NEW AGENDA

SOUTH AFRICAN JOURNAL OF SOCIAL AND ECONOMIC POLICY

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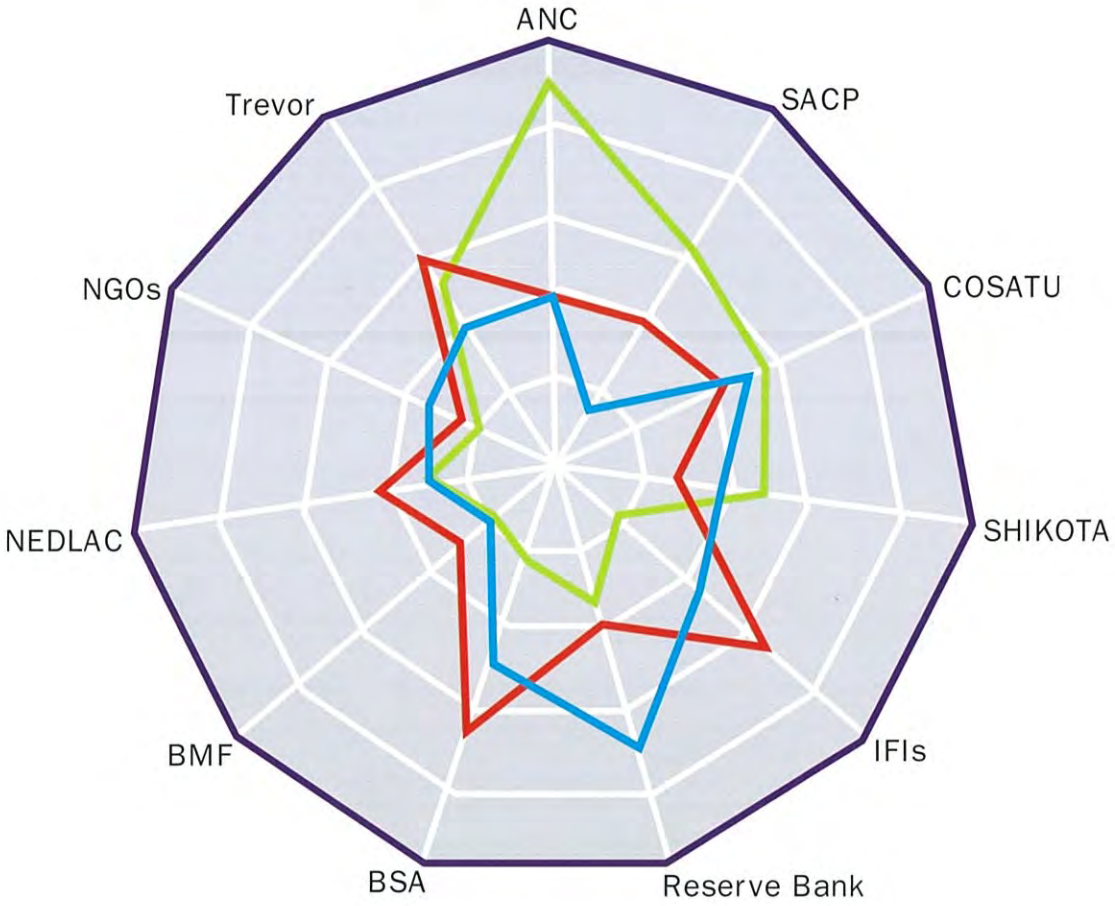
BIG BUSINESS AND GOVERNMENT
The balance of power

THE ALLIANCE ECONOMIC SUMMIT
The real issues



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REPUBLIC OF SOUTH AFRICA

Issue 32

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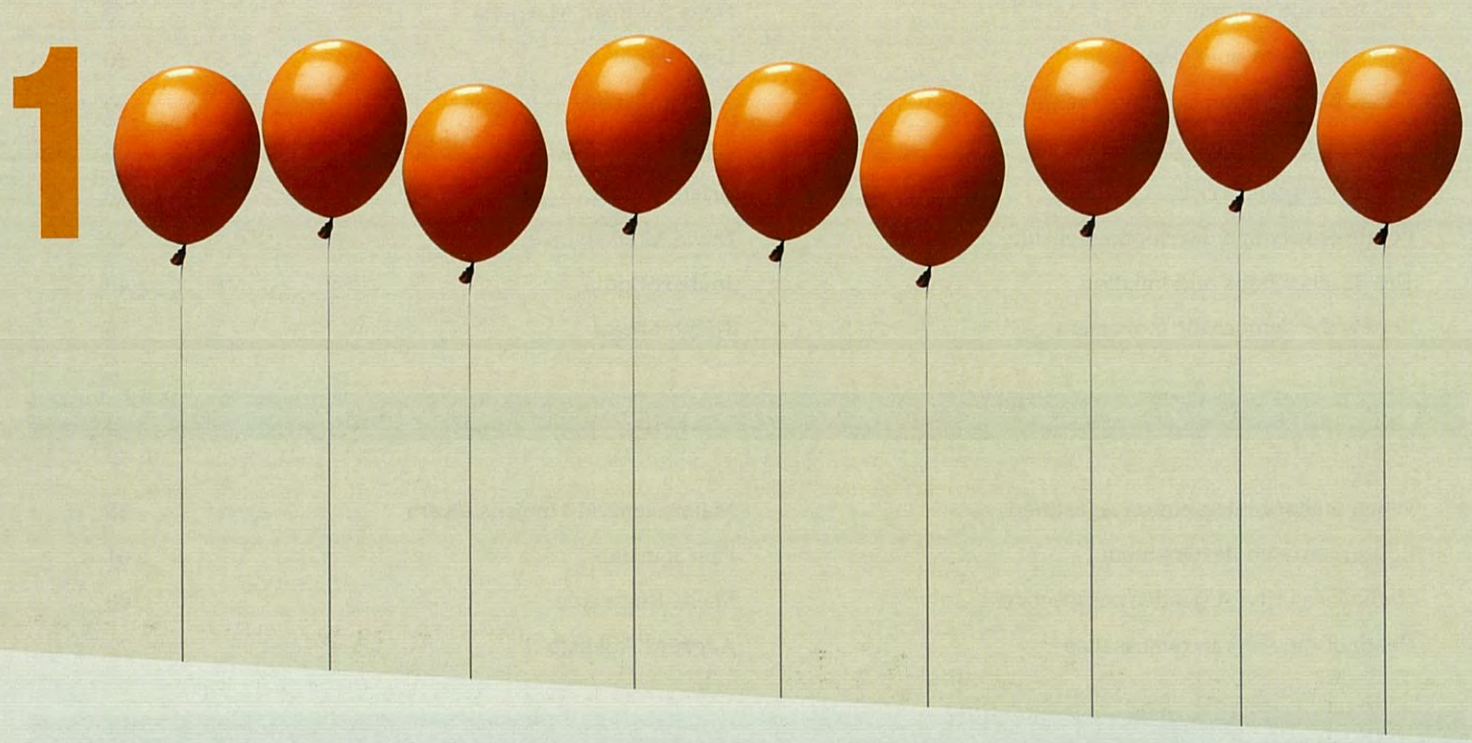
R1 billion in BEE funding approved



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NATIONAL EMPOWERMENT FUND
Growing Black Economic Participation

Lessons of the global credit crisis

editorial opinion

By **Mills Soko**, deputy editor of New Agenda

The implosion of American banking giants. The precipitous collapse of stock markets. The erosion of trust in financial markets. The shedding of thousands of jobs. These are some of the consequences of the catastrophic global financial meltdown, described by economists as the worst financial crisis to have rocked the world economy since the Great Depression.

