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NEW AGENDA

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HOW CHINA'S INSTITUTIONS REALLY WORK

THE ROLE OF THE RESERVE BANK

GILL MARCUS

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NEW AGENDA ISSUE 56 FOURTH QUARTER 2014 Picasso Headline

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We're on track to meet all our first year targets and we will meet all the objectives set out in our 5-year roll-out plan. We have succeeded in reducing carbon emissions, diverting waste from landfills and connecting businesses. We are also proud of the impact the plan has made on the many people and communities both employed and supported by REDISA. Join the journey and see how we plan on continuing our road to success.

Note: All the above stats are as at October 2014.

BENEFICIATION A CORE PART OF DE BEERS' BUSINESS MODEL

President Jacob Zuma at Venetia Mines.

De Beers is the world's leading diamond company, with operations across the diamond value chain, from exploration and mining to rough diamond sales and consumer brands.

In 2012, the company progressed with the planning for a project to convert its flagship Venetia Mine in the Limpopo province from an open-pit to an underground mine, with a capital investment of R20 billion. The project is well underway and will extend the life of mine to beyond 2040.

Investing in South Africa also finds expression in the company's continued exploration activities in the country, investing approximately R30 million per annum in exploring for viable kimberlite deposits across the country.

Beneficiation is a core part of De Beers' business model and the company's beneficiation strategy in South Africa is primarily focused on the following areas:

Sustainable Manufacturing

Through the supply of rough diamonds to the State Diamond Trader (SDT), De Beers supports emerging beneficiators who have no alternative access to rough diamonds.

The company also offers a consistent and predictable supply of rough diamonds to its clients for local manufacturing, selling over 40% of its local supply by value to local clients annually. It is estimated that there are approximately 900 people employed in the diamond manufacturing industry, with the majority of these being employed by De Beers' clients.

Harnessing local talent in diamond jewellery design and manufacture

The company is committed to the sustainable development of the diamond jewellery industry through initiatives such as the Shining Light Awards and Forevermark – the De Beers diamond brand.

Launched in South Africa during 1996, the Shining Light Awards (SLA) was initiated as a design competition, with the vision of demonstrating to the world the wealth of design talent that resides in South Africa by creating a design platform. Undoubtedly, the SLA creates opportunities and exposure for designers, with entries averaging 400 per competition.

In 2013, Hunadi Tlomatsana, the 2012 Shining Light Awards competition overall winner, received a merit award in recognition of her design ability by the International Jewellery Design Excellence Awards at the Hong Kong Show, coming out tops out of 187 entries from 28 countries.

Stimulating consumer demand

Forevermark's value proposition is focused on offering end consumers the world's most carefully selected diamonds. When Forevermark was launched in South Africa during 2012, 68% of Forevermark jewellery was imported, and since 2013, the jewellery has been 100% locally manufactured.

Promoting skills development

De Beers and the Northern Cape provincial government have established the Kimberley International Diamond and Jewellery Academy (KIDJA). Launched in 2011, KIDJA has to date produced 145 graduates, 24 of whom are disabled learners.

Developing and supporting future beneficiators

In 2013, the company initiated a feasibility study into the establishment of a benefication enterprise hub, aimed at addressing challenges facing small beneficiators, such as access to rough diamonds, access to funding for the purchase of rough diamonds, and establishing a sustainable local and international distribution channel for polished diamonds. A pilot project will be implemented in partnership with other industry players during 2015.

Beyond mining

Conscious of the role that its mining operations play in developing and growing local economies and creating employment, and the finite resource that it mines, the company established De Beers Zimele – an enterprise development vehicle that is focused on funding and supporting small enterprises within its mining communities.

To date, De Beers Zimele has created 1 963 jobs, supporting 209 SMMEs and investing R52.2 million in small businesses.

Creating vibrant and sustainable secondary economies within its mining communities is pivotal to De Beers' strategy of enhancing its efforts in reducing poverty, unemployment and inequality.

DE BEERS
GROUP OF COMPANIES

Tel: +27 11 374 77 98
Mobile: +27 83 399 7119

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Address: 16th Floor, Plein Park Building,
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Website: www.newagenda.org.za

Editor
Prof Ben Turok
Sub-editor
Helen Douglas
Production
Aneesah Reynolds
Finance
Tel: +27 (0) 21 461 2340
Email: newagenda01@gmail.com

Published by
PICASSO HEADLINE
Excellence in niche publishing

Content Manager
Raina Julies
Proofreader
Lynn Berggren
Content Co-ordinator
Vanessa Payne
Head of Design Studio
Jayne Macé-Ferguson
Design and Layout
Mfundo Ndzo
Leo Abrahams
Interns
Zanele Balfour (design),
Roxanne Jones (editorial),
Christian Schroeder (social media/editorial)
Production Editor
Shamiela Brenner
Project Manager
Jerome van der Merwe
newagenda@picasso.co.za
Sales Consultants
Natasha Hendricks
Zukisani Silwana
Business Manager
Robin Carpenter-Frank
Financial Accountant
Lodewyk van der Walt

Times Media Group
GM: Sowetan, SW & Magazines
Mike Tissong

Associate Publisher
Jocelyne Bayer

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With a shared wealth of over 30 years' experience in the field, our founding members, Bontle Mpakanyane and Dren Nupen were poised to take full advantage of this opportunity.

Bontle Mpakanyane — Executive Director

Bontle is a highly skilled election specialist with a prestigious background as a Presiding Officer at a number of national elections, including the ANC National Conferences in Mafikeng, Stellenbosch, Polokwane & Mangaung, and several COSATU and affiliated unions' national congresses. She has presided over several Board of Trustee elections whilst heading the EISA Elections Unit. She has recently presided over the Government Employees' Medical Scheme (GEMS), Sizwe Medical Scheme, the ANC National List processes for the National & Provincial Legislatures. Our processes are audited by auditing firms PwC and KPMG. She has also observed numerous SADC elections.

Dren Nupen — Director

Dren is a seasoned election expert who founded the Elections and Balloting Project within IMSSA. She later conceptualised and founded EISA which emerged out of the IMSSA Elections and Balloting Project. Dren was a member of the Goldstone Commission of Enquiry into Electoral Violence in 1993 and participated in the Dr Van Zyl Slabbert Electoral Task Team commissioned in 1998 by the Cabinet of the South African government to review the current South African electoral model. Dren has presided over numerous political processes and observed numerous elections in SADC countries.

We have developed a comprehensive menu of services that can be tailor-made to suit the needs of our clients, inclusive of **e-Registration, e-Voting and counting mechanisms**. We strive to add significant value by offering turnkey solutions that work to build sustainable relationships with our clients, and delivering value for money.

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- **Facilitation of dialogue between Beneficiary BEE Community Trusts & Companies & Election of Trustees for the Trusts to achieve institutional stability through participation and choice**

Most Recent Events: The ANC NEC elections (Mangaung) – December 2012, ANC National List elections 2014, GEMS 2013 & 2014, POLMED 2013, Sizwe Medical Fund Trustee Elections 2014, Anglo Platinum Group Provident Fund Trustee elections 2014, National Union of Mineworkers (NUM) - 2012, National Education Health & Allied Workers Union – (NEHAWU) – 2013

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Begin Date	End Date	Exhibition Details	Host Country	Sector	Closing Date (for applications)	Contact person
14-Apr-15	17-Apr-15	LAAD Defence and Security International Exhibition 2015	Rio de Janeiro, Brazil	*Aerospace *Defence *Security sectors	15-Dec-14	**Virginia Mbuyisa** 012 394 5988 VMbuyisa@thedti.gov.za
21-Apr-15	25-Apr-15	Zimbabwe International Trade Fair (ZITF) 2015	Bulawayo, Zimbabwe	*Manufacturing equipment, machinery and tools *Mining engineering and construction services *Drilling and exploration *Industrial electric power *Industrial safety, safety equipment and clothing *Textile, leather and footwear *Laboratory services *Engineering consultants *Agricultural equipment *Irrigation systems *Fertilizers and pesticides *Petro-chemical industries *Electrical, and electronic products	22-Dec-14	**Mayanda Kondile** 012 394 1616 MKondile@thedti.gov.za
4-May-15	7-May-15	Offshore Technology Conference 2015	Houston Texas, USA	*Upstream ship repair and servicing *Oil and gas logistics and distribution *Engineering services *Equipment and materials suppliers *General and technical support services for the upstream industry	26-Jan-15	**Tshepiso Malunga** 012 394 3284 TMalunga@thedti.gov.za
5-May-15	8-May-15	IDEF 2015	Istanbul, Turkey	*Land and sea *Air and space *Transportation *Logistics *Support activities and supplies materials *Tools and equipment	26-Jan-15	**Mayanda Kondile** 012 394 1616 MKondile@thedti.gov.za
6-May-15	8-May-15	Sial China 2015	Shanghai, China	*Agro-Processing (wine, beverages and fine foods)	26-Jan-15	**Tshepiso Malunga** 012 394 3284 TMalunga@thedti.gov.za
11-May-15	15-May-15	Exponor Chile 2015	Antofagasta, Chile	*Equipment, machinery and tools *Mining engineering, erection and construction services *Drilling and exploration *Services for mining processes *Industrial electrical power *Industrial safety, safety equipment and clothing *Laboratory services *Engineering consultants	26-Jan-15	**Virginia Mbuyisa** 012 394 5988 VMbuyisa@thedti.gov.za
27-May-15	31-May-15	Copperbelt Mining Agricultural and Commercial Show 2015	Kitwe, Zambia	*Manufacturing equipment *Machinery and tools *Mining engineering *Erection and mining construction services *Drilling and exploration *Industrial electric power *Industrial safety *Safety equipment and clothing *Laboratory services *Engineering consultants *Agricultural equipment *Irrigation systems *Fertilizers and pesticides	26-Jan-15	**Virginia Mbuyisa** 012 394 5988 VMbuyisa@thedti.gov.za

A layperson's guide to Nene's budget statement

By **Ben Turok**

Minister of Finance Nhlanhla Nene caused quite a stir on 22 October when he presented the Medium Term Budget Policy Statement to parliament. Even though it was not an actual budget speech (with commitments on taxes, for example), it was nevertheless a very important statement.

Unfortunately, it takes a lot of effort to get behind the jargon used by ministers of finance – like "fiscal consolidation" and "quantitative easing", when they simply mean balancing the budget and increasing the amount of money. Similarly, the "current account deficit" mainly means that we are spending more on imports than we earn from exports.

The key indicator of our economy's health is its growth rate, which is now only 1.4 percent. This actually reduces to near zero when you add the population growth rate of about 1.5 percent. So, let us accept the reality that growth is close to zero. Our economy has stalled.

Other countries which are growing at a higher rate, like the rest of Africa, are able to increase taxes to raise more money. If this is spent wisely on productive activity or infrastructure, then there is a return on investment, which can then be reinvested for further growth. Or a part can be used for social services and welfare, thereby improving the lives and capabilities of the people.

Why is our economy stagnant?

Government blames the fact that world markets for our goods have shrunk, due to the global recession in Europe and the US, and the slowdown in China. But some economists hold that this accounts for only a third of our lower growth. If so, then domestic problems are the main reason for stagnation.

Another sign of our economy's stagnation is that the increases in government spending that have been used since 2008 to counter the recession have not stimulated our economy.

Instead, we have some very worrying figures: the budget deficit is 4.1 percent of GDP, the trade deficit is 5.5 percent. With our domestic debt at 48 percent of GDP, over 10 percent of the total tax revenue will need to be spent on debt service costs – a very large sum.

The US and the UK have debt of over 100 percent. Japan's debt is over 200 percent. Many other countries have higher debt than South Africa without talk of crisis – but their interest rates are less than 1 percent. Ours is 4.5 percent. This means that our debt escalates very fast. Also we borrowed a great deal after the 2008 recession and will have to repay about R194 billion in the next few years. That will really be a crisis. Why don't we reduce our interest rate? It is because our high interest rates attract the foreign capital inflows we need to pay for imports and local investment.

Minister Nene says that he will not reduce spending on infrastructure or on social services and welfare. His cuts will be elsewhere. This is in line with the current IMF position in Europe and elsewhere that advocates infrastructure spending in order to escape from stagnation. Will it work in South Africa?

There are grounds for scepticism

The problem is that our real economy – the sectors that produce goods and services – has been in decline for decades. We de-industrialised in 1995, in the name of "opening up" to the global economy. In 1994, manufacturing was 21 percent of GDP; now it is 11 percent. Cuts in government capital spending also retarded growth.

For the last 20 years, national government investment has averaged 0.5 percent of GDP. The resultant loss of jobs led to the falling purchasing power of the population and hence a slowdown in local manufacturing. There has been a downward spiral ever since.

No one knows how we are going to recover from that, and Minister Nene has no answer.

The fact is that our economy is not working well. The state-owned corporations are not providing services at prices that help industry. Electricity is expensive, freight and port charges are very high, red tape is killing enterprise, and corruption is eating up between R20 billion and R100 billion.

We need a totally new approach to economic development: a joined-up government and a joined-up economy, where state institutions complement the private sector in a mixed economy.

We need to recognise that the global obsession, led by the IMF and the rating agencies, with "getting the fundamentals right" – which in practice has meant displacing real economy investment with repeated adjustments of monetary policy – has hurt most economies. Accordingly, we need to ensure that the promised 1.3 percent increased spending is properly targeted on real multipliers.

We need to launch the kind of physical infrastructure spending that allows the economy to move, especially the construction and engineering sectors (and not only schools, and clinics, etc.)

We need to grow the domestic market; stimulate infant industries, especially black-owned enterprises; and regulate monopoly industries to ensure that they introduce differential prices for domestic users as against their international clients.

We need greater vigilance against transfer pricing by international corporations operating in South Africa.

We need to be clear about the sell-off of "nonstrategic assets" (another euphemism), and how this impacts the state's influence on economic decision-making in the private sector.

Finally, we need evidence that the government is serious about its economic programme. This has been in question for some time.

Fostering a culture of youth entrepreneurship

Yershen Pillay

Over the years, young South Africans have proven to be extremely resourceful and dynamic, with many having turned their great ideas into sustainable business ventures. So, it came as no surprise when seven of our very own young entrepreneurs made it into the 2014 *Forbes* Top 30 list of the most promising young entrepreneurs in Africa. This was indeed a great achievement, but it brought into question just how many of these great minds we have among a youth population of approximately 21.7 million.

The harsh reality is that the number of such risk takers and opportunity hunters is simply too few in our current context. Addressing some of the major socio-economic challenges we face as a country, such as job creation and poverty alleviation, requires a larger cohort of successful young entrepreneurs. This is simply because entrepreneurs create new businesses, new businesses create more jobs and more jobs lead to more household income.

This bleak picture depicting a shortage of young entrepreneurs and the lack of an entrepreneurial culture in the youth movement is unfortunately supported by facts. The Global Entrepreneurship Monitor or GEM Report for 2013 indicated that only 13% of young South Africans had intentions of starting a business. This represented a decline from 15% in 2012 and a shocking statistic when compared to the region's average of approximately 56%. The report further indicated that the total early stage entrepreneurial activity rate, or TEA rate, among young people in South Africa was only 6.8%, while other countries on the continent such as Nigeria, Malawi, Zambia and Ghana all had TEA rates above 30%. The TEA rate accounted for the percentage of youth in the process of establishing new businesses or running existing enterprises that are less than three and a half years old.

Clearly we need to do more for youth entrepreneurship in South Africa. Various captains of industry and political leaders have echoed similar sentiments. Indeed, we simply do not have enough young entrepreneurs and more needs to be done to encourage young South Africans to become entrepreneurs. This challenge presents itself against the backdrop of a value system that is skewed towards producing job seekers rather than job creators. Yet, many young South Africans possess high degrees of entrepreneurial talent and can easily be groomed into future captains of industry.

The need to produce more young entrepreneurs and foster a culture of youth entrepreneurship has prompted discussions on how best to complement radical policy shifts with innovative and magnetic support programmes for those aspiring to take a bite at entrepreneurship. The launch of innovative programmes such as the ‘Step Up to A Start Up’ youth entrepreneurship programme – the brainchild of Primestars Media and the National Youth Development Agency (NYDA) in partnership with MTN, ABSA Bank, SASOL and other private sector entities – serves as an example of what needs to be done to get more young people thinking about business.

The programme targets youth in schools, using cinema and interactive manuals to encourage them to become entrepreneurs. More than 15 000 learners from a large number of rural schools in particular have gone through the programme and have subsequently been afforded the opportunity to have their business ideas funded. They have also been mentored by successful business people from selected companies listed on the Johannesburg Stock Exchange. Programmes of this nature provide information and guidance on elements of entrepreneurship to young people while at school, thus inculcating entrepreneurial thinking and behaviour sooner rather than later. Such programmes play a crucial role in fostering a culture of youth entrepreneurship.

The potential is there for all to see and so too is the availability of support. The availability of financial and non-financial support for young entrepreneurs has increased exponentially over time. Today the NYDA, Small Enterprise Finance Agency (SEFA) and Industrial Development Corporation (IDC) partnership that provides loans, business development support and mentorship for youth-owned enterprises is one of the largest state support programmes in existence. A staggering R2.7 billion has been allocated specifically to support aspiring young entrepreneurs. Another example is the new NYDA Youth Entrepreneurship Grant Programme that provides grant finance, business development support and mentorship to micro and small youth-owned enterprises, in order to nurture a small business culture among the youth.

Consider, for example, 26-year-old Sophia Stodel from Woodstock in Cape Town, who runs Ilundi – a leather handbag, purse and belt manufacturer. She received R43 095 in funding from the NYDA Grant Programme to purchase stock. Prior to receiving grant funding from the NYDA, the company was unable to accommodate large orders, as these often require surplus stock of leather to be available to meet tight deadlines. Thanks to the NYDA, Sophia now has enough stock to fill large orders within a short period of time, which has impacted the cash flow of her business tremendously.

The major challenge, however, seems to be a lack of information on how best to access these support systems. Yes, the laborious red tape is another limitation to creating an enabling environment ... but most young people simply lack the know-how.

Another beneficiary of the NYDA Grant Programme is BK Moleko, a 26-year-old farmer in De Deur, South of Johannesburg. He runs Yea Media Farmer Fresh Pty Ltd. BK grows spinach and 10 different types of Chinese vegetables, which he supplies to Chinese markets and restaurants.

He received an NYDA Grant to the value of R49 000 to purchase an irrigation system, netting, tools and fencing to keep cattle off his 10-hectare farm.

BK did not study agriculture, but has been mentored by other famers in the area. He learnt to farm Chinese vegetables from watching YouTube videos and interacting with hawkers at Chinese markets in and around Johannesburg. Now that he has successfully received his grant, his business continues to grow and he has subsequently secured new contracts. His intention is to apply for a R1.2 million loan from the NYDA-IDC-SEFA loan programme to build a pack house to freeze and store his vegetables for export. BK also has plans to buy another 37 hectares of land and employ more young people on his farm.

This story demonstrates the resourcefulness of young South Africans and reinforces the notion that clearly the availability of support is not an issue. A plethora of financial and non-financial support exists for those young South Africans who want to become entrepreneurs. The major challenge, however, seems to be a lack of information on how best to access these support systems. Yes, the laborious red tape is another limitation to creating an enabling environment for the growth of young entrepreneurs, but most young people simply lack the ‘know-how’ of accessing support more than anything else. Information, guidance and support can go a long way in fostering a culture of youth entrepreneurship.

No single entity or stakeholder has the resources or capacity to provide the right mix of information, guidance and support. It therefore becomes necessary to forge public-private partnerships for the development and implementation of new and unique youth entrepreneurship programmes. It is then up to young people to take the initiative and seize the opportunity to be a successful entrepreneur. Ultimately, success lies in the youth themselves being brave, bold and courageous, and realising that the best time to take a risk is when you are young.

By Yershen Pillay
NYDA Executive Chairperson

nyda

NATIONAL YOUTH DEVELOPMENT AGENCY

OUR YOUTH. OUR FUTURE.

Holding firm at the Reserve Bank:

An interview with **Gill Marcus** (Part 1)

Gill Marcus stepped down as governor of the South African Reserve Bank ((SARB) when her term ended in November. Ben Turok had an extensive interview with her on 3 October 2014. This first part deals with changes in central banking, outside influence, and the Bank's mandate in the South African economy. Part 2 – which covers the SARB's remarkably extensive stakeholder engagement, and how monetary policy can (and cannot) respond to unemployment in South Africa – will appear in the next issue of New Agenda

Gill Marcus

Ben Turok: The Reserve Bank has always been a fairly conservative institution – necessarily, because of the sensitivity of what happens here – but your term as governor has seen some changes.

