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NEW AGENDA

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MIN. TREVOR MANUEL

HOW WE WILL DO IT!

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NEW AGENDA

Editorial Board

Issue 35 Contents

Was South Africa also misled?

the crisis in economic orthodoxy

The extent of the current financial crisis is forcing a turnabout in what we've been told were sacrosanct "market fundamentals". In lieu of an editorial, we offer some recent clippings from leading British periodicals

"WHAT WENT WRONG WITH ECONOMICS"

Of all the economic bubbles that have been pricked, few have burst more spectacularly than the reputation of economics itself. A few years ago, economists were seen as far more trustworthy than politicians.

In the wake of the biggest economic calamity in eighty years, that reputation has taken a beating. Though economists are still at the centre of the policy debate – think of Ben Bernanke or Larry Summers in America or Mervyn King in Britain – their pronouncements are viewed with more scepticism than before. In a recent lecture, Paul Krugman, winner of the Nobel prize in economics in 2008, argued that much of the past thirty years of macro-economics was "spectacularly useless at best, and positively harmful at worst."

Two central parts of the discipline – macro-economics and financial economics – are now, rightly, being severely re-examined. There are three main critiques: that macro and financial economists helped cause the crisis, that they failed to spot it, and that they have no idea how to fix it.

Macro-economists also had a blind spot: their standard models assumed that capital markets work perfectly. By assuming that capital markets worked perfectly, macro-economists were largely able to ignore the economy's financial plumbing. Add these criticisms together and there is a clear case for reinvention, especially in macro-economics.

In the end, economists are social scientists, trying to understand the real world. And the financial crisis has changed that world.
– from *The Economist*, 18 July 2009 (pp 11–12)

"THE OTHER-WORLDLY PHILOSOPHERS"

These internal critics argue that economists missed the origins of the crisis, failed to appreciate its worst symptoms, and cannot now agree about the cure. In other words, economists misread the economy on the way up, misread it on the way down and now mistake the right way out.

Mr Krugman and others advocate a bold fiscal expansion, borrowing their logic from John Maynard Keynes and his contemporary, Richard Kahn. Kahn pointed out that a dollar spent on public works might generate more than a dollar of output if the spending circulated repeatedly through the economy, stimulating resources that might otherwise have lain idle.
– from *The Economist*, 18 July 2009 (pp 68, 70)

MARTIN WOLF: "CENTRAL BANKS MUST TARGET MORE THAN JUST INFLATION"

Did inflation targeting fail? This is no small matter. Over almost three decades, policymakers and academics became ever more confident that they had found, in inflation targeting, the holy grail of fiat (or man-made) money. Monetary policy was too loose. As a result, we now face two challenges: clearing up the mess and designing a new approach to monetary policy.

This unforeseen crisis is surely a disaster for monetary policy. Most of us – I was one – thought we had at last found the holy grail. Now we know it was a mirage.
– from Economists' Forum, *Financial Times*, 6 May 2009

How we will do it

The state of the nation

Excerpts from the speech given at a joint sitting of parliament, Cape Town, 3 June 2009

By **President Jacob Zuma**

There is a great deal of speculation within the country and abroad on what new winds will come with the Zuma government. The president sent some important signals in his State of the Nation Address. In this issue, *New Agenda* has asked a broad spectrum of personalities for their reaction to the speech.

We take as our starting point the framework for South Africa's response to the international economic crisis, concluded by government, labour and business in February this year. We must act now to minimise the impact of this downturn on those most vulnerable.

We have begun to act to reduce job losses. There is an agreement in principle between government and the social partners on the introduction of a training layoff. Workers who would ordinarily be facing retrenchment due to economic difficulty would be kept in employment for a period of time and re-skilled. We will support the work of the Commission for Conciliation Mediation and Arbitration (CCMA) to assist employers and workers to find alternatives to retrenchments through the relevant legal process.

The Industrial Development Corporation (IDC) has developed a programme to fund companies in distress. We will also ensure that government buys more goods and services locally, without undermining our global competitiveness or pushing up costs beyond acceptable levels.

Building on the successes of our industrial policy interventions, a scaled-up Industrial Policy Action Plan will be developed. The lead sectors already identified are automobile, chemicals, metal fabrication, tourism, clothing and textiles as well as forestry. In addition, attention will also be paid to services, light manufacturing and construction amongst others, in the quest to create decent jobs.

We will introduce a massive programme to build economic and social infrastructure. We will develop and implement a comprehensive rural development strategy linked to land and agrarian reform and food security.

And, working with the people and supported by our public servants, we will build a developmental state, improve public services and strengthen democratic institutions.

The creation of decent work will be at the centre of our economic policies and will influence our investment attraction and job creation initiatives.

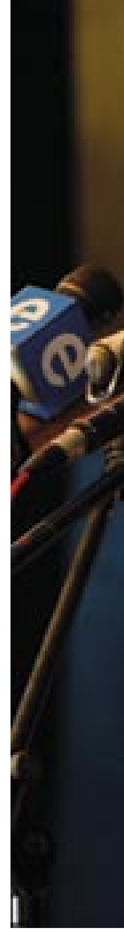
People in the rural areas also have a right to electricity and water, flush toilets, roads, entertainment and sport centres, as well as better shopping centres like those in the cities. They too have a right to be helped in farming so that they can grow vegetables and other things, and raise livestock so that they can feed themselves.

We are prepared to start this campaign of building infrastructures in rural areas. Working together with communities, chiefs, councillors and headmen we will be able to speed up this work.

Honourable Members, since 1994 we have sought to create a united cohesive society out of our fragmented past. We are called upon to continue this mission of promoting unity in diversity and to develop a shared value system, based on the spirit of community solidarity and a caring society.

Our shared value system should encourage us to become active citizens in the renewal of our country. We must build a common national identity and patriotism.

Making sure the government measures up



By **Collins Chabane**

The minister for performance monitoring and evaluation in the Presidency speaks about the role of this new office

One of the critical weaknesses in our administration in the past 15 years has been in our ability to monitor the impact of our programmes on society. We also need to be able to evaluate whether we can complete projects effectively, in terms of both time and cost. The president's position is that everyone must be held accountable for the functions we are entrusted to perform, and that is why he talked about performance management, even for political authorities.

The difficulty is that performance monitoring and evaluation is a new function, particularly in this form. There are no administrative structures or systems in place and we don't have previous experience to refer to. We are still doing studies to understand how other political authorities deal with this issue.

While there has been a system in place to monitor and evaluate public service, which includes the Public Service Commission (PSC), the fact that we still have so many challenges means that it's not working. And so now we have to determine what works before we call anybody to come and help us. We need to be clear in our minds what it is that we want, how we are going to do it, and what outcomes we need.

We will have to look at programmes of action and identified priorities, such as the tasks that ministers set out in their budget speeches. The president expects us to measure departments and entities according to what they have said they are going to do, to identify where there are gaps or possible problems, and to suggest to the relevant authorities ways to take action around those issues, even before the end of the financial year. We will also produce regular reports to the cabinet as to how we are performing and responding to challenges on the ground.

To try to gather and assess what information we do have, we've been speaking to the Treasury, the Development Bank of Southern Africa (DBSA), Statistics South Africa (StatsSA), the Public Administration Leadership and Management Academy (Palama), and all the authorities which have various monitoring instruments. There are pieces of information lying in all these institutions which have never been pulled together.

We are looking to see whether the available information is useful for our purposes. Does it need to be formatted in some manner? Does it respond to what we want, or do we have to commission other research in certain areas? We are in this phase now, even before we determine what is it that we are going to do. It's quite an elaborate task. We don't have our own administration yet; we are using people from across government. But there has been a very good spirit of response from all the institutions. For the very first time they'll have direction from the work we do, and so they want to make a contribution.

PARLIAMENTARY OVERSIGHT

Another concern is to support parliamentary oversight. Parliament has reviewed annual reports and auditor-general reports and made recommendations on what needs to be done – but in most cases, those things are not done.

We anticipate that parliament will continue to make its observations and recommendations and then forward those reports to us. We can follow up from the executive side, to see that the issues that parliament wants attended to are attended to. Or if they can't be, to have a report that explains why not.

I spoke to the auditor-general about the reports from his office. What are the critical issues that they pick up? Can they get them for us from municipalities, provincial departments, and so on? Then we'll be able to go to these bodies and say, for instance, "The auditor-general has made this finding in the past three reports. What has been done about it, what are you doing about it, when is it going to be resolved? And if you can't resolve it, what capacity or assistance do you need? What can we mobilise to assist you to deal with this?"

We need to be clear in our minds what it is that we want, how we are going to do it, and what outcomes we need.

LATE PAYMENTS

At the moment, a lot of complaints are arising from communities, because people see us as a toll-free number they can call to resolve their problems. We have to assess those complaints, advise the institutions and ask for a report about what happened. In cases where people did not get proper responses, we will be able to give them feedback. We can't shut them out – we can't do that. It would be wrong for us, because this should be a people-friendly government.

One of the issues that has come up is late payment to creditors by government departments and institutions, which can completely cripple small, medium and micro-enterprises (SMMEs). We have looked at the law and it is very clear: unless there are other arrangements in the contract, you have to pay an invoice within 30 days. That is not happening and a lot of people are not getting paid and cannot survive. We have written to all the ministers and premiers, and asked the minister of co-operative governance and traditional affairs to write to municipalities, to say that this issue has been raised and this is what the law says and we would like a report by the end of July. If they don't comply, then we report to the president and he will find mechanisms to deal with those institutions.

In cases where people did not get proper responses, we will be able to give them feedback. We can't shut them out – we can't do that. It would be wrong for us, because this should be a people-friendly government.

CONSTRUCTIVE EVALUATION

The first thing is to build a spirit of co-operation. The people at the political level are not doing it deliberately – or may not even know, because the payments are done somewhere down the line.

When we get complaints, we write to alert the officials to the problem. Then it is for them to attend to. At least from the side of the ruling party, they will have to take an interest, because it is their priority. This problem – of late payment or non-payment – impacts directly on the economy. The president spoke at length about how we need to make it simple for SMMEs to thrive and grow, because they can be one of the most effective job creators. If not attended to, this is an issue that can derail that programme.

What we hope to do from our side is to get the co-operation and the understanding of the executive. Some issues, like this one, can be put into the performance agreement for managers. It will clearly be their job to deal with it.

In most cases we know what the problem is, but the fact of the matter is that no action is taken to remedy it. As we go forward we will have to assess whether it is necessary to create legal enforcement mechanisms where we are not getting voluntary co-operation. We'll need to discuss how it should be done.

MONITORING MINISTERS

There have also been questions about how ministers will respond to this new office of monitoring and evaluation in the Presidency. This is a new thing and it might cause some sensitivity to egos.

But in our system of government the president holds executive authority, which he delegates to the various ministries. Part of his responsibility is oversight over the cabinet, and he needs to find a mechanism to do that. I think it might have taken the president quite a bit of time to make that decision, because it's not an easy one. It's a job that needs to be done – but how? Does he appoint a watchdog, or someone sitting in another structure somewhere else? The president's view is that this function is better dealt with within the cabinet system.

By the time parliament sees those reports, problems that could have been picked up in April the previous year have not been picked up and no corrective measures have been taken.

As we go forward and as we deal with it, everybody might begin to see that it's an instrument to assist government performance. It is very important that everything is done transparently, and that all cabinet members understand what needs to be done, how it's going to be done, how it will impact on their work, and so forth. The needed co-operation and understanding among us can only come if we are transparent about the issues.

Let me give you an example. The president says, "Here is a programme, this is what we want to do. Here is your portfolio and here is your budget. How are you going to do this?" The minister says, "I'll build so many bridges, I'll build so many roads, I'll assist small farmers in this way with the budget that I have, etc. And, at the end of the financial year, I will have done this."

The second question is then to establish milestones and factor them into the programme. It's not the Presidency dictating, but the minister who sets the target for what will be done in, say, the first six months.

Now, in six months we have a check. The department said it was going to do the following. Has it been done? The department submits their report and then we check and verify it. At that point, we will realise if the project is not moving as it should. We will look to understand what the problems are, what their needs are, and what remedy is available. At the end, we evaluate the impact of all these projects.

So I don't see why departments should become jittery about having to submit these reports. The ministers retain executive authority in their line functions and departments. That is what ministers do and that remains their job.

The problem with the current situation is that annual reports and the auditor-general's reports come out three to six months after the financial reports. By the time parliament sees those reports, problems that could have been picked up in April the previous year have not been picked up and no corrective measures have been taken. Projects that could have been rescued along the way fail because corrective measures only happen when parliament has reviewed the reports and made recommendations on what needs to be done – which is two years down the line.

I really don't see any contradiction or any problem. If we are able to identify these things more quickly, we can show the minister that there is a problem that will need an audit query and ask him or her to look into it.

The storm has broken

planning for a shared future

By **Trevor Manuel**

The author is the minister in the Presidency responsible for planning. This is an excerpt from his response in parliament to the State of the Nation address, 5 June 2009

We take as our starting point the framework for South Africa's response to the international economic crisis concluded by government, labour and business in February this year. We must act now to minimise the impact of this downturn on those most vulnerable. We have begun to act to reduce job losses. There is an agreement in principle between government and the social partners on the introduction of a training layoff. Workers who would ordinarily be facing retrenchment due to economic difficulty would be kept in employment and re-skilled for a period of time. **– State of the Nation Address**

Discussion on the practical detail is continuing between the social partners and the institutions that would be affected by such an initiative, including the sector education and training authorities (SETAs). The beginnings of firm plans and proposals are on the table. These must be fully costed and tested, and widespread support and ownership generated to ensure success.

But, in addition, we are now committed to a significant improvement in outcomes by a focus on improved planning and performance management. There are at least five distinct reasons for this.

- Recognising that we have a great, modern constitution, we must acknowledge that the powers and functions of service provision are highly dispersed across the three spheres of government. If we desire better outcomes, we must improve the co-ordination of effort.
- We will have to institutionalise the linkages between the three spheres of government to ensure appropriate initiation of programmes, and improve on the mechanisms for equalisation so that we can counteract the mass exodus from rural areas.
- We must all agree that there is no market for public services: issues such as employment, distribution, infrastructure, environment and human skills development demand a better co-ordinated push. Often the momentum is towards fragmentation.

- We have to concentrate on building a more competent public administration which is both more focused and more accountable.
- We have to deal with resources today to meet tomorrow's needs.

This will be the focus of our work over the next period. This will not be done in secret. I hope to place a Green Paper before parliament in the course of the next few weeks to engage members on where and how planning would fit into the government system, what role we hope to play, what linkages are required and what thematic areas would be covered by the planning function.

I repeat: we will forge a distinctly South African approach. Right now, we can recite chapter and verse on the operations and successes of planning commissions in countries as diverse as South Korea, India, Turkey, Brazil, Chile and many others. While acknowledging their efforts, we want to avoid the risk of merely attempting to emulate their experiences. We will forge a distinct approach, tailored to the needs of our own situation.

In order to succeed, parliament will have to be more involved in all areas of planning and oversight. There must be a shift in emphasis from a cursory discussion of resource allocation to an intensive discourse on the outcomes. As we traverse this path, the luxury of talking past each other will have to become a speck in our collective history.

I have been assigned many tasks that are easier than the challenge to develop a planning framework. Let me briefly share part of what the planning process will entail.

- First, a longer-term vision – with at least a 15-year horizon – must be developed as a statement that is clear, widely supported and eminently attainable.
- Second, we will have to develop a series of shorter-term plans – for 10- and 5-year periods – that are more detailed, better costed and which contain more measurable development targets.
- Third comes the co-ordinated development of the Medium-Term Strategic Framework and its unpacking into detailed plans for each of the strategic priority areas. Cabinet, advised by the minister of finance, would then align the Medium-Term Expenditure Framework with the strategic priorities of government.
- Fourth, though not quite in this sequence, we will have to ensure that the planning frames of the two other spheres of government are synchronised.
- We will continually undertake research to ensure that our choices on long-term trends and plans are informed by evidence and good research. While we have good-quality long-term plans in many areas or sectors, we need to do more to encourage long-term planning throughout government and the state-owned enterprises.
- Sixth, we recognise that this approach will indelibly alter the way in which government operates, enhancing the sense of mutual accountability of ministers, of public servants, of departments and of spheres of government to each other.
- Finally, while doing all of this, we must attempt to remain sane and tolerant.

The development of good and coherent plans is only half the work. We need concerted action to avoid or prevent fragmentation in government. A co-ordination function is essential to drive this plan through all of the spheres and tentacles of government and ensure that we are all singing from the same hymn sheet.

The good news is that all of this will only work if parliament is differently involved – not merely waving support to a passing 15-year vision, but actively participating in debating the options and overseeing implementation. We will have to break through the tunnels down which we peer. The objective is what has loosely been termed "joined-up government". For us, this is about the massive construction of the developmental state, which emphasises those outcomes that measure regular and significant improvements in the quality of life of the nation's poorest.

I have been assigned many tasks that are easier than the challenge to develop a planning framework.

This is the more difficult path to pursue. It would be far easier to chirp from the sidelines, because that has defined the modus of too many for too long. As the president has said, it is now more important than ever that we work in partnership on a common programme to respond to this crisis. That partnership cuts across all that divides us: race, class, gender, geography and political party lines.

In the budget speech in February, we said:

> The storm that we spoke of last year has broken, and is more severe than anyone anticipated... Our duty is to construct a South African approach, founded on our own vision for a shared future. This approach can only be built on an engagement between social partners, not just at the level of national dialogue, but on factory floors and in community halls. Our resolve will be tested to the limits. We have to put self-interest aside. We have to face each other honestly and openly. Our task is to see through the challenges of economic vulnerability today to the construction of the new South Africa that is our passion and our pride. We can do this all the better as a united people.

This spirit is even more necessary now.

Manufacturing industry

employment needs successful employers

By **Ewald Wessels**

The author chairs the Cape Engineers and Founders Association, is a member of the executive committee of SEIFSA and a past president of the Cape Chamber of Commerce and Industry

It is seldom recognised that business, labour and the unemployed have a common interest in this fight. It is a truism that employment depends on successful employers. In the long term, good business creates employment in decent jobs and this reduces poverty. So while a public works programme is a welcome short-term measure, it is crucially important to nurture successful employers for sustainable and decent job creation in the future.

The cornerstone of President Zuma's State of the Nation address was the fight to eradicate poverty. He has committed the government to an ambitious job-creation programme to help redress the current crisis that is pushing thousands of workers into poverty every month.

The partnership that the president calls for will be supported by industry without question. But the articulation of his vision is not sufficient; the entire art and science of management lies in the bridge that connects a vision with its realisation. Business will watch with keen interest to see how the government fulfils its responsibility by way of appropriate legislation and competent administration and regulation.

Effective consultation is a vital prerequisite. There have been repeated calls for business to speak with one voice in this process, but this is not a realistic demand. The economy is a hugely complicated system of interlinking components which even the academic discipline of economics has failed completely to understand. Different sections of the economy have different interests that often conflict. Each section has to be heard. The government has to make informed and pragmatic choices among conflicting interests and then be vigilant for unintended consequences that require mid-course corrections. The

The partnership that the president calls for will be supported by industry without question.

socio-economic challenges facing South Africa require clear and unequivocal leadership on the part of the president and the government.

A critical and fundamental area of conflict is that of inflation targeting versus exchange rate management. Inflation targeting gives priority to the short-term interests of consumers and creates a temptation to maintain the rand's strength at an unsustainable level. A consequence in South Africa's recent history has been exchange rate volatility, with the associated income uncertainty for manufacturers who export or compete with imports. In the longer term, domestic manufacture is displaced by imports and unemployment increases. In the end, consumers suffer. Since consumers, who make up the vast bulk of newspaper readership, tend to have little understanding of the international economy, manufacturers have not in the past had much success in stating their case.

The government's public works programme will require careful policy co-ordination and effective management.

The goal, of course, is to increase the capacity of the poor to consume, but a major increase of domestic consumption without an increase of domestic production is not sustainable. Industry welcomes the minister of trade and industry's recent attention to the urgent need to maximise local procurement benefits from the R787-billion infrastructure programme.

South Africa has suffered a massive contraction of manufacturing production that should not be allowed to continue.

An improvement of infrastructure will largely pay for itself over the long term by increasing the efficiency of the economy. However, a major short-term increase in national consumption will inevitably include a component of increased imports. To maintain the balance of trade, overall policy will have to give attention to export competitiveness. In this light, the president's attention to the subject of industrial policy is also welcomed. Much of South African industry does not compete on a level playing field internationally. Foreign countries are making inroads into our economy with the aid of industrial policies that promote the competitiveness of their export industries and provide their companies with access to lower input costs than companies enjoy here.

A critical and fundamental area of conflict is that of inflation targeting versus exchange rate management.

South Africa has suffered a massive contraction of manufacturing production that should not be allowed to continue. Over the last half century, industrial supply chain pipelines have been systematically throttled at the raw material level. Import tariffs and import controls have allowed domestic manufacturers of these materials to raise prices in South Africa while favouring their foreign customers with prices often much lower than equivalent domestic prices. The main agent here has been the Industrial Development Corporation, which invested in first-stage minerals beneficiation during the apartheid era and then generated profit for itself by means of raised domestic prices in a classic system of crony capitalism. Since the downstream industries tend to be much more labour-intensive, this has contributed to structural unemployment in South Africa.