That the global credit crisis has eroded confidence in the global economy is an understatement. The global economy is paying a heavy price for corporate greed and unfettered financial markets.

The financial market collapse has brought to the fore a number of salient issues and lessons that warrant mention. Firstly, it is worth noting that this crisis, unlike previous financial crashes, originated from a developed country. What started as a domestic economic problem in the United States, the bastion of modern global capitalism, was exported to the rest of the world, inflicting immeasurable damage to the world economy. The crisis has starkly exposed the vulnerability of the American and European economies, and has underlined the importance of financial regulation, of sound economic planning, and of corporate probity.

Secondly, the financial meltdown has undoubtedly eroded America's global economic and financial power. It has raised serious questions about the superpower's ability to underwrite global financial stability. For several decades the US has consumed more than it has produced – and made up the difference by borrowing. The days of easy money and of the country living beyond its means are over. In future the US will have to compete with other countries to attract capital to its shores.

Thirdly, the crisis has highlighted the fragility of the Anglo-Saxon capitalist model. It has confirmed a shift in the balance of power to the East. It has not gone unnoticed that China, touted as the next global superpower, has emerged relatively unharmed from the economic fallout. Although the global economic slump is bound to reduce demand for Chinese goods, China's gigantic economy can still be a formidable growth engine and a provider of much-needed liquidity. Significantly, the Chinese government recently announced a $586 billion stimulus package to power growth. With most industrialised economies in recession, the world is now looking to China to cushion global output.

Fourthly, the unravelling of financial markets has reinforced demands for overhauling global economic institutions. The dominance by western countries of such multilateral economic agencies as the International Monetary Fund and the World Bank does not sit well with current realities. These institutions must be reformed to also reflect the interests of rising economic powers such as China, Brazil, Russia and India.

Fifthly, the credit crisis has heralded the end of Reaganism and Thatcherism, the neo-liberal ideology that regarded governments as part of the problem and not as part of the solution. The recent worldwide clamour to restore the state as the regulator of markets is a recognition that markets do not always know best and that governments also have a vital role to play in shaping economic growth and development. This is an important conceptual departure from the "Washington Consensus" nostrums that have been the defining feature of global policy-making in recent years.

Lastly, the economic breakdown has reaffirmed the importance of rebuilding trust in financial institutions. Financial institutions operate on the basis of trust. Trust can only thrive if governments ensure that financial institutions are restricted in the risks they can take with other people's money. This crisis has undermined trust in financial institutions and has saddled the international financial system with a severe legitimacy problem. Restoring confidence to the global financial regime ought to be the overriding priority of policy makers and financial market operators.

The changing face and strategies of big business

By **Liberty Mncube, Grace Mohamed** and **Simon Roberts**

The authors are with the Competition Commission of South Africa, writing in their personal capacity. The views expressed here are not necessarily those of the Commission

The South African economy remains characterised by the dominance of a few large conglomerates whose strategies have a very significant impact on the economic development of the country. These large corporations play a crucial role in making major investments to realise economies of scale and scope, and in adopting and exploiting new technologies. Their conduct in terms of the pricing and supply of goods and services also has a very significant impact on downstream firms and consumers. High prices charged as a result of market power raise the costs of downstream firms using the products as inputs, and exploit consumers of finished goods. The economic power of the corporations can also be expressed in their lobbying for particular policies. Competitive rivalry is thus crucial to discipline the exertion of market power, where it may exist, and to induce firms to pursue dynamic strategies based on building competitive capabilities rather than exclusionary strategies, collusion, or simply lobbying to protect their position. Notwithstanding the continued importance of large corporations in the South African economy, there have been important developments in the past decade and a half, including the unbundling of some of the major conglomerates and liberalisation of the economy. This article draws on earlier work of Chabane et al (2006) to evaluate corporate structure and strategies in South Africa post-1994 in light of these developments.

Understanding the changes requires a brief review of the historical development of big business in South Africa. We then review the characteristics of big business in terms of the capitalisation of the JSE Securities Exchange (JSE) and the changing ranks of the largest companies before analysing the main impacts on these firms, focusing on exchange control liberalisation, black economic empowerment (BEE) and competition policy.

SOUTH AFRICAN BIG BUSINESS

The history of big business in southern Africa is inevitably and closely tied in with the discovery of precious metals and diamonds (Thompson, 1995). In the late 19th and early 20th centuries, De Beers achieved dominance of the diamond industry and the Anglo American Corporation (AAC) took the lead in exploiting the gold mining potential of the East Rand. By 1924, AAC became the largest single shareholder in De Beers. In 1929, they formally established the cross-holdings linking the two companies, both being effectively controlled by the Oppenheimer family until the end of the 20th century.

The industrial development that was subsequently stimulated was largely due to backward linkages created by the mining industry and the demand for consumer goods generated by white wage earners. This formed the platform for the diversification of the large mining houses. For example, AAC ventured into explosives and mining equipment, banking, industrial commodities (steel, paper and chemicals), engineering and consumer goods (including beer and furniture). The diversification was reinforced by economic sanctions and the divestiture by foreign multinationals of their South African

Pic. by Sydney Seshibedi. © Sunday Times.

operations, which were in many cases picked up by the local conglomerates.

By comparison, Afrikaner business remained underdeveloped until after World War II. In 1945, of the 117 undertakings with a capitalisation of more than £1 million, only one (Sanlam) was considered an Afrikaner company. In the post-war period, Afrikaner big business grew under the Nationalist government policy of "Afrikaner favouritism", including through government contracts and subsidies. These government interventions saw the Afrikaner share of the financial sector grow from 6 percent in 1948/9 to 13 percent in 1962, with industrial production growing from 6 to 9 percent and commerce from 25 to 28 percent over the same period (Clark, 1994).

The ANC came to power in 1994 on a platform of addressing the dominance of the mining conglomerates. The Freedom Charter of 1955 included the goal of nationalising the "commanding heights" of the economy: that is, underground mineral wealth, banks and monopoly industry. The ANC's 1990 discussion document on economic policy made reference to the kind of government intervention that has been identified as crucial to the so-called "East Asian miracle". (Amsden, 1989) Nonetheless, finding an application for such lessons to the peculiar context of South Africa proved difficult. The discussion document also endorsed the principle of tripartite negotiation between government, business and labour – a style of policy-making that had been conspicuously absent in East Asia but has become central to the politics of South Africa's economic reform.