Gill Marcus: The role of central banks is changing and, because of the global financial crisis, we've had to rethink how we operate. The prominence of a central bank, the role it plays in society, is very different than five, 10 or 20 years ago. Twenty years ago, in the US for example, if there was a change in the interest rates, there wasn't necessarily even an announcement. The market had to decipher that something had been done.

We've also moved from an individual central bank governor having all the power to functioning much more through a Monetary Policy Committee, with much more transparency, openness and communication about the thinking behind our decisions. In that sense, the challenge for central banks over the five years that I've been governor is about how to deal with the greater uncertainty going forward and how to deal with the expanding expectations of what central banks can do.

The structure of the Bank as indicated in the organogram [see Fig. 1] came into effect on 1 April 2014. The functions that report to the executive and the chief operating officer were changed to better reflect the expanding mandate of the Bank and bring about better alignment of the functions while creating the necessary oversight of the policy responsibilities of the Bank.

Like other central banks, the South African Reserve Bank was historically very hierarchical and the governor had enormous individual power.

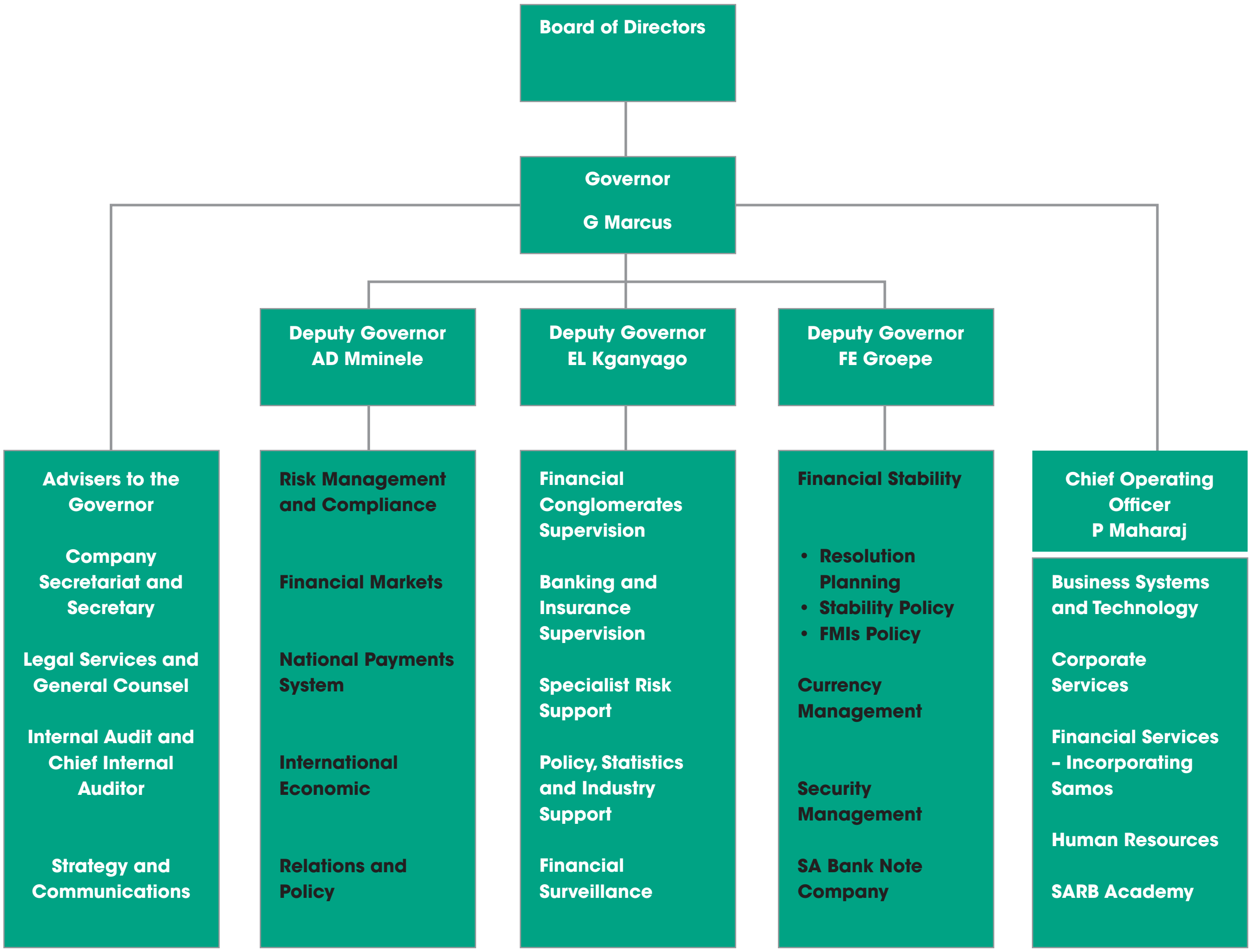

Figure 1. Structure of the South African Reserve Bank, April 2014.

What we've done over this period is, first of all – in terms of legislation and practice – make it a team, so that it's the *governors* who are responsible and not just a single governor, although the governor obviously has the ultimate responsibility.

Secondly, we've done a complete review of the organisation. Each of the controlling and enabling support functions has undertaken an organisational review to create flatter structures to enhance management responsibility and accountability, and greater efficiency. This work is ongoing.

In an environment of an expanding mandate and great uncertainty, in a situation where we've got very different technology, how do you enable people to take the appropriate decisions, and at the right levels? Historically, in most civil services – although we're not civil service – administration and management skills tended to be the route to rise in an organisation and you'd lose your technical skills. What we've now ensured, and it took a lot of time and iteration to get to that point, is that professionalism is rewarded.

Now you can earn and advance using your professional technical knowledge, and do not have to switch to a management career path to do so.

It's a very different organisational structure: more devolution of authority, more a question of individual responsibilities, professionalism, constant learning, and the ability to exercise leadership, not be a technical expert just in your own area. How do you create a central banker, someone who actually understands the interconnectedness of what you do? It's no good if you've got research that doesn't understand how financial markets work or financial markets that don't fully appreciate the implications for banking.

BT: The change has come about because of the greater volatility in the international markets?

GM: Not only that. A central bank's role is different today. Most central banks now have an explicit financial-stability mandate. Obviously, the debate is whether monetary policy is part of financial stability.

Who is Gill Marcus?

Gill Marcus was born in 1949 to parents who were committed to the anti-apartheid struggle. When the family was forced into exile in 1969, Gill worked for the ANC department of information and publicity. Having completed a B Comm degree at Unisa, she used her skill and intense style of work to further the cause of liberation.

After the unbanning of the ANC, she returned to South Africa and established the ANC's information department on a professional basis. She was a member of the national executive committee and the national working committee until 1999.

She was elected to parliament in 1994 and chaired the portfolio committee on finance until 1996, when she became deputy minister of finance. This was a very difficult period as the ANC had not prepared a transition plan for the economy and there were many adjustments to be made in the regulation of finance.

It was also the time of the shift towards greater fiscal and monetary prudence under the Growth Employment and Redistribution (GEAR) policy promoted by Minister Trevor Manuel.

From 1999 to 2004, she served as the first female deputy governor of the South African Reserve Bank.

In 2004, Marcus was appointed a professor at the Gordon Institute of Business Science and non-executive chairperson of Absa Bank, having also served as chairperson of the Financial Services Board, the Standing Committee for the Revision of the Banks Act and several other financial institutions. In 2009, she succeeded Tito Mboweni as governor of the Reserve Bank.

All this vast experience in finance, in both the public and private sectors, has been associated with the highest reputation for integrity and fairness. There has never been the slightest suggestion of impropriety, self-serving or bias, nor has her well-known support for the vision of the ANC government led to insinuations of partiality. – BT

Of course it is. You've got to think differently, you've got to be able to anticipate, you've got to understand what's happening globally, you've got to look at what is unknown.

Normally, central banks deal with uncertainty, because your transmission mechanism takes 12 to 18 months to fully work through the system, and you're trying to see into the future with the decision you take now. Today you're dealing with uncertainty compounded, because the crisis has created such unknown territory. You no longer have what was normal. Nobody knows what the new normal is. What is normal growth today? We don't know. Even domestically: have we lost capacity over this crisis? And can you regulate in an era where technology can bypass regulation? There's a lot of thinking that has to be done. Therefore, for me, the role of a central bank is an evolving one, and, therefore, you can't be static in your thinking. We describe ourselves as a knowledge institution – so what is it that you have to know and what is it that you don't know?

BT: This is just not research?
GM: Not at all. It is much more than that. We have 18 departments in the bank.

BT: How many people on staff?
GM: Around 2 200.

BT: I had no idea! So it is a kind of think-tank, and you employ people who have that capability?
GM: That number includes staff for the production of notes and coins and the associated security and distribution requirements and so on. But the rest perform diverse functions, including economic and financial stability research; bank supervision; the national payments system; administering exchange controls and managing the reserves of the country, which amount to around US$50 billion; co-ordinating our international participation in bodies like the G20, IMF, the Committee of Central Bank Governors of SADC, the Bank for International Settlements (BIS), etc. We also have the usual support departments – human resources, internal audit, corporate services, IT and so on.

BT: You had not been a professional banker when you first went to the Reserve Bank. Was that a problem?
GM: The legislation requires that someone appointed as governor should have some banking experience.

BT: You have that?
GM: To some degree. When I was deputy minister [of finance] I dealt with some of the issues related to banking. Then, as deputy governor of the Bank, my role was also related to bank supervision, and I later served as chair of Absa before returning to the SARB as governor. You need to understand how the banking system works. It does not necessarily work the way we'd like it to, but I think we do understand how it works.

But the job is so much more than that. I think this is a very demanding and unique job. You can only really obtain the skills required from within a central bank and that's the way we're trying to do it. We have scholarships for kids who finish school, we have programmes for people who've done their first degree, and we take in talented people. The objective is that they stay in the Bank for their whole career. Staff turnover is very small, about 3 or 3.5 percent. That's all. But within the Bank, you can change your career. Don't forget the Bank does everything. You can say, "Okay, I'm interested in risk. I'll go to the risk department." We have created a fully-fledged risk and compliance department. You may have been in the internal audit department and you want to go to risk. You may be in the financial markets department and decide you'd really like to go into the research side. Research itself will have different elements to it: statistics, monetary policy research.

> Normally, central banks deal with uncertainty, because your transmission mechanism takes 12 to 18 months to fully work through the system, and you're trying to see into the future with the decision you take now. Today you're dealing with uncertainty compounded, because the crisis has created such unknown territory.

The bank supervision department performs a wide range of regulatory and supervisory functions, and that's all expanding now because government decided to bring the regulation of insurance and financial market infrastructure into the Bank.

There's a huge challenge in what the nature of regulation is going to be. This ability to vary the work you do is one of the reasons why people have such long tenures. They don't necessarily stay in one department, but they will look for new opportunities within the Bank.

BT: What is the role of private shareholders in the Bank?

GM: When the SARB was established in 1921, the majority of central banks worldwide had private shareholders. In fact, many were originally privately owned. A similar structure was introduced in South Africa and has remained in place since then, although many other central banks have done away with private shareholders. Shareholders in the Bank have limited rights in terms of the South African Reserve Bank Act. Shareholding is limited to 10 000 shares, entitling the shareholder to exercise a maximum of 50 votes. The intention of this limitation is to ensure that no individual, group of individuals, or companies can exercise undue influence.

Shareholders do not "own" the Bank, which is in fact a legal persona. Shareholders can attend the annual general meeting of the Bank, where they are entitled to vote for seven non-executive board members. A further eight members, four of whom are non-executive, are appointed by the president. This includes the governor and three deputy governors who make up the executive of the Bank. Members of the board elected by shareholders are required to have knowledge and expertise in various areas, including commerce or finance, industry, agriculture, mining and labour. The board is a governance board, not a policy board. Shareholders are invited to attend the AGM and road shows, ask any questions at these events and, by electing non-executive directors, they have input in the governance of the Bank. Shareholders receive a fixed dividend of 10 cents per share per annum and thus have no say over monetary or dividend policy.

MONEY SPINNER

BT: What does it mean when we say that a reserve bank "prints money"?

GM: There is physical money that you print. That is your money in circulation. On average, we have about R110 billion in circulation at any moment in time. It grows by about 10 percent a year. But you don't physically have to print money, because a central bank and commercial banks can create money.

BT: How does that work?

GM: Very simple. A central bank can lend to government directly by buying new issues of government bonds, or the central bank can buy other assets from the market. These actions inject money into the economy in the form of new bank deposits, which do not require printing of physical money. Similarly, banks can create money. When you go into a bank and they give you credit, they create a deposit for you to use, and in the process they have created money.

BT: What is the effect of this creation of money?

GM: If you then have too much money in your system, it could lead to excessive expenditure and inflation. We try to control this by affecting the price of credit – that is, the interest rate. In the short run, we influence the amount of liquidity in the market by injecting or mopping up liquidity. For instance, we will issue a debenture at the repo rate and the market buys that. It's a way to withdraw that extra liquidity from the system. But we are the ones who can do that. That is why the central bank is so unique.

BT: You have powers that no ordinary bank has. And you create money by saying so. In fact, you're giving credit.
GM: Yes.

BT: What makes the US Federal Reserve Bank decide to put $85 billion into the system monthly and then withdraw it?
GM: They are not putting it into the system and withdrawing it. They are buying assets, which puts money into the system, but they are not withdrawing it at this stage. They physically buy assets like mortgage-backed securities and government bonds. They did this partly to get the economy going, but also to help certain segments of the markets that were experiencing stress, like the housing market. However, they have now stopped their asset purchase programme (or "quantitative easing", as it is often called). But at this stage they do not intend withdrawing the liquidity by selling those assets.

BT: And it's not real money?
GM: No, that's real money, because they are buying those real assets. They went into the crisis with a balance sheet of about $700 billion and it has expanded to over $4 trillion, which is unbelievable.

BT: What's the consequence of that?
GM: They'll probably just let the assets run off, in other words they will allow them to mature. They won't put it back into the system. They bought treasury bonds or whatever and when it expires, it expires, and that's it. That's why they make a lot of money, because they earn off that.

BT: That helps them in the budget process?
GM: It helps because they pay some of their profits over to Treasury, but there are risks to it. There is a risk when interest rates change.

BT: What is the mandate of the SARB compared to the US Federal Reserve?
GM: Our mandate is to maintain the value of the currency – that is, achieve price stability – in the interest of balanced and sustainable economic growth. Their Federal Reserve Act established the objectives for monetary policy as "maximum employment, stable prices and moderate long-term interest rates". But it is important to understand the "maximum employment" objective, as it does not differ very much from our own views. According to the Fed website:

> The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market… In setting monetary policy, the FOMC [Federal Open Market Committee] seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level.

The South African Reserve Bank in Pretoria.

In a flexible targeting environment, the two are not very different – except that our overriding mandate is price stability. The US has a dual mandate, but it is clear from their recent communications that their concern for unemployment is subject to inflation remaining under control.

RESERVE BANK INDEPENDENCE

BT: Do you feel pressure from the cabinet, the president, the ANC?
GM: There is regular interaction with the minister of finance and the National Treasury, in keeping with sound practice and in terms of the SARB Act.

The president has always been available if there are matters that I wish to bring to his attention. But I have never had a call to discuss interest rate decisions – which is the core of monetary policy independence. I've never been told that they don't like what I'm saying; not the cabinet, not the party.

BT: That's a bit extraordinary.
GM: Why?

BT: This is an ANC government.
GM: It respects the role I play and what I'm doing and it doesn't interfere. Not when I was deputy governor and not when I was governor.

> Our mandate is to maintain the value of the currency – that is, achieve price stability – in the interest of balanced and sustainable economic growth.

Just to elaborate on that: in other countries, you will find that the governor can be an advisor to the president or sit in economic clusters and the cabinet. Our interaction is with the Treasury, and they don't interfere in our decision-making. It comes back to the question of what you mean by "independence". For me, an independent central bank is not a bank that is aloof from society or the economy. You're absolutely an integral part – and shaper – of that, and that's what you take into account. The way we exercise our independence is that we set monetary policy without fear or favour, short-term interest or any pressure. That pressure that you referred to has never occurred.

BT: Chris Stals [SARB governor, 1989–99] talked about autonomy, not independence.
GM: If you're autonomous, you can do whatever you like. We have instrument independence; we don't have goal independence. Inflation targeting and the "four pillars" banking system are government policies.

BT: Could you explain that?
GM: Currently, with an inflation-targeting framework, the government sets the target, and we have operational independence to achieve this goal. What this means in practice is that government cannot dictate interest rate policy to us once the inflation target is set.

However, independence does not mean that we are an ivory tower (or granite tower, in this case). We are not independent of the economy or society, and we take the broader interests of the economy into consideration when making monetary policy decisions. This is entirely consistent with a flexible inflation-targeting framework, and with the letter written to the Bank by the minister in 2010, in which the flexible nature of the inflation-targeting framework was restated.

Furthermore, when it comes to other elements of our mandate – for example, financial stability – this is very often a shared responsibility. It often involves the fiscus, and therefore we cannot act independently in all instances. To reiterate, we see independence as the exercising of our best judgement in setting monetary policy in the interests of the economy without interference or undue influence.

BT: What is the relationship of the Bank to the minister of finance and the National Treasury?
GM: The governor is required by the Act and by the Constitution to consult regularly with the minister of finance. Bilateral meetings are scheduled regularly, and there are also a number of joint standing committees or working groups between Treasury and the Bank. Any legislation that the Bank would want to submit to parliament has to be done through the finance ministry.

BT: Do you report to each other?
GM: We consult with each other. In some instances, we perform agency functions for the Treasury, for example, with respect to exchange controls. Some issues, such as financial stability, have joint responsibility. Monetary policy is conducted solely by the Bank, without reporting to or consulting with the Treasury, while fiscal policy is the domain of the minister of finance[1]. The inflation target is set by government, but it is the responsibility of the Bank to independently determine how to achieve the target.

BT: How does government communicate policy to you?
GM: Government policy is in the public domain. Let me explain the meeting structure. In terms of the Reserve Bank, we have a memorandum of understanding with the Treasury and we have four joint working groups: international co-ordination and relations; financial regulation; markets; and macro-economic issues. They are co-chaired by the director-general and the deputy governors or senior officials. They meet on a regular basis to say: "What are we seeing? How do we understand it?" There's an ongoing exchange of views.

We do not interfere or have any say in their decisions around tax, budgets, deficits or anything else. They don't have any say about monetary policy. But we try to see what is happening in both areas and how they influence each other. You take it into account.

That results in regular meetings between the minister and the governor and the teams, as well as when something is happening; if you're going to the IMF or the G20 to discuss the kind of positions, whether it's a country position or a monetary or fiscal question. It's not "How are you exercising fiscal policy?" or "How are you exercising monetary policy?", but "What is influencing the economy?" and trying to ensure that we have a common basis of understanding of what we are seeing.

However, with respect to monetary policy, as I mentioned earlier, we do not have goal independence. Government sets the target, and we have independence in carrying out that mandate.

BT: And if you thought that they set a bad inflation target?

GM: It would be an iterative process. It's their decision, but they wouldn't set it without having discussions and taking into account the macro-economy. It's an issue that would be discussed in the macro-economic committee, so our views would be heard. The committee then makes recommendations to the governor and minister, but ultimately it is government that decides the target.

MONETARY POLICY EFFECTS

BT: How does inflation targeting affect the real economy? How does it relate to the international debate about stimulus versus austerity in monetary policy?

GM: Our view is that the long-term structural or potential growth of the economy is determined by real variables, such as productivity growth, infrastructure, skills, etc. It is not determined by monetary policy. In the long run, excessively low interest rates lead to inflation and no real effects. However, in the short run, monetary policy can have an impact on the real economy. In other words, it can affect the amplitude of the cycle around the long-term growth trend.

The current international debate around monetary policy is focused on stimulus, to return economies to pre-crisis levels or thereabouts. There are many who fear that this ultra-accommodative monetary policy could be inflationary, but even those who do not think this to be the case generally believe that once normal levels of potential output are achieved, monetary policy will normalise as well.

Similarly, in South Africa, we have an accommodative stance (negative policy rate) to help with the normalisation of growth rates. In instances where austere fiscal policies are in place (because of the unsustainability of fiscal positions), loose monetary policy is required as a counter to prevent excessive contraction of the economy. I should point out that, although we may directly have an impact on cyclical growth, the translation into employment is not necessarily automatic.

BT: Concerning the exchange rate: we don't seem to intervene. Or do we intervene indirectly?