Industries that have disappeared in this country – owing at least in part to ill-advised import tariffs on their inputs – include the manufacture of bicycles, tractors, machine tools, toys and steel freight containers. The clothing and textiles and armaments industries are in danger of following.

The government has to make informed and pragmatic choices.

A sensible industrial policy will restructure the South African economy to promote labour-intensive manufacture without disrupting existing investment in capital-intensive industry. Competition policy is an important element, but basic conditions within an industry must not be such that no domestic company can compete with imports. The level and volatility of the exchange rate, the quality and predictability of government policy and the quality of government-controlled supporting institutions are all important.

While an industrial policy presupposes government intervention in the economy, business will worry that the balance might tip too heavily towards state control. Throughout the world, government interventions to counter the effects of the global recession have placed similar concerns on the agenda. Political control of industry creates too great a risk of appointments made on the basis of patronage rather than a record of management success. The knowledge and skills required to manage a competitive enterprise are often underestimated, particularly by academics. The nature of the intellectual activity involved in business is very different from that involved in academic pursuits. The number of factors tends to be large and the skill is to use a base of experience to identify the right questions.

Overall, how will the system react? In the development of a new industrial policy, a genuine and successful partnership will hopefully emerge, which will draw strength from South Africa's diversity. The priority now is to ensure that the economy is successfully positioned

to take advantage of the global upturn, when it comes, and to attract the investment it needs for growth and development.

The banking sector

"sound fiscal and monetary policy is critical"

By **Cas Coovadia**

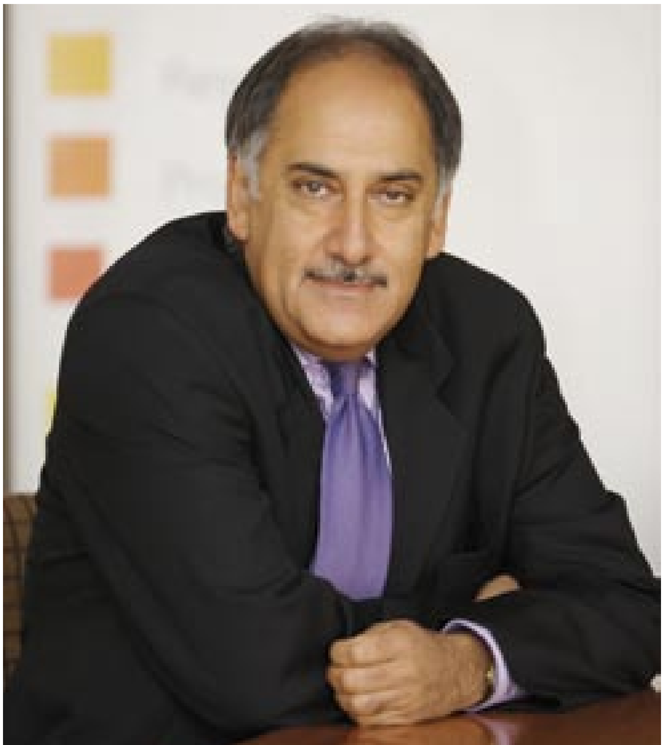
The author is the managing director of the Banking Association of South Africa

The banking sector is of the view that the State of the Nation speech by President Zuma was one that emphasised continuity in policy while stressing the need to roll up our sleeves and get to work. The speech pointed towards a willingness on the part of government to work in collaboration with critical stakeholders, of which business is an important one. The speech also elaborated, to the extent possible in a speech of this sort, on the priority areas identified by government. This was useful, in that it gave some indication of the emphasis in the next few years.

The banking sector is particularly interested in the emphasis by the president on prudent fiscal and monetary policy. We fully recognise, and are sensitive to, the imperative to improve service delivery and address the dire social circumstances of the majority of our people. However, one must also recognise that these priorities will only be met if we have a growing economy and promote an environment in which we all contribute to the resources needed to meet these priorities. A sound fiscal and monetary policy environment is critical to a growing economy. We must all acknowledge that tough decisions need to be made to continue to build the platform from which social and economic delivery must be implemented. The policy environment in the fiscal and monetary area has held us in good stead, and we are happy the president has indicated continuity in this regard.

The banking sector in South Africa often comes in for criticism – some of it valid, but a lot of it uninformed. The issue, though, is that the South African banking sector is consistently recognised, by globally respected measures, as being the single most critical contributor to the country's economic standing. The sector is well regulated, it is robust and it is making enormous strides in transformation, so that it becomes relevant to the majority of our people. The acid test for the efficiency and soundness of our banking sector has been the global financial crisis. Our sector has withstood the crisis very well, even though there is a negative impact on it as a result of the broad impact of the crisis on our economy. We have passed this test because we are conservative in the way in which we lend out the money put in our trust by depositors and we have worked with the regulators to ensure an appropriately regulated sector.

The Banking Association of South Africa is committed, through a mandate from its members, to work in



collaboration with government. We have done this in the last few years, with excellent outcomes in the low-income and unbanked markets. Our performance against the Financial Sector Charter is indicative of this. We are convinced there is tremendous scope for government and the banking sector to work in partnership to address the significant challenges we face as a country. This collaboration must, however, happen from a platform for profitable, responsible and sustainable banking. This is an essential requirement for us, as a country, to rise to the challenges. The government and the Banking Association have existing mechanisms for ongoing engagement, and we will consolidate these.

The banking industry is supportive of all efforts to develop a sound industrial policy for the country and of the promotion of enterprise, particularly small and medium enterprise. Over the last three years, the banking industry has lent just over R9 billion to black small and medium enterprises.

The banking industry endeavours to procure locally as much as possible. However, a significant part of banking operational requirements is only available outside of South Africa and the sector has to continue procuring these. The Financial Sector Charter Council has recorded that the banking sector procured about 54.4 percent of their total needs from black enterprises for the 2007 financial year.

Banks, like all businesses, can contribute to increasing employment. However, this is driven by business considerations and banks will employ people according to the requirements of their businesses. It would be unrealistic, and incorrect, to expect any business to employ people not necessary for the operations and growth of the business.

All banks have training programmes based on their business requirements. The banking sector spent about R657 million on skills development in 2007.

The banking sector is very sensitive to calls for greater accountability and transparency. We co-operated fully with the Competition Commission enquiry last year, and we are engaging with government on those recommendations pertaining to transparency. The banks are accountable primarily to their shareholders, and thus continue to grow their businesses and improve performance. However, they are very sensitive to accountability to all critical stakeholders, and the sector achieves this through engagement with a range of stakeholders.

Two of the major banks in South Africa have a degree of foreign ownership: Standard Bank has minority participation by the Industrial and Commercial Bank of China and ABSA has majority ownership by Barclays Bank in the United Kingdom.

Our sector has withstood the crisis very well.

Human settlements

for dignity and development

By **Minister Tokyo Sexwale**

The minister of human settlements explains the meaning of his new portfolio in the context of President Jacob Zuma's State of the Nation address, and how it links to broader developmental issues.

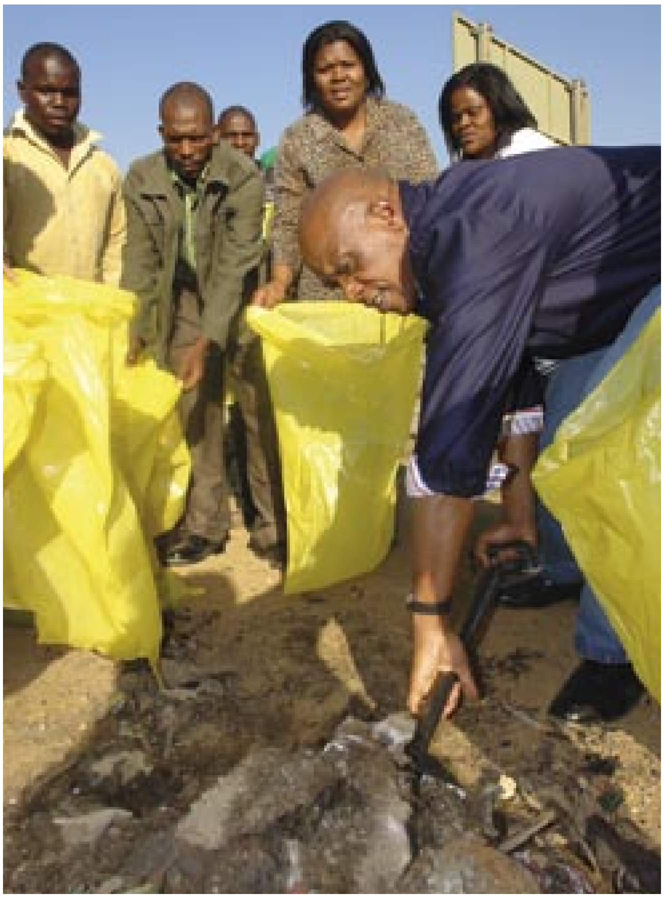
What do we mean, as government, when we talk about "human settlements"? To start, one need look no further than the country's constitution, where the very first value referred to, in the first line of the first chapter, is "human dignity".

Human dignity is central to the concept of human settlements. Although the term may be a new one for many South Africans, it has been part of the global developmental lexicon for decades, having first been given prominence and adopted at the United Nations' global habitat summit in Vancouver, Canada in 1976.

It gained ground at another UN conference, the World Summit on Sustainable Development held in Johannesburg in 2002, and was taken further at the ANC's 52nd National Conference in Polokwane in 2007, where several resolutions committed the new government to the promotion of human settlements and the building of cohesive, sustainable and caring communities.

President Jacob Zuma formalised this concept in both his State of the Nation address and the Presidency's budget vote with the establishment of the new human settlements ministry. In the budget vote, he explained: "Housing is not just about building houses. It is also about transforming our residential areas and building communities with closer access to work and social amenities, including sports and recreation facilities."

But what is the letter and spirit of this concept? This is contained in the Freedom Charter, adopted 54 years ago by the Congress of the People – long before the



Vancouver, Johannesburg or Polokwane conferences. That congress demanded:

> There shall be houses, security and comfort for all!
> All people should have the right to live where they choose, to be decently housed, and to bring up their families in comfort and security. Slums shall be demolished and new suburbs built where all shall have transport, roads, lighting, playing fields, crèches and social centres.

The task, therefore, is clear: to restore humanity and dignity, to address spatial inequalities, and to provide comfort and security for all. It is essentially about people.

This shall be achieved by planning and building human settlements in an integrated, co-ordinated and holistic way. These ought to be places where people can play, stay and pray. They should be green, landscaped communities – pleasant places, where people live, learn and have leisure.

This broader vision requires a new approach: a paradigm shift beyond mere housing. It is about homes. It is not just about a change of name from housing to human settlements; it is about a change of mindset, taking us from a new concept to concrete reality.

INTEGRATED AND CO-ORDINATED PLANNING

The penny has already dropped in government that a mere housing ministry or department does not solve the problem of locating and housing people. It is about integrated, co-ordinated efforts to address a range of socio-economic needs.

To this end, the social protection and community development cluster in cabinet is developing a National Urban Development Framework, driven by Co-operative Governance Minister Sicelo Shiceka, which will serve as a blueprint for the rollout of integrated and holistic initiatives to address the many socio-economic challenges we face. In addition, a Rural Development Framework driven by Minister Gugile Nkwinti will ensure we address the many challenges that exist in rural areas.

As this is undertaken, all and sundry should be mindful of the potential impact of the global economic downturn and, in particular, the recession in the South African business cycle on fiscal and other policy instruments.

For, as one developed nation after another shall begin to limp out of the hospital of the global economic crisis, emerging markets and developing countries are more likely to be left behind in intensive care – without much care. This prompted the World Bank and the International Monetary Fund to issue a rare joint statement in April, warning that "the global economy has deteriorated drastically. Developing countries face especially serious consequences as the financial economic crisis turns into a human and development calamity".

It is not just about a change of name from housing to human settlements; it is about a change of mindset.

"All people should have the right to live where they choose, to be decently housed, and to bring up their families in comfort and security." – The Freedom Charter

The impact of the recession on the property market, building materials and access to housing finance is already being felt. Many people have lost their jobs or are in the process of losing their homes and household contents.

MULTIPLIER EFFECTS

The significant contribution that the development of human settlements makes, and will continue to make, must not be overlooked. The government's efforts to address the housing backlog in the past year alone have, in addition to providing shelter to millions of South Africans, also provided work for more than 1.3 million people.

Every new home is an economic catalyst. Its construction stimulates the mining sector to explore for and mine more copper, iron ore and other raw materials. Housing construction invigorates the manufacturing sector to produce more pipes, tiles, bricks, doors, windows and so on. It activates the wholesale and retail sector to sell more furniture, appliances, carpets, white goods, kitchenware, etc. The economic multiplier effect should never be underestimated.

These business sectors are obviously key partners in ensuring that future targets and objectives are met. The ministry will engage with a range of business leaders to explore ways and means of addressing the dire situation of the unbanked and people who do not qualify for credit. It is well known, and appreciated, that many corporate players are committed to social investment and responsibility, but this new engagement will be about going the extra mile for the sake of the people. It is hoped and trusted that they will come on board.

Finally, the other global phenomenon to factor into planning is that of urbanisation. UN Habitat has pointed out that the 21st century is "the urban century", when the world's population will, for the first time in history, live predominantly in cities. This urban eventuality must be prepared for and planned for. While there may be problems, the challenge is to identify opportunities.

There must be no equivocation that the 21st century must also be seen as the one in which South Africa must grow from being a developing country to a developed nation. There must be an active realisation that this is what government is working towards as human settlements are developed.

The challenges confronting higher education

By **Adam Habib**

The author is deputy vice-chancellor: Research, Innovation and Advancement at the University of Johannesburg

What is required of a presidential State of the Nation address at the dawn of a new political administration? Two elements are important. First, the president needs to map the agenda of his administration for the next five years. Second, since mapping such an agenda requires making choices and undertaking trade-offs, the president needs to explain the policy choices and the prioritisation thereof, and thereafter inspire the nation to back this political agenda. Did Jacob Zuma do this? No!

Instead he promised everything to everyone. There is not much that I would disagree with in his speech. He gave business what it wanted. He gave labour what they wanted. Students got what they wanted. Middle and upper-middle class citizens got what they wanted. But sometimes when we say everything, we land up saying nothing. No choices were made. No trade-offs were undertaken. As a result, I am no closer to understanding how this political administration is different from its predecessor on the basis of this address.

What should the president have said? From the perspective of higher education, he should have pinned his colours to the mast of cheaper, if not free, higher education. This is, after all, what the Polokwane conference committed him to, and what his minister of higher education, Blade Nzimande, has promised in his term. As Minister Nzimande put it to the university vice-chancellors when he met them, "it is imperative that poor students should not be denied the opportunity of quality higher education". He also urged vice-chancellors to make higher education more affordable.

But herein lies the dilemma. Every rand universities forsake in student fees, the government has to make up. Otherwise we are likely to go the route of the rest of Africa in the last two decades of the 20th century, where increased access was not tied to greater resources. The net effect in such a case is that, while one does provide free or cheaper higher education, one also provides a sub-standard higher education for the poor and the working class.

This is what South Africa needs to avoid. How do we bring down the cost of higher education without reducing the operational budget of our universities? Minister Nzimande has recognised that this will not happen immediately and would most probably have to be phased in. He has also suggested that the likely route would be to expand the focus of the National Student Financial Aid System (NSFAS) so that it captures a bigger cache of students. But there is a danger here. Universities in South Africa have differential fees, with some being almost double the cost of others. If higher education is to be expanded using the NSFAS system, the net effect will be that universities will be subsidised at differential levels, with the most well-endowed receiving the greatest grants. This obviously would go against the spirit of Minister Nzimande's agenda. The mechanism for advancing affordable or free higher education must therefore be thought through much more carefully.

The second post-school education priority, also identified by Minister Nzimande, is the need to expand vocational and artisan training.

VOCATIONAL TRAINING

The second post-school education priority, also identified by Minister Nzimande, is the need to expand vocational and artisan training. This is necessary not only for generating the human resources required by the economy, but also for creating a more inclusive society through the provision of skills to millions of black youth that would enable them to break family and community cycles of poverty and hopelessness. It would involve revitalising the further education and training (FET) institutions and the college sector, which are in an abysmal state at the moment. Again, this is going to require a significant investment of resources.

As importantly, it requires addressing the racial perceptions that exist about diplomas and degrees in South Africa. Historically, under apartheid, vocational training was reserved for the working class. Academic training was seen to be the preserve of the middle and upper classes – particularly, but not only, of the white community. This class and racial hangover still defines popular perceptions, with diplomas being perceived as second-class qualifications. As long as this perception is not addressed, South Africa is going to struggle to get its vocational training to take off, with all the obvious adverse consequences for its economic development.

How do we bring down the cost of higher education without reducing the operational budget of our universities?

RESEARCH AND INNOVATION

The final challenge that urgently needs to be prioritised is the enhancement of South Africa's research and innovation profile. This is not required for some abstract academic need: it is absolutely essential for the country's economic development. In this knowledge-based global economy, high-level human resource capacities, research abilities and innovation are necessary for economies to retain their competitiveness. And despite some attempts in this direction, if one were to simply cast a cursory glance at the investments being directed to research, innovation and higher education in China, India and Brazil, it is not hard to come to the conclusion that South Africa is lagging behind its competitors. In all these countries, new universities are being built and enormous investments are being made in academic appointments. To take one example, Brazil's leading universities have, on average, twice the number of permanent academic appointments that South Africa's institutions have for the same number of students. One consequence of this better endowment of staff is that Brazil's higher education system produces 10 000 doctoral graduates a year compared to South Africa's 1 500. South Africa's dismal number of doctoral graduates significantly inhibits its innovation ambitions, thereby undermining its economic and developmental potential.

Compounding the problem is that most of the research funding in South Africa is targeted at specific areas that are largely defined by state bureaucrats, based on what they perceive as important for economic and social development. The result is that very few resources are directed to generic research, undermining the establishment of a broad-based research foundation from which an innovation profile could emerge. The problem becomes even bigger if one recognises that a significant amount of research resources is spent on institutional bureaucracies themselves. This was really striking at a recent academic conference in Europe where South Africa had more institutional bureaucrats (research managers, programme officers) from the department of science and technology (DST) and the science councils than actual academics and researchers.

Finally, unlike countries like France which have a seamless flow between their science councils and universities, in South Africa these institutions report to different departments: science councils to the DST, and the universities to the department of education. Because of the competing bureaucratic claims and agendas that emanate from this institutional arrangement, research resources are not expended optimally and research decisions are not made efficiently. Clearly, if we are to address the science and technology challenge South Africa confronts, not only are much more significant resources required, but a complete overhaul of the management of our scientific infrastructure is also warranted.

Did I expect President Zuma to explain the details of these dilemmas in his State of the Nation address? Obviously not! After all, there are as many dilemmas in other priority areas. But I would have expected the president to recognise these issues and, in particular, the fact that major investment is going to be required to address them and that trade-offs between competing priorities will have to made.

The president should have also been urging the business sector to recognise these necessities and its own obligations in this regard. Is this not one of the fundamental purposes of the state? Individual business leaders, driven solely by shareholder value, sometimes do not see the bigger picture. It is the responsibility of the state bureaucracy to recognise and create the enabling environment for long-term economic development. Zuma should have indicated the necessity of high-level human resource skills and research and development for long-term economic development and made the case for increased investment in these areas. He should have also challenged the business community and other more privileged stakeholders to partner the state in addressing some of these needs.

In short, the president should have provided leadership, challenged stakeholders and citizens, and urged them to rally behind a collective national agenda. He should have inspired the nation. Instead, he merely parroted what its most important stakeholders wanted to hear.

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Skills development in South Africa

an opinion

By **Raisibe Morathi**

The author was an official for JIPSA in the Presidency. She is writing in her personal capacity

The shortage of skills in South Africa is at the nerve centre of a transformation into an inclusive and growing economy. It is not by accident that we find ourselves in a deep skills deficit, one which presumably could have been predicted, particularly since the early 1990s. The most significant opportunity cost is the forfeited GDP growth and persisting unemployment caused by inadequate corrective actions to resolve the skills challenge.

In a conversation with one of the top-notch recruitment agencies, I enquired why it is that corporates are increasingly replacing top job vacancies with external candidates instead of the historical practice of promoting internal candidates. It turns out that the speed of change – in an organisation's market expectations, industry regulations, operating environment and corporate needs – has led to a greater mismatch between the time it takes to groom internal candidates and the management expertise that the business requires. This of course does not mean that external candidates would always be the best for organisations, but rather that the planning and training for employee succession needs to be fairly forward-looking: growing one's own timber will generally be more rewarding.