CONTOURS AND CHARACTERISTICS, 1994-2007

A very few conglomerates, with origins in mining and the support of Afrikaner business, continue to dominate the economy, led by AAC. Together with Sanlam, SA Mutual/ Old Mutual and Rembrandt/Remgro, they controlled entities accounting for 76.5 of the capitalisation of the JSE in 1994 (Table 1). Of these, Sanlam and Old Mutual were mutual organisations, while AAC and Remgro were built by the Oppenheimer and Rupert families respectively.

It is difficult to overestimate the significance of the Oppenheimer family to the South African economy through its control of AAC. Anglo has consistently remained the top-ranked company in terms of JSE market capitalisation. It has dominated mining and much of South Africa's industrial activity for a century. In 1994, the group's activities stretched into almost every sphere of the economy with a sprawling complex of cross shareholdings between subsidiaries in a huge pyramid structure. The sheer size of the group has meant that its unbundling and restructuring has been one of the most significant processes of change in the corporate structure of South Africa. From the initial unbundling of JCI in 1995 to the listing on the London Stock Exchange in 1999 and the final sale of its holding in SA Breweries (SAB) in 2002, its restructuring represents a major change in control of many industrial sectors. AAC is now mainly a global mining house with interests in gold, platinum and coal, but it also has interests in other major operations, such as paper and pulp, and iron and steel.

Rembrandt is by far the most successful Afrikaner group, with origins dating back to 1948 when Dr Anton Rupert started the Voorbrand tobacco company. The help of the Nationalist government proved crucial as the firm received one of the first loans – to the value of R1.5 million – from Federale Volksbeleggins, a financial house controlled by Sanlam. In the 1950s, the group expanded abroad through the establishment of various international partnerships. Since the 1970s, Rembrandt has expanded its interests beyond tobacco, wine and spirits, through companies such as Rainbow Chickens, Total SA, Medi-Clinic and Transvaal Sugar, while also having interests in ABSA, Nampak, FirstRand and British American Tobacco (BAT). In contrast to Anglo, they have, however, maintained the range of their interests.

A process of corporate restructuring has occurred over the past decade and a half, with a decline in the significance of the main conglomerates. This was promoted by such factors as the overseas listing of some of the giants, and subsequent shareholder scrutiny, as well as the rise of services businesses and previously state-owned companies, notably Sasol. However, the unbundling of Anglo American *across* diversified operations has not in itself lessened the ownership concentration *within* sectors.

Relaxation of exchange controls and the desire to have primary or dual listings on foreign exchanges forced the traditional conglomerates to rationalise their ownership structures in the face of pressures from foreign investors. The process of unbundling was also consistent with the general trend of businesses to focus on their specific "core" competencies. The process of corporate restructuring and the significant increase in merger activity since the late 1990s has meant major changes in the rankings of listed companies, as reflected by market capitalisation (Table 2). Sixteen companies in the top 30 listed firms in 2007 were not in the top 30 in 1994.

On closer examination, however, there appears to be much less dynamism. The top companies remain dominated by mining and resource-based companies, led by Anglo American and banking and financial services groups. Several of the new companies, such as BHP Billiton, Angloplat and Harmony Gold, derive from different unbundled components of the old mining houses, while strong platinum growth accounts for a further two: Impala Platinum and Lonmin. Demutualisation and privatisation account for three, namely Old Mutual, Sanlam and Telkom. Many of the remaining entrants to the top 30, such as MTN, Bidvest, Naspers and Imperial, are linked to the rise in importance of services and do not necessarily reflect dynamism in the market structures of specific service sectors. While these are undoubtedly important developments, the overall picture is still one of the continued importance of resources and banking.

Companies such as MTN and Mvelaphanda, leading black-owned and managed groupings, have seen significant increases in their market capitalisation during the last few years. But not all black-owned companies have been so successful, as reflected in the decline of the share of the total black ownership on the JSE from its peak in the late 1990s.

POLICY IMPACTS

The corporate strategies adopted by businesses are obviously influenced by national policies and, as such, we examine the impacts of major policies adopted by the post-1994 governments, focusing on liberalisation of exchange controls, BEE and competition policy.

Exchange control and overseas listing

The conglomerates have vigorously promoted exchange control liberalisation and overseas listings, arguing that this would allow South African firms to raise capital more cheaply in international capital markets, which would increase investment in South Africa and encourage inward

Table 1: Summary of control of JSE market capitalisation (% of total)[1]

Group	1985	1990	1994	1998	2002	2004	2006
Anglo American Corp	53.6	44.2	43.3	17.4	20.2	18.7	21.0
Sanlam	12.2	13.2	10.5	11.1	6.3	2.7	2.3
SA Mutual/Old Mutual	10.6	10.2	9.7	8.8	12.0	4.5	5.5
Rembrandt/Remgro	3.8	13.6	13.0	9.0	10.0	7.9	7.8
Directors	8.1	6.7	7.0	14.4	7.4	5.8	6.7
Liberty Life/Standard Bank	2.0	2.6	7.2	9.5	6.0	4.7	3.5
Black Groups†				9.6	3.5	6.3	5.1
Foreign (Other)	5.9	2.1	2.2	3.9	10.1	18.5	20.8
ABSA						2.2	
RMB/FirstRand			0.5	4.8	4.7	4.9	3.9
Sasol			1.7	2.2	3.8	4.2	4.6
Investec/Fedsure			0.4	3.3	1.9	0.8	1.2
Anglovaal††	2.1	2.5	3.6	0.8			
Bidvest Group				1.0	1.0	1.2	1.0
SABMiller					4.0	5.1	5.7
State						2.2	2.0
Institutions/Unallocated	1.7	4.9	0.9	4.2	9.1	10.3	9.1

Source: McGregor's, 2007

† The black-owned groups are identified as such by McGregor's on the basis of all those companies which have significant black influence in their ownership.

†† In 1998, the Anglovaal shareholding was split equally, giving the Hersov and Menell families each control over 0.4 percent of the JSE capitalisation.

foreign direct investment (FDI). Related overseas listings included AAC, Billiton, Old Mutual, Liberty International and SAB on the London Stock Exchange. Billiton and SAB have subsequently merged with other big groups to form BHP Billiton and SABMiller. In addition, Sappi has secondary listings on several international exchanges and a majority of its shareholders, assets and earnings are overseas. In April 2003, Sasol moved its secondary on the NASDAQ to the New York Stock Exchange.