GM: We have a flexible exchange rate system, and we do not intervene in order to achieve a specific exchange rate outcome. However, our level of reserves is considered to be lower than optimal (for example, in terms of the IMF [International Monetary Fund] metrics, we are just below the low end of the adequacy range), so we have increased our reserves over time. This we do on an ad hoc basis when there are strong inflows. This may help to prevent excessive appreciation, but it has not been done with the intention of achieving a specific exchange rate outcome. Since the rand has been on a depreciating trend, we have not been accumulating reserves, and any changes in reserves have been a result of valuation changes. We are not intervening indirectly either.

> Our view is that the long-term structural or potential growth of the economy is determined by real variables, such as productivity growth, infrastructure, skills, etc. It is not determined by monetary policy.

BT: To what extent are we captive of US policy decisions and trends?

GM: We follow some trends in the US economy, but not directly or blindly. The US is still the dominant global economy, and the old saying that "when the US sneezes, the rest of the world catches a cold" still applies to some extent. When the US slows, it does impact the rest of the world, but the extent will depend very much on the trade links. So Mexico would follow US growth trends more closely than we do, and we follow European growth trends more closely.

Furthermore, we are affected by what happens in the US financial markets and US monetary policy. US quantitative easing and low interest rates meant that money left the US in search of yield, and that had an impact on our interest rates and exchange rate as well. The end of quantitative easing and the prospect of US monetary policy normalisation will mean that the process is reversed; in such circumstances, our interest rates are likely to have to increase. This will happen much more quickly with longer-term rates that are market determined. But short-term rates can diverge to some extent because monetary policy – the Bank – acts directly on them, and a flexible exchange rate allows us some space to set interest rates independently of the US. We may not follow the trends exactly, but we are affected by what they do and the spillover effects of their policies. Although US policy makers are increasingly sensitive to these spillover effects, ultimately they will make decisions in the interest of the US economy.

> However, independence does not mean that we are an ivory tower (or granite tower, in this case). We are not independent of the economy or society, and we take the broader interests of the economy into consideration when making monetary policy decisions.

THE IMF AND RATING AGENCIES

BT: What about the World Bank and the IMF? To what extent are you beholden to them?
GM: We are not beholden. We do some courses with the IMF, and there are technical agreements and so on. We are a member of the IMF and they therefore conduct annual Article IV consultations with us, and give us their views on the economy.

BT: To what extent are you influenced by what they say?
GM: It depends. For example, we have just finished our Article IV consultation process with the IMF and we have just finished a financial stability assessment programme. They assist us in terms of techniques for doing some things, such as stress testing, and then how you measure those stress tests and to what degree you push it. They have people who are doing this, so you get technical assistance at that level.

In terms of positions that they take, obviously they have influence because other people read their reports as well. If we agree with them, that's fine. But if we don't, we tell them very clearly. So I would say they influence because they bring extraordinary technical skills into the equation. But because we are not in an IMF lending programme, they cannot impose any policies on us.

BT: They don't push on policy?
GM: They try to, in a sense. But their big issue – if you read what they're saying at this point in time – is that we are not making the right structural adjustments. They would point out how they see the risks. They do make suggestions and indicate what they think should be done, but as we are not subject to a lending programme; they cannot force it on us. And I think the approach has significantly improved under Christine [Lagarde, IMF managing director].

BT: The rating agencies are commenting…
GM: They are always commenting and that is their role. They are a different kettle of fish from the IMF, completely different. As you know, we've had big differences with them in the recent period. Moody's has just finished their rating. They're going to announce the outcome in the next few weeks.

BT: They threaten you!
GM: What I'm saying is, they don't influence you directly, but they take decisions that affect your whole country.

BT: Exactly, a threat. They say they're going to downgrade you if you don't do a, b and c.
GM: They usually set out the factors that would lead to an upgrade or downgrade with regard to country ratings. They indicate their concerns about such factors as debt-to-GDP ratios, your current account deficits, fiscal deficits, growth and unemployment.

BT: Does it affect your decisions, policy choices? Do you think, "If we do this, they're going to do that"?
GM: No, we don't. You can't conduct policy simply to please the rating agencies. But what you need to do is take account of the issues that they raise. Are there measures we can take to address the issues they raise? They are often the very issues we are grappling with anyway.

Let's take the current situation. The agencies have expressed concern about the size of the fiscal deficit. Treasury has imposed an expenditure ceiling to manage this – not to please the rating agencies, but because it's actually the right thing to do. If the rating agency says, "You need higher interest rates", we say, "On taking account of the economic situation, we actually believe the appropriate policy is the following…" You can't have higher interests rates because the agencies think you should have them. We wouldn't do that.

NOTE

1. Monetary policy relates to the supply of money in the economy, e.g. through setting interest rates. Fiscal policy deals with government revenue (mainly taxes) and expenditure.

CHAMBER OF MINES

Demonstrating again that the Chamber of Mines of South Africa is a progressive organisation committed to "putting South Africa first", it is in the process of commissioning a 100kW Fuji platinum fuel cell at its offices in Hollard Street, Johannesburg. The fuel cell will use about 40 ounces of platinum, valued at $60 000.

With the platinum industry facing immense challenges due to a fall in demand and the recent industrial action, unemployment in South Africa at an all-time high and the country's energy grid unable to keep up with demand, platinum-based fuel cells tick several boxes when it comes to positive initiatives for change. Platinum fuel cells, such as the one soon to be powering the Chamber's offices, address four of South Africa's major issues: its increasing demand for energy; its high carbon footprint; the need to create jobs; and the government's beneficiation policy.

And the potential for platinum fuel cells to drive economic development is enormous. The fuel cell industry is revolutionising the way power is delivered to all areas of our lives – from cars, mobile phones, computers and the delivery of electricity to our homes and work places.

South Africa is a leading producer and resource base for the platinum and associated group metals (PGMs) that can help mitigate climate change. Platinum already makes a large contribution to reducing global greenhouse gas emissions. Since their introduction in the 1970s, platinum, palladium- and rhodium-based catalysts have delivered massive reductions in harmful emissions from automotive internal combustion engines.

Each year, southern Africa produces more than 90% of the world's newly-mined platinum. However, demand for platinum has remained relatively flat over the last 10 years.

The global market for fuel cells is still in its infancy and the Chamber's involvement in market development and its partnership with the South African government is an unique opportunity.

With 50% of six main types of fuel cell power plants globally using platinum, the fuel cell market offers the platinum industry a notable growth opportunity. The development of additional markets for PGMs serves the interest of South Africa as a whole and the interests of the global industry with positive impacts on the environment.

The proactive initiative is a partnership with local energy firm Mitochondria Energy Company (Pty) Ltd, with funding from the Department of Trade and Industry and the Industrial Development Corporation, and the gas supplied by eGoli Gas. Mitochondria was established to drive the penetration of new energy technologies in the African market.

Mitochondria has partnered with international fuel cell technology providers and is responsible for the engineering, procurement, installation, commissioning, maintenance and commercialisation of the Chamber of Mines of South Africa installation.

The Chamber aims, through this actions, to show international fabricators of fuel cells that South Africa and Africa are viable markets for the local fabrication and installation of platinum-based fuel cells.

The platinum industry already employs some 150 000 people directly. A growing market would create more jobs, and the integration of these technologies into the local market would create even further downstream job creation. The mitigation of greenhouse gasses while using fuel cells can have a profound impact on the carbon footprint of companies, countries and the planet as a whole.

The global market for fuel cells is still in its infancy and the Chamber's involvement in market development and its partnership with the South African government is an unique opportunity. Early adoption, demonstration and application could provide a platform for local beneficiation and job creation. By using African resources, technology and manufacturing, other countries in Sub-Saharan Africa would be able to provide reliable, green electricity to their people at a micro or macro level, promoting the development of a new, indigenous, technology-based industry.

Global and public private partnerships result in development at many levels. It is time to get on board.

Contact Details:
5 Hollard Street, Johannesburg, 2107
Tel: +27 11 498 7100 | **Fax:** +27 11 834 1884 | **eMail:** info@chamberofmines.org.za
Web: www.chamberofmines.org.za

LUTHULI MUSEUM

A fitting memorial to Africa's first Nobel Peace Laureate, Chief Albert Luthuli.
Dedicated to the life and legacy of this extraordinary leader:
a man who fought intrepidly for equality, peace,
social justice, and human rights.

A TRIP TO the Luthuli Museum (established 2004) in Groutville, on the north coast of KwaZulu Natal, will leave you awed and humbled when you discover the challenges Luthuli (1898 – 1967) overcame as leader of the African National Congress (1952 – 1967) in the struggle against apartheid, repression, and racism.

Walk through the original 1927 home of Luthuli where he held secret meetings with other leaders of the Liberation Movement, including Nelson Mandela, then leader of the ANC Youth League.

Listen to Luthuli's Nobel Peace Prize acceptance speech made in 1961 in Oslo, Norway as you wander through the exhibitions.

Stroll through the museum's manicured gardens where Luthuli hosted an unexpected visit by the late US Senator Robert Kennedy in 1966.

Visit the restored 1847 United Congregational Church to which Luthuli devoted his time during his banishment and where his grave is now located.

View the life size bronze sculpture of Luthuli in nearby Stanger, KwaDukuza, where he forged enduring bonds with the local Indian community also engaged in the Liberation Movement.

Leave with a deeper understanding of how South Africa became the free, democratic country we live in today.

The Museum is situated at 3233 Nokukhanya Luthuli Street, Groutville, formerly a mission station established in the 1800s by the American Missionary, Reverend Aldin Grout (1803 – 1894). The Museum is approximately 6 kilometres from exit 226 on the N2 highway northbound.

LUTHULI MUSEUM
Let the spirit of Luthuli speak to all

LUTHULI MUSEUM
2004-2014
10 yrs

20 YEARS OF FREEDOM
south africa 1994 - 2014

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3233 Nokukhanya Luthuli Street Groutville, KwaDukuza 4450, Republic of South Africa, Tel: +27 32 559 6822, Fax: +27 32 559 6806, www.luthulimuseum.org.za, email: luthulimuseum@luthulimuseum.org.za, Like us on Facebook

Incentives, co-ordination and learning:

The institutional array of China's development

By **Alexander List**

The first Chinese institute of higher learning, the Chinese High School, now called Hwa Chong Institution.

In the popular imagination, China has a top-down government that tells its people what to do and brushes aside those who oppose it. Such harsh command, along with an infinite supply of cheap labour, is then said to account for the country's feats of development. That image and those feats then cause some people to pine for decisive, technocratic political will, and allow others to excuse why – given the pesky opposition – they cannot be held to a yardstick of rapid growth.

But this image of Chinese governance is deeply mistaken. China's government is fearful of its people. It is decentralised, with its localities and bureaus granted degrees of autonomy beyond the imagination of most of their peers elsewhere. It uses performance management, but of a different kind to that elsewhere, not least in South Africa.

Its institutions also have no magic formula based on race or culture. Officials work seven to eight hours a day, with qualifications and salaries similar to here. They face the same problems of silos, co-ordination and motivation as those in any other human organisation. The evidence suggests they solve these less badly than most others, though not perfectly. There may be much to learn.

To that end, this essay describes some features of China's institutions, as observed during several years living there and several years of research after. It considers, first, the manner in which Beijing motivates and disciplines local government; second, the institutional tools used to weaken silos at each tier of government; and, third, the means by which the state learns. It concludes with some reflections on relevance for South Africa.

THE USES OF HOPE AND FEAR

Many, if not most, of the officials in local government in China are anxious. This anxiety is induced by the Organisation Department, which is the arm of the Chinese Communist Party responsible for cadre deployment. This institution is something like a human resources department, only more powerful and better staffed. It holds files on every official, conducts their performance evaluations and selects candidates for promotion.

Deployments are open to political adjustment, but that opening is constrained. Senior leaders can swing the final choice towards their favoured candidate, but cannot introduce a candidate who has not, in the Department's evaluation, achieved adequate performance. There is a threshold beyond which patronage can take effect, and only competence clears that threshold. Inversely, there is a threshold of incompetence beyond which the Department advises demotions, rotations to worse posts or outright firing, though the latter is relatively rare.

The evaluations are based on a list of "negative" and "positive" criteria. Higher scores on the negative reduce the chance of promotion and increase the chance of removal, and vice versa. The target-setting for a specific official can be elaborate, but three criteria of performance are almost always weighted far higher than any others. They will determine a career trajectory, from the smallest village in a remote rural province to the corridors of power in Beijing.

The first criterion – a "negative" one – is "social stability". In practice, it counts riots, and their intensity. A handful of protestors can be locked away without anyone noticing, and the official may not receive a blemish on his record. But escalation to a large crowd will lead to pictures online. Beijing will censor the pictures, but note their origin. If the crowd is large, sustained, or turns violent, reinforcements may be needed from other districts. Once calm is restored, the higher tier arrests the ringleaders, fires the local Party leader, and devises a compromise solution that assuages the majority of the protestors.

There is an implicitly democratic principle within this means of monitoring local government: if local people are angry enough for long enough to risk imprisonment, then the local government has failed and must be removed. Moreover, where elections require the people themselves to find a replacement, that responsibility falls to the government itself.

The system is not without risks. Firing the local leader each time a minor protest occurred would swiftly degrade performance even more. But by setting the bar high enough, yet not too high, the system means that, far from brushing opposition aside, local officials are constantly seeking to make sure that the local majority is content enough not to join passing protests.

The resulting fear cascades through departments. As an official in a local sanitation department once described it: "If I leave the streets unclean, the old ladies will complain; if I do not respond, they might come out on the street; if they come out on the street, my boss will get scared that his boss will notice, so he will fire or demote me."

This fear might become paralysing or lead to short-time horizons, were it not balanced by the two other criteria. Those are "local GDP growth" and "local tax receipts". The better a local government performs on those, versus its peers, the higher the chances of promotion for all its officials. With regular and systematic rounds of promotion every five years, and the possibility for the best to go all the way to national government, that chance is credible and desirable. Since high enough growth creates jobs and high unemployment creates riots, the criteria together have spread a relentless obsession – in deed and not just word – with keeping employment high.

Under this system of reward and punishment, officials are granted substantial autonomy. As described below, they are provided with the intention of the tiers above and the constraints on their action, then left with the freedom to accomplish those objectives.

It is true that they also have freedom over their local constituents. They are largely released from cumbersome procedural regulations and can expropriate land, grant incentives and harass opponents with some impunity, provided they do not trigger large protests. Yet it must be asked: on what basis are complex procedural constraints on local action, handed down from a distant capital, more "democratic" or more "free" than constraints that arise from monitoring the local citizen's actual discontent? Do the people govern in the former any more than in the latter?

The weighting of the system is also under adjustment, to tip it more to the people. Two years ago, one of China's largest cities began an annual survey of 2 to 4 percent of the population, weighted to the poor and marginal, which asked only one question: "Did your life improve this year?" The answer to that question was formally introduced to the evaluations, and weighted higher than GDP and tax growth. It remains to be seen if this will take hold and spread, but if it does, the people may need neither to riot nor to vote in order to govern.

In all, officials across China work in the constant knowledge that they must deliver services and growth, that they can take risks in doing so, and that a credible, powerful, extensive monitor stands watch over them, in the form of the Organisation Department. It will allow them to access patronage, but only if they deliver.

This arrangement would break down if officials were only given incentives. If they lacked the requisite capabilities, local officials would widely fail to meet the targets, and the system would either have to decimate the ranks of government or lose its credibility. So it is that another set of arrangements exists alongside the monitoring, to provide officials across China with two of the hardest and most important capabilities in public administration: to co-ordinate and to learn.

BREAKING SILOS

Government requires silos; effective government requires overcoming them. The test of a public organisation is therefore not whether it is siloed, but what tools it possesses to work across them and how effective those are. China's institutional arrangements furnish three such tools.

One has been described above, namely prioritisation of common targets. An individual in a department may sign a performance contract and meet all of the particular targets, but if their village, city or province does not meet its overall targets, their prospects will be dim. That they cannot control this outcome is acknowledged as unfair, but such moral reasoning plays second fiddle to the utilitarian importance of delivery.

The second tool is the use of multiple "deputies", who are responsible for clusters of portfolios. China's national government has four vice-premiers, a province like Hunan has six vice-governors, and a city like Shanghai has eight vice-mayors (an upper limit). Each deputy heads a cluster of interrelated

One of the oldest cities in China, Xi'an.

departments, although which departments are assigned to which portfolio varies from province to province and decade to decade as needs change.

The deputies do not intrude on the internal working of individual departments, but they have substantial authority to set common goals and resolve cross-department disputes. Their decisions cannot be appealed to their superior and they have a substantial voice in budget allocations among departments in their cluster. Much more than revolving chairpersons who are merely "first among equals", they provide substantive leadership to portfolio clusters and hence help to give them a reality that is functional, not merely formal.

Moreover, leaders must first serve as a deputy before ascending higher. Few mayors have not been vice-mayors, and every premier has been a vice-premier. That means that top leaders have long experience in the difficult managerial tasks of co-ordinating across silos, and have been selected on their aptitude for it. So the qualification for leadership is not only proficiency in running an individual department, but also in solving cross-silo disputes in the pursuit of common goals. Leaders at each tier of government are trained in co-ordinating, and judged on how good they are at it.

The third tool is an institutional form placed at the disposal of those leaders. Known as a "leading group", it is a temporary, purpose-driven cluster. Forming one requires only a clear objective, whether to "attract foreign investment", "build the national electronics industry", or, at its most ambitious, "reform the economy". The leader who chairs the group will then designate the institutions involved, and choose several existing officials to act as the Office of the Leading Group. Both purpose and composition are laid out in a document, which may have as few as three or four pages, that is ratified by a group decision at the relevant tier of government.

> Two years ago, one of China's largest cities began an annual survey of 2 to 4 percent of the population, weighted to the poor and marginal, which asked only one question: "Did your life improve this year?" The answer to that question was formally introduced to the evaluations, and weighted higher than GDP and tax growth.

The utility of the tool lies in the apparatus that comes with it. Junior or working-level officials can submit to the group Office any problem encountered in the pursuit of the group's purpose. The Office is then responsible for attempting to find or broker a solution. If it cannot, it bumps up the problem to a Vice-Leading Group that meets quarterly. If that forum finds no solution, it is bumped up again, to a Small Leading Group, which includes the heads of the departments involved in the problem. If there is still no solution, the problem goes to the Full Leading Group, which is authorised to change policy if needed.

Through these routines, minor problems are prevented from festering by being escalated continually until they are resolved. And as soon as a problem is solved, it stops escalating. Each step in the process spends little or no time reconsidering issues discussed below, but only those that truly require senior decisions. It is only at the Full Leading Group, meeting once or twice per year, that policy reports and significant changes are considered. These ad hoc delivery clusters spend the vast majority of their time solving problems and, when it comes time to discuss policy, that discussion is anchored in the shared experience of real problems and what the real solutions to them have been.

None of these tools is close to perfect. The common goals can encourage "free riding". The deputies can interfere too much, or too little. The leading groups can be empty and ineffective. Co-ordination is a hard art. China's institutions train its leaders to be skilled practitioners of this art, furnish them with tools for it, and motivate those under them to at least play along. This does not solve the problem; nothing has or ever will. But it is these tools, not some magic formula or cultural trait, which may account most for the Chinese capability to "get things done".

THE INSTRUMENTS OF LEARNING

However, getting things done has little point if the things being done are ineffective or counter-productive. Making action count requires learning – and learning is hard for any organisation, let alone a public one. It requires the means to find and diffuse knowledge, to sponsor and induce officials to risk innovation, and to accept the recognition of failure.

One of China's means is a dual network of training institutions and policy think-tanks spread across the country. The former are called "party schools". Hundreds of units at the village level are no more than classrooms for ideological indoctrination, but the provincial branches are prestigious, well funded, and home to some of the liveliest policy debates in the country. The central school, in Beijing, is both a premier research institute and a training ground for future provincial and national leaders. Its seminars are sometimes led by the president himself and frequently by cabinet members. Debate is not just encouraged: a willingness to challenge orthodoxy is recorded positively in students' personnel files. Attendance is a career coup.

The schools constantly exchange knowledge among themselves as they hunt for what works. If a provincial faculty notes some promising new administrative practice or policy, this is reported to the central school, which can then organise an evaluation. If successful, the practice is then incorporated in upcoming seminars, which helps diffuse it to leaders in other provinces.

A similar function is performed, alongside the schools, by several networks of think-tanks. The Chinese Academy of Social Sciences has branches in half a dozen major cities. The state has internal policy research units and planning commissions in each province and city. Many ministries have internal quasi-research units, whose job is not to channel ideas from the ether, but to collect experience on the ground, analyse and aggregate it.

Debate is not just encouraged: a willingness to challenge orthodoxy is recorded positively in students' personnel files.