Perhaps uniquely for "parachuted" leaders in South Africa, the second most significant reason has to do with the use of affirmative action policies to correct inequalities. How well this resolves the skills shortage among black folk is a big debate. The appointment of black individuals in senior and specialised positions is happening in both the private and public sector and, at least for now, commonly in that order. There is a school of thought that says black skills are highly mobile as a response to an imbalance between demand and supply. While there could be some truth in that, I do believe that there are stronger underlying reasons related to the nurturing and grooming of these individuals.

There is an equally good observation that a dedicated focus to develop black talent is not thriving throughout corporate South Africa, and is even more uncommon within a large part of the public sector. One would assume that, since the public sector will generally employ someone because they are black before they are skilled to do the job, skills development would be a larger component in the public sector. Regrettably, this is not the case.

I am therefore in a frame of mind to say that we need to acknowledge that our education system is failing us; that broad-based black economic empowerment (BBBEE) scorecards have become a comfortable compliance and numbers game in the eyes of the regulators (whenever they take any particular interest); that employment equity is also reduced to a huge administrative and compliance task; and that the fruit of the skills development levies is hardly within reach. I do believe that we have lost some clarity of purpose in the political and economic debate about the key skills that our country so desperately needs. The whole country is paying dearly for the inadequacy of skills, especially at the higher job levels that I am referring to.

BBBEE scorecards have become a comfortable compliance and numbers game in the eyes of the regulators (whenever they take any particular interest).

Shelley Christians. 26/09/2009. © *Business Day.*

Many of the corruption cases in the public sector are, in one way or another, a reflection of the poor level of skills.

As hard as it is to regulate skills development, this has been an accepted practice in our country. We should perhaps pause and reflect on the effectiveness of these heavy regulations. We need to evaluate how they are implemented and whether we are within range of achieving the desired results. Having spoken to a number of practitioners, I believe that such introspection would reveal that none of the hard-hitting, acrimonious, sometimes antagonistic and unrealistic debate between the regulators (government) and all employers (including government in that capacity) is making things any better. A self-evaluation will in fact reveal that many of the corruption cases in the public sector are, in one way or another, a reflection of the poor level of skills.

With corporate job placements being responsive to market forces, the expectation of any five-year span in the same job or 20 years with the same employer is becoming increasingly obsolete. With businesses drowning in compliance and reporting requirements, in some respects one can reasonably question the true commitment towards the outcome. We all know that the success of some components of our public sector, such as SARS, was not much do to with computer systems but much more to do with the people employed and how those people work. In other areas – such as local government, some of the state-owned entities and the public social services of healthcare and education – a spate of disasters has everything to do with people and the skills that they so desperately need.

We know that we do not have the luxury of time: we simply have to fix these skills issues. We are nearing the pinnacle of skills shortages that has been expected for at least twenty years. I also believe that today we can predict where we are going with this problem: we know that we have to go back a few steps before we go forward, as we not only have to build appropriate skills for the future but also have to correct the mistakes of the past. I therefore believe that a sober and non-partisan approach will best serve our nation in addressing this challenge.

KEY ISSUES

The first thought is a humble appeal for regulators to take a pragmatic approach to the skills problem. I have no issue with a display of bigger and better numbers, but where such numbers are not achieved, we need to find amicable solutions to the problem. I think that the employment equity bottom line would have a bigger impact with 20 percent (just an illustration) solid, well-qualified and experienced black skills than imposing big numbers that carry very little impact. The development of black people in key specialist areas of our economy and government cannot be done on a wholesale basis.

I also appeal to regulators to take a keen interest in engaging and assisting in the formulation of strategies to develop key skills in each of the priority and specialised fields, such as chartered accountants, engineers, medical specialists and stockbrokers. I am specifically referring to the skills that individuals acquire well after they obtain their qualifications. In many instances, there is no replacement for time. If you are going to spend five years in an organisation, you need to spend that time and brainpower focused on the right things.

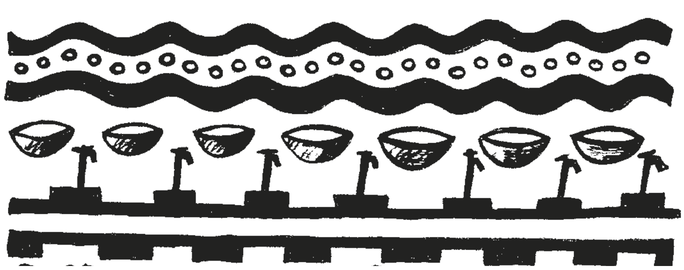
Secondly, the dearth of skills in the public sector is in direct contrast to the extent to which South African professionals – doctors, chartered accountants, engineers, etc. – are revered in foreign lands. I honestly think that the government must eat some humble pie and outsource management in most of the critical public services, such as schools and hospitals. It cannot be considered an accident that, alongside very poor public hospitals, there are very good private ones.

I honestly think that the government must eat some humble pie and outsource management in most of the critical public services.

We know that we do not have the luxury of time: we simply have to fix these skills issues.

Thirdly, businesses want to have a predictable legislative environment and must always try to be cost-efficient if they are to be successful. There is no time to play a "who is fooling whom" game with government regulators. Through business bodies, efforts towards skills development must be increased. There is both need and scope to play a bigger role to change the status quo. As is beginning to happen, businesses must play a bigger role to assist government in building a pipeline of skills.

Lastly, the costs of skills development are high, but our efforts are not nearly adequate to catch up with market needs created by increased consumerism, more interactive and invasive information technology, globalisation and many other factors. I therefore believe that unless government creates better – and, I must stress, more efficient – incentives to increase training and skills development, we will in future earn ourselves continuous economic deficiencies, including huge income inequalities. We will have perpetuated a high entry barrier for skills development and denied our children better opportunities for the innovation that propels economic growth. Clearly, none of the current efforts for skills development are catching up with the challenge. As a nation, we had better wake up now and smell the coffee.



Improve revenue systems

to address constraints

By **Bethuel Setai**

The author is chairperson of the Financial and Fiscal Commission. He writes in his personal capacity

The government's considerable interest in, and commitment to, the provision of sustainable employment among the population was highlighted in the State of the Nation address. Issues of job creation, job retention and sustainable livelihoods loom large in the speech and need urgent solutions. The government is the president's major vehicle for delivery. What levers within government can be pulled to ensure that these objectives are realised?

Over the years, the government has been democratised at a high level by ensuring a three-tier system of national, provincial and local government legislatures, labour markets have been liberalised, and the economy has been aligned with the world system. But a closer scrutiny of our intergovernmental system suggests that the system still has rigidities that need to be addressed.

INTERGOVERNMENTAL AFFAIRS

The design of the intergovernmental fiscal reviews (IGFR) system still has central issues that need to be fine-tuned, and failure to do so will hamper smooth service delivery. Expenditure assignments between the provinces and the national government need to be clarified. It is particularly important to distinguish between "delegated" and "own" responsibilities among the spheres of government.

As dictated by the constitution, provinces require more revenue autonomy and mechanisms to utilise existing revenue sources. No one is preventing them from doing so. The Provincial Tax Regulation Act (2003) explores this issue. The Financial and Fiscal Commission (FFC) made recommendations on the Western Cape's fuel levy proposal – advice which could act as a benchmark for the rest of the provinces. Gauteng is investigating the possibilities of a personal income tax (PIT) surcharge, drawing on the Commission's 1997 work on revenue sources for provinces.

Unless the provinces align themselves fully with the spirit of the constitution, they will probably remain orphans in the three-tier system.

The fundamental issue is whether provinces will find comfort in receiving transfers or whether they will explore fully the alternatives before them. Provinces may also utilise their ability to borrow, especially for infrastructure. However, in order for the provinces to have clear policy direction on this matter, issues of the powers and functions of the three spheres of government need to be clarified. For example, the significant confusion that still exists between Categories B and C municipalities hampers service delivery and might actually scupper the central intentions of the president's State of the Nation address.

Unless the provinces align themselves fully with the spirit of the constitution, they will probably remain orphans in the three-tier system and there may be every reason to see their role in the transformation of the economy as marginal. The only way a government can legitimately call itself a government is if it has the power to tax and to spend. In truth, provinces are currently spending agencies, and that is why some of the laws they pass are in question.

While it is important for provinces to have revenue autonomy, as dictated by the constitution, the vertical and horizontal distribution of nationally raised revenue must remain intact and credible. This remains the major source of revenue for the provinces. However, we recognise, as government does, that pitfalls in the system tend to misalign national and provincial objectives. Perhaps it is an issue of expectations. Currently, the national government is responsible for creating policy that provinces and local government are expected to implement.

The distinction between short-term and long-term policies and programmes is one that is very clear to the people on the ground, who are focused on what they see as short-term issues: housing, healthcare, food and water. Job creation is generally a long-term initiative and this should be driven primarily at the national level – while bearing in mind the constitution's recognition of the developmental role of provinces and local governments.

It therefore makes sense that some people are persuaded to separate education and perhaps health from the Provincial Equitable Share Formula, since they are seen as long-term. There is a view that these should be block grants and structured in a manner that adheres to the constitutional prescripts of concurrent functions. These arguments recognise that constitutional amendments may be needed. We pursued them only to make the point that there are short- and long-term service delivery imperatives which require different assignments to national and provincial governments.

INFRASTRUCTURE DEVELOPMENT

Infrastructure development is widely recognised as a job creator. FFC studies indicate that infrastructure investments in water, health, electricity, roads, transport and communications will have a positive effect on economic growth and consumption, employment and various multiplier effects in other sectors. The impact will be to increase labour demand for the production of basic services and decrease unemployment levels, and to increase wages for relatively scarce skills. Households and production units would also benefit from increased incomes. The government would experience an increase in income but would also see savings decrease.

The above example assumes a "free market" system. In reality, this is not the case. Existing institutions are rigid and may not be aligned to government policies of the day. Thus the FFC has recommended that co-ordination between the three spheres of government be strengthened with regard to planning and spending.

Planning should support stronger municipal and provincial management and use common methodologies for calculating costs and benefits in project appraisals. The provision of water, electricity, sanitation and refuse removal is an exclusive function of local government. In this regard, local government institutions need to be strengthened, along with co-ordination with other spheres of government, to ensure that delivery takes place in a smooth manner.

Another important issue that requires prioritisation is the maintenance of existing infrastructure. People are generally aware of the need to maintain roads, but the maintenance of bridges, water reticulation systems and electricity supply systems is equally critical. Indeed, infrastructure maintenance, which would include planned maintenance, repairs, refurbishment, renewal and provision for replacement, could easily kick-start a new industry that would create sustainable jobs.

ADDRESS CRITICAL CONSTRAINTS

It is clear that the three spheres of government need to interact in a complementary manner. But further, at the

The fundamental issue is whether provinces will find comfort in receiving transfers or whether they will explore fully the alternatives before them.

macro level, policies should focus on recognised binding constraints, in order to create an enabling environment for other agents in the economy to find their space and prosper. The Accelerated and Shared Growth for South Africa (ASGISA) initiative identified the following as critical constraints:

- volatility and level of the rand
- cost, efficiency and capacity of national logistics systems
- shortage of suitably skilled labour, amplified by the cost effects of apartheid spatial patterns on labour
- barriers to entry, limits to competition and limited new investment opportunities
- the regulatory environment and its burden on small and medium businesses
- deficiencies in state organisation, capacity and leadership.

In his speech, the president prioritised crime and the police. Focus on this function provides an opportunity to improve facilities, such as new police stations and related infrastructure. Clearly, the speech presents many quick wins that can be achieved, including infrastructure and maintenance programmes, the construction of community markets and related sector investments (unlike the expensive shopping malls that exclude the poor) and skills and education programmes.

But we must note the US experience in the 1930s, where combating unemployment through infrastructure development did not result in economic growth. Manufacturing did (brought about by the outbreak of World War II). It is in this regard that the overtures of the president and the ANC to the private sector become relevant and critical.

Labour brokers

should they be banned or regulated?

By **Kimani Ndungu**

The author is senior researcher in the Labour Market Transformation Programme at the National Labour and Economic Development Institute (NALEDI)

The General Industries Workers Union of South Africa produced a video that highlights many things that are wrong with labour brokers. Labour Brokers, Labour Breakers *shows a group of workers at The Newspaper Company (TNPC), a large newspaper-printing firm in Johannesburg. These workers are not employees of TNPC; they are instead employed by a labour broker, Capacity Outsourcing.*

Although most of the workers were initially employed by TNPC, when the company outsourced its services to the labour broker, their wages dropped, their security of employment disappeared and benefits like provident fund and medical aid vanished. Critically, opportunities for exploitation and harassment have grown tenfold in this new employment relationship. A number of women workers recount how male supervisors demand and receive sexual favours in order to secure some women places in the daily or weekly shifts.

It is understandable then why the prohibition of labour brokers by the Namibian government in 2008 received such enthusiastic support from unions and workers there. It is also perfectly understandable why, following the Namibian example, South African Labour Minister Membathisi Mdladlana has repeatedly said that the ANC government would ban labour brokers – a sentiment endorsed by a number of powerful unions, including the trade union federation COSATU.

Local business has reacted swiftly, if predictably, to the threat to ban labour brokers. It has said that if the activity is banned, the livelihood of almost a million people will be threatened, around R26 billion stands to be lost, almost 10 000 learnerships could be terminated, and there will be a significant outflow of foreign direct investment (Watkins, 2009).

It is important therefore to understand labour broking, the problems associated with it and why such widely differing views are held about the practice. Ultimately the question is: should labour brokers be banned or regulated?

WHO IS A LABOUR BROKER?

There is a whole spectrum of operations that fall within the framework of labour broking, with large firms representing one end and the "bakkie brigade" at the other. In between is a range of other firms, although little is known about their composition or extent (Theron et al, 2005:11).

Furthermore, different terminology is used to define the same range of activities, including *temporary employment services, private employment services agency* and *private employment agencies*. However, the popular understanding of a labour broker is a person or entity that procures workers and places them at the services of a third party. Put differently, a broker connects the employee to the employer but remains an intermediary and continues to profit from the employment relationship that ensues between the worker and the employer.

This popular understanding is but one of three arrangements identified by the International Labour

Organisation (ILO) in its June 1997 Convention on Private Employment Services. In its Article 1 (a-c), the Convention defines a private employment agency as "any natural or juristic person independent of public authorities which provides any of the following services:

(i) matching offers of and applications for employment, but the agency itself does not become a party to the employment relationships which may arise [i.e. a placement or recruitment agency. These are prevalent in South Africa and cover almost all sectors of the economy.]

(ii) provision of information relating to availability of jobs, but the agency does not set out to match specific offers of and applications for employment [i.e. job or work bureaux]

(iii) employing workers with the aim of making them available to a third party (a "user enterprise") which determines the tasks to be performed and supervises the performance of those tasks."

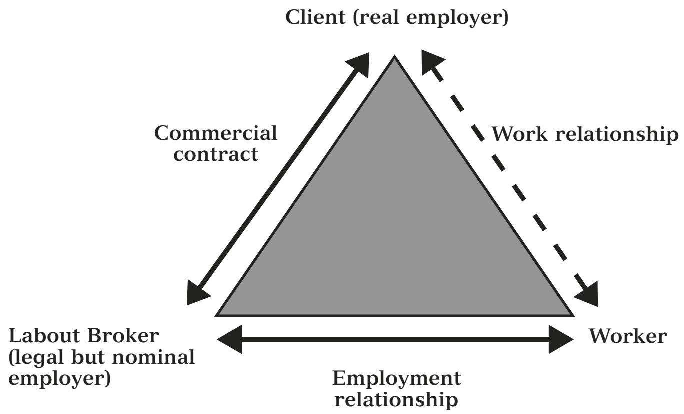
It is this third category, which includes the traditional understanding of a labour broker, that has raised much concern in South Africa and beyond. In this arrangement, the broker employs the worker but makes him or her available to a third party (the client) to perform services. The client, who has a commercial contract with the labour broker, determines the tasks to be performed and the manner of performance of those tasks. While the labour broker is the *legal* employer of the worker, it is not the *true* employer – it has nothing to do with the daily responsibilities of the employee.

Section 198 of the 1998 South African Labour Relations Act (LRA) defines a labour broker ("temporary employment service" or TES) as "any person who, for reward, procures for or provides to a client other persons (a) who render services to or perform work for the client, and (b) who are remunerated by the temporary employment service." It further states that the procured person is an employee of the TES and not the client.

For purposes of enforcing the rights of workers employed by labour brokers, the LRA holds that the labour broker and the client are both jointly and severally liable for any contravention of a collective bargaining agreement, an arbitration award, the Basic Conditions of Employment Act (BCEA) or a wage determination. Section 82 of the BCEA mimics the provisions of the LRA, with the sole addition that the labour broker and the client are also liable for failure to comply with a sectoral determination as issued by the minister of labour.

What arises then is a triangular employment relationship between the worker, the labour broker and the client, as illustrated by the figure above:

The worker has an *employment* relationship with the labour broker, who is the legal but nominal employer, and



an uncertain *work* relationship with the real employer – the broker's client, who neither employs nor pays the worker – who is the dominant entity in this arrangement.

The identity of the real employer is thus hidden in such a way that the worker has almost no legal grounds to enforce any of the labour rights guaranteed by the Constitution and legislation (this despite the fact that, as pointed out above, the LRA says the labour broker and the client are "jointly and severally liable" for any such contravention). The fact that the worker performs his or her services at the workplace of the client rather than that of the labour broker compounds the problem, since supervision can only meaningfully be enforced by the legal employer.

In a nutshell, the law and international convention have created a "legal fiction" of the labour broker, rather than the client, as the legal employer (Theron et al, 2005:64). It is this misidentification that has contributed to the plethora of problems associated with labour-broking.

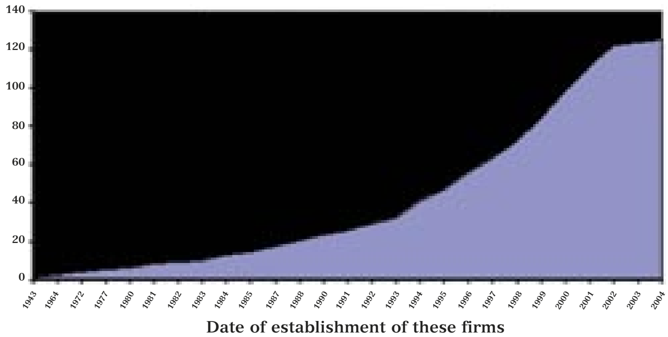
LABOUR BROKERS IN THE SOUTH AFRICAN LABOUR MARKET

Labour-broking is not a new phenomenon in South Africa. It has been around since at least the mid-19th century, following the discovery of diamonds and gold. As prospectors from Europe and other parts of the world flocked to South Africa, the need for labourers grew exponentially, with the result that labour agencies recruited workers from all over southern Africa to work in the mines and other sectors of the economy, like agriculture, manufacturing and fishing (Theron et al, 2005).

Approximately 75 percent of all labour brokers have been established since 1996, the year the LRA came into operation.

By the 1950s, labour brokers in their current institutional form were already an established fact. However, their rapid growth has really only taken effect since the mid-1990s. Approximately 75 percent of all labour brokers have been established since 1996, the year the LRA came into operation (see figure). It is therefore not difficult to conclude that the new legislation may have contributed to the dramatic rise of labour broking in recent years.

Rapid growth of the labour broker sector in the past 10 years



Source: Theron et al, 2005:34

But there are other reasons as well. Restructuring the post-apartheid economy has coincided with a reorganisation of the workplace in order to make it more internationally competitive, and an increasing range of services considered "non-core" (e.g. security, transport, catering and cleaning) has been outsourced. In the quest to increase profitability, employers have also taken advantage of flexibility provisions in the new labour legislation to reduce the cost of labour (Clarke, 2003:2). By using labour brokers, employers are able significantly to cut down costs ordinarily associated with the hiring, retention and dismissal of workers, including recruitment fees, leave, social security, medical benefits and retrenchment costs.

Despite the fact that the Skills Development Act (section 24) requires "any person who wishes to provide employment services for gain [to] apply for registration as a private employment services agency", the actual number of labour brokers operating in the South African labour market, and the number of workers employed by them, is unknown.

Lack of reliable data means no one knows the range and extent of labour brokers, a problem that confronted Theron et al in their analysis of this "triangular employment" in the country. Using data from Statistics South Africa's 2008 *Labour Force Survey*, the authors suggest that there were around 180 000 persons paid by labour brokers, contractors and agencies, while information from three data sources – the Services SETA, the Metal and Engineering Industry Bargaining Council and the authors' own – suggested that there were 2 739 firms engaged in recruitment (ibid:25).

A recent newspaper advertisement feature claimed that there are around 500 000 workers who derive their livelihood through temporary employment services. John Botha, chief operations officer of the Confederation of Associations in the Private Employment Sector (CAPES), stated in the same feature that the industry employs around "4 percent of the economically active workforce in South Africa" (Watkins, 2009). Statistics South Africa's May 2009 *Quarterly Labour Force Survey* (QLFS) indicates that the economically active workforce in South Africa comprises some 17.8 million people. This means, using Botha's assessment, that around 700 000 workers are employed by labour brokers.