Private investment and inward FDI in South Africa, however, remained relatively poor, and firms that moved their primary listings overseas have not recorded higher investment rates in South Africa. Instead, outward FDI tended to exceed inward FDI. Major foreign investments have largely been limited to the acquisition of stakes in former state-owned utilities (Telkom and South African Airways) and the re-entry of firms such as Toyota and General Motors, which had exited under sanctions (Goldstein, 2004). There have also been notable acquisitions of South African blue chip companies, led by Barclays' 2005 acquisition of a controlling stake in ABSA, but again, this is not an investment associated with expansion of productive capital stock in South Africa. There has been

Table 2: Top 30 listed firms

Name	Market capitalisation 2007 (Rm)	Rank 2007	Rank 2002	Rank 1998	Rank 1994
1. Anglo American	571 985.4	1	1	1	1
2. BHP Billiton	400 950.5	2	2	7	
3. Angloplat	269 466.3	3	4	16	
4. SABMiller	238 998.1	4	6	2	3
5. Richemont	210 366.0	5	3	6	5
6. MTN Group†	163 918.5	6	18	77	
7. Sasol	151 404.8	7	5	5	8
8. Standard Bank	144 708.0	8	12	8	11
9. Impala Platinum	143 851.3	9	10	81	43
10. FirstRand	138 619.8	10	11	10	18
11. Old Mutual	128 445.9	11	8		
12. ABSA Group	93 744.5	12	20	13	41
13. AngloGold Ashanti	89 909.8	13	7	53	21
14. Telkom	88 498.8	14			
15. Remgro	81 233.2	15	14	12	10
16. Lonmin	67 798.8	16	16	44	31
17. Gold Fields	66 189.4	17	9	33	16
18. Nedbank	65 005.4	18	15	9	24
19. Naspers	64 353.9	19	84	52	94
20. Liberty International††	64 301.5	20	17	4	4
21. Mittal Steel SA	52 594.3	21	48	68	22
22. Sanlam	46 072.2	22	19		
23. Bidvest Group	45 502.1	23	28	26	100
24. Barloworld	41 213.9	24	25	29	33
25. Harmony Gold	40 499.4	25	21		121
26. Investec	35 867.8	26	26	17	69
27. Imperial Holdings	31 757.1	27	30	21	80
28. Tiger Brands	30 034.2	28	31	23	30
29. Steinhoff	28 602.0	29	35		
30. Sappi	26 297.9	30	13	63	17

† The MTN Group was previously listed as M-Cell.

†† In 1994 and 1998, this is the aggregated Liberty group holdings before the unbundling.

a much more striking pattern of outward acquisition and investments, with the total stock of outward FDI growing from $8.7 billion in 1995 to $28.8 billion in 2004 (Goldstein, 2006).

Concern about conglomerates' intentions and the benefits and costs to South Africa of primary overseas listings led the government to seriously question its approach, and the finance minister's budget speech in February 2000 contained its criteria for future cases. Consideration is now given where:

- foreign expansion is necessary and integral to the company
- the company is in effect an international concern, deriving a significant proportion of revenue from outside South Africa
- there are clear monetary and balance of payments benefits, and
- a substantial advantage can be demonstrated over alternative approaches to raising the required capital.

Since then, the government has only granted overseas listing permission to Investec, in November 2001. The financial services group, which was then earning 60 percent of its revenues outside South Africa, was given the go-ahead on condition it kept its headquarters in Johannesburg.

South African companies have generally found relationships with investors, analysts and financial and accounting regulators more demanding than in their home country, which has further driven their unbundling. They have, however, also been able to fund their geographical diversification. In addition, the increased autonomy of firms with overseas listings and the increased proportions of conglomerates' revenues coming from overseas activities weaken the leverage of the South African government in stipulating requirements such as those around BEE.

Black economic empowerment

The process of BEE in South Africa thus far can be split into three distinct timeframes, which have different outcomes, but which highlight the continuing and entrenched levels of concentration in the economy.

Despite the government's apparent commitment to BEE, it was predominantly the private sector that played a leading role in implementing BEE deals in the early 1990s. While it was important for the conglomerates to conclude large and high profile deals, this was particularly advantageous where these concerned assets they wanted to dispose of in any case. The first phase of BEE in the second half of the 1990s, which was characterised by the transfer of ownership through special purpose vehicles (SPVs)[2], saw more than half of the black ownership on the JSE being created in this manner (Chabane et al, 2006). This led to the proportion of black business groupings on the JSE increasing to 9.6 percent in 1998. Weakening market conditions following the Asian stock market crash of 1998 compounded the fragility of SPVs and new black owners were left highly indebted (DTI, 2003). As a result, the proportion of the JSE market capitalisation controlled by black-owned groups fell to just 4.3 percent in 1999 and has fluctuated around 4 to 6 percent since then. JCI proved to be perhaps the highest profile empowerment failure, while Johnnic succeeded largely due to a strategy of changing the orientation toward services and an ownership stake in the second largest mobile phone company, MTN.

The "second phase" of BEE transactions was characterised by concrete levers such as the various industry charters and the pressure brought to bear by the Preferential Procurement Act of 2000. During this phase, mergers and acquisitions had a greater BEE dimension. The number of deals with a BEE dimension rose from 24 percent between 1998 and 2002 to 32 percent in 2003 to 2005, with a similar increase in deal value (Ernst & Young, various years). The financing of BEE firms has been strongly supported by loan and equity finance extended by the state-owned development finance corporation, the Industrial Development Corporation (IDC). In the ten years to June 2004, the IDC approved 878 BEE deals worth R9.8 billion, and BEE approvals formed 53 percent of the total IDC funding in financial year 2003/04, according to its 2004 annual report.

The new broad-based approach to empowerment is meant to embrace the growth of black small and medium enterprises, as part of what some commentators see as a "third phase" of BEE (Jack, 2006; Sanchez, 2006). Yet the continued high levels of concentration at industry and sector levels suggest scepticism about the prospects for such developments. A greater threat to established South African business interests seems instead to be the increased entry of foreign firms, including developing country multinationals such as Tata (Chabane et al, 2006).

Competition policy

The new Competition Act that came into force in 1999 includes in its purposes the promotion of a greater spread of ownership: in particular, to increase the ownership stakes of "historically disadvantaged persons" (Section 2[f]). Indeed, it has sometimes been seen as part of empowerment legislation, aiming to "pry open this nepotistic business culture" (Iheduru, 2004). It also addresses anti-competitive conduct of an exploitative or exclusionary nature, whereby dominant firms exert market power to abuse their position.

Although the competition authorities established by the new law spent much of their first years on merger analysis (Roberts, 2004), it is thus a key pillar to tackle the

implications of high levels of concentration for economic development. In recent years, the focus has shifted to anti-competitive conduct, both by collusion and unilateral abuse of dominance. While the processes of investigation by the Competition Commission and the adjudication of cases by the Competition Tribunal are lengthy and legalistic in nature, important cases have provided insights into the continued power of the major firms.