This is aided by the second learning process, which relates to the design of national programmes. These do not specify means; rather, they specify ends and leave the models for achieving them to the lower tiers to adapt and experiment, but under continuous, problem-oriented monitoring. That is, they make a sum of money available to each province or city to pursue those ends, and then continuously bring together officials from different regions to compare projects and results.

To illustrate, consider affordable housing. Several years ago, the construction of tens of millions of units was designated as a national priority. In many countries, the national government would have to spend years in exhaustive debate and analyses of myriad issues, such as the best model for combining public and private spending. The resulting model would be imposed on local governments as a condition for funding. It would likely fail in many places. Five years later, a hue and cry would arise about the failure and the whole process would start again. By then, the original designers would have left the department, so the next version would not learn, and another bad programme would restart the decadal cycle.

The Chinese approach was different. The central government set a national target and budget for low-income housing. City-level targets were calculated on a simple formula and the budget was divided accordingly. Each city was then allowed to experiment with whatever models it thought might work to deliver the requisite units within the budget. Some cities built and rented out the houses themselves. Some provided low-income residents with rent or purchase subsidies. Some created wholly new and imaginative models. The only requirements were that the funds had to be clearly accounted for, and the officials in charge of the programme had to attend regular briefing sessions and conferences with their peers elsewhere and with the national government.

A similar example arises in research and development (R&D) funding and, indeed, in most public interventions. In each, explicit provisions upfront allow for adjustment later. Budgets are increased for those that perform and lessons are extracted from those that do not. Officials who innovate successfully in a city are elevated to the province, and from province to centre.

By their nature, though, policy innovations are risky. Given the additional complexity involved, it would be a surprise if new policy ideas failed any less often than new business ideas. So policy innovation has to be able to signal when experimentation is permitted, as well as develop the means and habits of constructively admitting failure.

The Party's past furnishes tools for both. The first is the habit of "self-criticism". Once used by Mao Zedong to eliminate opponents, Deng Xiaoping and his successors rehabilitated it to allow the admission of failure without consequence for one's position. Deng himself considered the extent of self-criticism to be a decisive difference between the communist parties in Russia and China.

The second tool for innovation will designate a series of "points" – such as individual cities or public entities – where experiments are both allowed and monitored. If successful, the points are expanded to a "line", such as a province or sector, with the experiment being adapted in the expansion. After another round of evaluation and adaptation, the innovation is expanded to the "surface".

This system can fail. But when it succeeds, the results can be astonishing. China's famous special economic zones (SEZs) were and continue to be points in this system. Indeed, when detached from such a system, their utility is limited, as the failure of SEZs in country after country outside China has shown.

Its most striking use may have been in land reform. In its early years in power, before the disasters of the late 1950s, the Party used its tools of experimentation and local adaptation to accomplish the largest land redistribution in history, while increasing food production. After 1978, while reversing Mao's mistakes, it redistributed again. Giving provinces latitude in means, and adapting to crops and markets and available services, millions of large farms were broken up and several hundred million rural farmers lifted themselves out of poverty within 10 years. It was an example of a joined-up, rapidly learning, fast-moving system demonstrating its capabilities, and announcing them to anyone who cared to learn.

A BILLION PEOPLE RISING

China may be in the early stages of an economic crisis. If it stumbles, whether now or later, some will no doubt say that none should learn from it. Yet this should not obscure the unprecedented achievement of the last decades, in which tens of millions of jobs were created year after year, in tandem with wages rising at double digits. Thirty years ago, China was as poor as Sierra Leone. Today, interns in factories in its central provinces earn more than South Africa's security guards, and construction workers in its richer cities earn more than much of our middle class.

Nevertheless, the achievement is fragile. No one knows that better than China's leaders. As the *Huainanzi*, a book of political philosophy written in 100 BC, tells them, "Worrying about a calamity once it has arrived is like a sick person searching for a good doctor once he has already become critically ill." This book and others provide deep sources of much of their institutional practices. The Chinese were writing and using works on pragmatic public governance before Rome was an empire, and have continued to do so for two millennia after.

> Millions of large farms were broken up and several hundred million rural farmers lifted themselves out of poverty within 10 years. It was an example of a joined-up, rapidly learning, fast-moving system demonstrating its capabilities, and announcing them to any who cared to learn.

South Africa does not need to believe that Europe has had no reverses, or to read Reformation treatises on government, to borrow from it electoral democracy and social welfare. Still less do we need to believe that China will rule the world, or to read the *Huainanzi*, to borrow some institutional tools from the country that has improved the lives of more of its people at a faster rate than any other before it.

The borrowing will need to be tailored, but both the need and the uses are clear. How can our political parties change cadre deployment? How can we react differently to service delivery protests? How can we turn governmental clusters into function, not just form? How can we make our working groups work? Why do we have just one new school for civil servants, instead of nine? How can we redesign national programmes to stimulate initiative, instead of suppress it?

To be sure, many entrenched interests will resist even raising such questions. Nonetheless, the example of a billion people rising may help to start the debate.

CHRIS HANI DISTRICT MUNICIPALITY IS READY TO BECOME A SPECIAL ECONOMIC ZONE


Cllr. George Xoseni, Council Speaker


Mr Moppo Mene, The Municipal Manager


Cllr. Mxolisi Koyo, Executive Mayor

The Chris Hani District is – both geographically and figuratively – the heart of the Eastern Cape. Named after the heroic freedom fighter Chris Hani, the area has played its part in producing many of the giants involved in the country's liberation struggle. Their lives and the values they stood for are well captured in the Chris Hani District Municipality Liberation Heritage Route project.

The district played a singular role in the struggle, and in almost every small town and remote rural area, one can find traces of local heroes and heroines who made the ultimate sacrifice in the fight for South Africa's freedom.

SPECIAL ECONOMIC ZONE A CATALYST FOR ECONOMIC DEVELOPMENT IN THE CHRIS HANI DISTRICT MUNICIPALITY

An aspiring Special Economic Zone (SEZ), Chris Hani District Municipality (CHDM) has reaffirmed its readiness. An SEZ is defined as a geographically limited area, administered by a single body offering certain incentives and benefits to businesses physically located within the zone.

This economic policy tool will see the Lukhanji Local Municipality being the economic hub of the district. Other local municipalities will either be Free Trade Zones (FTZs), Export Processing Zones (EPZs), Industrial Development Zones (IDZs) or Sector Development Zones (SDZs).

The approval of the SEZ will increase foreign and domestic private sector investment through export growth and diversification; develop industries within the district; upgrade skills; and technological transfer.

The municipality has investigated various economic development instruments that are integrated and inclusive of the eight Local Municipalities (LMs). The SEZ will be biased towards the agro-processing sector, and will take advantage of the region's agricultural strengths. The proposed SEZ will be located near the old Queenstown industrial area.

Local municipalities under the jurisdiction of CHDM will form sector nodes that will yield primary production so that the agro-processing hub (the Queenstown SEZ) has adequate quantity and quality of input raw materials. This approach is inclusive and it ensures that economic activities and job creation occur not only in the proposed SEZ, but also in LMs of the district, and possibly adjacent district municipalities in the role of suppliers.

Four major corridors have been identified and are defined as follows:

- The east corridor (Corridor 1) runs along the R61 and links Ngcobo, Cofimvaba, and Tsomo to Queenstown.
- The north-east corridor (Corridor 2) links Elliot, Cala and Lady Frere to Queenstown along the R394.
- The west corridor (Corridor 3) links Middelburg to Cradock along the N10, and then Cradock and Tarkastad to Queenstown along the R61.
- The north-south corridor (corridor 4) links Sada/Whittlesea through Queenstown to Molteno.

Each of the above corridors transverse through Queenstown, and the town has a strong existing business and support service base. Queenstown was therefore selected as the location for the proposed SEZ.

CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH THROUGH OUR PEOPLE

POSTAL ADDRESS: Private Bag X7121, Queenstown, 5320
PHYSICAL ADDRESS: 15 Bells Road, Queenstown
TEL: 045 808 4600
FAX: 045 838 1556
EMAIL: communications@chrishanidm.gov.za
WEB: www.chrishanidm.gov.za
SOCIAL MEDIA: www.facebook.com/chrishanidm, @ChrisHaniDM

The workings of public works

An interview with **Jeremy Cronin**

Jeremy Cronin is the deputy minister of public works. Ben Turok interviewed him on 23 September 2014

President Jacob Zuma in King William's Town.

Ben Turok: What is the primary focus of the department of public works (DPW) at the moment?

Jeremy Cronin: The primary focus is the big turnaround under Minister Thulas Nxesi, who was appointed at the end of 2011. The minister has given extremely good leadership in dealing with deep-seated corruption challenges and the loss of morale and professionalism in the department. Audit figures are not the be-all and end-all, but they are suggesting a significant improvement.

Essentially, we lease out state-owned property to public entities. The big "clients" are the key national services, like the police service, the justice department, home affairs, correctional services: departments with lots of localised premises. It's been a space in which a large amount of corruption has been occurring.

BT: Do you prosecute?

JC: Yes, we've prosecuted. I don't have figures at the tip of my fingers, but I could give you large numbers of disciplinary actions and criminal charges laid against people. It's a continuing process. We've literally had to sift through millions of documents.

STATE PROPERTY

BT: I was an advisor to Jeff Radebe [minister of public works, 1994–99] for a short time. They were having great difficulty to get a proper register of the state's property assets. That's a long time ago. Has it been done?

JC: Again, I would say that it's only under Minister Nxesi that we now have a register that is 95 percent accurate. We are, by a factor of seven, the largest property entity in South Africa. Growthpoint, which is private, is the next biggest. It's a massive portfolio.

But the asset register has been in total confusion for a number of reasons. With the new constitutional order, the matter of who owned what was a great muddle. Take, for example, properties that were in the old Bantustans, or the transfer of properties between provinces. It's been quite an effort just to work out where the property should be vested. At a national level, we're now confident – and the auditor-general agrees – that we've made very significant progress.

Clearly, without a sense of what properties you hold, you can't steer anything, you can't deal with corruption, you can't assess what you're doing strategically. We are turning up all kinds of anomalies. A huge amount of the leased property appears not to be occupied by who should be occupying it – or, alternatively, it's not occupied by anyone, or the private sector is occupying it. There are other properties that disappeared in the transition in the early 1990s.

Very significant progress has been made on that front, which is also related to the major institutional issue in the department: the decision to establish the Property Management Trading Entity (PMTE). It would be, technically, a "government component" with a CEO, but not a board of directors. It would have a direct line of accountability to the minister. But, critically, it is audited separately and has a separate ring-fenced accounting system.

The idea was also to develop it into a more professional, rather than an administrative, entity. That will be a challenge, because professionals don't come cheap. The model is like the South African Revenue Service. An agency, staffed with quantity surveyors and architects and the kind of professionals you require, rather than having a few quantity surveyors at a chief director level, overseen by DDGs [deputy directors-general] who don't have the understanding.

SOCIAL CONSTRUCTION

JC: Another core function of the department is construction, which is very weak and underdeveloped. Related to that would be the future of the Independent Development Trust (IDT).

BT: What is your relationship to the IDT? It used to be an independent entity.
JC: Well, it was called "independent". It was set up with a trust fund of R2 billion by the apartheid regime as an endgame play to build up a buffer black middle class. In 1997, I think, the cabinet decided that it would report to the department of public works.

It's become a kind of parastatal entity, but the trust remained its funding source. At its best, it's been very good in community facilitation and consultation, working with community structures and NGOs. They proudly boast – I don't know if it's true, but I like to believe it – that none of their facilities have ever been burnt or chopped up, because there is a sense of ownership in the community. That involvement in the community is something we desperately need, so that we don't just parachute in some facility that we imagine is the community's priority – without consultation, without ensuring that there will be skills development in the community.

Basically, it was doing a lot of work but it was living off the interest from the trust. For example, they would be commissioned by a municipality or a provincial or national department to project manage the construction of a school. The funding would come off the budget of the department, and the IDT would charge a minimal administrative fee. This made them quite popular with line departments, but they have run into difficulty.

We are keeping them afloat through a R500-million injection from the Treasury, annually, over the last couple of years. It is just keeping their nose above water. We are now going to introduce legislation to change their character, to see how we can set them up on a more sustainable footing.

> Clearly, without a sense of what properties you hold, you can't steer anything, you can't deal with corruption, you can't assess what you're doing strategically.

We haven't decided firmly on this, but we are moving to bring the IDT in as a government component, like the PMTE, to become a construction wing with a focus on two things: public buildings occupied by departments, and IDT's residual capacities and skills in the project management of social infrastructure in communities. They would earn some of their money from administrative fees and try to develop a niche capacity in social infrastructure and consultation and community involvement. I also think – and this is a wider discussion – that maybe we should not have a single public construction entity. There are several operating and that's fine.

BT: That kind of construction is a key area of government.
JC: There is some frustration with the department, perhaps based on a false expectation. As Jeff Radebe nicely put it, there is a great nostalgia for the 1930s

era, when public works departments built dams, roads, and everything. Globally, that has changed dramatically, and certainly in our country as well. We can't aspire to be "the" constructor of social and economic infrastructure in South Africa. That is long gone.

But that doesn't mean to say we don't have a construction role. And construction should be, first, for the public sector. We should still be active in the maintenance of that property: the greening of it, the retrofitting needed to make it more disabled-accessible, proper planning and so on. We are currently working very closely with the City of Tshwane to improve the inner city, which is scrappy and really messy, and to also develop proper precinct planning, with pedestrian ways, north, south, east and west access, all of those things. We hold a lot of property stock there, so our PMTE committee is working very closely with Tshwane.

When talking about infrastructure, co-ordination is key, says Jeremy Cronin.

INTEGRATION AND CO-ORDINATION

BT: I keep coming across silo practices[1]. What happened to the cluster system that was introduced during Thabo Mbeki's presidency to develop integration and co-ordination across government?

JC: There are still clusters. I was involved in the infrastructure cluster from the beginning, back in 2009, when I became deputy minister for transport. I can certainly say that it was at best the sum of its parts, and never more than that. Each cluster basically consists of equals, of ministers, with no presidential override.

BT: And there is no top civil servant who cracks the whip, as they have in the UK.

JC: Exactly. A minister would be appointed as co-ordinator of a cluster and he or she would rely on his or her DG. But that DG would then be talking to equals and typically would not have the competence to assess, say, dam-building proposals or IT broadband proposals. So there is just reporting, without any co-ordination, understanding or critique.

BT: Who is doing anything about that?

JC: Well, let's talk about the Presidential Infrastructure Coordinating Committee (PICC), because it is in many ways a direct response to the frustrations we experienced in the cabinet around the reports we were getting from the infrastructure cluster. They were just wish lists coming from different silos. No integration whatsoever.

When you are talking about infrastructure, you absolutely need co-ordination. You put out a Gauteng freeway improvement project or a Gautrain: it will be there for 50 years and it costs R25–30 billion. What is its connection to the rest of the transport system? Why are you building freeways when perhaps the priority is public transport infrastructure? During a series of cabinet lekgotlas, we could see very directly that there was a big problem with co-ordinating infrastructure. In 2011, the PICC was born out of that frustration.

The PICC has been really innovative. The first evidence of that was the infrastructure build for the 2010 World Cup, which was a positive experience. We realised that the state could lead a very large public infrastructure build under very tight, impossible deadlines, and with all kinds of fancy requirements coming from FIFA. Whether it was the right infrastructure, whether it was a priority for development, is another debate, but it showed that we could co-ordinate an effort around a deadline and drive the process. But obviously, because the deadlines were so tight, because we were suddenly doing everything at once, it meant we had to pull off things. Collusion was a problem. Importing inputs was inevitable. We ran out of bitumen, timber and steel. We ran out of skilled people.

BT: What is the structure of the PICC?

JC: It has statutory standing under the Infrastructure Development Act. The Presidency has the chair. The Council, which meets three or four times a year, is chaired by the president and includes all premiers, 10 or 12 key ministers, and representatives of Salga [the South African Local Government Association].

Then there is the management committee (Manco), currently chaired by Gugile Nkwinti [minister of rural development and land reform], and the PICC secretariat, which is chaired by Ebrahim Patel [minister of economic development]. The members of Manco and the secretariat are appointed by the Presidency.

BT: But how does it ensure co-ordination?

JC: There's been a combination of circumstantial factors that I think is working quite well. One is the president's enthusiasm and strong support that can be relied upon on the say-so of Gugile Nkwinti or Ebrahim Patel.

The PICC responded to the frustration about infrastructure, and also the sense that we need to co-ordinate because of the problems that came out of 2010. At the [same] time, there is also this new department of economic development (EDD), but it's not clear what it's doing. They develop a New Growth Path, which is okay, but it hasn't got much grip. And so Patel grabs opportunities. Why shouldn't EDD position itself to become the chair of the infrastructure cluster? Ebrahim has that quality: he's an implementer. He works incredibly hard and has an eye for detail. He's very difficult to work for – he just burns out DGs and DDGs – but he is a huge asset.

> There is a great nostalgia for the 1930s era, when public works departments built dams, roads and everything. Globally, that has changed dramatically, and certainly in our country as well.

And the president likes this, because he has the National Development Plan, which is wobbly. So Patel has this hotline into the Presidency.

The DG and the Presidency are available for various "ribbon-cutting" things, but also, if push comes to shove, he and Gugile can get a presidential mandate to tell a minister that he or she has to co-operate or whatever. Through this channel, we're getting a picture of what's going right and what's going wrong.

WHERE'S THE MONEY?

BT: The PICC doesn't have much real budget, does it?

JC: No. It's basically to convene meetings of the secretariat. We meet weekly…

BT: Weekly? And what do you discuss there?

JC: Yes, we'll be meeting at 7:30 tomorrow morning, in fact. We are not inventing projects. Their budgets are in departments and parastatals. The secretariat began by making a broad sweep of infrastructure projects: what projects are underway, planned, talked about forever but nothing done? Which are strategic? And, critically, which ones depend on integration?

BT: ArcelorMittal has said that the PICC has not enabled the release of infrastructure money for projects that would require their steel for market demand. As far as they are concerned, the SIPs [Strategic Integrated Projects] under the PICC are not operating. Is that true?

JC: No, it's not true. Of course they're operating – if unevenly. First of all, some of the biggest projects don't fall under us. The Kusile and Medupi power stations, and so forth. Projects do not roll out as quickly as we would like them to, etc., etc., etc.

Let's take one of the big ones with multiple challenges: unlocking the northern mineral belt. There is extensive coal in the northern part of Limpopo, going into Botswana and a bit into Zimbabwe. Mining houses are not mining it, basically because of critical energy and water issues and rail logistics. If companies invest, will they be able to recoup the costs? So they are waiting for the energy to come. The water authorities are not sure that there will be offtake.

That is where co-ordination comes in. Our big battle currently is the water pipeline and the size of it. [The department of] water affairs has been working on a pipeline to meet the immediate demands of mining and the power stations, but not looking into a 20-year vision. The Treasury has been putting them into that perspective, clearly, because it is cheaper to do that. In the short term. We are saying that they have to double the size.

BT: This kind of decision-making surely needs engineers on the secretariat.

JC: Absolutely. There are technical teams under the secretariat and under the SIPs as well.

The different SIPs are co-ordinated by the big parastatals. For example, for the northern mineral belt, Eskom has released a key engineer to set up a separate office as the SIP co-ordinator. He's still paid by Eskom, not us. He's co-ordinating, working closely with Transnet and the people in water, etc. So the technical capacity is vested in this technical secretariat employed by EDD. Brilliant people, but it is a bit limited structurally, and that is something I am worried about. If Ebrahim Patel goes, a lot of things will not survive.

BT: It's a terribly elaborate system. I think of what was being done in Japan, Taiwan, South Korea. The people who drove those developmental states were engineers, not economists. You need engineers in the decision-making structure.

JC: I completely agree with that. And that is the case. The hard decisions are made at SIP level. Our job is political, basically to unblock.

BT: And to ensure the funding is there.
JC: That is true. We spend quite a bit of time talking to the Treasury, for instance…

BT: About the R800 billion? In 2011, [then Finance Minister] Pravin Gordhan announced R800 billion infrastructure spending over three years. Where is it coming from? If you look at the budget, there is a reduction in capital spending. Industry is looking at the numbers, and people like ArcelorMittal are saying, "We can't see the figures. What are we supposed to do?"
JC: The money issue is not *the* issue, in my view. It clearly is an issue, I agree. Eskom's problem comes down to fact that the borrowings were against supply and it hasn't been able to go onstream with Medupi because of delays. And it is the private sector that screwed up the welding and things like that. Maybe Eskom didn't have the capacity to properly supervise and programme manage what was happening through the private sector, but fundamentally the screw-ups come from there. There is this time lag, but once it is running, and it has taken longer than it should, hopefully it will recoup through electricity supply. This idea that Eskom is in freefall is not true.