Unfortunately, official statistics tell us nothing about the number of labour brokers and workers employed by them in the South African labour market. The *Labour Force Survey* – forerunner of the current QLFS – used to provide statistics on the number of workers employed and their terms of employment. Divided into permanent, fixed-period contract, temporary, casual and seasonal, it is difficult to determine how many workers in each category are employed by labour brokers. The QLFS does not include these categories and this makes the problem of analysing labour-broking in the country even more difficult.

It is safe to conclude therefore that the actual number of labour brokers and the number of workers employed by them in the country is a matter of speculation.

In a nutshell, the law and international convention have created a "legal fiction" of the labour broker, rather than the client, as the legal employer.

THE PROBLEM WITH THE LAW

South Africa has an extensive raft of laws that regulate labour and provide for the protection of the rights and freedom of workers. The Constitution protects the right of workers to fair labour practices as well as the right to form and join a trade union, to participate in the activities of a trade union, and to strike (section 23). Unfortunately it does not define the term "fair labour practices", and this has been left to subsidiary legislation and the courts for interpretation.

Subsidiary legislation includes the BCEA, which makes provision for a floor of rights to which workers are generally entitled – e.g. working hours, leave and notice of termination of employment – while the LRA regulates the right of workers in relation to trade unionism, the right to strike and to bargain collectively. At the workplace, workers are protected by the Occupational Health and Safety Act, the Compensation for Occupational Injuries and Diseases Act and the Unemployment Insurance Act. There are also laws that aim to counteract the effects of past discrimination by the apartheid system, mainly the Employment Equity Act and the Skills Development Act.

Yet these very same laws have perpetuated the growth of labour-broking and problems associated with it. The legal fiction that the broker is the real employer means workers are unable to enforce the rights so eloquently guaranteed by the Constitution and legislation.

Take, for instance, the right to fair labour practices. For a worker to claim this right, she would first have to show that her employer has engaged in unfair labour practices. The worker cannot do so against her *real* employer (the client of the labour broker, who the law says is not her employer), but only against the labour broker, who is not present at the workplace and who neither determines the tasks to be performed nor supervises the performance of such tasks.

Bosch (2009:3-4) identified three major problems that confront such workers when they seek the intervention of the Commission for Conciliation Mediation and Arbitration (CCMA) in their disputes with employers:

- many of them "do not always know who their real employer is"
- in relation to unfair dismissal, such workers have "problems in proving that they have been dismissed within the meaning of the LRA". (In section 186 of the LRA, unfair dismissal can only be done by "the employer")
- many of them have particular difficulties exercising the right to fair labour practices as guaranteed by the Constitution.

Let us examine these problems in some depth. The first problem, of employer identity, speaks to the way workers conceive themselves in the world of work. Workers who are placed with a client develop a relationship and identity with that client and its workplace, rather than with the labour broker. Since there is no legal limit to how long a worker's placement can be deemed "temporary", workers have sometimes worked for a single client for three, five or more years in a temporary capacity. When their labour rights are violated, they naturally seek a remedy against that employer.

It is a shock, therefore, when such workers approach the CCMA only to be told that, in law, the person they have all along known as their employer is not their "real employer". They then have to start the process all over again in order to have the appropriate party cited in the dispute. But in vulnerable sectors like agriculture, construction and security, where large numbers of labour brokers operate from a briefcase and a cell phone, it is nearly impossible for workers to locate them.

Whether a dismissal is unfair or not depends on whether an employment relationship exists between the employer and the employee in the first place.

The second problem of unfair dismissal presents an intractable problem for the majority of workers employed by labour brokers. The right not to be unfairly dismissed is central to security of employment. Sections 186–189 of the LRA define incidences of unfair dismissal, including an employer's refusal to allow an employee to resume work after maternity leave; the employer making the continuation of an employment relationship intolerable; an employee being dismissed for participating in a protected strike; and an employee being unfairly discriminated against on the basis of race, gender, sex, etc.

Whether a dismissal is unfair or not depends on whether an employment relationship exists between the employer and the employee in the first place. The employment relationship between the employee and the labour broker is underpinned by a commercial contract between the labour broker and the client. Interestingly, while labour legislation regulates the first, dependent part of the relationship (between employee and labour broker), it does nothing about the second, independent part of the relationship (between labour broker and client). Yet it is this latter relationship that determines how well and to what extent the employment relationship between the worker and the labour broker is sustained.

One of the standard clauses found in contracts of employment between workers and labour brokers stipulates that the duration of employment is dependent upon the broker's contract with the client, and that the employee's contract of employment will terminate at any time if the commercial contract with the client is terminated or revised, or if the client, for any reason, no longer requires the services of the employee. The worker is further required to acknowledge that, in such event, the contract terminates automatically and shall not be construed as a dismissal. Without dismissal in the sense contemplated by the LRA, there can be no unfair dismissal for the worker.

The third problem identified by Bosch demonstrates that a wide spectrum of workers' rights to fair labour practices is severely undermined in labour-broking. Some of the critical rights compromised are freedom of association, the right to join and participate in the activities of a trade union, and the right to engage in collective bargaining. It is often difficult for unions to recruit workers employed by labour brokers; many of them are reluctant for fear of losing their jobs.

A recent study of industrial action in major construction sites around the country found evidence of employers dismissing labour broker workers who expressed an interest in trade union activities. One of the shop stewards is quoted as saying:

> Recently I contacted three subcontracted workers and educated them on the benefits to belong to the union and convinced two of them. The one who declined reported to their employer that his colleagues had joined the union. The following day the two who had joined the union disappeared and only to realise they have been replaced by two new guys (sic) (ibid:13).

Unions also face the daunting challenge of organising labour broker workers at the workplace of the client. Section 213 of the LRA defines a workplace as "the place or places where the employees of an employer work", and this presents an interesting but confusing situation. On the one hand, it could be argued that this definition is not employer specific: since it refers to any place where employees work, whether the labour broker or the client is the employer is in fact immaterial to defining the workplace. On the other hand, it is a legal absurdity to suggest that this definition entitles workers to claim organisational rights in a workplace that legally belongs to their employer's client.

Bezuidenhout and Fakir (2006) have demonstrated the illogic to which this definition of workplace lends itself in practice. In a case study of workers employed by a contract cleaning company, Supercare, to perform services at the University of the Witwatersrand (Wits), they point out that Supercare's workers

> have tried to establish a trade union, yet Wits uses its legal ownership of the campus to prevent the cleaners from using any of its buildings for mass meetings. At the same time, although Supercare cannot deny the workers the right to meet – which is protected by the LRA – their externalised relationship allows them to determine that union meetings must be held at Supercare premises, approximately 25 km from Wits (ibid:475).

Unable to recruit or even to organise workers at the workplace of the client, the ability of unions – and, by extension, workers – to mobilise for better working conditions has been seriously compromised. In addition, the right of workers to engage in collective bargaining is undermined. As the dominant party in this arrangement, it is the client who determines the rate at which workers will be paid, yet workers cannot influence the commercial contract between the client and the labour broker. Theron et al capture this problem in succinct terms:

> What is important here is that the workers they employ have no insight whatever into the contracts entered into between the client and the TES [temporary employment service]. Yet the wages they earn, and their capacity to improve their wages, are determined by these contracts. The notion that wages and minimum standards are amenable to a process of collective bargaining between a TES and its workers has no practical application, unless the client varies its contract with the TES. It will obviously not be easy to persuade the client to do so (2005:43).

With so glaring a weakness in labour legislation, one is left wondering how to take seriously sentiments like those expressed by CAPES' John Botha, that current legislation "adequately address[es] the use of TES/labour brokers and that it is the lack of effective enforcement on the part of the department of labour that is at the core of the issue" (Watkins, 2009).

For South Africa, the Namibian ban may not be of much assistance – except perhaps that it sets a powerful warning for business.

UNIONS, LABOUR BROKERS AND WORKERS

Despite resolutions adopted by the 9th National Congress of COSATU in September 2006, in which the federation and its affiliates vowed to "combat the abuse of [workers by] labour brokers" (Resolution 3.9) and called for a "concerted attempt within affiliates and the Federation... to organise the unemployed, informal workers and casuals" (Resolution 3.1), the reality is that unions have done very little to deal with the problem of labour-broking.

One of the contributory factors to union lethargy is their outdated model of organising, which focuses only on formal workers congregated at the workplace of the employer. While an ever-increasing number of workers have been casualised, outsourced or informalised, unions have concentrated on the shrinking pool of core workers for survival. In the recent past, however, there has been a growing recognition within unions that their relevance in the labour market depends partly on their ability to organise workers in non-standard employment. This includes labour broker workers.

Unions like the National Union of Metal Workers of South Africa (NUMSA), the National Union of Mineworkers (NUM) and the Chemical, Energy, Paper, Pulp, Wood and Allied Workers Union have, in some of their collective agreements with employers, called for monitoring and supervision of labour brokers. These agreements require, among other things, that labour brokers be used at a minimum, that they be registered with the relevant government departments, and that they comply with generally acceptable conditions of employment (Ndungu, 2008:11–12).

There is a lot of mileage to be covered by unions, as demonstrated by labour broker workers in the Tshwane municipality, who went on strike in 2007 with a range of demands including permanent employment and better wages. While the South African Municipal Workers Union had seen the growing use of contract workers in its sector, it had done little to recruit them within the ranks of other workers. The contract workers then led their own struggle. They articulated their positions clearly and forcefully and in the end were able to wring certain concessions from the municipality, including a commitment to hire them on a permanent basis.

The 2008 study of industrial action in construction sites found that not only do unions reproduce divisions between various categories of workers, but there is also a perception that non-standard workers, including those employed by labour brokers, "are not organisable or are difficult to organise due to their insecure status" (Chinguno, 2009:15). No wonder unions have spent less and less effort on this category of workers.

Unions like NUMSA and NUM have urged the ANC government to ban labour-broking (Majavu, 2009), but a purely legislative response is inadequate. A decisive intervention requires unions to get their hands dirty and to actively organise all workers in irregular employment. Their task is made difficult by a seemingly contradictory stance between the government and the ANC. The labour minister says government will ban the practice (Majavu, 2008; *Business Day*, 2009), while the ANC says it has no intention of banning them (Majavu, 2009), but will "address the problem of labour-broking and prohibit certain abusive practices" (ANC, 2009; Duarte, 2009).

THE NAMIBIAN EXAMPLE

In November 2008, in a case concerning a South African company with operations in Namibia, *African Personnel Services (Pty) Ltd v Government of Namibia and Others*, the Namibian High Court held that section 128 of the Namibian Labour Act, which prohibits any person from hiring someone in order to make them available to perform work for a third party, is not unconstitutional. This section ("Prohibition of labour hire") provides that:

(1) No person may, for reward, employ any person with a view to making that person available to a third party to perform work for the third party;

(2) Subsection (1) does not apply in the case of a person who offers services consisting of matching offers of and applications for employment without that person becoming a party to the employment relationships that may arise therefrom.

This section is narrowly tailored to outlaw the traditional form of labour broking (i.e. the triangular employment relationship discussed in this paper) and not placement agencies or job centres. Anyone who contravenes this section may be liable to a fine not exceeding N$80 000 (R80 000) or imprisonment for a period not exceeding five years, or both.

Writing for a unanimous court, Justice Parker equated labour-broking with slavery and said the Namibian common law of employment really recognises only one type of employment relationship: the letting and hiring of personal service, i.e. a contract of service. He went on to observe that, while under Roman law a slave could form a "thing" and that such slave's master could hire or let him/her to another person, this is not the case with Namibian common law of employment. As Parker pointed out: "there is, therefore, no room for a third party in the servant (employee)-master (employer) relationship in our law".

South Africa's common law of employment is also based on Roman-Dutch law, but it has undergone significant statutory modification. As discussed previously, the LRA and the BCEA sanction labour-broking by not just legalising this practice, but also by stipulating that the labour broker is the employer of the procured worker. Furthermore, section 22 of the Constitution grants every citizen "the right to choose their trade, occupation or profession freely" and any attempt by the government to limit this right must comply with the strict criteria laid out in section 36. It is unlikely that the government would come up with persuasive enough arguments that the right in section 22 ought to be limited, at least not for the banning of labour-broking.

The Namibian judgment has been criticised for being "regressive" (Theron, 2009:42), because it relied on "outdated ideas of employment from Roman law" (Theron, 2009a:7–9) and the court's ignorance of the ILO Convention on Private Employment Services (mentioned above), which allows labour-broking, albeit with sufficient regulation. For South Africa, the Namibian ban may not be of much assistance – except perhaps that it sets a powerful warning for business to become more amenable to stricter regulation and greater compliance with the country's labour legislation.

CONCLUDING REMARKS: TO BAN OR REGULATE?

Current debate on labour-broking has been polarised on two extreme ends. At one end is the business sector, which, as represented by John Botha, argues that existing legislation is sufficient and what is lacking is enforcement. If pressed, business also appears amenable to stricter regulation. At the other end is labour, which, with the support of the labour minister, has said labour-broking must be outlawed.

Any attempt by government to outlaw labour-broking completely will naturally be challenged by business under section 22 of the Constitution. And while the government could rely on section 36 of the Constitution, which permits the limitation of rights by way of a law of general application, it will be hard-placed to argue that less restrictive means, like regulation, would be inadequate to achieve the same purpose – of ensuring that workers employed by labour brokers also enjoy the right to fair labour practices.

In my view, a combination of regulation and banning could sufficiently address the bulk of problems associated with labour-broking, and the following measures need to be considered.

Legislative amendments

The LRA and the BCEA should be amended so that both the labour broker and the client are jointly and severally liable in respect of the rights conferred by the LRA. These include the right not to be unfairly dismissed, the right to organise and the right to collective bargaining, among others.

A time limit for which a worker can be considered "temporarily employed" should be stipulated in legislation. After the expiry of that period, the worker should be deemed an employee of the client. Section 57 of the Employment Equity Act contains such a stipulation, where

> a person whose services have been procured for, or provided to, a client by a temporary employment service is deemed to be the employee of that client, where that person's employment with the client is of indefinite duration or for a period of three months or longer.

This important provision indicates that the abuse of workers can be restricted by requiring that employment on a temporary basis should be for a limited period of time only.

Sectoral banning

Labour-broking should be prohibited in sectors like agriculture, construction, mining and security where workers are extremely vulnerable to exploitation. It should also be prohibited in certain categories of employment such as domestic work. The minister of labour should have the power to make such prohibitions.

This approach finds support in the ILO Convention, which provides that "a member may prohibit, under specific circumstances, private employment agencies from operating in respect of certain categories of workers or branches of economic activity in the provision of one or more of the services". South Africa is yet to ratify this convention and is presently not bound by it. Nevertheless, it shows there is recognition at the international level that a sectoral or occupational ban on labour-broking is permissible.

Broker registration

All labour brokers must be registered with the department of labour. They must also register their employees for unemployment insurance benefits, as well as being registered with the compensation commissioner under the Compensation for Occupational Injuries and Diseases Act. Similarly, all labour brokers must register with relevant bargaining council/s in the sector or areas where they operate.

Client responsibility
No client may use the services of a labour broker who is not registered. It should be the responsibility of the client to ascertain that the labour broker with whom he or she contracts has complied with the relevant legislative requirements.

Union strategies
Unions must come up with creative organising strategies for workers employed by labour brokers, as well as workers employed through irregular work arrangements, such as casual and informal workers. Unions can no longer continue to ignore what is obviously the majority of workers in the South African labour market. Their relevance to the needs of workers depends in large measure on their ability to reach and bring them within the ranks of organised labour.

Finally, labour-broking is a reality that neither unions nor government can run away from. A total ban on labour-broking is well nigh impossible to achieve, as it is likely to fail the required constitutional muster. Strong regulatory measures are required to reduce and ultimately eradicate the pervasive exploitation of workers employed by labour brokers. Legislative amendments, stronger regulation, selective banning and better enforcement of labour laws are the measures most likely to bring tangible results.

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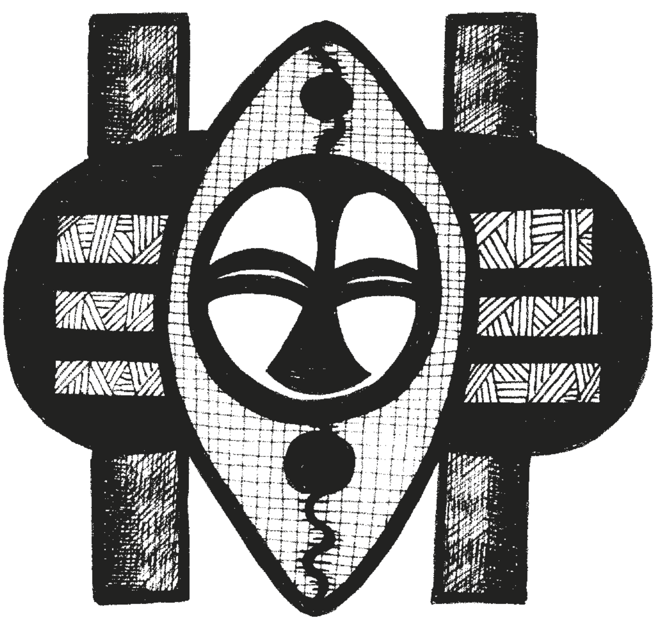

PetroSA's Project Mthombo

creating sustainable growth projects beyond 2010

An interview with Jörn Falbe

South Africa's state petroleum, oil and gas company, PetroSA, is planning to build the continent's largest crude oil refinery. Ben Turok asked Jörn Falbe, vice president: new ventures (midstream), about Project Mthombo.

Ben Turok: PetroSA intends to build a world-class crude oil refinery at the Coega Industrial Development Zone. How will this assist the security of supply for South Africa?

Jörn Falbe: The South African government is concerned about being dependent on international oil companies to secure the country's future liquid-fuels energy needs and has introduced an Energy Security Master Plan to address this. The plan calls for PetroSA, as the state oil company, to provide strategic leadership to achieve security of supply. Project Mthombo – as the planned refinery at Coega is known – is the keystone of this plan.

By 2015, it is estimated that South Africa will have to import about 10 billion litres of fuel per annum (200 000 barrels per day or about 20 percent of the national requirement), if there is no significant investment in local refining capacity. Importing the shortfall of refined fuel will have an extremely negative impact on the country's foreign exchange reserves and it makes national supply more vulnerable to external factors.

About 75 percent of the country's crude oil imports are channelled through the already congested Durban harbour. Gauteng, the country's major economic hub, relies on a single pipeline from Durban for a large portion of its fuel requirements. This puts the country at risk from a strategic point of view.

National demand for refined fuels already exceeds South Africa's refining capacity and the demand is set to increase further. The Coega refinery will produce 400 000 barrels per day when it is commissioned by 2015, which would be sufficient to supply the country's fuel needs for at least two decades.

BT: Why was Coega chosen as the location?

JF: Coega is ideally located between the oil-producing nations of South America and West Africa and the fast-growing economies of India and China where demand is rising steadily. Coega has a modern deep-water harbour and is strategically located on the world's main trade routes. This presents excellent logistics for the import of crude oil as well the export of finished product. A second pipeline (Coega to Gauteng) can be built to supply the major inland markets and vastly improve the security of supply. Coega, through the industrial development zone (IDZ), represents a new regional growth centre which will lead to the creation of a new petro-chemical hub that can service not only South Africa, but the whole of the southern African region.

BT: Please explain the balance of output between diesel, jet fuel and ordinary petrol. How is that balance arrived at?

JF: Market studies indicate that over the next twenty years the demand for diesel in southern Africa – as experienced globally – will be higher than for petrol. The refinery is designed to produce diesel (and jet fuel), and gasoline, in the ratio of 70/30. All fuel will be manufactured to the highest global "clean fuel" standards, designed to lessen the impact on the environment and benefit South Africa's critical motor manufacturing industry. Initial excess capacity – mainly diesel – will be exported to the rest of Africa.

Coega represents a new regional growth centre which will lead to the creation of a new petro-chemical hub that can service not only South Africa, but the whole of the southern African region.

BT: What downstream impact will the refinery have in terms of local economic development and job creation?

JF: The Coega refinery will have a major impact not only on a local and regional level, but also on the national economy. A macro-economic impact study commissioned by PetroSA foresees that up to 28 000 temporary jobs will be created during the construction period of three to four years and, when operational, another 18 500 permanent jobs in activities associated with supporting and maintaining the refinery.

On a national level, household income in the economy will be on average R2.6 billion per year higher owing to direct and indirect impacts. The Eastern Cape has traditionally been one of the poorest provinces of South Africa and its contribution to the GDP has been declining. This trend will be reversed if the refinery is constructed, and its growth rate could increase by an additional 4.1 percent per year.

BT: What opportunities could arise from the project for small and medium business enterprises?

Up to 28 000 temporary jobs will be created during the construction period of three to four years and, when operational, another 18 500 permanent jobs in activities associated with supporting and maintaining the refinery.

JF: There will be major opportunities for local SMEs to benefit from the supply of goods and services to the Coega refinery. PetroSA has, in line with government requirements, developed a competitive supplier development programme (CSDP). This makes provision for the development and transfer of skills to local SMEs to enable them to participate on equal footing with established local and international companies. In terms of the CSDP initiative, it is also a requirement for foreign-based consultants to transfer skills to local companies. There will be business opportunities for small and medium enterprises in many diverse areas, including accommodation, catering, entertainment, sport, transport, security and construction of the Coega refinery, as well as sustainable opportunities during the operational phase.