For example, the processing of maize and wheat into mealie meal and bread is collectively controlled by four firms (Pioneer, Premier, Tigerbrands and Ruto/Foodcorp) that appear to have been colluding throughout the past decade and a half (Chabane et al, 2008). Of these firms, two are unbundled subsidiaries of the major conglomerates and two are formed of former co-operatives supported by the apartheid regime's agricultural policies. In dairy products, a similar picture emerges from the case currently being brought by the Competition Commission against processing companies that, on de-regulation by government in 1997, the companies stepped in and ran private regulation by agreement among themselves.

In industrial products, such as fertiliser and steel, the same firms as over a decade ago continue to dominate, albeit sometimes under new names and owners. In nitrogenous fertiliser, the Commission has referred cases of exclusionary conduct and excessive pricing against Sasol, and of collusion against Sasol together with Omnia and Kynoch/Yara. In steel, the Competition Tribunal has ruled against Iscor, now Arcelor-Mittal SA, on excessive pricing of flat steel, while the Commission has uncovered apparently widespread collusion in long steel products. High prices in these products can have significant negative effects on those requiring them as intermediate inputs, namely farmers in the case of fertiliser, and diversified manufacturing and construction firms in the case of steel.

Such conduct is possible due to the entrenched position of the major firms and the difficulties that new entrants and smaller firms face to challenge them. Barriers to entry have been increased by the vertical integration that has been one of the patterns of conglomerate restructuring. Both cartels and single dominant firms also have to ensure that the profits they may reap from their conduct are not undermined by entry. Their strategic behaviour may thus be designed to deter entry and exclude rivals and thereby protect abnormal profits.

CONCLUSIONS

The picture emerging from this analysis of big business in post-apartheid South Africa indicates very little improvement in the levels of concentration at the sector level. While the comparison of the top 30 listed firms in 1994 with those in 2007 suggests a relatively dynamic corporate environment, in terms of both organic growth and acquisitions, much of the changes are due to the increasing importance of services.

It is important to be clear that this is not to argue for or against big business per se. The issue is the behaviour and orientation of big business, which is central to understanding the development of the economy. Under active competitive rivalry, businesses maintain their position because of dynamic investments, and we would expect to see mobility in the rankings of firms within sectors based on these strategies. This has been identified as a key factor in the success of East Asian economies (Singh, 2002; Amsden and Singh, 1994). If firms are deriving profits from exploitative anti-competitive conduct, this suggests their positions are entrenched.

The brief review here suggests that, in terms of structure and behaviour, the changes have been modest since 1994. The pressures of overseas listings that the conglomerates themselves vigorously pursued – rather than government policies – have brought about a welcome rationalisation of pyramid control structures. However, a closer examination reveals that the positions of the major conglomerates are, if anything, even more entrenched, especially in industrial and mining sectors, with important vertical acquisitions extending their reach.

Public interventions have focused on liberalisation, BEE and competition policy. While firms have adapted to a liberalised environment, in many cases it appears as if they have been able to maintain their positions within markets and, in the case of some food products, it appears that de-regulation simply led to the firms regulating through their own collusive arrangements. The record on black economic empowerment similarly reflects strong elements of continuity matched against the evidence of rather stop-start progress at best and little change to the underlying structure of the economy.

Competition policy has made slow progress in addressing the conduct of corporations in entrenched positions, although there have been important successes in uncovering cartels. Competition cases are also playing an important role to open up such conduct to wider scrutiny. An important, though undervalued, role of the competition authorities is their ability to obtain and analyse information on firm behaviour. The recent amendments to the Competition Act add to the powers of the authorities, e.g. the ability to initiate market enquiries.

In comparison with the limited impact of government policies on corporate strategies, the conglomerates have maintained relatively good relations with successive governments and have influenced economic policy. In 1996, the South African Foundation (of the country's fifty largest businesses) released a report, "Growth for All", which vigorously (and successfully) attacked the redistributionist

emphasis of the ANC's reconstruction an development programme (RDP). On the grounds of "macroeconomic stability," it proposed aggressive liberalisation and conservative macroeconomic policies (Terreblanche, 2002: 113). These measures were embodied in the government's own policy stance released soon after in the growth, employment and redistribution (GEAR) programme.

Other moves include the Brenthurst Initiative in 2003, by Harry Oppenheimer's son Nicky and grandson Jonathan, which sought to link transformation with growth through a trade-off of lower corporate taxes for firms' "transformation performance". Because mining companies such as De Beers had to meet the provisions of the Mining Charter, this can be seen as an attempt to get concessions for something they had to undertake in any event, while putting an onus on non-mining firms to also meet targets. Although traditionally keeping a low public profile and working more through direct lobbying, Johann Rupert has also recently criticised BEE and argued strongly in favour of a liberalised and deregulated "free market" economy (Rupert, 2008). However, it must be remembered that these comments come from a member of arguably the most powerful business family in the country.

Lastly, the analysis here suggests that achieving a more dynamic economy, where big business strategies are focused on productive investments in new areas and capacities, requires industrial policy to complement competition policy. Industrial policy levers need to encourage competitive rivalry as one of their key considerations, and to ensure rivalry in the allocation of incentives and support as well as in monitoring the impact. Where support may further entrench an already dominant firm or "national champion", careful consideration needs to be given to the expected outcomes, and conditions enforced to ensure these are realised. The government's latest national industrial policy framework highlights these issues, but it is too early to evaluate its impact.

NOTES

1. Control is assessed by McGregor's, taking into account the various cross-holdings of shares that exist and may be associated with a relatively small direct shareholding in any given company. Market capitalisation is used internationally to measure the worth of a company and, by aggregation, the value of the stock exchange. Group control of market capitalisation is expressed, as a percentage of total market capitalisation of the stock exchange, as a measure of group control of the exchange. Once individual company controls have been established, the market capitalisation of those controlled by the same group is aggregated and the totals expressed as a percentage of the total market capitalisation of the JSE.

2. Financial institutions provided funding to black entrepreneurs, who in turn offered as collateral preference equity capital in the companies acquired. Such deals rely on the share values outweighing the finance cost. If this condition is not met within a specified period, typically the shares are transferred to the financial institution.

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Notes on the Alliance Economic Summit

By **Neva Seidman Makgetla**

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In the Alliance Summit in mid-October 2008, representatives of the African National Congress (ANC), the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) focused on how to implement the economic resolutions of the ANC's national conference in Polokwane last year. The central thrust of those resolutions was to:

- *make "the creation of decent work the primary focus of economic policies"*
- *develop the institutions of the state to improve co-ordination, including stronger planning institutions and methods*
- *strengthen industrial policy to ensure sustained, diversified and increasingly equitable growth*
- *accelerate agrarian reform, both to address the deprivation left by apartheid and to empower poor communities (ANC, 2007: 18ff).*

The Summit aimed to develop practical proposals to take these resolutions forward. That required an honest appraisal of shortcomings in current government strategies, and creative thinking about what should be changed to improve the outcomes. The Summit included commissions on planning, employment, industrial and trade policy, agrarian development, water and the environment, the role of development finance institutions, social security and the criminal justice system.