BT: Okay, but the question of the R 800 billion…
JC: We are now saying R1 trillion over five years.

BT: The budget doesn't show it, the medium term expenditure framework doesn't show it…
JC: But it is not in one budget.

BT: The suggestion is that it would come from Transnet and Eskom. But Transnet doesn't have it, and Eskom certainly doesn't.
JC: You should speak to Ebrahim [Patel]. I am not the economist, so ask him. But the amount spent over the last five years on infrastructure was R1 trillion.

BT: I am a bit sceptical.
JC: That's good. The numbers need to be interrogated.

BT: We do see schools and hospitals and other social infrastructure being built, but not physical infrastructure. I am talking about rail and ports.
JC: I can't sustain an effective argument on that. The critical political role we play [in the PICC] is in unblocking blockages and silo problems.

BT: I've been reading Michelle Williams' new book, *The End of the Developmental State?* (UKZN Press/Routledge). Clearly, we have had a rather dogmatic, rigid view of the developmental state. At the same time, if you are talking about development, there has to be state direction. Is the PICC set up to look something like METI [Japan's ministry of economy, trade and industry] – but not quite?

EPWP launch in Riverlea, Johannesburg.

JC: No, it's not that. It's more of a co-ordinating mechanism at a political level.

BT: But the co-ordination is not rigorous. If a minister does not comply, what happens? Nothing.
JC: We are a *democratic* developmental state [laughter]. I say that flippantly, but we are not going to be China or South Korea or Japan. And we shouldn't want to be; although there are still things we want to learn from those examples. We need to build our development institutions.

PUBLIC EMPLOYMENT PROGRAMMES

BT: Let's talk about the EPWP [Extended Public Works Programme]. What is it?
JC: Essentially, it's a massive response to our unemployment, poverty and inequality situation.

In the first administration, there were some public employment programmes run out of different line departments. The Working for Water programme started very early, in the department of water affairs and forestry [now water and environmental affairs], with Kader Asmal. Jeff Radebe was an early pioneer, looking at labour-intensive approaches to engineering and construction projects. S'bu Ndebele did quite well in KwaZulu-Natal with the "lengthman" approach to rural road maintenance: households along the road are given basic training and responsibility for a kilometre or whatever – to maintain it, tend the verges, fill potholes – and they are paid a stipend.

The notion of an Expanded Public Works Programme was endorsed at the Growth and Development Summit in 2003. GEAR had come and produced growth, but hadn't produced the other parts of the acronym: employment and redistribution. (Well, there was redistribution of a kind, but certainly not employment.) In the context of that massive unemployment crisis, at the 2003 Summit, the unions agreed. For them, this is obviously a challenge as it could displace formal-sector work. Business was not spontaneously sympathetic to it. For the Treasury, it looked like redistribution through digging holes and then filling them up again.

Nonetheless, the conditions were there to make an important agreement that we needed an expanded works programme. It was launched under the aegis of the dreadful Mbeki notion of "two economies". This was one of several interventions into the "second economy", for those "backward" people who couldn't get jobs in the "first economy", which was seen to be fine. The jobs are there, but they can't get them…

BT: Because the ladder is not there…
JC: The taxi recapitalisation was one of these "ladder" initiatives, a one-off. Scrap the old taxis and get them a new one, subsidise it a little bit and hallelujah, they will migrate into the first economy. In the same way, you can put people into a 100-day public works programme, and then the next time they knock on the door of the boss for a job and he asks about their work experience, they can say, "I have 100 days", and so they will get the job. That ladder approach was, unfortunately, part of the underlying two-economies paradigm. The target was 100 million work opportunities over the five-year period. That target was actually met within four years, so it showed us that there was a huge hunger in people. The stipend is currently R71 a day. It's not a lot, but people fight to get onto the programmes.

What has evolved in South Africa is extremely interesting, globally innovative, unique and much admired in other parts of the world, but not so well known inside of our country.

There are some interesting things to look at around the world. India has had a brilliant national works programme, the Mahatma Gandhi National Rural Employment Guarantee (NREGA) scheme, with 50 million people a year – although it is now unravelling under the right-wing BJP [Bharatiya Janata Party] government. It is seasonal, rural and has one budget line. In India, there is a down season, when nothing is happening and poor peasant families fall into massive debt. For them, it was a significant intervention.

In our situation, our unemployment problems are not seasonal and cyclical, and they are not just rural. They are deeply structural and systemic, so our interventions have to have that character. We are putting pressure on a whole range of departments, all provinces and all municipalities to participate.

BT: And the money comes from your budget?
JC: No, the philosophy is that every department that is involved in social development should fund public employment programmes. Home-based care, social work type activities…

BT: Who regulates and controls this sort of thing?
JC: That is the new innovation we have brought in. Building a little bit on the PICC, we now have a Presidential Public Employment Inter-Ministerial Committee (IMC).

> We realised that the state could lead a very large public infrastructure build under very tight, impossible deadlines.

The DPW is the keeper of the data – with a hundred data capturers punching in unreliable data coming from these programmes – of how many work opportunities, headcounts. They are not going out and assessing the qualitative impact of these programmes. But something amazing – and uneven – is happening out there. We are the lead department for infrastructure in the public works programmes and [the department of] social development is the lead department for the social sector. So, uniquely in the world, we've got a range of sectoral programmes.

BT: And all the funding comes from each department?
JC: For example, when Barbara Creasy was the MEC for basic education in Gauteng, she had something like 8 000 participants over a couple of years, doing homework supervision, sports coaching and security on school premises.

BT: And she paid for it from her budget?
JC: Yes.

BT: That is quite a strong model.
JC: It's a wonderful model, a brilliant model.

BT: But what pressure was there for her to do it? She could say no.
JC: Yes, she could say no. She did it because she had a crisis of failing schools in poor townships, with parents unable to provide homework supervision, but a whole lot of matriculants from those very schools were out of work or studying at Unisa, had spare time and needed pocket money. It's a brilliant developmental model. The former pupils have a sense of ongoing ownership and responsibility to the school. The kids benefit.

BT: Many departments found a way to do this?
JC: Yes.

BT: And there was no compulsion?

JC: The pressure doesn't so much come from us. It comes much more from the popular pressure for work. It comes from the pressure of good examples. We've put in incentive grants for municipalities to top up the budgets they are meant to set aside for EPWP, but we've found that a lot of them depend just on the top-up. Sometimes that kind of incentive doesn't really work. We're dealing with real life, not some ideal model.

In the second five-year phase of the programme, we targeted 4.5 million work opportunities. We got about 4.3 million. We are now targeting 6 million. But we are now saying that we can't just be targeting headcounts. We have to be measuring much more than that: what happens to participants after participation, and, secondly, what are the assets or services? What impact does it have on a community?

> If you go into any township, you'll find women – typically – holding communities together for nothing.

We have some bits and pieces of data. It's big and it's really significant, in my view. Environment is doing really well in their programmes. This is slightly contested research by CSIR, but to give you some order of the figures: Working for Water saved R400 billion worth of water resources and 71 percent of our grazing areas were saved from irreparable degradation as a result of putting people to work and providing real assets and services. It's not about digging a hole and filling it up again. At the height of the AIDS denialism, there were thousands and thousands of home-based carers visiting families, looking after them, preparing them meals, fetching medication – doing amazing things. You see, it's working with that reality. If you go into any township, you'll find women – typically – holding communities together for nothing. It's just impressive. We are trying to inject some stipends into this reality.

The NGO sector is in crisis, like Rape Crisis. We are no longer the global flavour. This provides…

BT: We don't know about this model…

JC: That's why I'm so anxious to talk about it.

BT: Because it's in bits and pieces…

JC: Which is its strength! We have now set up the Inter-Ministerial Co-ordinating Committee (IMC)…

BT: Under the PICC?

JC: No, under the deputy president, who is very keen about this.

COMMUNITY WORK

JC: Let me talk briefly about the community work programme. It was initially under CoGTA [the department of co-operative governance and traditional affairs] and the Presidency. Kate Phillips was running the thing, but we have bought her on board to help with this IMC. The department of public works – and this is why I'm so passionate about it – is sort of the secretariat for the IMC. But we are going to have to work together across all the sectors and learn from each other.

The community work programme is a little bit different from the other sectoral EPWP programmes. It's not full-time, but it can be permanent. It's two days of work a week, so that people can do other things: their spaza shop or their food garden and so forth. And you get R71 a day. The idea is that it is not a government department, although CoGTA funds it. The community meets with non-profit organisations – the "implementing agencies" – and decides what work it will do. Trying to get that sense of community planning and trying to identify key tasks. They tend to be low-skills tasks. The community identifies a need for a food garden, or for cleaning up the graveyard or the stream that's polluted.

There is a bit of a trilemma in this space. On the one hand, there is the good pressure to get the maximum number of people into these programmes, for income relief. On the other hand, there is the challenge of training and skilling so you get some kind of graduation out of the project. And then, thirdly, there are the assets or services that are provided or created and so forth. Different programmes work with different emphases, because you can't do all of those equally. If you put money into building, then you are not going to create that many work opportunities. If you put it into training, ditto: you are draining money out of the materials you need, and so on. Some of the programmes that the DPW runs provide an artisanal trade, typically through a Seta [sector education and training authority]. Less numbers, but more training. But even with community work, there must be some basic training: clothing, safety, whatever.

We're launching Phase Three in October in Keiskamashoek. There's a wonderful set of projects there. And we want to use publications like *New Agenda* to popularise these programmes.

NOTE

1. "Silo" refers to "an insular management system incapable of reciprocal operation with other, related information systems" (Wikipedia).

ADDITIONAL CENTRES OF EXCELLENCE TO BOOST SOUTH AFRICA'S HUMAN CAPITAL DEVELOPMENT

The Minister of Science and Technology, Naledi Pandor, announced the establishment of three more research centres of excellence (CoEs), bringing the number of such centres in the country to 17.

The CoEs will be in water, HIV and Aids, and human settlements, and will be co-funded with other stakeholders. They are expected to start functioning in the next financial year, following a call for proposals from research institutions.

The minister made the announcement at a forum for the directors of the Department of Science and Technology's (DST) National Research Foundation (NRF) centres of excellence, held in November 2014. The forum was held at the University of the Western Cape, marking 10 years since the first DST-NRF CoEs were established. The event also included an exhibition where various CoEs displayed their work. The exhibition attracted widespread interest from school pupils who also attended the event.

The forum, themed "Celebrating Ten Years of Research Excellence", showcases the CoEs' research outputs over the past 10 years, which have enabled South Africa to take the lead in various disciplines and put the country's research outputs on par with the best in the world. Through the CoE Programme, more than 650 postgraduate students are trained per annum.

Government is investing R472 million over the Medium Term Expenditure Framework in the 14 existing centres.

The minister said that although the DST, in partnership with other institutions, had made significant contributions to the building of the next generation of scientists, government still had to do more.

"Our concern is threefold – not enough blacks, not enough South African blacks, and not enough women will be part of that new generation," the minister stated.

A significantly lower proportion of the total number of African graduates was enrolling for postgraduate studies than was the case for white students. It was imperative to devise ways of attracting more South African and African black students into postgraduate research degrees and into research and academic careers.

"Our aim is to transform science, technology and innovation in Africa – just as South Africa in a political and economical context needs strong and reliable partners elsewhere on our continent, so too does South African science," said the minister.

The DST and the NRF agreed to host the CoE Directors' Forum on an annual basis to allow the different CoEs to make presentations on their work and highlight their successes. It is envisaged that the various engagement sessions at the forum will also trigger debates on how government can provide the kind of support needed for societal engagement, as well as look at strengthening international collaborations and partnerships.

Since the inception of the CoE Programme in 2004, 14 CoEs have been established, in addition to the National Institute for Theoretical Physics (NITheP) and the DST-NRF Centre for Indigenous Knowledge Systems, which function similarly to CoEs.

The outputs of the CoE Programme have shown a steady increase year on year. According to a 2012/13 report, nine CoEs and NITheP brought out a total of 880 research publications (consisting of 568 peer-reviewed journal articles, 197 conference publications and 22 book chapters). They also supported a total of 652 postgraduate students, up 75 percent from the number in 2011.

Speaking at the event, the NRF's Executive Director: Knowledge Field Development, Dr Andrew Kaniki, said: "The establishment of centres and networks of excellence is undoubtedly an important policy programme of government in advancing science and technology in this country. It is a strategic intervention to develop human capital, grow the next generation of researchers, and provide development and support for emerging and established researchers. This year's annual forum not only marks 10 years of government's strategic vision, but will [also] showcase just how much the CoEs have contributed to South Africa's knowledge economy."

DEPARTMENT OF SCIENCE AND TECHNOLOGY AND HYSA LAUNCH ALTERNATIVE ENERGY SOLUTION

The Director-General of the Department of Science and Technology (DST), Dr Phil Mjwara, officially launched the innovative 2.5kW hydrogen fuel cell power generator prototype unit at the University of the Western Cape (UWC) on 18 November, demonstrating South Africa's innovative capabilities in the emerging hydrogen and fuel cell technologies space.

This prototype was developed by the HySA Systems Integration and Technology Validation Centre of Competence (HySA Systems) in collaboration with Hot Platinum Pty Ltd, a local company involved in power management and control electronics.

The partners have been testing the unit at the Cape Flats Nature Reserve, on the UWC campus in Bellville, with remarkable results. All electrical power used in the reserve is generated from a bank of hydrogen cylinders, instead of from the national grid. The cylinders release hydrogen in the presence of a platinum catalyst (mined in the North West) and a series of proton exchange membranes.

Dr Mjwara emphasised the critical role of science, technology and innovation in the development of this country. "We talk a lot about adding value and reducing our carbon footprint, about access for all, creating wealth and developing private/public partnerships. This project shows that we are capable of all of these things," he said.

The hydrogen fuel cell power generator unit uses hydrogen to generate electrical power, with water vapour being the only by-product, which means that electricity can be produced in an environmentally friendly way without pollution or noise.

Furthermore, hydrogen can be used to produce electricity in remote areas that do not have access to the national grid. The decentralisation of energy generation by using hydrogen fuel cell systems is one of the few possibilities for providing efficient and cost-effective access to electricity.

Prof Bruno Pollet, Director of HySA Systems, said: "As we are all aware, South Africa, often seen as the 'Powerhouse of Africa', is facing major energy challenges. Planned outages, blackouts, energy shortages, high energy tariffs, years of under-investment in power infrastructure and 'energy poverty' in low-income households are the main issues. To eradicate this, the South African government has rolled out several energy and energy-efficiency programmes and initiatives, such as HySA, with an emphasis on alternative energy opportunities and off-grid renewable energy solutions."

South Africa is one of the primary suppliers of platinum group metals to the world, but not much beneficiation is being done in the country. However, the rise of hydrogen fuel cell technologies in various markets is about to change the global platinum landscape with the anticipated increase in platinum usage in this emerging market.

It is therefore safe to assume that if the technology gains market share in coming years – as is anticipated by manufacturers such as Toyota, Hyundai, Honda and BMW – the platinum group metal market will see profound and sustained growth. Prof Pollet remarked that there were significant opportunities for South Africa to partner with international fuel cell producers, and that these partnerships had the potential to make the country an established hub for the production of fuel cell components.

science & technology

Department: Science and Technology REPUBLIC OF SOUTH AFRICA

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GAUTENG – A GLOBAL CITY REGION IN THE MAKING

The ANC in Gauteng held its Provincial Conference in early October 2014, under the theme: "United in advancing radical social and economic transformation". An atmosphere of mutual respect and a high level of discipline characterised the proceedings, with frank deliberations culminating in the election of a new leadership corps and the adoption of resolutions that will bring qualitative change to the lives of South Africans.

Radical economic transformation

Given the shift in the balance of forces, the ANC will push for radical social and economic transformation in our country that will see the stranglehold of monopoly capital being broken.

Hence, the Conference has directed that we advocate for and implement the following policy positions that will fundamentally change the structure of the Gauteng and South African economy:

- Ensuring that more than 30% of our mineral resources is beneficiated over the NDP period;
- Increasing domestic production of manufactured goods to fast-track localisation;
- Enhance deracialising of our economy and accelerated entry of black people into the mainstream of the economy, with ownership of mining and other key sectors increasing to 49%;
- Modernisation and industrialisation of the economy and creation of space for black industrialists in key sectors of the economy;
- Leveraging state procurement through, among others, the adoption of a policy of "set asides" for black entrepreneurs;
- Transformation of the financial sector with the establishment of a state bank prioritised;
- Better support to black, emerging farmers for them to meaningfully participate in the agri-business value chain;
- Increased support for small business;
- Production of more relevant skills for the economy.

Support for the 10-point plan

Gauteng's pre-eminence as the economic engine of our country and a serious player in our continent's economy notwithstanding, our people still bear the brunt of poverty, joblessness and inequality.

Paul Mashatile, chairperson of ANC Gauteng.

It is against this backdrop that the Conference declared its unqualified support for the Gauteng Provincial Government's 10-point plan of radical transformation, modernisation and re-industrialisation of Gauteng over the next five to 15 years.

There will also be an increase in our infrastructure investment as this will lead to Gauteng becoming an even better place to live and work in.

Electronic tolling

Given the general dissatisfaction regarding the electronic tolling of roads in Gauteng, the Conference resolved to oppose the e-tolls in their current form. Hence, the ANC in Gauteng supports the work of the electronic tolling review panel established by our provincial government to assess their socio-economic impact, and its outcomes will be carefully considered when developing alternative funding models for road infrastructure in our province.

Fight against corruption

The ANC has led heroic struggles to liberate our people while surviving relentless efforts to weaken and even destroy it over the last 100 years. This legacy needs to be preserved for future generations.

Hence the need for the ANC and its policies to remain relevant and appealing to our people with adherence to the core values that guided our forebears being central.

These values – sacrifice, integrity, selflessness, service to the people, discipline, criticism and self-criticism, mutual respect and humility – should not be eroded. Instead, they should be instilled in the psyche of and upheld by ANC members.

The ANC will therefore take a dim view of shenanigans that alienate our people from our organisation. Hence, no one convicted of criminal offences will be allowed to occupy leadership positions in any structures of the ANC and its leagues. In addition, members charged with criminal offences or accused of offences that bring disrepute to the ANC will promptly appear before the Integrity Committee so as to clear their names and allow for corrective measures to take place.

The intensification of the war against corruption will be complemented by rigorous political education to raise the political consciousness of ANC members. These lessons will be conducted by the Walter Sisulu Leadership Academy (The ANC Gauteng Political School).

ANC

Contact details:
Walter Sisulu House, 94 Commissioner Street, Johannesburg 2001.
Tel: 011 227 9300.

Stirring up the pot of gold:

Import parity pricing in South Africa

By **Zunaid Moolla**

The author is an economist specialising in modelling and economic literacy

Plastic buckets manufactured in China.

South Africa's economic performance has been disappointing on many fronts, save for the export of its raw minerals. The share of ores and metals exports as a percentage of total merchandise exports grew from around 5 percent in 1994 to 32 percent in 2012, after peaking in 2011 at 34 percent. For a resource-rich country, this should be a cause for concern. The jobless growth of the past several years has proved inadequate for the levels of unemployment, poverty and inequality from which South Africa continues to suffer. While there are many possible explanations for this poor performance, and its attendant negative consequences for growth and employment, one area that merits investigation is the lack of beneficiation of its mineral resources.

South Africa's rich mineral endowment makes possible a chain of production stretching from mining of raw ore to a range of manufactured products. Economists and analysts have captured the benefits of such a chain of production voluminously since 1994. These include:

- inward investment that leads to greater fixed capital formation
- job creation
- skills development
- innovation from forward and backward linkages
- import substitution, leading to a reduction in deficits on the trade account
- possible growth of exports of finished goods
- accumulation of foreign reserves
- more competitive markets for consumer goods.

Unlike many other "developing" economies that suffer from the well-known "resource curse", South Africa is (and has been) well placed to undertake beneficiation: industrialisation of the country dates back to the 1870s and its infrastructure matches that of any of the highly industrialised countries. So what can explain the long neglect of the minerals sector from developing its full potential?

Part of the answer may lie in the way in which the South African economy was articulated during the period of British rule, followed by the political accommodation of Afrikaner interests after 1910, and the subsequent imposition of apartheid in the decades that followed.

> What can explain the long neglect of the minerals sector from developing its full potential?