BT: What is the proposed impact on South Africa's balance of payments?

JF: The refinery could contribute savings of up to R18 billion per year on South Africa's balance of payments for the period from 2015 (year of commissioning) to 2035. During its operational phase, the refinery could add R13.4 billion per year to the country's GDP in direct impact and a further R1.6 billion if the indirect impact is considered. Its contribution to the country's GDP during the development phase is estimated at 0.2 percent or R3.8 billion per year, increasing to 0.5 percent or R12.6 billion per year once commissioned.

BT: Is there a broad-based black economic empowerment component?

JF: The Coega refinery creates sustainable BBBEE opportunities across the value chain. PetroSA will invite BEE companies to invest in different parts of the project. It is estimated that at least 30 percent of the engineering, procurement and construction will be channelled to BEE contractors and sub-contractors. Local content will be maximised by giving preference to companies under the CSDP. BEE companies will also be offered direct equity investments in the refinery and associated logistical infrastructure, e.g. storage facilities.

BT: Is there any likely social upliftment element for the communities around the project?

At least 30 percent of the engineering, procurement and construction will be channelled to BEE contractors and sub-contractors.

JF: The Coega refinery will have positive direct and indirect benefits for the residents of the Nelson Mandela Bay Metropole (NMBM) and the Eastern Cape region. Current estimates suggest that almost 10 percent of the total population in the NMBM are living under the breadline. The refinery will generate direct and indirect jobs, improve household incomes and help reduce unemployment and poverty.

PetroSA has over the past years invested more than R300 million on education, health, environmental and community development projects, both nationally and in the regions and centres where it operates. The company's corporate social investment (CSI) programme is set to continue and intensify as Project Mthombo progresses.

BT: Are there sufficient skills available in South Africa and in the region for this project?

JF: The skills base in South Africa is probably not big enough to provide all the requirements of a project of this magnitude. A concerted effort will be made to source the appropriate and required skills locally. Various training and educational institutions will be engaged to assist with the training and development of people in the skills needed to build and operate the refinery. PetroSA and the Coega Development Corporation (CDC) are currently investigating the possibility of setting up a joint training venture in the Coega IDZ. In addition, PetroSA will utilise its "centre of excellence" vocational training facility in Mossel Bay to train up people for the Coega refinery. In cases where suitably qualified and experienced manpower is not available locally, the recruitment net will have to be cast wider to include skilled foreigners.

BT: Finally, what are the options for South Africa should the project not happen?

JF: There are two other – far less attractive and sustainable – options for the country to meet the growing demand for refined fuel products should Project Mthombo not go ahead. South Africa could meet the demand by increasing the importation of refined products, but this would have an extremely negative effect on its balance of payments and GDP growth over the long term. Furthermore, importing huge and growing volumes of refined fuel products will adversely affect security of supply.

The other option is to give incentives for the international oil companies to invest billions of rands into upgrading their ageing refineries to comply with clean fuels and emission standards. A greenfields project on the scale of the planned Coega crude oil refinery is, in our view, the best long-term solution for South Africa and the SADC region.

Retirement fund reform

balancing opportunity with protection

By **Elias Masilela**

The author is the head of corporate affairs and retirement reform at Sanlam. This paper was prepared for Sanlam's 2009 Benchmark Symposium. The full research is available at www.sanlam.co.za

Lest we forget... the aim of reform is to avoid poverty in retirement.

This year's Benchmark Symposium coincides with the worst and broadest economic slowdown in history. What started off as a financial crisis rapidly transformed into a vicious circle of multiple crises – an almost unstoppable domino effect of sectoral imbalances, a devastating asset price collapse, global recession, a blow-up in unemployment, a social crisis and growing fiscal imbalances: all of which warns of a long-lasting global structural imbalance.

This ripple effect threatens worldwide long-term savings, as retirement funding seems to be the biggest victim of this global crisis.

This harsh experience provides further evidence that retirement reform is not purely a legislative exercise. The economy is faced with a unique challenge that requires far-reaching strategies for a sustainable social security and retirement regime that will take account of economic cycles, position itself for the long term, and ensure that both well-heeled and vulnerable citizens are fully catered for under any economic eventuality.

These challenges are especially relevant as we wrestle with social security and retirement reform in South Africa. Therefore, "Balancing opportunity with protection" is the theme of the Benchmark Symposium. What policies could take advantage of these economic conditions to improve the worth of the economy? How may we accomplish

this, while ensuring that the vulnerable and dependent members of society are also included and also capitalise on current conditions? What should the country do so that, when the economy turns, we are ready to ride the tide and enhance welfare?

The research has focused on understanding the macro and micro impacts of an economic slowdown through studying the experiences of other countries to guide us to the most appropriate policy and household responses in the current economic maelstrom.

Features of the SA economy

Weaknesses	Strengths
1. Poor domestic savings	1. Budget surplus
2. Over-reliance on foreign savings to fund investment	2. Low debt burden in the domestic economy
3. Global slowdown will dry up resources, making borrowing costlier	3. Robust infrastructure programme
4. Rising debt in developed world	4. Preparedness for next upswing
5. Poor replacement ratios	5. Balance sheets of South African corporations are healthier than those elsewhere
6. Retrenchments and weak employment opportunities	6. Reform process is forcing introspection across all sectors
7. High inflation and interest rate	7. Cost across production chains
8. Sticky wages and salaries (unresponsive to change in the labour market)	8. Partnerships with the state
9. Weak global liquidity	9. High interest rate allows for monetary room to inject growth impetus
10. Weak savings culture	10. Strong financial sector

WHAT ARE THE OPPORTUNITIES?

A balanced view of the strengths and weaknesses of the South African economy is necessary to judge what opportunities are available. Our position provides certain valuable opportunities to bring macro stability back to the global agenda and, in particular, to South Africa's reform agenda, elevate the urgency of proper reform and highlight regulatory issues, and force a rethink on early retirement

Some economic data can spell out the depth of the global crisis. In its recent economic outlook, the OECD is projecting a 9 percent – and rising – fiscal deficit for 2009. Growth across these developed countries is expected to reach -4.7 percent, with a sluggish turnaround in 2010 of 0.7 percent. This economic performance will result in unemployment rising by 2.2 percent in 2009, to 7.8 percent. This equates to an additional 11 million people becoming unemployed. Unemployment was recorded at 9.4 percent in May and is expected to rise further to 10 percent in 2010. All this takes place against the backdrop of an asset collapse of -23 percent (weighted) and -17.5 percent (unweighted).

THE ROLE OF THE ECONOMY

The link between economic management and the ongoing retirement and social security reform process cannot be denied. To meet the social goals, the right macro-economic environment is necessary and this is a function of a healthy partnership between the private and public sectors. In addition, the majority of the key objectives targeted by a reform programme are economic. Even its instruments are predominantly economic, such as macro-economic stability and inflation targeting.

The economic crisis has increased the challenge of retirement reform. Haugh et al (2009) find that the economic downturns that follow banking crises are more severe than other downturns. Output losses are typically 2 to 3 times greater, the period to recovery is at least twice as long, the recovery itself is much slower, business investment and housing investment are disproportionately reduced, and there is a large reduction in fiscal performance. The study highlights the following implications.

- The current downturn may be severe, with output remaining below potential for a number of years.
- The effect on potential output growth is likely to be more adverse – and more permanent – the longer it takes to resolve the immediate banking problems.
- Structural unemployment is likely to increase.

Together, all these factors will have a devastating effect on the long-term savings industry. In particular, the probable long-term structural weakness resulting from the current crisis is the bigger "snake in the room". However, there is hope. If the global response precipitates a much swifter resolution to the crisis, the actual outcomes may be muted or totally different to those painted above.

SUCCESSFUL REFORM

A key goal for reform relates to "people saving adequately for retirement". This theme underpinned the 2008 Sanlam Survey research and is driven by economic fundamentals. Ironically, this is the theme that preoccupies debate in the OECD today, in light of the global economic performance.

The reform process should aim to deal with income inequality, poverty and ensuring decent retirement incomes. This objective will only be tested some twenty years from the day of its implementation. We therefore have to rely on interim indicators to guide the process towards maturity. Indicators that measure the efficiency and effectiveness of the system include annual investment returns, administrative and transition costs, institutional and administrative capacity and transparency.

The global economic crisis has drawn policymakers' attention to short-term considerations. However important these are, they are not the only ones. Long term structural measures are even more important: the reform deals with promises of a lifetime. "Short-termism" is a growing monster and risk, militating against sound and sustainable reform. Many reforming economies have had to balance growth promotion and social protection, as one cannot go without the other. In the midst of short-term pressures, the OECD seems to be jettisoning this balance.

An essential characteristic of a sound economic system is its ability to respond to emerging risks while looking forward to the long-term goal of poverty eradication. Successful reform faces many challenges, ranging from political will and resistance to delivery capacity, financial constraints, macro-economic stability and sequencing (the order in which reforms are implemented). The World Bank found sequencing to be crucial when dealing with implementation and risk management. It identified a three-pillar framework to deal with these risks:

- flexible and active labour market policies
- pension and social insurance schemes
- social assistance.

As we move forward, we need to focus even more on principles underlying the micro-economic framework of insurance and saving. It is critical that we fully appreciate these micro fundamentals as they interrelate with the key objectives of old age income security, efficient consumption smoothing and averting old age poverty.

IMPACT ON SOUTH AFRICA'S LONG-TERM SAVINGS

The financial sector is key to successful reform. The basis for retirement funding is the lifetime promise given to the saver. This is particularly threatened because the current crisis is largely driven by historically low levels of confidence. The challenge now is to ensure that trust and confidence return quickly to the global economy.

Despite the strengths mentioned earlier, South African retirement funds have not been spared the wrath of the crisis. It is estimated that retirement savings assets may have shrunk by about R300 billion. The slowing economy, declining returns and job shedding imply that the replenishment of these assets will take a long time. The strong positive correlation between the economic fortunes of a society and its retirement savings pattern has been well established. The current state of the economy will have negative implications on the retirement industry. Recent data from Statistics South Africa reveal that participation rates in the formal economy have shrunk from 62 percent in 2005 to 58 percent in the first quarter of 2009.

South Africa has weathered the storm relatively better than other countries, but may still suffer from extended global recession.

BENCHMARK SURVEY RESULTS

The 2009 Benchmark Survey has yielded many interesting results. One is that people are growing increasingly less optimistic about the successful implementation of the social security reform programme. This is to be expected, as people's abilities to save are waning due to the tightening of their belts and job losses.

However, an encouraging finding is that about 97 percent of those surveyed indicated that saving is very important. This positive attitude is to be promoted and supported. It is evident that voluntary contributions have held up well despite harsh financial constraints, having dropped marginally from 2.82 percent of salary in 2008 to 2.29 percent of salary in 2009.

Retirement funding seems to be the biggest victim of this global crisis.

Replacement ratios

South Africans are becoming increasingly aware of the income replacement ratio concept and are beginning to apply it to their individual circumstances. An amazing 75 percent of people surveyed are targeting a replacement ratio of between 80 and 100 percent. This is in stark contrast to the observed replacement ratio in South Africa of 30 percent. Last year's research, which revealed that economies similar to South Africa enjoy replacement ratios closer to 75 percent, may have had a role in influencing the shift. The very small proportion of South Africans targeting a replacement ratio of less than 60 percent is thought-provoking when considering that government has proposed a replacement ratio of a minimum of 40 percent.

Readiness to retire

It emerges that South Africans do not feel that they are ready for retirement. About 30 percent of respondents would opt to delay their retirement while 54 percent plan to work for a wage or salary in their retirement. However, the observed average retirement age has dropped slightly, from 63.2 years in 2007 to 62.87 years in 2009.

About 23 percent of respondents indicated that they do not think that they will recover from the financial crisis. Although worrying, this view is not based on a lack of confidence in the South African financial system. A convincing 58 percent of respondents revealed confidence in the financial system. This complements the latest Financial Sector Assessment Programme (FSAP) on South Africa by the IMF and the World Bank. These findings imply that South Africa does not suffer from an underlying confidence risk and that there is hope that the turnaround will be soon and possibly sustainable. The latest OECD prediction that the global turnaround will be led by emerging markets is supported by this result.

Preservation and compulsion

Respondents overwhelmingly – almost 78 percent – indicated a preference to preserve their benefits on withdrawal, providing clear insight into how policy may be structured. It settles a long-standing fear that such a policy would attract fierce resistance.

Another thorny question is whether compulsion should be enforced. The research did not provide as definitive an answer, as 48 percent of respondents indicated they would accept being compelled to save for their retirement. Adding weight to the compulsion argument is the finding that, in spite of the current financial woes, 77 percent of respondents would not reduce their contributions to increase their take-home pay. Instead, there is a preference for voluntary savings to top up the contribution prescribed by their fund.

Exits

There was a five-fold increase in the average exits from funds, from 60 in 2008 to 310 in 2009. This negative result may be largely due to the toll of the economic slowdown.

It is interesting that these exits have, up till now, been driven by resignations. An average of 210 people exited on resignation, compared to an average of 30 on retirement. This may be a function of the notorious urge for members to cash in retirement benefits. We do expect to see a switch in this as retrenchments take centre stage on the back of negative recessionary effects and the underlying lagging characteristic of the labour variable.

"Short-termism" is a growing monster and risk, militating against sound and sustainable reform.

48 percent of respondents indicated they would accept being compelled to save for their retirement.

Meanwhile, adding irony to this picture, the average number of new entrants into funds increased from 69 to 307 between 2008 and 2009.

CONCLUSION

The key lesson for South Africa from the economic crisis is that we need to make economic growth restoration our immediate task if we are to see a successful reform. The reform we envision should be partnered with more growth, more jobs and significant and sustainable real financial returns.

The global crisis is increasingly social in nature and the solution, therefore, has to mirror this. The social impact is felt most in the retirement environment. We need to ensure that financial stability is the bedrock of our macro-economic and micro-economic programmes. Underlying this would be low inflation and a stable currency and interest rates.

The internal factors driving stability are within our control and we need to apply sound reasoning to manage these economic fundamentals in order to implement a successful reform.

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Water for growth and development

planning for a shared future

By **Sizwe Mkhize**

The author is deputy director general: policy and regulation for the national department of water affairs

Although it is not always apparent from the manner in which we use water, South Africa is one of the driest countries in the world. As water resources around the world come under increasing pressure, there is a dawning realisation of just how precious this resource is. A basic requirement for human health, water is also critical to the production of food and is intensively used in a very broad range of economic activities, including the production of energy.

Our Bill of Rights is both succinct and clear: "Everyone has the right to have access to... sufficient food and water". Providing convenient and sufficient potable water to all South Africans is a basic developmental goal of the department of water affairs (DWA) – and it has made considerable progress.

DWA figures show that infrastructure has been extended to provide 95 percent of the population with access to safe water, 88 percent have access to the RDP minimum standard of 25 litres per person per day within 200 metres, and 74 percent have access to at least a basic toilet. These data exclude informal settlements, which are addressed separately through comprehensive settlement upgrading initiatives led by national and provincial housing departments. Consequently, coverage figures exclude at least 10 percent of the total population.

Continued success in extending water services – or even maintaining their current level – is by no means guaranteed. The water sector still faces significant challenges in providing services in the remaining more challenging areas (deep rural areas and sanitation in informal settlements) and how to manage these services to ensure adequate maintenance, timely replacement and financial viability over the long term.

GROWTH STRESS

Challenges to our future water security exist in both the quantity and quality of supply. Departmental projections indicate that, if demand continues to grow at the current rate, by 2025 the existing capacity to supply our major urban and economic hubs will be exceeded, leading to interruptions of supply.

The principal factors that contribute to the growth in demand for water are:

- population growth and urbanisation
- progress in extending and improving access to water and sanitation
- economic growth, e.g. new industrial developments, agriculture and energy requirements.

These same factors also increase stress on water quality, both as an environmental resource and the supply to users. The technical capacity and skilled staff available to many municipal water services authorities has actually declined. In too many cases, this has led to a loss of capacity to properly manage critical functions, resulting in negative impacts on both human health and water resources.

Liane Greef

Curbing the theft of water by farmers will be part of a suite of actions that will be pursued in the interests of water equity and fairness.

The increasingly severe effects of climate change further exacerbate the situation – even if global mitigation measures are undertaken on a significantly greater scale than current international climate change commitments provide for. Projections suggest that much of the country is becoming drier (particularly in the west), droughts will be longer and more intense, and flooding more common. This will place increasing stress on existing and future water infrastructure.

Lastly, the location of South Africa's economic and settlement activity bears little relationship to the availability of water resources. Johannesburg, for instance, is one of the very few cities in the world not located close to a major river or lake; its water needs can only be met by means of large-scale inter-basin transfers.

WATER FOR GROWTH AND DEVELOPMENT

The DWA has developed a new strategic framework for the water sector: Water for Growth and Development (WfGD). Driven by the growing realisation that long-term water security is an area of risk, and following discussion in multiple forums, the first official version of the framework was released in April 2008. It is conceptually based on four core areas of water policy: social, economic, environmental and spatial developments.

The department and its stakeholders have since exhaustively reviewed the content of the framework to ensure that it does not merely replicate existing policies but can anchor water planning for at least the next thirty years.

THEMES

A number of important themes emerged during the process of developing the strategic framework.

Sustainability

Sustainability is at the heart of the strategy. The goal of ensuring adequate water supply to meet economic and social needs can only be achieved on the basis of sustainable resource use. For this reason, our planning approach needs long-term horizons. The determination of the "environmental reserve" for particular catchments – that part of the water resource reserved for the environment to maintain its integrity – is also central to sustainability.

Conservation

Ensuring adequate supply also entails managing demand through promoting greater efficiency: paying attention to incentives (such as pricing), making use of regulatory instruments (such as plumbing standards), and reducing wastage (such as repairing leaks).

Diversification

As water scarcity increases, we will need a more diverse set of solutions, including demand reduction, watershed management, developing new water resources (both surface and ground), making greater use of recycled water and using desalinated water for the coastal cities.

Social equity

Reducing inequities in access to water and sanitation services remains a core priority. A disproportionate backlog is found in poor rural communities, particularly in the former homelands, and in informal settlements. Consideration will be given to raising the free basic allocation of water from 25 to 50 litres per person per day. This is particularly important for the water and sanitation requirements of home-based care for persons with HIV. In the agricultural sector, the Water Allocation Reform programme has an important role in promoting access to water for historically marginalised black farmers and rural communities.

The cost of water as a component of Eskom's primary energy costs has effectively increased by over 26 percent in the last three years and is projected to treble by 2015.

Reconciliation of future demand

The department is in the process of developing reconciliation strategies for the 29 key growth points identified in the National Spatial Development Perspective, with scenarios for future demand and ways to both manage that demand and augment supply.

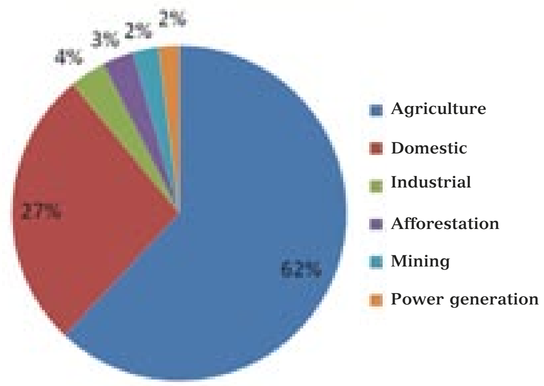
Water mainstreaming

Because of water scarcity, it is imperative that water considerations are central to all economic and development planning decisions.

SECTORAL WATER USE

The following graph illustrates the main water user sectors and their usage. Key issues affecting each of these sectors will be addressed in the strategic framework.

Proportion of allocation of water to water user sector



Agriculture

- While agriculture accounts for only 3 percent of South Africa's GDP, the sector provides about one million jobs and has significant linkages. The food processing industry contributes about 14 percent of GDP and agricultural exports are an important source of foreign currency. (When we export an irrigated crop, we are also effectively exporting the water associated with its production, and vice versa when we import food.)
- The National Water Act (1998) transformed the basis of water rights, asserting national government custodianship on behalf of all South Africans and establishing a licensing system to govern the use of this public resource. While the extent of illegal use of water by the agricultural sector is still being established, curbing the theft of water by farmers will be part of a suite of actions to be pursued in the interests of water equity and fairness. We can expect an augmentation of the department's monitoring and compliance capacity.
- In some areas under irrigation, such as the Berg River and Loskop irrigation schemes, water quality has deteriorated to the point where agricultural produce no longer meets the export standards of the European Union.
- Because much of South Africa's farmland is only marginally arable, extensive use of fertilizers in large-scale commercial agriculture has resulted in phosphate enrichment of rivers and dams, exacerbated by global warming's higher temperatures, in turn heightening the risk of toxic levels of blue-green algae in dams.
- Among many other factors, the collapse of small-scale irrigation schemes in the former homelands, due to design and/or management failures, has hampered efforts to promote black agriculture. Programmes to revitalise these need to be critically examined.