THE PROBLEM: INEQUITABLE AND VULNERABLE GROWTH

The Summit's work was based on the agreement that the fundamental economic challenge remains the marginalisation of the majority from the core economy. That marginalisation is reflected most graphically in high levels of unemployment. Moreover, of those who do have paid work, many face low incomes, insecurity and unsafe working conditions; notably in agriculture, the private services and the informal sector.

From this standpoint, the relatively rapid growth of the past five years – now likely to be curtailed by the global economic crisis – did not do enough for the majority.

Certainly some things improved. The economic upswing was associated with rapid employment creation by international standards. Unemployment dropped from over 30 percent in 2003 to 23 percent in 2008. Together with expanded social grants, that led to a significant alleviation of deep poverty. Statistics on hunger demonstrate this success most graphically. In 2002, one household in four reported going hungry at least sometimes. Five years later, the figure had fallen to one in eight (StatsSA, 2002 and 2007).

But these improvements did not lead to a qualitatively more integrated or equitable economy. Above all, income

and asset inequality remained virtually unchanged, leaving South Africa one of the most economically divided societies in the world. In 2005/6, the richest 10 percent of the population got over half the national income, while the poorest 20 percent received less than 2 percent (calculated from StatsSA, 2008). Moreover, despite the decline in joblessness, South Africa continued to have very low levels of employment by international standards. Worldwide, some 60 percent of working-age adults are employed (calculated from ILO, 2007); in South Africa, the figure is only 45 percent. In the former Bantustan regions, under 30 percent of adults have income-generating work (calculated from StatsSA, 2008).

To ensure both more sustainable growth and a more integrated society, far-reaching shifts are required in the structure of the economy: away from dependence on minerals exports, which limits employment creation and leaves the economy vulnerable to international downswings, and toward growth in industries that can create economic opportunities for the majority, meet basic needs across southern Africa, and diversify exports.

The growth of the past five years occurred largely because of the global boom in metal prices, accompanied by substantial short-run capital inflows. As these trends strengthened the rand and lowered interest rates, the rich spent more on houses, cars and consumer goods – and employment creation occurred almost exclusively in retail, construction and private services. At the same time, growth brought higher tax revenues, so the government could spend substantially more on social grants, basic services and infrastructure.

This redistributive growth model displays three main weaknesses:

- it is highly vulnerable to declines in international metal prices and capital flows, as the current international downturn demonstrates all too vividly
- while it provides some improvements in living standards for the poor, it does not create a more equitable and integrated economy
- it leaves poor households dependent on government transfers, which are rarely enough to pull them out of poverty. The old age pension, after all, is only enough to lift two people above the two-dollar-a-day poverty line, and the child grant is only about a third as much. Moreover, economic downturns squeeze government revenues, risking cutbacks in services to the poor. Finally, the government has provided grants and services mostly to individual households, which tends to undermine social solidarity and collective action.

As the Polokwane resolutions recognise, transforming the economy toward more inclusive, integrated and sustainable growth requires better management of the state, as well as more consistent work to encourage

business activity in new areas. The Alliance Summit effectively explored ways to achieve that aim.

KEY PROPOSALS AND DEBATES

The Summit's commission on planning was one of the largest and most exuberant. If there's one thing we have all learned from the past 14 years, it is that the state itself has to be systematically reformed in order to transform the economy. The commission focused on proposals to align economic policy around the vision and priorities of the ANC.

Economic planning, in this sense, is not about controlling the economy directly. Rather, it seeks to ensure more coherent and systematic state action in two key areas. On the one hand, it has to guide the provision of infrastructure to support a more integrated economy and higher living standards for the poor, while facilitating robust and sustained economic growth. On the other hand, the planning system must ensure that every economic policy ultimately takes forward national priorities. That requires both a clear definition of government objectives and quality-control procedures that check the viability and efficiency of major policies and projects.

From this standpoint, South Africa still has to face up to the challenge of the fragmented state. In 1994, the democratic government inherited a set of ministries working largely in vertical "silo" structures, with few systems for

co-ordination or anticipation of new developments. Only the cabinet was in a position to perform an integrating function, but it had only very limited resources to analyse departmental proposals or impose co-ordination and quality controls. Departments themselves were characterised by extremely hierarchical and oppressive management, which militated against open and inclusive decision-making, both within government and with stakeholders.

After 1994, this fragmented system was aggravated by the establishment of semi-autonomous provinces and local governments and also by the entrenchment of Reserve Bank independence. This is not surprising – after all, the National Party insisted on a federal system precisely to undermine efforts to transform the national economy. The subsequent introduction of independent regulators for infrastructure, even in sectors with a state monopoly, added to the difficulty of co-ordinating policy and implementation.

The national economic departments all have divergent mandates, and none of them sets employment creation as the top priority. The Department of Trade and Industry (DTI) sees its primary role as supporting mostly high-tech manufacturing industries – none of which can create employment on a large scale – as well as small formal enterprise; the Department of Agriculture (DoA) emphasises increasing the black ownership of land and assistance to smallholders; and the Department of Minerals and Energy (DME) has targeted black ownership in mining and beneficiation of minerals. This failure to rigorously prioritise the core needs of the majority underlies the Polokwane resolution's insistence that the main concern of future economic policy must be the creation of decent work on a mass scale.

Inter-department alignment

In addition, each department has had to make its own assessment of trends in economic growth, settlement patterns and the production structure. This has sometimes led to contradictory proposals and programmes in critical areas, such as policies around mining and agriculture and measures to encourage investment in remote rural areas.

The lack of alignment between departments emerges in the absence of a vision of how to manage capital. In a mixed economy, an effective economic development strategy requires that the state use sanctions and incentives to ensure business decisions align with national needs. The uncomfortable fact, however, is that companies will simply close down if government policies make them unprofitable.

This reality limits the scope for state action in a capitalist economy. It does not mean that the state cannot discipline capital, but rather that it must do so very efficiently and strategically. Government policies should impose new burdens on businesses only where that is unavoidable for the achievement of core national priorities. At the same time, to open space for effective transformation, the state must reduce unnecessary business costs, above all by maintaining efficient infrastructure and avoiding ineffective or unnecessary regulations.

It follows that we should be able to deduce national priorities from the costs government imposes on business. Over the past ten years some of the greatest burdens have arisen from tariff reductions and high interest rates; inefficient administration of regulations; procurement and mining rules targeted at narrow BEE; slow and uncertain procedures for environmental impact assessments; high charges and delays around harbour usage, rail transport and telecommunications; and the electricity shortfall. In contrast, the government has imposed only very limited costs – and provided few subsidies – to encourage employment creation and improved conditions for farm, domestic and security workers, or to support broad-based collective ownership.