The country adopted the role of a supplier of primary commodities – principally gold and diamonds and other minerals – to the world (but mainly British and European) market. The interests of foreign capital, it seems, held sway over any domestic market concerns. While the manufacturing sector grew over time, the system of apartheid did little to broaden the economic base, as production of consumer goods was restricted to a small section of the population. The result is an economy that lacks diversification, with downstream industries barely rising above their infant stages. Fast-forward to 2014 and the shift to broaden the base of the minerals sector still faces daunting challenges.

Although issues of diversification have been raised in successive industrial policy announcements, with emphasis on the creation and development of downstream industries, progress has been elusive. A review of industrial policy and strategy shows that ministers and department officials as far back as 2005 placed diversification high on a list of policy priorities. Concerning the natural resource-based sectors, the department of trade and industry (DTI) observed that the abundance of mineral and plant resources, coupled with cheap electricity and substantial state support, gave rise to distinct comparative advantages in a range of resource-processing sectors.

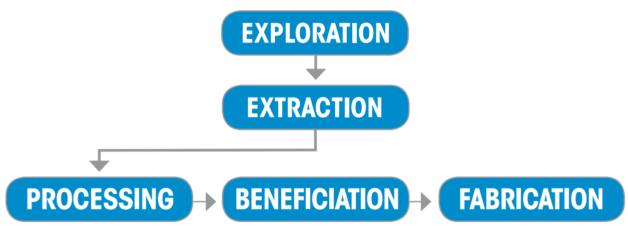
While state support may no longer be necessary for these sectors, the 2007 National Industrial Policy Framework notes selected areas in which government needs to play a role. The first of these was the significant pricing problems between these sectors and more labour-intensive downstream sectors, as reflected in the practice of import parity pricing (IPP). The second area was government facilitation of new value-adding opportunities in the oil and gas, pulp and paper, and platinum sectors, and the third concerned the management of finite mineral resources and the provision of infrastructure.

The New Growth Path Framework (2011) also raises the issue of beneficiation and pricing. One of its core strategies is to:

> [refocus] the beneficiation strategy to support fabrication… (rather than only smelting and refining, which are both capital and energy intensive), including stronger measures to address uncompetitive pricing of intermediate inputs, such as, where appropriate, export taxes on selected mineral products linked to clear industrial strategies.

Industrial policy sees diversification of the economy as a means to increase the number of commodities produced and to stem the volatility and decline in the terms of trade. The manufacturing of exportable commodities is also one way of expanding the formal economy to take advantage of rising incomes that flow from integration into the world economy. The newly industrialised countries (NICs) are often cited as examples of successful industrial-policy implementation lifting large sections of their populations out of poverty and raising their living standards.

Beneficiation, which is an important component of industrial policy, is comprised of two pillars: *upstream* (machinery, equipment, intermediate inputs) and *downstream* (a range of manufactured products including end use). The sequence of the value chain in mining can be illustrated as follows (Turok 2014):



Stages 1 and 2 are associated with the production of capital goods (upstream), while 4 and 5 involve consumer goods (downstream). However, in the beneficiation and fabrication stages, capital (or intermediate) goods are just as important. This discussion paper approaches beneficiation from both ends of the value chain – upstream and downstream.

While exploration and extraction are extremely well developed, the stages of beneficiation have not achieved their economic potential. This is acknowledged in government policies. In the Industrial Policy Action Plan 2013/14 – 15/16 (IPAP 5), we find the following:

> Mineral beneficiation is an area of work that presents much untapped opportunity, but has lagged in terms of policy development and implementation. Much greater attention will

have to be devoted to downstream beneficiation opportunities and the enormous potential that exists to deepen and extend the upstream value chain, with a sharp eye towards meeting the explosion of future demand associated with the sub-Saharan commodity boom.

Given South Africa's comparative advantage in minerals production and the imperatives of beneficiation, we ask why IPP is practiced by some of the large suppliers of mineral products in their pricing formula. How helpful or harmful is it to the country's industrial strategy in general, and to beneficiation in particular? We focus on the effect of IPP in select mining and minerals industries because of their potential for manufactured exports, import substitution and employment creation.

IMPORT PARITY PRICING: THE BASICS

According to Parr (2005),

> Import parity pricing is a pricing policy adopted by suppliers of a good for their sales to domestic customers, according to which price is set at the opportunity cost of a unit of an imported substitute good. As such, price is set equal to the world price converted into rands, plus any transport, tariff and other costs the customer would bear if importing.

Economists disagree on the reasons for IPP. In one view, it is an instrument of competition between domestic and international suppliers. A domestic supplier that is a less efficient producer than other international suppliers may add the raft of transport and tariff charges to remain competitive. The economic profit thus earned would be deemed reasonable, even if customers were unhappy about the inefficient production.

The second view is that IPP is a source of market power. Here, the pricing behaviour is explained by the structure of an industry. In an industry characterised by oligopoly or duopoly, there could be price collusion if the supplier/s decide to set prices at IPP level. Under such market conditions, suppliers use their dominant market positions to effectively discourage or prevent other suppliers from challenging their market power. In an industry characterised by a monopoly, IPP would be used to match the monopoly price (the point at which marginal cost is equal to marginal revenue and the quantity demanded that corresponds to this point), except when IPP is higher than the equilibrium price of the monopolist.

The question of whether IPP is a legitimate cost hinges on how the regulatory authorities determine whether the level of profits earned as a result is substantially higher than would be the case if IPP were not used. There are also issues of economic value and abuse of dominant market position. Each of these criteria is examined with regard to its detriment to consumers. When the Competition Commission investigates cases of market abuse, it primarily focuses on pricing: does the price of a product (or service) reflect its cost of production plus a reasonable profit? Prices can be said to be too high or too low. Prices that are too high result in excessive profits, while those that are too low limit competition. In either case, improper pricing works to the detriment of consumers.

The Competition Act, Section 4(1)(b)(1), which concerns price fixing, states: "An agreement between, or concerted practice by, firms, or a decision by an association of firms, is prohibited if it is between parties in a horizontal relationship and if it involves any of the following restrictive horizontal practices: (i) directly or indirectly fixing a purchase or selling price or any other trading condition...".

"Any other trading condition" could well be interpreted to cover the behaviour of firms that inhibit or restrain the supply of inputs to downstream producers.

> The 2007 National Industrial Policy Framework notes selected areas in which government needs to play a role. The first of these was the significant pricing problems between resource-processing sectors and more labour-intensive downstream sectors.

The conventional deterrent to market abuse by dominant firms (monopolies, duopolies or oligopolies) is a monetary penalty, if successfully prosecuted. This, however, has not opened opportunities for creating new downstream industries. The structure of the economy, and the entrenched power that some firms enjoy in this structure, remains unchallenged and market abuse takes new forms to get around competition legislation. A wider policy net seems to be necessary, one that covers pricing decisions as well as conditionalities pertaining to licensing agreements for the extraction and processing of the country's mineral resources. It should also include forms of state intervention to promote and protect downstream manufacturers.

IPP IN SOUTH AFRICA: SASOL AND MITTAL STEEL

While other factors may explain the failure to establish the many downstream industries in a country with such a well-endowed natural resource base (e.g. return on capital, skills shortages, energy costs and availability, environmental risks), there is good reason to isolate IPP as a major impediment. Sasol and Mittal Steel provide good examples.

Ann Crotty (2014) recently sketched how a factory in China that manufactures plastic buckets from polypropylene purchased from Sasol has an advantage over one in South Africa. Pointing out that South Africa has one of the largest and cheapest sources of polypropylene in the world, she writes, "You have to suspect that something has gone badly wrong with South Africa's industrial policy when Qian Sijiang in Wuhan, China, is employed by a South African-owned company to convert polypropylene, imported from this country, into a plastic bucket that is exported back to South Africa."

> Although the fines imposed on both Sasol and Mittal are heavy and can be expected to change the pricing behaviour of both companies, there is need for a remedy that would not only prevent such pricing formulae to begin with, but would establish relationships of mutual support and benefit.

While the Chinese may be favoured by scale efficiencies, government subsidies on a range of inputs including electricity and finance, and attractive tax incentives, what swings bucket production towards China is that the South African company in China can get supplies of polypropylene cheaper than a factory in South Africa. Excessive pricing (read IPP) may be the most plausible explanation for this lopsided trading practice.

Mittal Steel South Africa Ltd (Mittal SA) is the dominant producer of flat steel products in South Africa. Macsteel International BV (Macsteel), a joint venture between Mittal SA and Macsteel Holdings, is a large South African-owned trader of steel in the domestic and international market. Two gold mining companies – Harmony and Durban Roodepoort Deep – brought a case against Mittal SA to the Competition Tribunal, alleging that Mittal SA imposed an excessive price on its sales of flat steel products in the domestic market:

> Mittal SA is the primary producer of both long and flat steel products in South Africa with four production facilities, two producing flat steel products and two producing long steel products. It is noteworthy that the most modern of Mittal SA's four plants, the coastal Saldanha plant producing flat steel products, was initially controlled by a Joint Venture [JV] in which Mittal SA (or Iscor, as it was then known) held a 50 percent share, with the remainder held by the Industrial Development Corporation (IDC), a state-owned development finance institution which provides loan and equity capital in support of industrial development. The IDC's 50 percent share of the Saldanha plant was purchased by Mittal SA in 2002 as part of the restructuring programme… During the period in which Saldanha was controlled by the JV, an agreement between Iscor and the JV provided that all Saldanha output was to be exported. In other words, a market sharing agreement provided that Saldanha output would not compete with Iscor in the domestic market for flat steel products.
> (Lewis 2009)

Between 1984 and 1992, Iscor's prices followed the domestic inflation rate, which resulted in flat steel products entering the country. Mittal SA applied the IPP after 1992, when it was no longer subject to price controls which were determined on a "cost-plus" basis.

Lewis (2009) explains how the IPP was calculated:

> In brief, the import parity price was calculated by establishing a free on board (FOB) price based upon one or other European price (the prevailing Black Sea price was often referred to) and then adding on the relevant logistical costs of transporting the product to South Africa, such as the shipping, the stevedoring, the handling, and the port costs, a commission of 2.5 percent, an import duty (recently scrapped) of 5 percent, the South African logistical cost for port and railage delivered into the inland Gauteng region and, finally, a 5 percent 'hassle factor' reflecting the additional costs or 'hassle' entailed in importing over the advantage of utilising a domestic supplier. This is then converted from a dollar price to a rand price based on the prevailing exchange rate. This, the import parity price (IPP), is determined monthly by Mittal SA and is conveyed to customers as a discount off or surcharge on a list price that is published every three months.

The Competition Tribunal fined Sasol R534 million and Mittal SA R691.8 million, but the latter was settled privately between Harmony and Mittal.

What emerges from the two cases here is that prices are not set according to production costs plus a reasonable profit, but on what is established in a foreign country. Add to that a declining exchange rate and a tariff that is based on the rand value of the order, and the cost to buyers in South Africa becomes prohibitive. Although the fines imposed on both Sasol and Mittal are heavy and can be expected to change the pricing behaviour of both companies, there is need for a remedy that would not only prevent such pricing formulae to begin with, but would establish relationships of mutual support and benefit between dominant firms and downstream manufacturers. The aim of such a remedy should be to transcend the interests of a few large companies in favour of a national economic strategy. This is one of several factors that account for the achievements of the South Korean economy during its early period of industrialisation.

It should be pointed out that the beneficiation of minerals does not face any legislative barriers. On the contrary, amendments proposed in Section 21 of the Mineral and Petroleum Resources Development Bill (B–15 2013) give the minister a specific directive to promote beneficiation:

- "The Minister [may] must initiate or promote the beneficiation of minerals and petroleum resources in the Republic."
- "If the Minister, [acting on advice of the Board and] after [consultation with the] consulting a Minister of [Trade and Industry,] the relevant State department finds that a particular mineral, mineral product or form of petroleum can be beneficiated [economically] in the Republic, the Minister may promote such beneficiation subject to such terms and conditions as the Minister may determine."
- "The Minister shall from time to time by notice in the Gazette determine such percentage per mineral commodity or form of petroleum and the developmental pricing conditions in respect of such percentage of raw minerals, form of petroleum or mineral products as may be required for local beneficiation, after taking into consideration the national interest."
- "Every producer shall offer to local beneficiators a certain percentage of its raw mineral or mineral products as prescribed by the Minister."
- "Any person who intends to [beneficiate] export any designated [mineral] minerals mined or form of petroleum extracted in the Republic [outside the Republic] may only do so [after written notice and in consultation with] with the [Minister] Minister's written consent subject to such conditions as the Minister may determine."

(Words in square brackers indicate omissions from existing enactments.)

Two points can be drawn from these sections: beneficiation is deemed to be of economic importance, and its promotion forms part of the minister's responsibility. By extension, they also advocate for the accommodation of interests of the downstream manufacturers.

Secondly, the minister's powers to "determine developmental pricing conditions" and to "prescribe a certain percentage" of raw products to be offered to local beneficiators would appear to prohibit the use of IPP if, as has already been found by the Competition Commission, it constitutes excessive pricing.

CONCLUSION

The projected economic growth rates for South Africa in the remainder of this year are a shade darker than gloom. The National Development Plan has done little to brighten the prospects. The removal of IPP is not a panacea, but it could provide a boost to industries that have been languishing in the doldrums for far too long. Even a slight reduction in the importation of certain goods can have a significant impact on the economy.

A rise in imports can also have significant impacts by raising the deficit on the trade account of the balance of payments (with negative consequences for a country's reserves) and inhibiting domestic investment in productive resources. It does not lead to significant job creation.

In IPAP 5, the DTI estimates that, once fully implemented, polypropylene beneficiation will result in the fabrication of about 40 000 tonnes per annum of new plastic products, made from feedstock that is currently exported. The project will add approximately R600 million in revenue per annum, replacing existing imports as well as adding new exports of approximately R300 million.

With an expected R1 billion investment, up to 22 754 new manufacturing jobs will be created through the utilisation of technologies, such as blow and injection moulding, that require low capital expenditure and have high employment potential.

Doing away with IPP opens up opportunities to advance labour intensive manufacturing. Add to this the spin-offs from the innovation that flows from research and development, and the backward and forward linkages formed over the short to medium term, and we have the makings of a minerals-manufacturing complex that might just become the pot of gold for the Rainbow Nation.

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NUCLEAR ENERGY IN SOUTH AFRICA

Since the dawn of our new democracy, a basis for the future energy needs of South Africa was crafted in the Energy White Paper of 1998, where we identified that "decisions on the role of nuclear power, as with any other supply option, need to be taken within the context of an integrated resource planning process". Furthermore, the cabinet endorsed the framework for nuclear power expansion articulated in the Nuclear Energy Policy of 2008, which was shortly followed by the cabinet-endorsed Integrated Resource Plan 2010-2030 (IRP), stipulating 9.6 GWe (or 23% of new electricity generation) by 2030. The IRP was based on extensive modelling, taking into account greenhouse gas emissions, cost effectiveness, deployability and various other policy requirements.

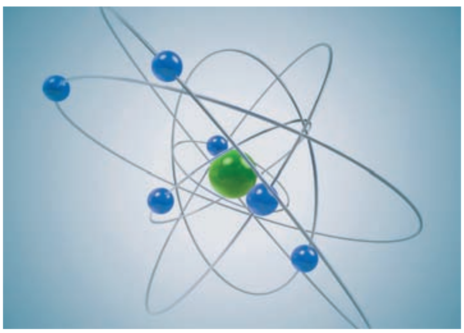
South Africa is committed to the expansion of nuclear energy as part of our total energy mix, which is balanced and diverse to ensure security of supply. In November 2011, the cabinet established the National Nuclear Energy Executive Coordinating Committee (NNEECC), comprised of cabinet ministers tasked with making high-level strategic decisions for the Nuclear New Build Programme. Since the 2014 State of the Nation Address, the NNEECC has been revised and is now the Energy Security Cabinet Sub-committee, which comprises 10 cabinet ministers overseeing the needs of the entire energy mandate.

Currently, many countries across the world are actively pursuing the use of nuclear power as a clean, affordable and reliable base load form of energy for the generation of electricity needed for economic development.

This status is more sharply demonstrated by the active nuclear build programmes among all the BRICS (Brazil, Russia, India, China and South Africa) nations, which are collectively constructing more than 60% of all new nuclear power plants in the world (more than 43 power reactors are under construction).

South Africa's Nuclear New Build Programme is envisaged to bring tremendous socio-economic benefits to the nation. These benefits include the reduction in greenhouse gas emissions, access to advanced technology, enhanced skills development, stable, sustainable, clean, and cost competitive base load electricity, and above all, re-industrialisation and localisation of manufactured components, mining of other minerals and uranium beneficiation through a strong localisation strategy.

Recently, the Department of Energy signed intergovernmental framework agreements with a number of nuclear vendor countries who are interested in participating in South



Africa's Nuclear New Build Programme. Subsequently, and in partnership with all the nuclear state-owned entities, other government departments and academic institutions, the department concluded a series of Vendor Parade workshops with the same countries by the end of November 2014. Among the countries engaged were Russia, France, China, South Korea, and the United States of America. The purpose of the Vendor Parades was for vendor countries to showcase their nuclear technology offerings by demonstrating how they plan to meet South Africa's needs for the Nuclear New Build Programme.

On the education front, South Africa has hosted some of the most reputable academic programmes for nuclear energy studies. The North-West University postgraduate programmes in nuclear boasts an international profile of lecturers and students. The world-renowned University of Witwatersrand specialises in radiation protection and nuclear physics.

Other institutions such as the University of Pretoria, University of Cape Town, Nelson Mandela Metropolitan University and the University of Johannesburg offer graduate and postgraduate studies in nuclear energy.

iThemba LABS in the Western Cape brings together scientists working in the physical, medical and biological sciences. The facilities provide opportunities for modern research, advanced education, the diagnosis and treatment of cancers, and the production of unique radioisotopes.

South African Nuclear Energy Corporation's (NECSA) primary function is to serve as the anchor for nuclear energy research, development and innovation in South Africa. NECSA's strong research focus is directed mainly at nuclear technology applications particularly relating to medical isotopes production and applied chemistry, with an emphasis on uranium chemistry, as well as all aspects of the nuclear fuel cycle – including waste issues. NECSA hosts our only Nuclear Research Reactor, known as SAFARI-1, where cutting-edge nuclear research and development takes place.

For 30 years, South Africa has safely operated Eskom's Koeberg Nuclear Power Station, which contributes 5% to the national grid.

The country also has an established nuclear regulatory framework and safety culture overseen by the National Nuclear Regulator (NNR) – the safety authority.

Recently, the National Radioactive Waste Disposal Institute (NRWDI) was established to deal with the long-term management of the country's radioactive waste disposal.

Government's drive towards job creation will be enhanced through the opportunities that would arise out of the Nuclear New Build Programme. This would include skills in the engineering, scientific, legal, finance and medical fields. This would be a key driver of our objective to achieve a more knowledge-based economy, as seen in the case of many nuclear countries such as the USA, France and South Korea.

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Department:
Energy
REPUBLIC OF SOUTH AFRICA

Department Of Energy
192 Visagie and Paul Kruger Street, Pretoria, 0001
Private Bag X96, Pretoria, 0001

BEE share-purchase deals:

South Africa's biggest corporate fraud

By **Linda Nobaza**

The author is a corporate strategy practitioner and a researcher in the pricing of financial and commodity derivatives. This article was first published in* Business Day *on 9 September 2014

Vendor companies have been misrepresenting BEE share-purchase schemes to clients.

Black economic empowerment (BEE) share-purchase schemes are the biggest untold corporate fraud in 20 years of democracy in South Africa.

Vendor companies deliberately misrepresent these schemes as discounts to unsuspecting potential BEE participants, who lack the financial aptitude to understand the prospectus. Worse, BEE shareholding is deliberately overstated. This is fraud, because a company's BEE shareholding meets a legal requirement, promotes the vendor company and provides opportunities for new business, in particular state and parastatal business.

The innovation behind the structuring of these deals is commendable. The innovation allows black people to purchase substantial numbers of shares that they could not otherwise afford. Equally, the misrepresentation of how much these deals really translate to black ownership must be condemned.

A typical BEE share-purchase scheme would allow participants to buy shares of a vendor company with a small cash contribution. The remainder will be debt financed, either by the vendor company or a financial institution. Dividend flows of the shareholding are used to pay the debt. Over time, the debt increases with interest and decreases with dividend flows. At the end of the lock-in period, which is usually 10 years, if the share price is higher than the debt, the BEE partner sells sufficient shares to pay the remainder of the debt – or else walks away.

Thus, a BEE share-purchase scheme is a European call option of a special kind. A European call option is a financial contract that gives the buyer the right – not an obligation – to buy an agreed amount of a particular commodity or stock from the seller of the option at a future date (expiry date) for a predetermined price (strike price).

