank managers in place. Historically, bank managers knew their clients personally, and lent money on a basis of trust. Today, they only focused on standard information that could be computerised; as a result, the best business ideas were often thrown out because they did not fit the standard format.

However, the government also had to contribute to business development. It had placed a lot of the responsibility in the hands of the private sector by saying, we've created the framework, now you have to go and do it. However, the government should also play a more active role, which had to include a role in financing. It would take time before some of these businesses began to show a return.

'Not enough has been done to prioritise our developmental goals, and to determine which activities will leverage others'

Not enough had been done to prioritise developmental goals, and determine which activities would leverage others. Thought also had to be given to criteria for success. South Africans had developed such high expectations of themselves that anything short of 100 per cent success was regarded as a failure. There was no recognition that some successes were incremental, and that they could leverage success in other areas.

Training was also crucial. She did not agree that South Africa has sufficient skills. Much effort was being made in training, but much of it was unfocused and inappropriate. Many businesses were ducking their responsibility in this respect, and expecting other institutions to pay for the first three years of training. Thus the government and parastatals were committing a lot of time and resources to training, only to lose the beneficiaries to the private sector after three years.

The procurement process should be carefully rethought. First, it should allow contractors to use their contracts as collateral, so that they did not need to get into debt at the outset. Indeed, they needed to expand precisely because they were getting a contract.

Second, the period for which contracts were awarded should be reconsidered. Currently, contracts were being awarded for a year only, and then given to other contractors on the basis that the business had to be fairly distributed. However, SMEs had to build up knowledge and capacity to fulfil a contract, and it made no sense for them to lose it again a year later. Contracts should only be diverted elsewhere if the initial contractors failed to deliver.

Empowerment charters created an opportunity for people to think differently. Without a degree of pressure, white business people especially would not recognise the opportunities for partnering with blacks. Charters were therefore forcing people to think beyond their known parameters, which was enormously valuable.

Some overarching plan had to be worked out for procurement, and obstacles identified. Accessing finance from government agencies was extremely difficult. By the time it came through, the deal usually had long gone. There was a huge willingness on all sides, but there were obstacles that were unintended consequences of decisions. If they could be cleared away, there was a real opportunity to move forward.

The big deal syndrome and the fact that empowerment deals were only made with a small number of people were also cause for concern. It seemed as if corporations dealt with the same small group of black entrepreneurs because others had done so successfully. In fact, there were hundreds of very talented people, but they were not well enough known. Ways should be found of profiling them.

■ Government was in fact spending a great deal of money on supporting SMEs, but the criteria for funding some ventures and not others were unclear. Perhaps some of these funds should be given to the private sector, which would probably use it more successfully.

The township property market was a developmental explosion waiting to occur. The only thing required to trigger it off was for the govern-

ment to protect property and business rights in the former townships, which it had not yet done. Business should insist that the government should play the traditional role of governments, namely to protect private property and private transactions. If this was not done, local economies would remain hamstrung.

Some economic sectors now had special government–private sector bodies which dealt with procurement and empowerment issues. However, other industries could not afford to form such bodies, and therefore received less attention from the government. A more equitable system was needed.

Another important factor was education. It was almost impossible to find anyone who could write a business letter, let alone a report. Business should insist that the education system should produce people it could use.

■ South African business was far more heavily taxed than the business sectors in many other countries. On top of this, the business sector was expected to run extensive corporate social responsibility programmes. This did not happen in any other emerging market in the world.

A recent survey had shown that there were 1 400 laws applicable to small businesses. Under these circumstances, it was foolhardy to expect them to create jobs and wealth.

Some 85 per cent of people in the rural areas were unemployed. The government was spending a great deal on education; half of matriculants failed, many others emigrated, and the country was left with very few people who could write business letters. The government was the biggest employment agency in the country; its salary bill as a percentage of GDP was the highest of all emerging markets, and even higher than that in some socialist countries. All this had to be stopped. There was something wrong with the whole picture. The factor costs of labour had been significantly lowered. However, this was largely due to the private sector; the government still needed to come on board.

SMES experienced huge difficulties in respect of employment. They could not afford high salaries, and therefore had to train graduates who were then lured away as soon as they had some experience. He agreed that the voice of organised commerce and civil society had become muted, and that this was part of the problem.