Integrated planning

To address the challenge of the fragmented state, the Polokwane resolution calls for:

- a strengthened role for the central organs of state, including through the creation of an institutional centre for government-wide economic planning with the necessary resources and authority to prepare and implement long and medium term economic and development planning
- the integration, harmonisation and alignment of planning and implementation across all three spheres of government, and with the development finance institutions and state owned enterprises
- building the capacity of the state to mobilise the people as a whole, especially the poor, to act as their own liberators through participatory and representative democracy (ANC, 2007: 18).

On this basis, the Alliance Summit proposed the establishment of a planning commission based in the presidency and falling directly under the deputy-president. Locating the commission in the presidency aims to ensure sufficient authority over the state as a whole.

The commission's key functions would be:

- perspective planning to provide a common vision able to mobilise and align the state and society as a whole, while laying the basis for a common understanding of economic and social trends for all government agencies
- the identification of priority projects and programmes to fulfil the perspective plan – in essence, a critical

path for government
- quality control for priority policies and programmes, to make them as efficient and effective as possible
- monitoring and evaluation of government activities, to secure both improved delivery and the achievement of core national outcomes
- contingency planning to foresee potential problems and develop measures to address them.

The Summit also agreed on the need to revisit the structure of cabinet on the basis of the current cluster system. The existing clusters group departments together in order to improve co-ordination across broad sectors within government: economic policy, social services, infrastructure, security services and governance functions. The Summit proposed that in future a single minister represent each cluster on a council of state. The sectoral minister would take responsibility for co-ordinating actions by the ministries within each cluster. In effect, then, the council of state would act as a working committee for the cabinet as a whole.

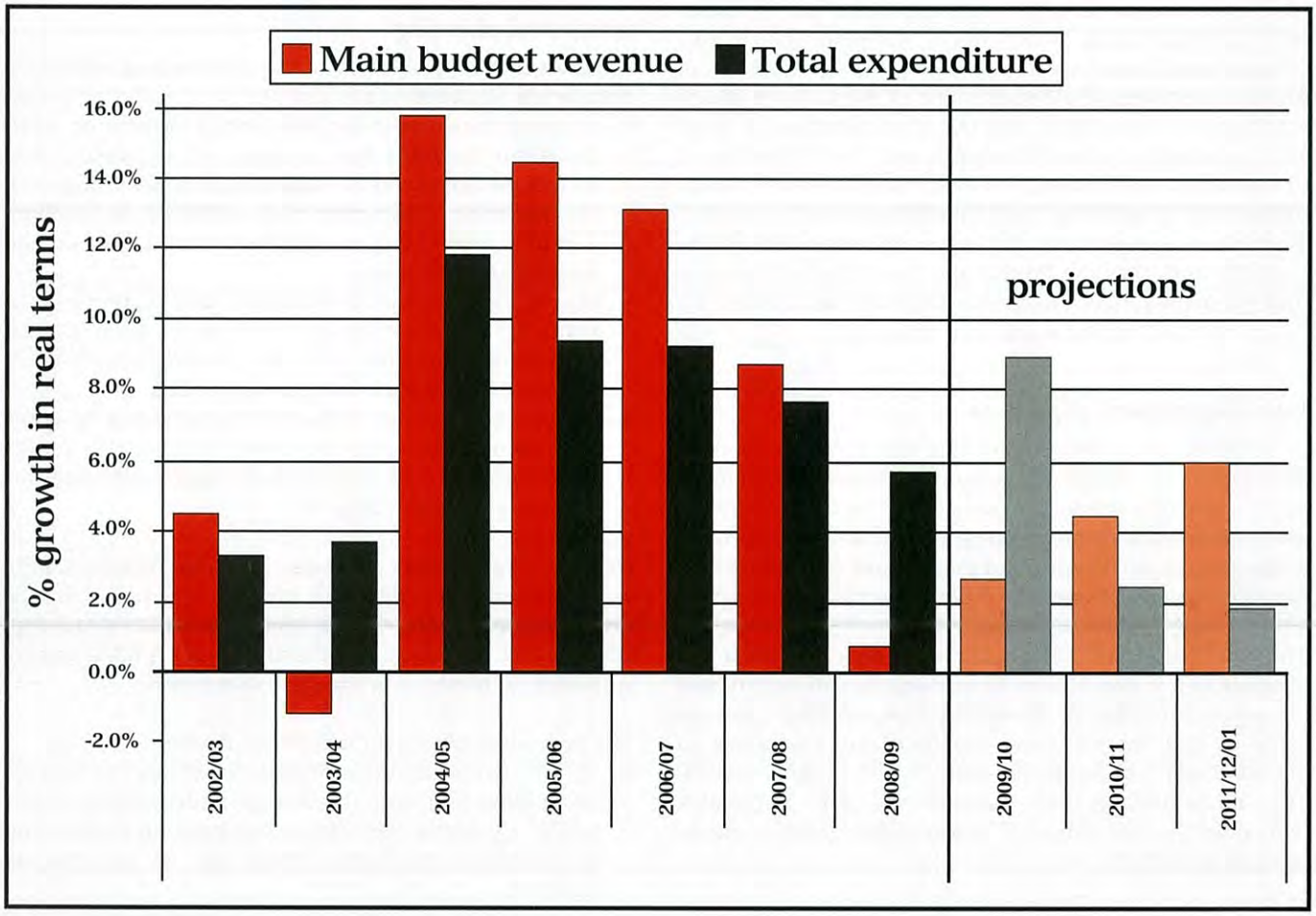
Policy matters

In addition to proposals on the restructuring of the state to improve economic policy in general, the Summit explored substantive policy questions.

On **unemployment**, the Summit agreed on the need for:
- a shift in the growth path toward more labour-intensive activities, including through land reform
- improved education and skills development
- better labour-market information and stronger unionisation.

Expanding labour-intensive activities requires a combination of effective strategies to encourage growth in sectors that can generate employment on a mass scale, and cross-cutting efforts to make the economy as a whole more efficient. From an employment standpoint, the priority industries are public and private services, agriculture, construction and light manufacturing. Currently, the government has only very limited capacity and plans to support these industries.

Actual and anticipated growth in government revenues and spending



Source: Actuals calculated from National Treasury, 2008 Budget Review, deflated using CPI; projections from National Treasury, Medium-Term Budget Policy Statement (MTBPS), 2008, with MTBPS CPI projections.

The government's Accelerated and Shared Growth Initiative for South Africa (ASGISA) programme points to the critical importance of improving economic infrastructure, including electricity, transport and telecommunications. In addition, reductions in the cost of commuter transport and, in the longer run, densifiation of the cities are needed to moderate the cost of employment. While the state has recognised the need for more efficient infrastructure, in most cases it has not set targets and timetables, or mechanisms to monitor progress.

The Summit agreed that, even with stronger support for employment creation, the private sector alone would not generate opportunities on the necessary scale in the foreseeable future. It therefore called for a substantial expansion in public employment schemes, able to create well over a million positions a year. The government is already considering plans to achieve this objective, but it still has to allocate the necessary resources and develop programmes to deliver employment opportunities on the necessary scale.