The small cash contribution paid by BEE participants is the cost of the option, not a discount. The lock-in period represents the expiry date of the option and the debt amount is the strike price. The difference between a BEE share-purchase scheme and a typical European call option is that the strike price of the former is not constant – it rises with interest rates and falls with dividend flows.

In essence, before the option is exercised, BEE partners own nothing but an option to buy the underlying stock at a future date. What seems to be a consolation prize for BEE partners is the voting right and board representation.

It can be argued that this is a deliberate move by vendor companies to cloud the fact that BEE partners actually have no ownership. Inversely, this could be enough of a carrot for those who will be appointed as board members and executives representing the BEE vehicle to keep quiet.

Graeme West and Lydia West make an interesting observation in their paper, "The pricing of Black Economic Empowerment share purchase schemes" (*Treasury Management International*, 2009):

> When the vendor company wishes to trumpet the successful creation of a BEE structure, it announces that such-and-such a percentage of the company is now held by black partners. On the other hand, if it is being pressured about a grant which some parties – such as the financial press – view as too generous, then it will brazenly retort that the partner owns precisely nothing until such time as the debt has been paid down.

To put this into perspective, consider a R5 billion BEE transaction in a company that has a market capitalisation of R100 billion. To say this transaction constitutes BEE shareholding of 5 percent is obviously not true. As we have said, these transactions are call options. The writer of the option (the seller) is obviously the owner of the underlying asset. In most BEE share-purchase schemes, the vendor company and financial institutions are the funders of the transaction, in effect making them the owners of the underlying assets until the option is exercised. At best, the shareholding of a BEE partner is equivalent to the sum total of the small cash contributions of individual BEE participants, assuming that there are no transaction costs.

Reading the prospectus of these schemes provides for great amusement. The prospectus of one of the celebrated BEE transactions accepts that the scheme is a call option, but says a call-option methodology was not used to calculate the fair value of the offer to prospective BEE partners. In other words, the fair value of the offer in the prospectus is unreliable and doesn't reflect market value because the market uses call-option methodologies, such as the Black-Scholes formula, to price call options. More amusing is the fact that two of the three co-funders of this particular BEE transaction are also co-debt arrangers. You need not be a rocket scientist to figure out that the inaccuracy in the calculation of the fair value of the option will almost always prejudice BEE partners.

The recent listing of BEE shares on the JSE has put this scandal into overdrive. For instance, information on one of these reads as follows: "Due to the fact that the trading platform is not a licensed exchange as contemplated in the [Financial Markets] Act, the anti-insider trading and prohibited practices provisions and the prohibitions against publication of false and misleading statements provided for in sections 78 to 81 of the… Act do not apply to the trading platform." Thus, those who buy these BEE shares are in effect exposed to all aforementioned risks with no recourse.

Moreover, it is an exotic option – the strike-price (debt) follows a path over the life of the option – that is traded, not the underlying asset. Any investment professional would tell you about the complex mathematical methodology used to price exotic options. Go to any of the four big banks' online trading platforms – prospective traders are warned about the risk of trading options. Prospective traders are advised to consult professionals or study through online derivatives courses.

This is not the case with listed BEE share schemes. Black people are left to trade among themselves with no knowledge of the fair value of the product they sell or buy, let alone the ability to comprehend the risk involved. This kind of trading can only be described as pure speculation.

Without the knowledge of the amount of debt, the dividend forecast of the underlying asset, the implied volatility or the volatility of the underlying asset, an interest rate forecast and the price of the underlying asset, it is impossible to know or calculate the fair value of the listed BEE share scheme. This information is unavailable.

BEE share-purchase schemes are a big corporate fraud that has hit democratic South Africa. These schemes are worse than "BEE fronting". BEE share-purchase schemes are always oversubscribed, possibly because of misrepresentation of their fair value. The BEE shareholding is always overstated. As a result, the vendor company derives material benefit in the form of meeting a legal requirement and accessing business opportunities with the state.

A market-wide review of these deals by the relevant state institutions is required. A proper adjustment of black ownership derived from these deals is required. Subsequently, some form of penalty must be imposed on the transgressors.

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or Amanda van den Berg • Tel: 041 504 4275 • E-mail: Amanda.vandenBerg@nmmu.ac.za

From the MEC to the Green Economy Conglomerate:

Wiring up the green economy and the developmental state

By **Firoz Khan and Seeraj Mohamed**

Khan is a senior lecturer in the School of Public Leadership at the University of Stellenbosch; Mohamed directs the Corporate Strategy and Industrial Development Research Programme and is a senior lecturer in the School of Economic and Business Sciences, University of the Witwatersrand. This article is drawn from their (fully referenced) chapter, "From the political economy of the MEC to the political ecology of green capitalism" in a forthcoming book, edited by Mark Swilling and colleagues, provisionally entitled **Greening the South African Economy**

To achieve a socially inclusive, ecologically sustainable and democratically pluralist economy, South Africa would have to embark on large-scale structural changes, which would include directly challenging the minerals-energy complex (MEC), substantially increasing support for cleaner industries and rural development, and dramatically accelerating the pace of transforming the merged apartheid and neoliberal legacies in education, housing and public transport. Critical political economists doubt whether the government is able and/or willing to execute these structural reforms. The intention of this paper is to detail the factors that frustrate the transition to a green economy.

GROUNDS FOR SCEPTICISM

Critics point to several indicators and drivers of the government's lack of reform. Firstly, although policy makers have been harping and carping since 2000 about the urgency to transform the nature of the South African economy, they have generally insisted that this transformation should not threaten the important objectives of economic growth and sustained development. Fourteen years later, President Jacob Zuma is still saying that a trade-off has to be made between faster economic growth and the preservation of the environment.

> Diversification into more labour-intensive, higher value-added and *greener* products remains the greatest strategic challenge for our industrialisation and is essential if we are to meet our commitment to mitigate carbon emissions.

The government envisages faster economic growth alongside sustainable resource management, but, across two democratic administrations, the language of *green growth* has eclipsed the discourses of *green revolution, resilience and transformation*[1]. The elevation of the "green growth" discourse, coupled with the 2013 National Development Plan's "business as usual" message to the minerals and metals industry, aids and abets a mining industry agenda that is averse to the developmental pricing of minerals, or any other state intervention in mining to improve the competitiveness of the manufacturing sector.

This market-liberal orientation is cold comfort to those who are keen for the government to implement the 25 sweeping policy measures to direct and regulate the extractive sector recommended by the ANC's State Intervention in the Minerals Sector (SIMS) report. The extractive sector, although rhetorically committed to "Putting South Africa first" (the Chamber of Mines' slogan), can bank on an administration that continuously "fails to take on board the extensive work already done by the ANC on options for regulation of this sector", according to the Congress of South African Trade Unions (COSATU). The government seems determined to maintain the servile relationship with the mining industry that has been in place since 1889.

Secondly, the government's continuing reluctance or inability to "challenge and mobilise the underlying economy and political interests" (Ben Fine in *Business Report*, 30 July 2007), rests on much more than vested interests and complicity. International and domestic resistance are major factors, as are the short-term disadvantages of the shift to green policies for the poor, farmers and (unionised) workers. This is evident, for example, in COSATU's 2010 Growth Strategy, which targets 13 economic sectors that will perpetuate the energy-driven nature of the current economy.

Finally, while these "social-social" explanations conceptualise path-dependency politically, "natural-social" accounts contend that natural endowments explain social outcomes: South Africa's natural abundance of coal led to intensive investment in physical infrastructure for coal extraction and energy generation, which was pivotal to funding industrialisation and created a path dependency. Deviating from an industrial strategy rooted in static comparative advantage could, it is asserted, promote unproductive rent-seeking behaviour, weaken or distort growth linkages, and exacerbate balance of payment problems. This thinking has left South African decision-makers unwilling to question the association of economic growth with energy-intensive industrialisation.

Neither the "natural-social" nor the "social-social" doomsayers rule out the possibility of change. The literature also contains "remedies", which emphasise localisation, specialisation and learning.

Some of these envisage a "green economy nirvana", featuring clusters of light, medium-tech manufacturing firms with relatively low investment-to-output ratios and high labour intensities. Others advocate boosting development and structural transformation through a state-led economic and industrial strategy centred on redistributing assets and incomes, stimulating demand and scaling up the social wage.

The intention of this paper is not to critique these remedies, but simply to detail the factors that frustrate the transition to a green economy.

We have seen "economic democracy" re-emerge as both a political label and a political project, aimed at democratising workplaces, finance, investment and the market system in a holistic project to redress structural inequality. Economic democracy hones in on expanding democratic accountability through representation, particularly the expansion of opportunity for direct participation in economic decision-making. At the same time, there seems to be an inability or reluctance to overhaul the inherited regime that sustains our industrial ecology: a conglomerate of *structure*, *perspectives* and *rules*.

PATH DEPENDENCY AND UNSUSTAINABILITY

In the following sections, we sketch the evolution of manufacturing within the development of capitalism in South Africa: the creation of the MEC before political democracy, the financialisation of the economy, and the mutation of the MEC into a financialised MEC (FMEC). We detail the constraints that the interlocked conglomerate of structure, perspectives and rules presents to the installation of a more balanced development strategy. Finally, we present a few strategies and tactics to move from the current impasse to a positive, progressive and productive politics that could leverage and sustain inclusive democratic development.

Structure: economic-industrial-institutional

Historically, South Africa's industrial terrain has been dominated by the so-called MEC sectors – mining and large-scale electricity-intensive minerals processing – that produce either primary or semi-processed commodities. Dating back to the mid- to late-nineteenth century and the discovery of diamonds and gold, a handful of corporations gained and consolidated power in South Africa. By the time of the democratic transition in the 1990s, the MEC was at the core of the economy.

> There is solid scholarship to show that the redistribution of socio-institutional power, via democratic governance and participatory processes, is central to the architecture and implementation of a green society.

Sectors with weak linkages to the MEC were left underdeveloped, as was infrastructure. Diversification into more labour-intensive, higher value-added and *greener* products remains the greatest strategic challenge for our industrialisation and is essential if we are to meet our commitment to mitigate carbon emissions. This is a daunting challenge, made all the more difficult by the ongoing global recession that has placed intense strain on the manufacturing sector and our efforts to simultaneously reindustrialise and diversify.

In the 1980s, neoliberal macroeconomic policies, which preferred to fight inflation rather than unemployment, caused a reduction in domestic and global aggregate demand. The growth of economies such as Japan and the newly industrialised countries (NICs) intensified global competition in product markets and disrupted the market control of dominant Western multinational corporations. This affected non-financial industrial corporations in core industries such as automotives, chemicals, steel, shipbuilding and microchips, which require huge sunk-costs in irreversible investments. Less able to use retained profits for investment, they turned to financial markets to finance their necessary expansion and economies of scale.

During the 1990s, the widespread liberalisation of finance and cross-border financial flows led to a global expansion of the influence of the financial sector. Volatile surges in unregulated short-term capital flows were associated with capital shifting away from long-term productive investments into service sectors that were swollen by debt-driven consumption and massive speculation in financial and real estate markets. Where business executives were previously motivated to grow their enterprises and to train and retain their labour force, the dynamics of financialisation and the rise of the shareholder value movement drove them to maximise short-term returns. They began to downsize and neglect skills development.

The post-apartheid government in South Africa adopted neoliberal economic policies that facilitated the financialisation of the economy and had a negative impact on industry.

The financialisation of non-financial corporations and South Africa's role in the global economy have further heightened the country's reliance on the mining and industrial firms of the MEC. At the same time, some of the largest of these have become increasingly international and have moved their primary listings abroad.

This has created huge obstacles to the pursuit of economic democracy and environmental sustainability. Indeed, the interests of MEC big businesses have been expanded and entrenched, closing avenues for industrial diversification. Policy makers have focused on large-scale projects to extract resources, slightly beneficiate them, and transport them. These new investments are similar to the old MEC: they have weak linkages with the rest of the economy, require huge amounts of energy and other natural resources, and most of their products are export commodities without much value-addition.

Economic activity in South Africa from 2003 to 2008 – during the period of financialisation and before the global economic crisis – supported the growth of services linked to financial speculation and debt-driven consumption. Capital stock grew in the services sectors and platinum mining, and declined in the value-adding and more labour-intensive manufacturing sectors. There were large declines in manufacturing employment. Although employment in services grew (until the crisis), these jobs were precarious, linked to accelerated outsourcing and informalisation. In this environment, employers prefer flexibility: they do not train employees and replace them with cheaper labour when available.

Policy makers have focused on large-scale projects to extract resources, slightly beneficiate them, and transport them. These new investments are similar to the old MEC: they have weak linkages with the rest of the economy, require huge amounts of energy and other natural resources, and most of their products are export commodities without much value-addition.

In short, the large non-financial corporations have internationalised and moved capital abroad. The economy has become dependent on, and its growth path negatively altered by, short-term foreign capital inflows. The industrial and skills base has declined, limiting the options for future industrialisation and diversification. These developments, and continued large-scale MEC-supporting projects, demonstrate that, in spite of the rhetoric, there is little commitment from either big business or the state to green the economy.

Given the structure of the South African economy and the overall policy and practice of government, which allows the corporations at the centre of the MEC to fashion and align development to their own profit-driven interests, is there any hope of breaking this lock by unearthing and exploiting inconsistencies in the *perspectives* and *rules*?

Perspectives: Mainstream (official) engagements with the green economy

In thrall to the MEC

Movement from a generalised problem statement to specific green-economy programmes is stymied by our government's double-speak of "transformation and preservation", which does not disconnect the decisive role of MEC structures, relations, processes and agencies from the scope and impact of policy.

In instances where the government has supposedly "managed" the trade-off between coal-fired and renewable energy (e.g. by allowing the growth in coal exploitation to continue parallel with the country's entry into renewable energies), it has also assisted MEC interests to gain a foothold in the renewables sector. This sets the scene for a continuation of the MEC system of accumulation rather than its reconfiguration, as the MEC can use its political agency, through established policy networks, to influence praxis in a manner that protects its interests in and beyond core sectors.

South Africa is also marked by a political establishment that does not (want to) question the association of economic growth with the devastation of natural resources, because it is not in its interests. Movement away from the non-renewable and energy-intensive MEC cannot be disassociated from the state sector, the dominant political party, and key politicians who have interests in the mining and financial and services sectors. For example, the Energy Intensive User Group (EIUG), whose members – including AngloGold Ashanti, Lonmin Platinum, SABMiller and Transnet – use approximately 44 percent of South Africa's electricity, is a highly influential lobbying organisation.

Add to this the financialisation of the MEC – which reinforces energy-intensive industrialisation and thus the coal path – and the stage is set for rank subversion and predatory undermining of the rules of the game (including government programmes and projects), and the abandonment of basic civil and human rights. The massacre of 34 striking miners at the Marikana mine, owned by the London-based Lonmin company, is a profoundly chilling and destabilising case in point.

The green model

Greening the economy, according to international research, can enable economic and employment growth on the same, if not greater, scale than the current environmentally unsustainable development trajectory. The benefits of green growth include the use of local resources and local job creation, since it is more labour intensive than traditional fossil fuel-based economic activities. The green economy is portrayed as a catalyst for movement towards a more equitable and inclusive economy.

However, rosy scenarios and dazzling outcomes shouldn't blind us to limitations in the research models. First, there is no interrogation of the quantum and demand thresholds for green manufacture. Second, it is unlikely that green manufacturing will succeed without substantial subsidies and concessionary finance. Third, there is a dearth of sufficiently skilled labour to power and sustain the new economy. Fourth, the weak regulatory environment, along with poor communication within government, stifles investment in green technology and delays implementation. Fifth, the stimulus needed to create and sustain green industries remains to be considered. Although some finance can be leveraged through environmental taxation, externality pricing and the reduction of subsidies for fossil fuel-based activities, the magnitude of money and incentives requires much deeper pockets.

Technocratic and tepid approach

More worrying than faulty assumptions and projections is the government's greening approach. It has been variously deemed as "technicist", offering "tepid responses" while relying on "market mechanisms to reduce emissions" as well as "dangerous technologies", including nuclear energy and carbon capture and storage. Solutions rely on "eco-efficiency" and "voluntary standards and markets" as the main mechanisms for achieving environmental change through investment, research and development (R&D) incentives, and conservative (i.e. deepening path dependency) technological and industrial restructuring paradigms.

The government's narrow focus on materials and flows, its technocratic fixation, and the continuation of unsustainable production steer clear of any engagement with the way economic power is organised and resources distributed, or with the institutional and social embeddedness of industrial systems and structural transformation. Social dimensions, such as equity, human rights and justice – which are critical factors in poverty reduction, pro-poor growth and environmental sustainability – are relegated to the margins of the mainstream green-growth economic agenda. Also sidelined are questions about the impact of green economy strategies on different social groups and patterns of inequality.

Another perspective

Evidence increasingly demonstrates – especially since the financial crisis – that "re-establishing the command of the social and collective" is a precondition for the regeneration of sustained and sustainable growth. There is solid scholarship to show that the redistribution of socio-institutional power, via democratic governance and participatory processes, is central to the architecture and implementation of a green society (obviously broader than a green economy). Accordingly, achieving a low-carbon, resource-conserving and socially inclusive economy would:

entail challenging the belief that economic growth is the answer to the financial and environmental crises, and expressing caution regarding the headlong commodification of the environment… The *crucial question* here is how to build social forces and political structures which are able to produce a green economy which prioritises social welfare, tackles poverty and exclusion, and defends non-monetary ways of valuing the natural environment… Here it is useful to link the idea of the green economy to another recently revived concept: that of the developmental state. (Death 2014, 17, emphasis added).

Rules: Coding and decoding

Before attending to this crucial question, a few quick remarks are necessary. Centrally implicated in the image of an inclusive, sustainable and pluralist economy is the type of politics required to actualise this. There are four dangers that a progressive and productive politics must confront.

Firstly, the dominant discourse of green growth could "produce new power relations of inequality and injustice" (Death 2014, 1). Secondly, the various ecologisms embedded in the four "green discourses" can endorse a multiplicity of politics and interventions. In the name of the "common good", pragmatic and expedient politics can run the full gamut from democratic to authoritarian populist. Thirdly, and relatedly, the vagueness of the definition of "green" is potentially useful, offering hope to diverse groups, but also leaves it vulnerable to capture by powerful interests. Lastly, to the extent that green economic analyses and policies are informed by neoclassical economics, an urgent and radical corrective is required to challenge the intimate association of "greening the economy" with the status quo and its emulation.

POSITIVE, PROGRESSIVE AND PRODUCTIVE POLITICS

Having now surveyed the evolution of the FMEC and interrogated the interlocking conglomerate of structure, perspectives and rules, we here sketch the contours a "politics" in pursuit of economic democracy.

Economic planners should desist immediately from "fulfilling the role of compliant 'handmaidens of repressions' – governmental or economic". If these planners are to be midwives of the transition and guardians of empowering sustainability, an ecological heterodox approach to economics is the essential therapy to undo the cognitive patterning of repression engraved in neoliberal aspirations for "green economics". The discourses of the green economy, green society and the developmental state should be linked and cross-referenced with recent research about alternative growth paths that reside in rapid and substantial expansion of the state's role in the economy. Such expansion includes strategic ownership of and intervention in key sectors; implementing a growth acceleration strategy focused on investments in transport, renewable energy and infrastructure; transforming the labour market via formalising employment, combating atypical work, raising wage levels and promoting collective bargaining; and "rethinking modes of fiscal intervention and redistribution of society's collective wealth that is generated through industry" (Isaacs 2014).

Isaacs (2014) identifies several interventions and interrogations to yoke "mineral resources to the benefit of the workers and the country as a whole":

- Robust industrial policy that "harnesses South African mining for broad-based, job-creating industrial growth" would entail "downstream mineral beneficiation", expanding the capital goods sector that feeds mining, research and development investment, and utilising mining infrastructure and property to benefit nearby communities. All these, to "some extent, exist already, but there is much greater potential";
- "Incentives to produce must exist", why should the gains of commodity booms (like that in platinum between 2000 and 2008) be hogged by shareholders and mining executives? "Altering the low wage structure of the economy by radically increasing wages" has broader spin-offs, especially considering the dependency ratio, with each platinum miner supporting 10 people, on average;
- Higher wages will "not bring the decent housing, transport and healthcare that the striking workers justifiably consider their due". That would require a "significant redistribution of society's collective wealth, government provision of a radically improved 'social wage' and necessary welfare, and a managed transformation of the industrial structure can ensure". Countries as diverse as Australia, Canada, the USA, Brazil, China and India have combined various interventions to effect structural transformation, e.g. "direct participation in mining by state-owned mineral corporations, publicly owned equity in existing private mining houses, joint ventures with mining capital, nationalisation and an array of taxes, rents or royalties". This array has been utilised to finance "skills and mining development" and "regional development", to provide "fiscal stabilisation during downturns", and to meet basic needs;
- The royalties, taxes and rents captured from mining could be pooled into a "sovereign wealth fund" to "finance a significant redistribution of wealth";

- "One avenue would be through enhancing the social wage – for instance, the improved provision of transport, housing, healthcare and basic utilities – which would improve lives and relieve wage pressure";
- "Another avenue is the instituting of a basic income grant, an unconditional cash grant distributed to everyone, the level of which could be tied to the size of the pot available in the sovereign wealth fund, thereby giving everyone an incentive to grow the economy. A basic income grant could absorb many of the current grants, although it would need to be considerably higher."