Municipal water use

- Demand management and cost recovery have an important role to play in the municipal sector where consumption is projected to increase from 27 percent of the national water allocation to between 30 and 35 percent by 2025, driven by population and economic activity growth.
- Providing water services in remote, sparsely populated rural areas will require appropriate partnerships, innovation and a mixture of strategies, including rainwater and groundwater.
- As the primary provider to both the domestic sector and the industrial and commercial sectors, municipalities are second only to the agricultural sector in terms of water use. Municipalities act as licensed water service providers, and as new connections and flush toilets are installed, particularly in urban areas, they represent the fastest-growing water sector. In most cases, municipalities are also licensed to manage wastewater, including sewage.
- Establishing effective support and/or intervention mechanisms so that all municipalities fulfil their water service obligations and appropriately manage water assets is a key strategic imperative of WfGD.

Industry and mining

- Currently, few municipalities have the capacity to distinguish between commercial and industrial use of water, and there is a dearth of accurate statistics for water consumption and waste discharge for particular sectors (although the effects are observed regularly at a local level in terms of fish die-offs and other symptoms of pollution).
- The situation is somewhat better in the mining sector, with a growing awareness of the need for water conservation measures and a willingness to take collective responsibility for the increasingly severe problem of acid mine drainage.
- Initial pilot studies on contaminated water treatment are encouraging and suggest that treating contaminated mine water may be a bankable proposition. It is imperative that the government co-operate with the mining houses to implement this solution.

Forestry

- Forestry uses about 1.2 million kilolitres per annum. The total area under plantation is about 1 260 000 hectares, decreasing at a rate of 10 000ha per annum due to withdrawals from riparian (near rivers) and wetland areas in fulfilment of license and certification conditions and conversion to other uses. Rehabilitation of alien hardwood plantations such as eucalyptus and wattle is difficult and costly.
- Indigenous forests cover approximately 500 000 hectares. These need to be conserved for their significant local water regulation and economic and biodiversity benefits.

- Forest water use is managed through control of species selection and rotation length, staggering rotations (mixed tree ages), excluding river and wetland zones, and weed control.
- The paper and pulp processing sub-sectors have an important impact on water quality through effluent discharge from mills, timber treating plants (e.g. creosote, tannin) and large sawdust volumes.

Export of timber products to developed countries with much better water endowments does not make economic sense.

Liane Greef

- The forest, pulp, paper and timber (FPPT) sector can play an important role in contributing to rural economic development and poverty alleviation through both production and processing activities. In KwaZulu-Natal and Mpumalanga it contributed 6.5 percent and 3.1 percent of GDP respectively in 2007. An increase in the small area under forestry in the Eastern Cape could make an important contribution.
- Although currently a net exporter of timber products, it is expected that South Africa's domestic demand will soon exceed domestic supply. Export of timber products to developed countries with much better water endowments does not make economic sense, and market interventions need to be considered.
- The Forestry Charter commits the government to ease the licensing burden and to increase the growing area by 100 000ha over the next 10 years. A strong argument can be made for reviewing this decision in terms of potential competition between forestry and dry land agriculture.
- The sector faces considerable climate-change related risks, including shifts in growing regions and increasing threats from pests, diseases and fire hazard.

Energy

- Eskom has instituted a "zero waste" water policy at all new power plants, which means that new plants will not discharge effluent. Decisions about future power generation (nuclear, coal, gas and hydro) will have significant implications for water resources management, increasing the imperative for integrated planning between these sectors.
- Eskom is committed to increasing the contribution of renewable sources to the energy mix as part of the country's climate change strategy and to promote long-term energy independence.
- The cost of water as a component of Eskom's primary energy costs has effectively increased by over 26 percent in the last three years and is projected to treble by 2015, which will have an upward pressure on the cost of electricity.
- Demand management needs to form an important part of energy planning. End-user applications of solar technology, particularly solar geysers, have the potential to reduce demand and to create green jobs.
- Sasol is committed to water-use efficiency.

CROSS-CUTTING CHALLENGES

Monitoring and compliance

As the primary regulatory authority, the responsibilities of the DWA in this respect are enormous. Immediate priority areas include municipal water quality that complies with health and safety standards, ending illegal abstraction of water, and addressing the growing problem of water pollution due to illegal and unregulated discharge of wastewater effluent from a range of sources. This will need to entail proper resourcing of the monitoring and compliance function within DWA. In the longer term, the possibility of establishing and delegating an independent regulator needs to be considered.

As water scarcity increases, we will need to make use of a more diverse set of solutions.

Water accounting

Accurate accounting of the water balance is crucial, and the challenge here is two-fold. First, international standards for water accounting are still evolving, so the task of determining data requirements presents a range of conceptual challenges. Second, the ability of the department to source the raw data for accurate and detailed water accounting is seriously compromised by a lack of capacity in the most basic reporting at municipal level.

Climate change

Although a specific paper on climate change was commissioned to inform the drafting of the framework, it is nevertheless notable that the issue recurred in practically every paper. This serves to underline the importance with which climate change is viewed for planning in all sectors, and encourages mainstreaming the issue. It is hoped that the Water for Growth and Development strategic framework will succeed in encouraging a similar mainstreaming of water in planning processes.

NEXT STEPS

We have finally reached the point where we are able to draft a strategic framework that is informed by the true role and value of water in each sector. When it is finalised, the department will embark on a series of bilateral discussions and negotiations with water sector role-players.

While the DWA will have to address its own capacity constraints, compacts with major water users will establish mechanisms to address both their water consumption and its impact on water resources. We are optimistic that the strategic framework can introduce a new level of coherence to integrated planning for the water sector through its orientation towards the role of water in growth and development. We are truly appreciative of the efforts of our stakeholders, who have supported the department through this exhaustive process.

How to construct a 21st-century developmental state in Africa

By **Omano Edigheji**

The author is research director at the Policy Analysis Unit/Centre for Africa's Social Progress of the Human Sciences Research Council. This article is based on a presentation to "Developmental States in Africa: What prospects and whose interests?", a conference organised by the Friedrich Ebert Stiftung, German Development Institute and Initiative Southern Africa, 28–29 April 2009, in Bonn

This article focuses on "how to construct a developmental state in Africa" rather than "what to make of developmental states in Africa". There are a couple of reasons for this. First, a focus on the latter would assume that there is one "ideal type" of developmental state that is applicable everywhere without any variation. But a closer look at developmental states elsewhere – in Asia, Latin America and Scandinavia (and more recently in Ireland) – shows a considerable degree of variation, even among the Asian developmental states. Second, it might presuppose that there is something in the African context that makes developmental states here "impossible".

I have summarised this "impossibility thesis" elsewhere (Edigheji, forthcoming). Scepticism about African countries' ability to construct developmental states comes from premises that African governments are too corrupt and predatory, characterised by rent-seeking and not rule-bound; that the continent lacks an indigenous entrepreneurial class, which is crucial to the success of a developmental state, and that cultural factors militate against its formation.

Mkandawire (2001) lists other factors used by the proponents of the impossibility thesis, including:
- dependence
- lack of development ideology
- the "softness" of the African state and its proneness to "capture" by special interest groups
- lack of technical and analytical capacity
- the changed international environment that does not permit protection in industrial policy
- poor performance record of developmental states.

The poverty of this way of thinking (the impossibility thesis) is that it casts the characteristics of developmental states in binary terms of presence or absence. In this logic, Asian developmental states would be said to be corruption-free, in contrast to African states that are said to be corruption-ridden. The argument will thus go that, because of corruption, it will be impossible to have developmental states in Africa.

In every historical epoch, developmental states have been constructed to respond to specific contextual developmental challenges.

A more useful analysis would think of developmental states in terms of variations, and their institutional characteristics in terms of degree. Proceeding along this line, we can begin to disaggregate developmental states, even by regime types, such as the authoritarian developmental states of Asia and the Nordic democratic developmental states. Looking at institutional characteristics (the independent variables) in terms of degree, rather than simple presence or absence, shows that developmental states have emerged in many contexts and thus every state has some attributes of a developmental state. However, developmental states have higher degrees of developmentalist institutions. As an example, Korea and Singapore have higher degrees of autonomy compared to Kenya and Nigeria (see Edigheji, 2007). It is these higher degrees of developmental state institutions that set them apart from non-developmental states.

Positions in the bureaucracy have to be based on merit, rather than patronage and ethnic or religious considerations.

A number of authoritative scholars such as Peter Evans (forthcoming) and Ha-Joon Chang (forthcoming) are reminding us that there is no one formula for constructing a developmental state. In Japan, while the ministry of international trade and industry (MITI) and finance dominated the policy process, in Korea the Economic Planning Board (EPB) dominated economic policy-making, including the development of the national budget. Similarly, the route to meritocracy was quite different in Korea and Singapore. In one, it was through entrance examinations. In the other, most of the top bureaucrats attended the same universities. In Malaysia, merit was conditioned by affirmative action. Whatever route these countries embarked on to construct their developmental states, the states were still able to act as coherent collective entities.

It is, however, important to note that developmental states are set apart by their high levels of institutional arrangements that give them greater capacity to intervene to achieve their socio-economic objectives. With this logic, what is important is not to lament the low degree of developmental state institutions in Africa, but rather to focus on how to enhance and strengthen existing developmentalist institutions and build new ones where necessary.

The point needs to be made that in every historical epoch developmental states have been constructed to respond to specific contextual developmental challenges. In doing so, they have drawn important lessons from other experiences, adapting these to address their contexts. Most developmental states, especially in Asia, are highly interventionist and protectionist, have strong state capacity (due to internal institutional configurations, including structures for economy-wide co-ordination and planning and collaboration with interest groups, especially between the state and business) and political leaders who are highly nationalistic and patriotic – exemplified by a commitment to developmentalism. Consequently, they
- have the political will to drive through their developmental agenda
- are highly innovative
- put measures in place to address the plight of the poor and high investment to enhance human capabilities
- create conditions for high economic growth rates. This has included high investment in research and development, and transformation of the structural

basis of their economies from primary sector to high value-added economic activities, as well as production for export, while at the same time stimulating domestic demand
- have a considerable degree of national autonomy in policy-making
- have given greater premium to social policy (e.g. human capabilities enhancement initiatives like health, education, social welfare and land reform, which particularly contributed to the successes of the Asian developmental states).

These are some of the factors that accounted for national prosperity in most of the developmental states in Asia. These states witnessed rapid industrialisation, premised on an active industrial policy, accompanied by a rise in living standards among their population. It is imperative that Africa learns these lessons if it is to overcome developmental challenges by constructing states that are democratic, developmental and innovative. In so doing, it has to avoid the pitfalls of the Asian developmental states.

DEVELOPMENTAL STATES IN AFRICA

In effect, we argue for a democratic and socially inclusive developmental state in Africa. The developmental state should enhance the well-being of most African people, while premised on the understanding that Africa will not be able to address its various developmental challenges through reliance on market solutions. This calls for a state that has the capacity to intervene in the economy to enhance its productive base and shift its base from the primary sector to high value-added manufacturing and service sectors as a sure guarantee to become globally competitive and reduce poverty, inequality and unemployment.

Developmental states require institutional innovation and an overall developmental framework where social and economic policies act in a complementary manner. All developmental states have competent bureaucracies as a necessary condition for state capacity. To build developmental states in Africa, the following issues require consideration.

We take as a point of departure that trade policy and promotion in Africa needs to be pursued in the context of an **overarching development framework** that takes the revival and expansion of production as a starting point and *inextricably* links industrial, trade and social policies. This is in contrast to the current situation where development policies are either narrowly conceived as anti-poverty reduction, as in the Poverty Reduction Strategy Papers championed by the World Bank, or as being promoted by the European Union through economic partnership agreements (EPAs).

The envisaged alternative requires that positions in the bureaucracy in Africa have to be based on merit, rather than patronage and ethnic or religious considerations. **Classical Weberian merit-based recruitment and rewarding long-term public service careers are required in Africa's developmental states.** The logic of developmental states requires that bureaucrats have long-term predictable career paths. Aspects of the "new public management", the ideological underpinning of public sector reforms in Africa, go against this. The donor community has a role to play to reverse the negative trend of public sector reforms in the continent.

Compensation in the public service has to be commensurate with private sector jobs of comparable skills, training and qualification. Along with other measures, this will reduce the corruption and moonlighting that are common in public service in the continent today.

Planning capacity should be revived through the establishment of ministries of planning or planning commissions that will ensure co-ordination and alignment of government policies and programmes.

A clear division of labour between elected officials and bureaucrats will be required. While the former should set out the broad developmental agenda, the latter have to design the policy tools to achieve the objectives set by the political class. **A highly nationalistic and patriotic political leadership** can define an agenda that meets the needs of the African people, put national interests above personal interests and not mortgage Africa to foreign – European, Chinese and American – interests.

A developmental state in Africa would require **an inclusive political process** to gather together the views of major interest groups in society. This calls for a democratic arrangement that enables the people of Africa to freely choose their leaders and for their choice to be respected. In effect, the developmental state in Africa has to be predicated on democratic governance. There is no contradiction between the developmental states and democracy, as the examples of the Nordic and Irish democratic developmental states have shown. In effect, the sustainability of developmental states in Africa will be largely dependent on democracy.

But the democratic component of a developmental state is not limited to procedural democracy. It also includes **democratic deliberative institutions** that will enable people's organisations, including social movements

A clear division of labour between elected officials and bureaucrats will be required.

A developmental state in Africa would require an inclusive political process to gather together the views of major interest groups in society.

and civil society, to take part in the development and governance processes. Deliberative mechanisms and processes need to be institutionalised, either through an act of parliament that makes it mandatory for the state to consult with non-state actors, or through ensuring that there is an informal institutionalised process of consultation.

One reason for democratic deliberative mechanisms is that technocratic processes are inadequate to decide which capabilities and technologies are required for the continent to expand its productive base and enhance the capabilities of the African people. Importantly, governments' responsiveness to people's needs and aspirations will be dependent on them driving the development agenda.

An inclusive political process also has the advantage of engendering accountability and transparency in governance. However, accountability also requires that African parliaments be empowered to play their oversight role and to ensure that appropriate resources are located.

Finally, the democratic developmental state is dedicated to the **expansion of human capabilities** of the African people. Investment in skills, education and healthcare are some of the mechanisms for this, which is also an important means to enhance the productive base of African economies. In our envisioned developmental state, there is a symbiotic relationship between the expansion of capabilities and increased production. Not only will a focus on expanding capabilities enable the majority of African people to have universal access to basic services – education and healthcare – but this also becomes an important means of employment.

In conclusion, there is nothing genetic that makes it impossible for Africa to build developmental states. Understanding how such states could be constructed in the continent is a necessary condition for development.

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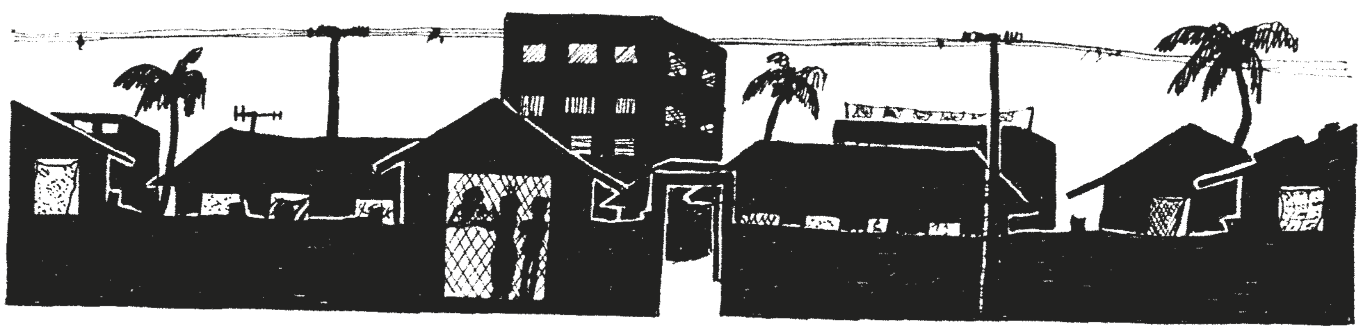

Crisis in UK parliament

Excerpts from the *Daily Telegraph* editorial "British voters want an election, and they should get one", 23 May 2009, addressing the scandal over parliamentarians' expenses

We never imagined... how widespread the abuse would be or the extent to which MPs, whom we expected to behave with integrity and honour, had conspired to exploit to their own advantage a system that they established and for which we pay. Nor did we anticipate that, on being unmasked, so many would seek to deny that they had broken the rules or cover up what they had done...

The revelations have prompted a wider debate about the future of our politics that is both welcome and long overdue. Ideas for reviving parliament, making it more able to hold the executive to account, are now being discussed. So, too, are proposals for reinvigorating participatory democracy and reconnecting politicians with voters. Many who had become disillusioned with politics because they felt they were unable to make an impact and that nobody was listening to them have seized the opportunity to get involved once more...

The public is appalled by what we are uncovering. The frankly risible attempts by some MPs to claim that this was a system devised to enhance an annual salary that was rendered insufficient because nobody at Westminster had the courage to increase basic pay, simply will not wash...

When did [the additional costs allowance] become a means for MPs to buy a second home and equip and decorate their primary residence? Some MPs have been suggesting that this was an arrangement that everyone at Westminster and in the media knew about. That is debatable – many seasoned political commentators have been as astonished as everyone else. But the one group that patently was unaware of this self-serving collusion among MPs was the voters...

MPs are supposed to be at Westminster as our representatives, and to constrain the executive. They should not be careerist politicians engaged in make-work activity.

How China's communist party controls the market economy

By **Richard Mcgregor**

This article was first published in the *Financial Times*, 9 July 2009

A prominent Chinese economist surveying business outside Beijing last month was taken aback when a provincial governor confided in him his greatest political achievement for the year. It wasn't anything that he had expected. The governor didn't cite cleaner drinking water, a drop in the crime rate, or even the conventional benchmark for local leaders in China – speedier economic growth.

According to the economist who told me the story this week, the governor's chest swelled on the news that bank lending in his province had outpaced the national average. After local banks lent more money in the first quarter of this year than for the whole of 2008, the governor has clearly been presiding over an expansion of financing at warp speed.

For the rest of the world, the way that Chinese banks have sent money flying out the door has provided a reminder not just about the enduring clout of the state, which formally owns the banks. China's ability to reflate its economy says much more about the Chinese Communist Party and the power it holds in reserve to handle crises such as the global economic slump.

When the Politburo sat down to formulate a response to the financial crisis last December, it decided on a gigantic stimulus, to be delivered through the banking system.

China's central bank and bank regulator bit their tongues. Having spent the best part of a decade and billions of dollars rebuilding the financial system to make it a commercial rather than a political tool, they had deep misgivings about the Politburo's plan.

The way the Chinese political system is constructed, however, the state banks, which account for about two thirds of lending, had no choice but to comply. The heads of large state banks are appointed directly by the Communist Party's personnel department and rank as vice-governors in the broader government system.

Four of the five chiefs of the big banks sit on the central committee, the Soviet-inspired body with about 370 members that acts like an enlarged board of directors for the party. In short, if the Politburo issues an order, it doesn't really matter what the Chinese banks' foreign shareholders think. The bank chiefs are required by party discipline – the highest law of the land – to obey.

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Not only that – and herein lies part of the beauty of the Chinese system – the heads of the banks compete to obey their political masters, in this case by lending out as much money as they can as quickly as possible.

Like provincial governors, the bankers are as much politicians as businessmen. As such, fulfilling the Politburo's orders is a task on which their future promotions will be judged.

At moments like this, the financial tsars in the US and Europe might look on China with envy. In the wake of the financial crisis, Western governments now own or have big stakes in many once-private financial institutions. Unlike the Chinese, however, they don't control them.

China's stimulus has an obvious economic dimension, already evident in accelerating growth. In June, Chinese steel production was the highest on record, about equal to the combined production of the next seven largest producing countries.