THE SPEAKERS RESPOND

Bobby Godsell: I want to inject a few thoughts around SMES and the issue of jobs. As regards small business, we really have to start again – we have to ask ourselves how we want to define this area. For one thing, there is absolutely no point in



dealing with medium and micro enterprises together – these are completely different concepts.

We also need to disaggregate the problems. One speaker said something very important, and if we take anything away from this workshop, then that should be it: a business that is started with 100 per cent debt is almost 100 per cent certain to fail. I can't imagine a self-started business which would voluntarily go in for 100 per cent debt. This would be insane. All you do is make the bankers happy and rich, at least for a short time, until you fail. I don't know how the banks can collude with this.

I'm looking for new conceptual approaches to the small business debate, because I think it has become boring. I think we should look at self-owned and family businesses in other places, such as Hong Kong; we should look at how they started, and how they have grown.

We should also look at how many small businesses have become publicly listed companies. Most family businesses cannot and should not go on to become publicly quoted companies. There are completely different demands on a publicly owned business and a family business, and they operate in entirely different ways. But I think we should ban the acronym SMME, and stop talking about it.

Adam Smith had a deep horror of publicly quoted companies, and of managers and owners being separated. His vision of an efficient business was one that was managed by the person who owned it. Perhaps there should be an Adam Smith manual for self-owned businesses, and perhaps this is a more useful concept than small, medium, or micro enterprises.

Race is an issue; however, I know of very few small businesses that are racially pure. What is delightful now is that the traditional pattern of owners being white and employees being black is beginning to change. There is a new dynamic where both whites and blacks have to put in sweat equity, or equity of another kind.

The other things we should ban from our language and our aspirations are careers and jobs. Jobs are disappearing worldwide; huge numbers of applications for a small number of formal jobs are a world phenomenon. I know of no large business and no publicly owned business that is planning to increase its staff complement; on the contrary, every business I know worldwide is planning to decrease their complement. I don't know how one could turn this around, but the idea that 95 per cent of job-seekers will be employed by corporations is not going to work.

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Therefore, schools and training institutions have to give people skills they can sell or things they can do, and the confidence to market them.

We have to get people away from thinking that they want jobs with any of the big corporations, and give them the belief that they can go into the marketplace and offer IT support or other forms of subcontracting, or ally themselves with a few other people and find something that is saleable in the marketplace.

Jayendra Naidoo: I come from a tradition where we used to say, the window of change is open and it will soon close. I now believe, as I think most of us do, that the window is wide open, and there is no danger of it closing in the short or even medium term. There are many processes in place for dealing with all the issues we've been discussing. And I am confident that, in ten years' time, we will have found solutions to most of these problems, or at least taken several steps forward.

I believe change will continue on all these issues, regardless of how much effort we put into it, because there are certain underlying pressures that make it inevitable.

For example, BEE is not occurring because of the charters or government regulation. It's really because the government is a different government; it represents an electorate that wants to see its money spent in a certain way, and this is cascading through the corporates into pressure. Without any charters, we would still have been forced to move in this direction; they are simply staging posts along the way.

But these processes will inevitably have to be addressed by increasingly efficient mechanisms. Partnerships where people can add something of value will be cheaper than a partnership where you give something away. And if you're doing business with people who have a cheaper cost of entry, you are going to lose.

We have spent much time discussing SMEs and BEE, but I still am not sure what our views are as a community about the factors that will create growth – growth that will be in excess of population growth, and in sufficient quantum to provide the wherewithal for society. We are still quite weak on this.

I'm sure Bobby is right when he says that the bigger companies will continue to reduce employment.

It is painful to start a new company. It is difficult to raise capital, write a business plan, and guess what the market will do, and there is a high risk of failure. The officials who run the government's promotion programmes usually know very little about business, and sometimes expect the outcomes to be linked to their personal retirement plans. Therefore, programmes run by the private sector – such as the one we heard about earlier – make a lot of sense. The private sector is probably in the best position to spearhead an SME development programme, in collaboration with the state programmes.

Ann Bernstein: CDE is about to release a document on entrepreneurship in which we reflect on international experience in this field, and on the South African situation. We don't actually know how many businesses there are in the various categories, so it's difficult to make definitive statements about all of this, but we certainly have to do much better than we are doing.

One striking thing to emerge is that the government's approach to this has been very isolationist. This has not been an area in which the government and the private sector have really put their heads together. And this is one area in which the private sector has real expertise to put on the table.

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