> The government's narrow focus on materials and flows, its technocratic fixation, and the continuation of unsustainable production steer clear of any engagement with the way economic power is organised and resources distributed, or with the institutional and social embeddedness of industrial systems and structural transformation.

Finally, alternative pathways to structural transformation need to be sustained. In this context, recreating the "circumstances for a stable and sustainable economic growth strategy" hinges on establishing a social pact that has a "serious agenda of tackling poverty and inequality" (Habib 2012).

To continue coercing workers and the unemployed to accept the upward redistribution of incomes, assets and public revenue to employers, managers and shareholders daily undermines any remaining social cohesion and, by extension, the prospects of a social pact. Inequalities, poverty and discontent "provide fertile ground for the emergence of left-wing and radical socialist ideology that is occupying the public debate" (Motsohi 2014).

While business elites (capitalists, old and new, straddling the racial divide) vilify those who even speak of tampering with their ill-gotten gains, dismiss strategies that might marginally alter their entitlements, and chastise the poor for rebelling, what is singularly and strikingly lacking is a "credible effort to come up with a strategy and plan, entirely conceived and driven by the private sector… that will directly benefit the poor" (ibid).

A powerful positive, progressive and productive politics presents itself: this time with both map and compass. History will judge us harshly if we squander this opportunity (again!) to effect "radical transformation" or if we allow the powerful to rob us of the opportunity (again!).

NOTE

1. *Green revolution* refers to the greening of the economy to resolve systemic contradictions and end the systematic exploitation of nature; *resilience*, "essentially reactionary and cautious", aims to protect the status quo (e.g. climate adaptation schemes, flood defences, insurance schemes, risk indexing, disaster relief plans, and attempts to build self-sufficient local economies); *transformation* is encapsulated by the Brundtland Report's vision of sustainable development as a re-alignment of prevailing growth models and development paths; and *growth* views green markets as an "economic opportunity". Set against the backdrop of crisis, recession, resource shortages and commodity price increases, "organic" or "green" products and post-fossil fuels offer new opportunities for financial speculation (e.g. carbon markets).

In sum, while "the green economy offers future growth, profits, jobs and markets", the "green growth" discourse "recasts and refashions the relationship between environmentalism and economics" (see Death 2014, 6–9).

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For Africa to live, the nation must die?

The fluidity of African identity in a changing continent

By **Graça Machel**

The author is a distinguished humanitarian and member of The Elders. This is an edited version of the Third Annual Lecture of the Mapungubwe Institute, which she gave in Johannesburg on 10 July 2014

Graça Machel

This evening I have been asked to address the implications of a quote from the great Mozambican freedom fighter and president, Samora Machel: "For the nation to live, the tribe must die." If, as a continent, we are to thrive, then we must make the time to explore the multiple questions that challenge our African identities. All of these are moulded by the specific socio-cultural context that we are born into, our common language and history. These can and will expand and change shape – but they are still the seeds of our future selves. Ethnicity is a core framework, and this is how the "tribe" helps form our identities.

Is the argument that, for a national identity to thrive, the tribal identity must die? Or further: for Pan-Africanism to thrive, must national identities die? I would argue that this is not the case. When a seed is planted in the right conditions, it transforms: spreading its roots and growing out of the earth and forming a stem, branches and leaves. I am looking at the tribe, and more widely at the nation, as the seed that is within us all. That seed of our identities is transformed as we grow, as we extend our relationships, our physical, emotional and intellectual contexts. Yet our identities remain rooted in the original influences and norms within which our social beings developed. The seed does not die. It is rooted, but transformed.

If we look outside of our continent, the people of the United States of America, despite their huge diversity, have one thing in common: they feel American. We have to question what it is that makes people of Japanese, Irish, Latin American or African origin, or even across the huge diversity of class, feel that at the moment of truth, they are Americans. What are the elements of that national identity, the pride of belonging to a nation?

I dare to say that, with the exception of Tanzania, none of our African nations have resolved that question. I do not believe that the tribe must die for the nation to live. I believe that people of ethnic, racial and class diversity must be offered a clear proposition that they will benefit from being part of a nation state and the continent.

NATIONS AND PAN-AFRICANISM

We have this space we call our homeland – in Portuguese, I would say *patria* – where we all feel we belong, yet it's not very clearly defined. Tonight, we should ask: "What does it mean for each one of us to be a South African? What makes us believe that we are South African?"

The racial divide in South Africa is still very clear and deep. We still say, "I'm African, and this one is Indian, and that one is white, and that one is coloured". Yet I suggest that there are elements that bind us all. What are they? How do we cultivate them so that we grow away from that kind of race and class separateness, and feel, all of us, that we are South African?

I believe that we must provide the right conditions for the tribe to root a national identity and a continental identity, to move beyond its initial sensibility and enable a stronger, equally vibrant, but possibly farther-seeing and more connected "being" to emerge.

As social beings, as we grow and absorb the influences of a wider society, so we transform ourselves and gain a broader sense of belonging – beyond the family, beyond the tribe, beyond the nation. In a world where modern transport means that we can travel thousands of miles in less than a day, our ability to move within other geographies and other cultures is multiplied. And yet that broader sense still recognises the initial relationships and intellectual and emotional linkages that root us.

For this transformation to take place positively, we need the appropriate influences to surround our sense of being. We need the right contexts, motivations and visions to move beyond the tribe, beyond the nation, and into a vibrant sense of Pan-Africanism.

> But who were we before Berlin? We existed. We had history. We had culture. We had a way of being.

Let me recall our recent history. At Ghana's independence – the first in sub-Saharan Africa – Kwame Nkrumah reopened his country's borders to welcome all the liberation movements. He was joined by the likes of Haile Selassie (Ethiopia), Modibo Keïta (Mali), Ahmed Ben Bella (Algeria) and Julius Nyerere (Tanganyika). Together with others from the diaspora, like WEB du Bois, they formed a huge movement of Pan-Africanism.

Pan-Africanism is rooted in an understanding that, from the Atlantic to the Indian Ocean and from the Cape to Cairo, we had experienced the same slavery, colonialism and oppression, and we had a common destiny. It was born out of the necessity to achieve freedom and independence for all on this continent.

Then, at the moment the continent became politically free, we had a second generation of visionary Pan-African leaders, such as Thabo Mbeki (South Africa), Olusegun Obasanjo (Nigeria), Abdelaziz Bouteflika (Algeria) and Joaquim Chissano (Mozambique). They established the New Partnership for African Development (NEPAD) and the African Peer Review Mechanism, through which we would be able to build prosperity for all Africans. Theirs was a leadership that understood that no nation can survive alone.

Pan-Africanism has to be based on a clear set of principles, values and goals if we are to work together. Africans must feel that there is value and benefit in belonging to a broad African entity, beyond birthright. Let us use the example of the European Union. Many countries are queuing to join it because they perceive that there is something concrete that will uplift their nation.

What is our African Union (AU) offering to our nations? Why do we join? Why do we need to be part of this organisation? Is it about political statements? Do we have clarity as the founders of Pan-Africanism had? They sent a clear message to every African: freedom and fairness. Today, do we have a very clear message, a very clear goal, when we say we are Africans?

PRE-COLONIAL IDENTITY

I would like to suggest that Pan-Africanism has to claim Africa's pre-colonial identity. The Berlin Conference (1884–85) carved up the continent into more than 50 states. But who were we before

Berlin? We existed. We had history. We had culture. We had a way of being.

The Mandela Institute for Development Studies has an African heritage research programme, in which we are questioning who we are as Africans. The first study we are undertaking is to trace languages. This map indicates linguistic regions. The four largest are Afro-Asiatic, Nilo-Saharan, Niger-Congo and Niger-Congo-Bantu. It shows that people migrated from mid-western Africa down to central Africa and on to southern Africa. These peoples have very much in common in terms of language, social institutions, practices, and traditions. South Africans have more in common with Ghanaians and Nigerians than we may think.

We are in the process of identifying certain words that mean exactly the same thing, although they may be pronounced a bit differently, and finding shared practices, traditions and institutions. Of course there are differences, but there is much more commonality. We are much more than English-speaking or French-speaking or Portuguese-speaking countries. We have our own languages. Pan-Africanism has to have this emotional element attached to it.

Through a Pan-Africanist lens, it is the village where you are born and the family where you are raised that moulds your value system and defines your identity. These are the fundamentals – not whether one speaks French, English or Portuguese. Language-based fights for position at the AU fly in the face of these principles. Even when it is the turn of West Africa to take a position, the first

thing they discuss is, "Is he French-speaking? Is he English-speaking?" They try to establish the difference between someone from Côte d'Ivoire and someone from Ghana, irrespective of their qualifications for that position.

I am thus proposing that, in our journey to define the roots and values of pan-Africanism, we have to claim this map. Without changing the borders which were imposed on us by Berlin, we can expand our sense of identity by returning to the source, who we were, to discover who we want to be, so that our children, grandchildren and great-grandchildren will be proud of being African, and not simply proud to be speaking Portuguese or English.

"Africa" can be a vexed concept. I am sure we have all argued against the negative and ignorant generalisations about "Africa" that so very often prompt us to point out that our continent consists of 54 states. Yet many of us are also strong believers in some kind of African identity that goes beyond the borders of our states, that builds on the commonalities that can be found in diverse corners of our continent.

These were the beliefs held by our Pan-African forebears. The Nkrumahs, Nyereres and others looked beyond the Berlin boundaries to an Africa where we could build on our commonalities to form cohesive and collaborative African institutions, African cultures, African economic systems, African ways of thinking and being that would help our continent to thrive. They emphasised not only the importance of nation states (after all, they fought against colonialism in their own countries), but also how those nations could work together to protect our continent from further manifestations of imperialism. Solidarity with national liberation movements was crucial to them. Those activists provided the conditions to help our national "seeds" transform into a stronger entity that is Pan-African.

> I fear, however, that we might allow that Pan-African transformation to wither from the lack of rain (new and collective thinking, integrated institutions), poor soil (the paucity of joint initiatives and the rarity of future planning, together and long-term) and a proliferation of weeds (unhelpful nationalistic competition, short-sighted conflicts, narrow mindedness, social injustice and oppression).

I fear, however, that we might allow that transformation to wither from the lack of rain (new and collective thinking, integrated institutions), poor soil (the paucity of joint initiatives and the rarity of future planning, together and long-term) and a proliferation of weeds (unhelpful nationalistic competition, short-sighted conflicts, narrow-mindedness, social injustice and oppression).

We must ask: what is dividing people in South Sudan, in the Congo, the DRC? What is dividing Africans who engage in wars against brothers and sisters, who, in the past, fought together? What is it?

In order to provide conditions for the transformation to a vibrant, healthy Africa that revives our fading traditions and challenges the world with new thought, new art, new economics and new science, we need the rain of a clear and positive vision of our Africa. We need the fertiliser of new generations of youthful energy that looks beyond narrow interests and shallow, dying ideas. We need the soil which holds our positive traditions and joins them with new ways of being, new ways of interacting with our comrades across this continent and trends across the globe.

Yes, African identities are fluid, but many of our proverbs point to the strength of fluidity. I stand here before you with many identities: I am a woman, a Mozambican, an African, and much more. Our children and grandchildren have a multitude of identities that have been influenced by people around the world through social media in ways my generation barely dreamed of. Their identity as African is no longer grounded in the tribe. Sometimes they do not even speak the language, but they are nonetheless Africans. Even those who return from the diaspora choose to come to the continent, not necessarily to the countries of their parents. They can come to Ghana, to Ethiopia, to Rwanda, and they are "coming home". They are coming to Africa.

We do have a new African identity emerging, but still we miss a strong, clear message about where we come from, who we are today, where we have to go together, and a sense of solidarity. What we miss today is clear leadership. Being African is not something which just happens simply because we were born here and because of the air we breathe.

DREAMING IN AFRICAN

I repeat my question: what does it mean to be South African? What does it mean for you to be African? I do not have the answers. I do not think there is a blueprint.

The Mapungubwe Institute is challenging us to think through the issues, and to question ourselves about our identity, our many identities, and how their overlap makes us stronger – not weaker, as we often seem to believe. How to go beyond the small community and embrace the nation, and how, as a nation, to embrace the rest of the continent? Our different identities should be understood to be elements making up a greater vision for the continent.

When my generation and my children's generation dream, our dreams are rooted in our early experiences, in our early lessons. We dream in ways that are deeply African.

I'd like to tell a story that I think illustrates my point. A former Sudanese ambassador told me how he had visited many parts of Africa. He was struck that, when he asked people who they were, they would reply that they were Kikuyu or Tutsi or Mende. But in three countries, the replies were always consistent: "I am Ghanaian", "I am Tanzanian", "I am Mozambican". It is no coincidence that those are the countries of our Pan-African forebears. And it is no coincidence that Kwame Nkrumah and Julius Nyerere are remembered not only as a great Ghanaian and a great Tanzanian, but as the towering leaders of Pan-Africanism.

Why public investment really is a free lunch – by Lawrence Summers

The International Monetary Fund (IMF) has long been a stalwart advocate of austerity as the route out of financial crisis, and every year it chastises dozens of countries for their fiscal indiscipline. Fiscal consolidation – a euphemism for cuts to government spending – is a staple of the Fund's rescue programmes. A year ago, the IMF was suggesting that the US had a fiscal gap of as much as 10 percent of gross domestic product.

All of this makes the IMF's recently published *World Economic Outlook* a remarkable and important document. In its flagship publication, the IMF advocates substantially increased public infrastructure investment, and not just in the US, but much of the world. It asserts that when unemployment is high, as it is in much of the industrialised world, the stimulative impact will be greater if investment is paid for by borrowing, rather than cutting other spending or raising taxes. Most notably, the IMF asserts that properly designed infrastructure investment will reduce rather than increase government debt burdens. Public infrastructure investments can pay for themselves.

(Financial Times, 6 October 2014)

SA adds 5 000 more dollar millionaires

SA has 47 000 dollar millionaires, almost 5 000 more than last year, largely the result of robust equity markets and strong life insurance and pension industries. At the same time, SA falls into the "very high inequality" category, with the wealthiest 10 percent of the population owning more than two-thirds of the country's assets…

An estimated 63 000 South Africans are among the top 1 percent of global wealth holders – 1 000 more than last year. This global elite group includes 35 million-dollar millionaires who hold 44 percent of global household wealth. The number of SA's dollar millionaires increased from 42 747 last year, despite a 5 percent fall in the rand. The majority of SA's household wealth – 73 percent – is made up of financial assets, which include shares, cash and bonds.

(Business Day, 15 October 2014)

SME department is just a name

DA parliamentary leader Mmusi Maimane criticised Deputy Minister of Small Business Development Elizabeth Thabethe on 22 September for spending R1.68 million on a US trip. A parliamentary reply to a question by the DA revealed that Thabethe, her official companion and eight officials spent the money among them.

(Business Report, 20 October 2014)

Lloyds sacks staff over Libor scandal

Lloyds Banking Group has dismissed eight employees and reclaimed their bonuses after the US and the UK fined the bank £226m for rigging benchmark interest rates… The UK bank, rescued by taxpayers during the financial crisis, agreed to pay £105m to Britain's Financial Conduct Authority (FCA), $105m to the US Commodity Futures Trading Commission, and $86m to the US Department of Justice. It also paid a further £7.8m in redress to the Bank of England…

The FCA said in July that 16 individuals, of whom seven were managers, were "directly involved in or aware" of Libor misconduct. Four people were involved in repo rate manipulation.

(Business Day, 30 September 2014)

Outgoing Truworths CEO cashes in R115 million

Within a week of announcing his retirement from the group he led for two decades, Michael Mark, Truworths CEO, cashed in 1.6 million shares, clocking up a R115.5m pretax profit.
The share trades, described as part of a "rebalancing of Mr Mark's investment portfolio", will reduce his holding in the retailer to 5.1 million shares and options. This portfolio rebalancing exercise scored him R202.7m in the past year… Despite this, Mr Mark still has a hefty chunk invested in Truworths. At R74 a share, his remaining holding is valued at about R377 million.

(Business Times, 31 August 2014)

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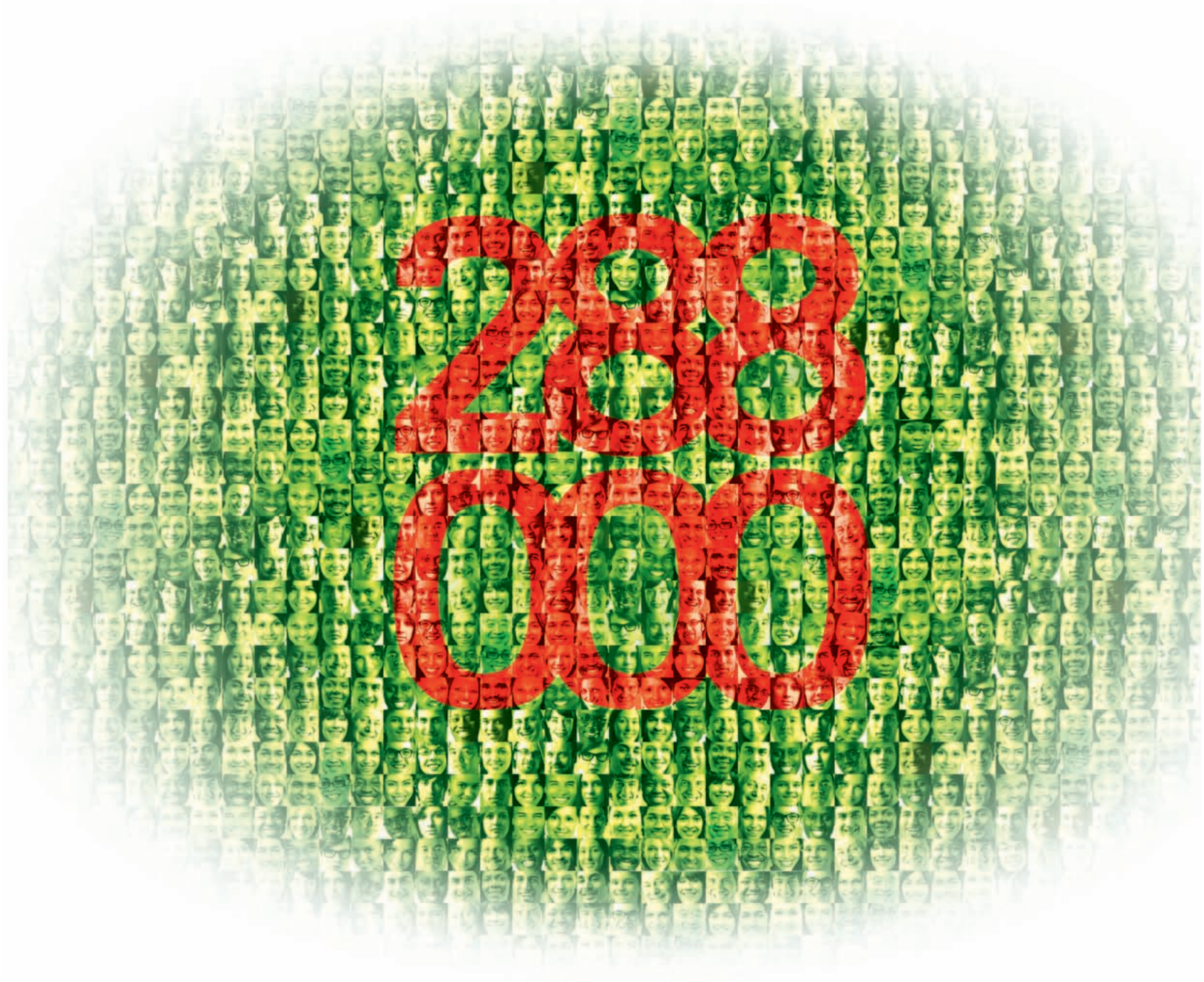

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