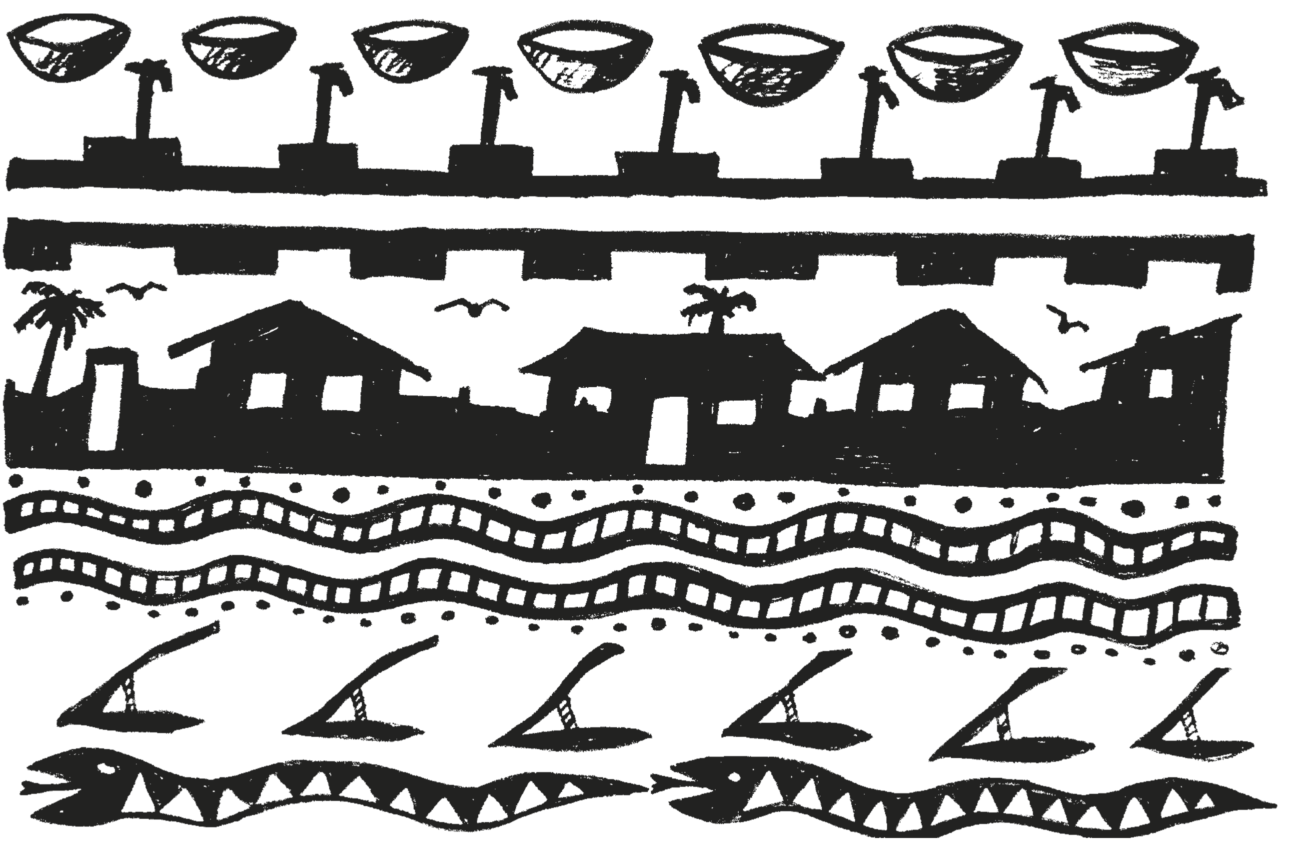
The political dimension of the stimulus has been largely overlooked by comparison. For years the party media in China has railed against the West, the chaos of democracy, the instability of raw capitalism and the greed of private business. As the West flourished, the party propaganda seemed to be chasing shadows. But the collapse of Western finance, and the manifest policy failures which caused it, have given the party the ammunition to promote the "superiority of the socialist system" they once lacked.

China's stimulus will have to be paid for down the track. The banks may need another rescue. Local governments, like the one presided over by the aforementioned governor, will have to be bailed out. An economy already saddled with overcapacity will have to deal with even more.

The stimulus represents the last big gasp of the old economic model, in which growth is secured by massive investment led by large, state-owned heavy industries.

The party's malfunctions across the policy spectrum are too numerous to detail here. The blood on the streets of Xinjiang displays one of the worst – the abject failure of half a century of attempting to bring large ethnic minorities there, as in Tibet, to heel. But when it comes to turning the economy's money tap on and off, the party maintains unparalleled power.

The Communist Party is now readying lavish celebrations for its 60th anniversary in power in October. Another decade or so will see it surpass the communists of the Soviet Union as the longest-running communist party-in-power. On the evidence of this year, no one should be counting the Chinese Communist Party out.



Reshaping economic geography

By **Ivan Turok**

The author, director of research at the University of Glasgow's department of urban studies, is currently a visiting professor at the African Centre for Cities, University of Cape Town

The World Bank's 2009 *World Development Report* (WDR) is a thought-provoking report for present-day South Africa. It offers a detailed analysis of the relationship between economic change and geography, drawing on rich historical and contemporary evidence from around the world. It is written in an accessible and bold style, and provides a useful analytical framework for diagnosing the economic challenges of "space" and "place" in particular countries and regions.

The key dimensions of economic geography are "the three Ds": density, distance and division. Density refers to the concentration of activity and population in particular cities and towns, and is the opposite of dispersed (rural) development. Distance refers to the distance between economic centres – both within particular countries and to markets further afield. Division refers to the obstacles to trade, migration, capital and information flows between countries, typified by complicated cross-border controls.

The main policy message of the WDR amounts to a call for a national spatial strategy to guide investment in infrastructure and services in the interests of efficiency and productivity. Density should be encouraged, but distance and division should be reduced. The report also calls for spatial strategies agreed between neighbouring countries, covering transport infrastructure and cross-border agreements to promote economic integration and access to markets. This is particularly important in southern Africa, given the legacy of colonial fragmentation, artificial national boundaries and landlocked countries.

The report also encourages governments to recognise the distinctive economic potential of cities and not to try to spread development to remote rural areas. It argues that growth will be imbalanced, but it can still be inclusive if rural areas and lagging regions have improved access to the jobs and wealth created in cities. The WDR is novel in recognising the importance of land as a neglected resource for cities and regions to use more productively in the interests of more compact, integrated and efficient settlements.

These messages are clearly relevant to current debates in South Africa. The emphasis on cities tends to contradict the government's rural development policy. And the emphasis on the densification of urban land is a timely reminder of the lack of progress over the last fifteen years in tackling the fragmented apartheid city with its peripheral townships.

These are positive features of the report. There are also two important weaknesses. One relates to the WDR's analysis and the other to its policy messages.

First, the very neatness of the framework and structure of the report could be seen to suggest that there is a universal recipe or formula for promoting economic development in any particular country. The clever packaging could seduce policy makers who are looking for easy solutions to complex problems with multiple dimensions that cannot be reduced to the three Ds of economic geography.

Underlying the framework is a causal model which holds that urbanisation stimulates or accelerates industrialisation which creates wealth and reduces poverty. This is too simple and is certainly not automatic or inevitable. It depends on a range of other conditions (such as skills, investment and supporting institutions), which exist in some local and national circumstances but not in others. Thus, there are many prosperous cities around the world that aren't growing, just as there are many fast-growing cities that aren't prosperous, as is all too common across Africa.

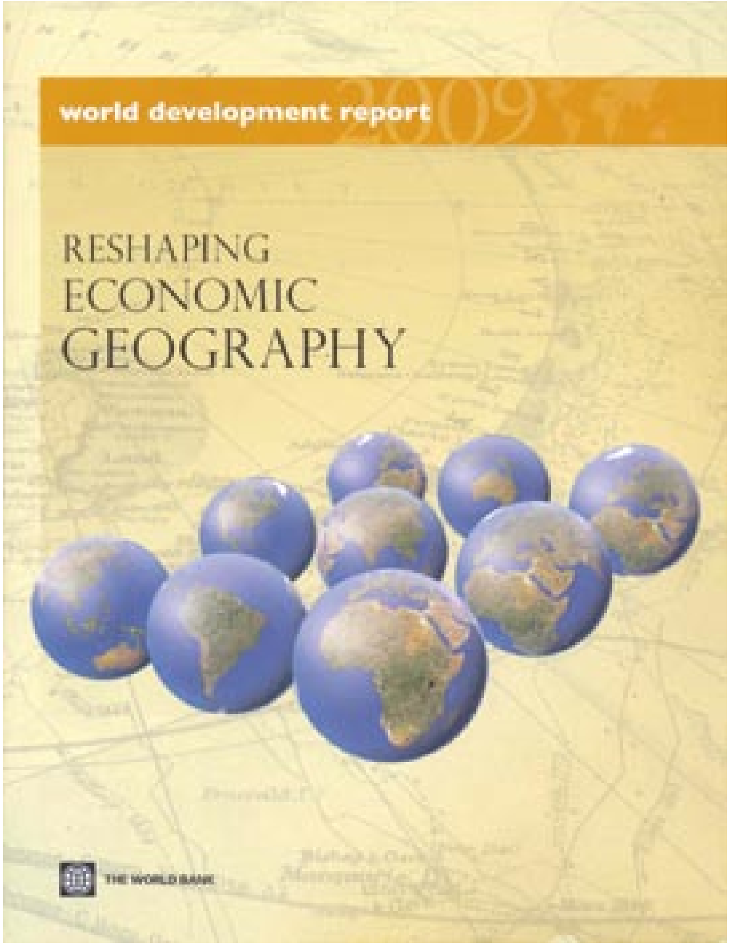
The key dimensions of economic geography are "the three Ds": density, distance and division.

If and when this causal relationship between urbanisation and economic growth does operate, it may take a very long time to make significant inroads into poverty and unemployment, probably as much as several generations! It is unreasonable for citizens facing severe hardship to be so patient for tangible improvements to their living standards. The WDR says surprisingly little about timescales.

In addition, in advocating economic integration between different territories as a means of promoting inclusive growth, it ignores the fact that, if these places have very unequal economic capabilities, the outcome may be wider rather than narrower inequalities between regions and nations. Places that are relatively well endowed are likely to pull further ahead by drawing skills, investment and other resources from poorer areas.

Second, in terms of policy, the report takes a rather too restricted view of the appropriate role for governments, where there has been quite a big shift in thinking recently, prompted by the global slump. For example, the report is too negative about the possibility of spatial development policy in lagging areas. This is not just about spatial incentives to bribe firms to invest where they would not otherwise go. There are many examples around the world of infrastructure investment projects that have generated greater added value and all-round development because they were embedded in wider economic programmes, including skills training and support for the start-up and growth of small and medium enterprises.

Perhaps the WDR's biggest omission is its complete silence on the need for strong city-level institutions (metropolitan governments) to provide the leadership and strategic capacity to guide social and economic development, to take a long-term view of problems and potential, and to steer, shape and stimulate the market if and when necessary. Cities are highly complex systems and national governments are too remote to plan and manage their development and to cope with the crises that inevitably arise. They need responsive and accountable citywide institutions with the local knowledge and relationships with communities to make a lasting difference to conditions.



Finally, the report may too pessimistic about the economic prospects of rural areas. African governments certainly need to be more positive about cities, but they can't afford to neglect their rural hinterlands. Researchers and policy makers need to think harder about the interactions and interdependencies between urban and rural areas and not see either in isolation. Urban and rural is probably a false dichotomy in many respects, as these areas can and do perform many complementary roles.

Giovanni Arrighi

Giovanni Arrighi, one of the world's most distinguished progressive economists, passed away on 18 June 2009 in the United States. Born in Italy, he spent many years teaching in Africa and was part of a group of international scholars who set Dar es Salaam University alight in the late 1960s. It was the heyday of *Ujamaa*, when President Julius Nyerere sought to revolutionise Tanzania with his vision of African socialism. In the process, this tiny university became the centre of gravity for scholars like Arrighi, Walter Rodney, John Saul, Dan Nabudere, Issa Shivji, Samir Amin, Lionel Cliffe and many others.

The campus became a lively debating chamber as staff and students explored theories of imperialism, colonialism, Marxism, Maoism and numerous other areas of political economy. Notice boards were littered with information about seminars and lectures, and the students were inspired to read widely and deeply.

I was working in government, but was deeply involved in these activities and spent many an interesting evening with these friends in an intellectual feast of the left. Of course there were many heated arguments and various theoretical strands, often at loggerheads, but it was a period of prolific writing as well, and some of these scholars produced their best work then. I have never known university life to be as exciting as at Dar es Salaam.

But, inevitably, a reaction set in. Nyerere became a bit anxious about the heady atmosphere at the university; as students became too enthusiastic about the revolutionary ideas, they were obliged to calm down. In 1969, Arrighi returned to Italy. In 1971, he and others formed the Gruppo Gramsci and produced a large leftist newspaper extolling the ideas of Antonio Gramsci, but highly critical of the Italian Communist Party.

In 1979, Arrighi joined world systems theorist Immanuel Wallerstein at SUNY Binghamton, where he used his economics expertise to develop further theoretical work on the global political economy. During this period, Arrighi delivered lectures in many countries. He was particularly fascinated by China and wrote many articles about the transition there.

He retained his interest in Africa, and I was privileged to host him and his wife Beverly Silver over several days in Cape Town in what turned out to be a relentless seminar on political and economic developments in South Africa. He was concerned about some issues, but remained wholly supportive of the ANC. In 2007, he published a monumental work, *Adam Smith in Beijing: Lineages of the Twenty-First Century*, which will surely stand as a classic. Giovanni will be sorely missed by his many friends around the world.

Ben Turok

Haroub Othman

A friend and a comrade

In his book *Intellectuals at the Hill* (1993), Issa Shivji described Haroub as "a long-time academic activist and sometime chairman of UDASA – University of Dar es Salaam Academic Staff Association". There can be no better summary of the essence of the political and intellectual contribution of Haroub to us than in these words. Haroub used the pen and his brain to engage people to analyse, explain and understand problems which faced humankind so as to solve them. That was the meaning of his academic activism.

Among many other publications, he edited *Babu: I Saw the Future and It Works* (2001), a tribute to the memory of his close comrade Abdulrahman Mohamed Babu. Like Babu, Haroub believed in making definite and clear statements about the solution to social, economic and political problems. His research skills as a historian and his intellectual depth in political economy came in handy. Babu was very concise and precise when talking about Zanzibar and the future, believing that the capacity of Zanzibar to bounce back as an economic dynamo is almost unlimited, provided a serious strategy for economic revival was consciously worked out now, without further delay.

Haroub very often echoed these words, but apparently little seems to be happening during this first decade of the 21st century. Why the delay when the reality that urgent change is needed to uplift the life chances of our people is staring us in the face?

– **Peter Anyang' Nyong'o**, Kenya's minister of medical services. This is taken from his tribute in *Pambazuka News*, 2 July 2009

TANZANIAN CHAMPION OF SOCIAL JUSTICE

On Sunday 28 June 2009, one of the most admired academics and members of Tanzanian civil society, Professor Haroub Miraji Othman, passed on in sleep in his hometown of Zanzibar. Professor Haroub was not ill. He was fit and okay. On Saturday night, he had actively participated in the launching of a book. The news of his passing was received with total disbelief.

For me, Professor Othman was a friend, a brother, a comrade, a teacher, an academic supervisor, a mentor and more. Although it pains to write about him, I am deeply grateful that our paths crossed 32 years ago, when I joined the University of Dar es Salaam as an undergraduate student. Since then, we shared so much in common: from human rights and politics to football. I remember us rushing after a dinner at the residence of the Danish ambassador to watch at least the remaining half of a Champions League game!

Professor Othman was a highly respected academic and scholar. He was the first person to receive a doctorate degree from the Faculty of Law of the University of Dar es Salaam. He taught and supervised many students who now hold high offices in governments all over the world, including the United Republic of Tanzania and the revolutionary government of Zanzibar. Others are professors, judges, permanent secretaries and ministers. And one is a prime minister.

Unlike most senior academics who have no time for students, Professor Othman trusted his students, showed them the way forward and gave them the opportunity to excel. I was one the many beneficiaries of Professor Othman's kind heart. When I published my very first book, I dedicated it to him. Modest as he was, he laughed and said he did not think that he deserved such an honour. I think he deserved more.

Professor Othman has also published widely in politics, law, philosophy, etc. I was honoured to have edited two books with him, as joining him on any assignment brought a lot of joy. He was very hard working and highly resourceful, with a keen interest in details. He did various assignments for the government, the African Union, the United Nations and was sought after for various consultancies: the type of person from whom no one bothered to ask for a CV.

In 1992, Professor Othman, together with other two Zanzibari lawyers – Hon. Fatma Maghimbi and Mr Hassan Said Mzee – decided to establish the non-governmental and non-profit Zanzibar Legal Services Centre (ZLSC). This was the first facility of its type in the isles. Due to the paucity of lawyers in Zanzibar, people had to travel all the way to the mainland for the services of lawyers. This was a luxury that the majority of Zanzibaris could not afford. The aim of the centre was to assist these people. Over the years, it has become a major player in the promotion of legal education and the protection and popularisation of human rights in Zanzibar.

When the first multiparty elections were held in Zanzibar in 1995, the ZLSC established a group called Zanzibar Elections Monitoring and Observer Group (ZEMOG). Professor Othman was the chair and I was his assistant. We stayed in Zanzibar for a period of four months, from the registration of voters to the announcement of the electoral results by the Zanzibar Electoral Commission. The work of ZEMOG established Professor Othman as an institution in Zanzibar. He showed that one could be independent of party politics and be fair to all.

From his secondary school days and throughout his life, Professor Othman was a strong believer in socialism. He was thus attracted to Mwalimu Julius Nyerere and his ideas and they were very close. Professor Othman was also close to those involved in liberation struggles in southern Africa and beyond.

He was African first, then Tanzanian and lastly Zanzibari. Given his level of education, experience and connections, Professor Othman could have worked anywhere in the world. It was his deep love for Tanzania and Zanzibar which kept him in Tanzania. He served the country in many capacities, over and above his work at the University of Dar es Salaam. He was director of the Mwalimu Nyerere Institute, chair of the board of the Tanzania News Agency, and also served on the respected Nyalali Commission of 1990.

In early 2000, Professor Othman came to my office at the university. He informed me that the United Nations secretary-general had appointed him as chief technical adviser to the Office for the Promotion of Good Governance in Liberia. He eventually spent almost two years in Liberia –an almost failed state with a high level of impunity and massive violation of human rights. He returned a very changed person. He was now listening more and saying less, advising rather than ordering anything to be done. He was more focused in his belief in the promotion and protection of human rights. He also became very religious and later went to the Hajj in Mecca.

Whenever someone passes on, it is customary to say that the gap left will be hard to fill. With Professor Othman, it is true that he is irreplaceable. Only two weeks have passed since his passing and we are already feeling the lacuna. We only wish it was a bad dream. There are questions which only he could answer. Advice which only he could give! He was a very busy person, with his plate fully packed, yet he always had time for all of us whenever we needed him.

I have no do doubt in my mind that the passing on of this great academic, civil society actor, human rights activist and patriot marks the end of an era. He will be highly missed – by his beloved wife, Saida Yahya-Othman, his brothers, sisters, son, grandchildren, relatives and friends – but also by Zanzibar, Tanzania, Africa and civil society around the globe.

– **Chris Maina Peter**, acting chair of the Zanzibar Legal Services Centre (ZLSC). This is a shortened version of his tribute in *Pambazuka News*, 16 July 2009

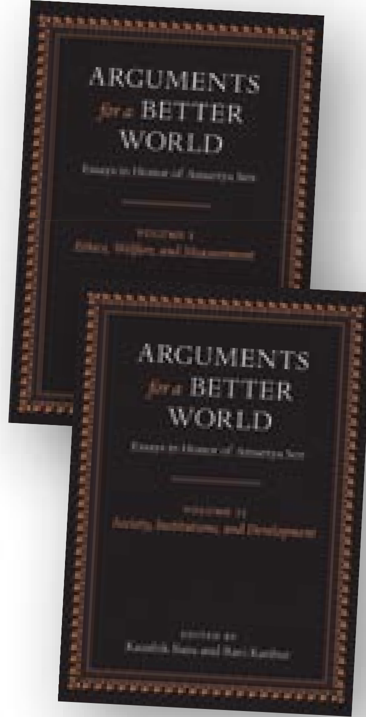
Reviews Editor: **Helen Douglas**

Arguments for a Better World: Essays in Honor of Amartya Sen

Vol. 1: Ethics, Welfare and Measurement
Vol. 2: Society, Institutions and Development

Kaushik Basu and Ravi Kanbur (Eds)
Oxford University Press:
Oxford, 2008. 602 + 630 pp

Reviewed by
Robert Schrire
(Political Studies, UCT)



More than eighty leading economists, including fellow Nobel laureates Edmund Phelps, Joseph Stiglitz and Robert Solow, have contributed to these two massive volumes which attempt to evaluate Amartya Sen's major intellectual contributions. Sen received the Nobel Prize in economics in 1998. Had there been a prize in moral philosophy, he might well have been a recipient of that as well. His writings cover a wide range of disciplines, including history, philosophy, political science and religious studies, but it is as a development economist that he has been most influential, and it was for his related work in welfare economics that he received his Nobel Prize.

Volume One focuses on ethical and welfare issues. Economics is widely viewed as the most "scientific" of the social sciences and Nobel prizes have largely been awarded for technical and theoretical contributions to knowledge. But Sen has always been aware of the ethical dimensions of human behaviour, including economic behaviour. Economics is more than counting income flows and trade statistics. It is about human beings, their welfare, power structures and key elements of psychology. Although considerations of right and wrong should be central to the study of economic behaviour, the structure of the discipline – the rewards, incentives and career promotion paths – has largely favoured technical economics. As John Broome argues in this volume: "Economists do not like to take ethical positions".

Although Sen was a master of technical and mathematical economics, he went far beyond their confines by attempting to integrate the science of economics with the art of the human condition. Despite his cosmopolitan background and extensive sojourns in Cambridge, England and Cambridge, Massachusetts, he remained deeply concerned with the plight of his Indian homeland and poverty-stricken people in general. Ethics and normative concerns lay at the heart of this enterprise. As Sen explained in 2004: "There is something deeply attractive in the idea that every person anywhere in the world, irrespective of citizenship or territorial legislation, has some basic rights, which others should respect".

One of Sen's central insights was that economic development is not merely a matter of increasing individual income, but should be seen as progress towards individual freedom, and that freedom could not be reduced merely to the quantity of material possessions owned by an individual. Sen thus transcended many of the limitations of traditional utilitarianism and in turn raised many complex philosophical issues, including the nature of human wants and the contradictions, famously discussed by Arrow and others, of the difficulties of aggregating individual wants.

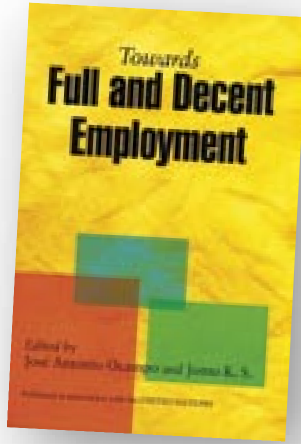
Volume Two is devoted to issues of development, the area where Sen has been most influential in the public discourse. The move away from a development framework where poverty is defined in terms of "income" towards one defined in terms of "freedom" represents an enormous conceptual advance, but is one which introduces serious measurement problems. Many economists have applied Sen's approach empirically with important results. Sen himself did important research on the Chinese and Indian economies. One of his important conclusions was that the central challenge for their development may be in the "art" of ensuring equitable distribution of access to healthcare.

For the general reader, the chapters in this volume are more accessible than the more theoretical contents of Volume One. Issues such as gender relations, regional development and democracy take centre stage, while economic and social development in India is explored in some detail.

In a brief review, it is not possible to do justice to either the depth of Sen's own thinking or the richness of the variations on the themes of his contributions. But the core of his philosophy can be summarised as an overriding concern with human freedom and dignity, and that the central objective of development is the realisation of human rights, including economic, social, cultural, civil and political rights.

In today's world, and especially in South Africa, the importance of these themes cannot be overemphasised.

Towards Full And Decent Employment



José Antonio Ocampo and
Jomo KS (Eds)
Orient Longman: Hyderabad;
Zed Books: London, 2008. 391pp

Reviewed by
Peter T Jacobs
(Economics, UWC & HSRC)

This absorbing collection documents changes in the working and living conditions of workers – skilled and unskilled, in developed and developing countries – over the last two decades.

The global labour force already exceeds 3 billion workers, roughly 50 percent of the world population. Although women comprise a swiftly expanding proportion of this global working population, gender-biased policies continue to discriminate against them. Gender equity in the labour market is therefore a major cross-cutting theme in this book.

How has the global economy evolved in this historical moment characterised by the hegemony of free-market fundamentalism? In what ways have structural shifts in the global political economy affected workers? What policy space exists within this context for a sustainable improvement in the conditions of working people? Finally, what would constitute the core policy ingredients for "full and decent employment"? These are pertinent yet intricate questions.

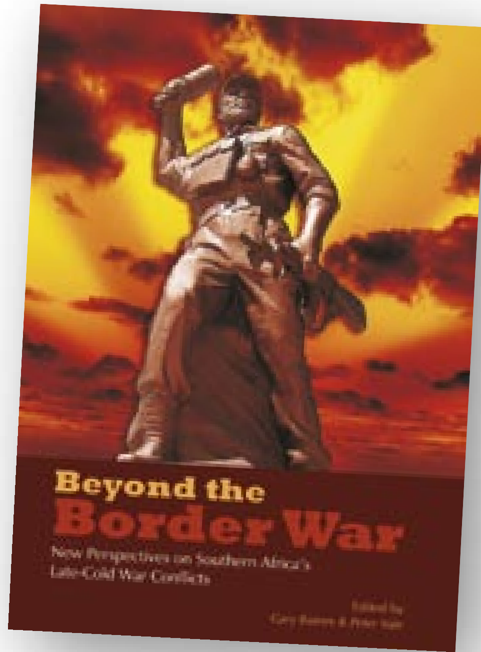
In developing countries, where accelerated growth has been based on high-tech exports and pockets of "modernisation", dynamically interconnected with processes of capitalist financial globalisation, its fruits rarely fall to the workers. One reason for this turns on the nature of a capital-intensive growth process. Rather than offering reduced hours of work to absorb more workers in productive and decent employment, it thrives on high unemployment. Another reason is embedded in the capital-labour relationship that has become the norm in virtually every economy. In line with this systemic arrangement, owners of capital profit from productivity growth much more than do wage earners.

Several authors spotlight the contradictory features of modern economic development. Across the third world, de-industrialisation is taking place alongside "de-agrarianisation". Unable to find permanent and decent jobs in shrinking manufacturing sectors, a reserve army of labour is circulating between urban and rural areas to survive. And as multinational agribusiness expands its grip in underdeveloped economies, it destroys the basis for sustainable small-scale farming. The other side of this astounding contradiction is the interpenetration of the formal and informal economies. It is even more alarming that the informal economy, where regulations for full and decent employment do not exist, is beginning to overshadow the formal economy. Self-employed workers and those in the informal economy face higher degrees of livelihood insecurity and vulnerability.

The book is deeply rooted in a rights-based or normative conceptual framework and draws heavily on United Nations and International Labour Organisation policy approaches, in which the minimum platform is to improve the livelihoods of the most vulnerable sections of workers. The essays carefully dissect macro-economic, micro-economic and social policies for their labour rights content and orientation. Neo-liberal macro-economic policies are fixed on monetary variables (exchange rates, interest rates, fiscal deficits, etc.), particularly inflation targeting, and central banks have become obsessed with price stability. The simplistic models (based on dubious assumptions) from which these policies derive assert that job creation and development will automatically materialise from chasing an inflation target. But, while employment targets have been deleted as a policy goal, price instability persists and countries regularly fail to achieve their inflation targets.

In contrast to this fashionable but one-sided monetary policy, these authors painstakingly argue for multifaceted and balanced monetary policies that include targets for full and decent employment. Methodically unpacking and critiquing the logic of neo-liberal employment policies, they show, for instance, that an entrenched notion of labour market flexibility has resulted in job insecurity and eliminated minimum wages and social safety nets, consequently increasing unequal income distribution. Even in the East Asian developmental states, regulations for workers' protection remain weak and are often not enforced.

On the whole, however, the authors are optimistic about the prospects for moving towards full and decent employment in both underdeveloped and advanced industrialised economies. What underpins this positive outlook is their assessment that the world is undergoing a tectonic shift away from Washington Consensus thinking. Anyone who has lost hope for emerging alternatives to a rapacious neo-liberalism ought to draw fresh inspiration here.



Beyond the Border War

New Perspectives on Southern Africa's Late-Cold War Conflicts

Gary Baines and Peter Vale (Eds)
UNISA Press:
Tshwane, 2008. 342 pp

Reviewed by
Mathew Blatchford
(English Language and Comp Lit,
University of Fort Hare)

Between 1973 and 1989, a generation of white South African male conscripts ensured the apartheid state's control of Namibia through a brutal occupation of that territory (and of southern Angola after 1981) and through numerous raids into Angola and Zambia, as well as two full-scale invasions in 1975–6 and 1987–8. Then one day someone blew a whistle and announced that we had won and could go home. Our victory was so complete – "triumphant retreats before a demoralised enemy advancing in utter disorder", as the science fiction writer Eric Frank Russell sardonically put it – that the enemy took over Namibia, and, within a few years, the other enemy took over our own country and the apartheid state the conscripts had served vanished like a popped balloon.

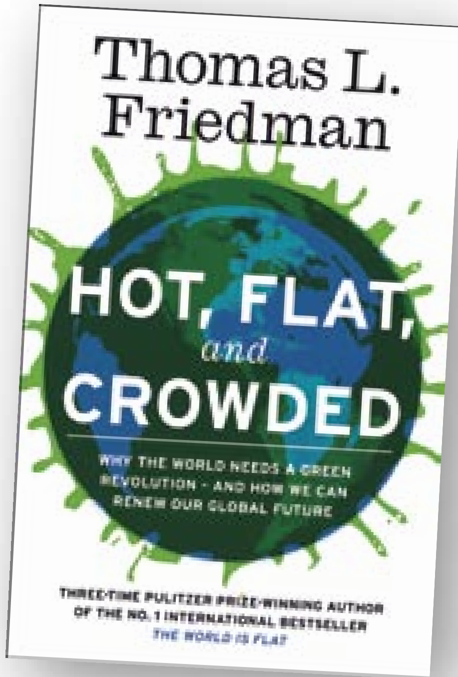
Following such a comprehensive betrayal, no white South African should have had any faith in the bullying, cowardly hypocrites who engineered the catastrophe: the white South African ruling class. Instead, in 1994 whites staggered like sick sheep to the National Party, and in 2009 the same flock tainted their ballots with the Democratic Alliance. The whole episode has been conscientiously forgotten. This process must have devastated white South Africa's national psyche, and perhaps accounts for the diseased state of contemporary white South African politics and political commentary.

Beyond the Border War is thus a welcome attempt to face this historical reality. If it is imperfect, this is unsurprising, because it is a book dealing with facts which are deliberately not dealt with elsewhere. Indeed, its imperfection rests on its incompleteness – there is simply too much to talk about and too little room to make up for the tragically limited amount of other material dealing with the matter. (A glance at the select bibliography shows just how little significant work has been done in the field since the early 1990s – the time when the white South African motto became "Don't mention the war!".) In general, the work is thus more worthy than profound. Many of the individual essays are superficial in focus, sometimes unacceptably so. Notwithstanding, a superficial analysis is obviously more productive than the significant silence which has preceded it.

Perhaps the best of all, because the simplest and clearest, is Edgar Dosman's depiction of the Cuban intervention as a result of the South African intervention in 1987, which eventually led to the South African defeats at Cuito Cuanavale and Ngiva (Ondjiva) and to the liberation of Namibia. However, there is useful information on almost every page – even if the book ultimately arouses more questions than answers, especially given its somewhat uncritical assessment of the anti-war movement and its failure to closely analyse the actual impact of pro-military propaganda. Nevertheless, the attempt to analyse the impact of militarising ideology upon human practice is more explicit and serious than has made almost anywhere else since Julie Frederikse's *A Different Kind Of War*. Anyone wishing to do further research in the field – and it would be a good idea – should certainly begin by reading this book.

Hot, Flat, and Crowded

Why the World Needs a Green Revolution – And How We Can Renew Our Global Future



Thomas L Friedman
Allen Lane: London and New York, 2008. 438 pp

Reviewed by **Tim Hughes** (African Institute of International Affairs)

This book reminds one of the famous Arthur C Clarke quotation: "The future is already here, it's just unevenly distributed!"

Employing his Pulitzer Prize-winning formula of pithy research fused with global expert opinion, Friedman's central claim is that the world is facing a population and climate-change tsunami of biblical proportions that – if not tackled in a revolutionary rather than evolutionary manner – will leave our grandchildren experiencing life, but not as we know it.

Friedman, although neither a futurologist nor scenario-builder, brilliantly joins the dots that are flashing rapidly on the radar screen via a compelling narrative that leaves the reader both anxious and enlivened. This book also constitutes a departure from Friedman's usual cautiously sanguine approach to issues into one that is far more alarmed and messianic.

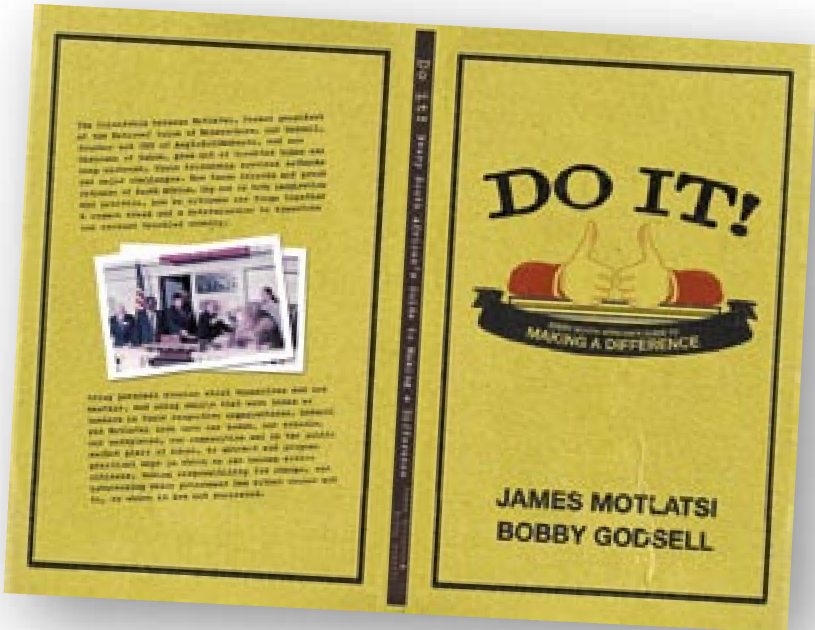
A *New York Times* liberal, Friedman is scathing – no, devastating – in his critique of the Bush administration, United States oil and energy companies and the Washington bureaucracy. All are deemed culpable and complicit in creating the looming crisis and in postponing the necessary national response to it.

In perhaps his most profound analysis, Friedman argues trenchantly that the current configuration of federal government and US capitalist relations appears structurally incapable of adapting rapidly enough to the looming threats of climate change. Moreover, despite its own apocalyptic record of pollution, it is to China that Friedman looks for some inspiration. To wit: the revolution required to turn around the US's behaviour is so profound and far-reaching that it would require that type of centralised and planned policies (or in capitalist terms, "government-instituted market signals") to stop the world's worst polluter from committing involuntary manslaughter and taking the rest of humanity with it.

Yet for all its eye-popping evidence, expert-supported arguments and plain common sense, the book has a hole in it bigger than the ozone layer. For Friedman, the rest of the world is a bit player in this American epic. Africa is mentioned on but six pages of a total of 438. For all his zeal and devotion to the principles of the Sierra Club, Friedman ultimately fails to see or acknowledge that, while the United States must accept its culpability and take steps to mitigate its climate-changing behaviour, it must do so in concert with, and in support of, those in the developing world it has so egregiously harmed with its reckless, gas-guzzling narcissism.

Do it!

Every South African's guide to making a difference



James Motlatsi and Bobby Godsell
Jacana Media: Johannesburg, 2008. 186 pp

Reviewed by
Justice Kganyago

"Each citizen is the product of the culture and context in which he or she was born, grew up and lived out his or her South Africanness. In this sense, we are one country but many 'tribes'. Language, religion, culture and custom constitute the architecture of our identities."

Do It! has two themes. One is the diagnosis of South Africa and its multitude of divisive problems, from street naming to Eskom and from birth control to national vision. The other is an analysis of where one can apply some self-help and hence "be the change one wants to see".

The first section of the book sets the stage, discussing the idea behind the writing of the book, the complexities of a South African national identity, and the need for shared visions of progress. Matters covered include questions of the "true South African", building blocks of shared identity, immigrants' assimilation, and active citizenship.

The next seven chapters cover South Africa's widespread problems and areas where individuals can effect change. These include crime, wealth, education, HIV/AIDS, the environment and the family. This is one of the few books where AIDS and politics are discussed without referring to Thabo Mbeki or Manto Tshabalala-Msimang – or singling out anyone for that matter – thus making it the reader's prerogative to make sense of the issues. Each section is well structured, presenting problem statements, identifying various ideas or scenarios, and then offering action pointers for self-help. The comprehensive discussions offer good reference points for individuals and social practitioners, presenting valuable and insightful solutions to everyday life problems.

The final section looks towards an agenda for a better South Africa and a charter for active citizenship. The book effectively inspires open-mindedness about South Africa's real and unspoken problems.

Books available for review

The following books have recently been received

Interested reviewers should contact **Helen Douglas** at mwnewagenda@mweb.co.za

Thanks again to the many readers, book publishers and distributors we met at the 2009 Cape Town International Book Fair, 13–16 June.

Adebajo, Adekeye (ed). **From Global Apartheid to Global Village: Africa and the United Nations**. UKZN Press: Scottsville, 2009. 664 pp

Aron, Janine, Brian Kahn and Geeta Kingdon (eds). **South African Economic Policy under Democracy**. Oxford University Press: Oxford and New York, 2009. 366 pp

Besteman, Catherine. **Transforming Cape Town**. University of California Press: Berkeley, 2008. 296 pp

Braude, Wolfe. **Regional Integration in Africa: Lessons from the East African Community**. South African Institute of International Affairs: Johannesburg, 2008. 346 pp

Caplan, Gerald. **The Betrayal of Africa**. Groundwood Books: Toronto and Berkeley, 2008. 144 pp

Catling, David. **An Elusive Harvest: Working with Smallholder Farmers in South Africa**. Fanele (Jacana): Johannesburg, 2008. 323 pp

Chabal, Patrick. **Africa: The Politics of Suffering and Smiling**. UKZN Press: Scottsville; Zed Books: London and New York, 2009. 212 pp

Chimurenga. **Chimurenga 14: Everyone Has Their Indian**. Chimurenga: Cape Town, 2009. 240 pp

Davies, James B (ed). **Personal Wealth from a Global Perspective**. Oxford University Press: Oxford and New York, 2009. 467 pp

Davis, Dennis and Michelle le Roux. **Precedent and Possibility: The (Ab)Use of Law in South Africa**. Double Storey: Cape Town, 2009. 201 pp

Deneulin, Séverine with Masooda Bano. **Religion in Development: Rewriting the Secular Script**. Zed Books: London and New York, 2009. 192 pp

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Draper, Peter and Philip Alves (eds). **Trade Reform in Southern Africa: Vision 2014?** . Fanele (Jacana): Johannesburg, 2009. 170 pp

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Holt-Giménez, Eric and Raj Patel. **Food Rebellions! Crisis and the Hunger for Justice (e-book)**. Pambazuka Press: Cape Town; Food First Books, Oakland; Grassroots Intl: Boston, 2009. 278 pp

Krog, Antjie, Nosisi Mpolweni and Kopano Ratele. **There Was This Goat: Investigating the Truth Commission Testimony of Notrose Nobomvu Konile**. UKZN Press: Scottsville, 2009. 256 pp

Le Roux, Len (ed). **South African Army Vision 2020 (vol 1): Security Challenges Facing the Future South African Army**. Institute for Security Studies: Tshwane, 2007. 289 pp

Le Roux, Len (ed). **South African Army Vision 2020 (vol 2): The South African Army Relevant and Ready for Future Security Challenges in Africa**. Institute for Security Studies: Tshwane, 2008. 242 pp

Levy, Lorna. **Radical Engagements**. Jacana Media: Johannesburg, 2009. 244 pp

Lin, Justin Yifu. **Economic Development and Transition: Thought, Strategy and Viability**. Cambridge University Press: Cambridge, 2009. 170 pp

Mamdani, Mahmood. **Saviours and Survivors: Darfur, Politics and the War on Terror**. HSRC Press: Cape Town, 2009. 398 pp

Mijere, Nsolo JN. **Informal Cross-Border Trade in the Southern African Development Community**. OSSREA: Addis Ababa, 2009. 102 pp

Nuttall, Sarah and Achille Mbembe (eds). **Johannesburg: The Elusive Metropolis**. Wits University Press: Johannesburg, 2009. 398 pp

Nuttall, Sarah. **Entanglement: Literary and Cultural Reflections on Post-Apartheid**. Wits University Press: Johannesburg, 2009. 198 pp

Pillay, Udesh, Richard Tomlinson and Orli Bass (eds). **Development and Dreams: The Urban Legacy of the 2010 Football World Cup**. HSRC Press: Cape Town, 2009. 316 pp

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Rodrik, Dani. **One Economics – Many Recipes: Globalization, Institutions and Economic Growth**. Princeton University Press: Princeton and Oxford, 2007. 263 pp

Royston, Lauren (ed). **Making Towns and Cities Work for People: Planact in South Africa 1985–2005**. Planact: Johannesburg, 2009. 294 pp

Shiva, Vandana. **Soil Not Oil: Climate Change, Peak Oil and Food Insecurity**. Zed Books: London and New York, 2008. 144 pp

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Tevera, Daniel and Abel Chikanda. **Migrant Remittances and Household Survival in Zimbabwe**. South African Migration Project: Cape Town, 2009. 51 pp

Van Donk, Mirjam, Mark Swilling, Edgar Pieterse and Susan Parnell (eds) **Consolidating Developmental Local Government: Lessons from the South African Experience**. UCT Press: Cape Town, 2008. 568 pp

Vervliet, Chris. **The Human Person: African Ubuntu and the Dialogue of Civilisations**. Adonis & Abbey: London, 2009. 73 pp

Winther, Tanja. **The Impact of Electricity: Development, Desires and Dilemmas**. Berghahn Books: New York and Oxford, 2008. 274 pp

Zeilig, Leo (ed) **Class Struggle and Resistance in Africa**. Haymarket: Chicago, 2009. 310 pp