On **industrial policy**, the Summit noted the adoption of the industrial policy action plan in 2007. The Polokwane resolutions, however, set the challenge of revising the action plan to ensure it prioritises employment creation. That requires, first, the inclusion of more industries able to generate opportunities on a large scale, in particular agriculture and the services. In contrast, the current action plan emphasises relatively small, high-tech, export-oriented manufacturing industries.

The Summit also argued that the industrial policy had to include a perspective on mining. While the industry is not likely to create new jobs directly and accounts for only 10 percent of the GDP, it contributes over half of all exports. Its long-term growth is therefore crucial for any economic development strategy.

The national economic departments all have divergent mandates, and none of them sets employment creation as the top priority.

The Summit pointed to the need to align black economic empowerment (BEE) initiatives with the overarching objective of shared growth based on employment creation. Today, different departments diverge in their understanding of BEE. Some departments – notably mining and agriculture – still emphasise the share of black ownership, while others, especially the DTI, also stress empowering black workers, expanding collective ownership and supporting new entrepreneurs. From the standpoint of the Polokwane resolutions, any BEE initiative should be judged against its impact on employment creation in particular, and overall equity and social cohesion in general.

The Summit expressed serious concerns about current **trade negotiations**. It argued strongly that any trade agreement must support industrial policy objectives, rather than making free trade an aimin itself. From this standpoint, the European Union's current proposals for economic partnership agreements (EPAs) were seen as undermining the scope for effective industrial policy, and therefore unacceptable.

The most heated debates – in plenary, the commissions and the corridors of the Summit – emerged around **fiscal and monetary policy**. Everyone agreed that these policies must support employment creation and steady growth, which means that they should be anti-cyclical. Disagreements inevitably arose, however, over what combination of stability and stimulation would be desirable.

Notoriously, fiscal and monetary policies involve trade-offs. If they are too expansionary, they risk soaring government debt, inflation, capital outflows and – if economic conditions turn sour and repayment proves difficult – the imposition of policy restrictions by lenders. If fiscal and monetary policies focus too narrowly on stability, however, they can kill economic growth and jobs. Micro-economic policies aimed at greater efficiency and employment creation can only go so far to offset excessively restrictive macro-economic policies, especially because tight budgets limit the resources available to back up government programmes.

In these circumstances, even a more expansionary policy will require tough choices, particularly between the push to strengthen government intervention to transform the economy and improve economic infrastructure and the need overcome backlogs in services and social grants for the poor. The economic downturn expected for the next few years will add to the difficulty of these choices. The government will have to decide how much it can spend to stimulate the economy while avoiding a dangerous overload on national domestic or foreign debt. As the graph on the following page shows, the national treasury currently expects slower economic growth to lead to slower expansion in government revenues and spending.

Macro-economic debates in South Africa are still overshadowed by GEAR. Many participants in the Summit were still fighting for a more expansionary fiscal policy as a matter of principle, virtually ignoring the relatively rapid growth in government spending over the past five years. Their opponents, in contrast, still act as if any debate over fiscal or monetary policy will inevitably lead to unsound economic governance.

Debates arose specifically over inflation targeting. Supporters argue that it provides crucial guidance for the Reserve Bank, letting the government establish a balance between excessively cautious monetary policy and recklessness. Opponents say it encourages high interest rates at the cost of employment creation and economic expansion. Moreover, they contend that the current inflation-targeting system does not require the Reserve Bank to take into account external and cyclical factors causing inflation. That can lead to an overreaction to short-term inflationary surges, which risks initiating stagflation.

On **agrarian development**, the Polokwane resolutions call for a substantial expansion in support for smallholder schemes and measures to empower communities. In addition, they call for concerted efforts to overcome the shortcomings in rural agriculture. To achieve these ends, they argue that the state should "create an overarching authority with the resources and authority to drive and co-ordinate an integrated programme of rural development, land reform and agrarian change" (ANC, 2007: 26).

From this standpoint, the Summit pointed to shortcomings in the current Land and Agrarian Reform Project (LARP). The programme targets just 10 000 beneficiaries for the land redistribution programme, which it expects to involve 20 percent of agricultural land at a cost of at least R3 million per beneficiary. The Summit argued that land reform must be fundamentally redesigned in order to create sustainable rural livelihoods on a mass scale. Critically, it must form part of integrated schemes to support smallholders by encouraging them to set up marketing co-ops, providing extension services, assisting them to access markets and helping them to obtain inputs and credit.

In addition, the Summit proposed that the government should find ways to encourage farm worker organisation and improve their access to government services and housing. In 2007 there were around 800 000 farm workers. Of these, over half earned under R1 000 a month, 60 percent did not get paid leave (in violation of the Basic Conditions of Employment Act), three quarters did not have a pension fund, and only 10 percent belonged to a union (calculated from StatsSA, 2007).

Finally, the Summit stressed the importance of protecting the poor from spikes in food prices, as were experienced in 2002 and 2008. It argued that the government must do more to provide food directly to poor households, including through schools, clinics and community kitchens. In addition, it should find more effective ways to enable households in both rural and urban areas to establish gardens.

We need to understand why national economic policies have so often seemed to play down the central concerns of the ANC's main constituencies - above all, employment creation.

The Summit agreed that the government should establish a council for **development finance institutions** (DFIs), such as the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA). The council should be chaired by the proposed planning structure. Generally, the DFIs should have stronger performance indicators linked to their developmental impact.

WHAT NEXT?

This Alliance Summit was redolent with *déjà vu*: the excitement and openness of the discussions bore an unsettling resemblance to the workshops and conferences around the Reconstruction and Development Programme (RDP) some 15 years ago. Civil society members, academic experts, even most officials and elected leaders clearly relished the chance to review current policies and suggest improvements.

As with the RDP itself, however, the real challenge is to ensure that the proposals from the Summit actually influence government structures and programmes. To do that, we need to understand why national economic policies have so often seemed to play down the central concerns of the ANC's main constituencies – above all, employment creation. The proposed planning commission should help by setting unambiguous mandates and priorities. But more needs to be done to identify the strengths and weaknesses of the government's economic agencies, and to develop ways to address them.

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UNLEASHING THE POTENTIAL OF YOUTH

A pre-election safari

tailored for journalists and politicians

By **Guy Berger**

The author is head of the School of Journalism and Media Studies at Rhodes University. A former ANC political prisoner and editor of the alternative newspaper *South*, he describes himself as a media activist

A minister laughingly told me recently about an occasion a while back when his cellphone rang. Oops. Please take a call from the president. The words followed from on high: "Greetings, chief. We may have a problem here. You are being quoted as having said XYZ. Did you say that?"
"Er, yes, I did," said the minister.
"Look, I'm afraid you need to withdraw it," came the instruction.
Replied the minister, "I hear you, Mr President – I'll say I was misquoted."

Recounting this story is not to suggest that government members never play it straight in their dealings with the media. Nor is it to imply the opposite – namely, that the media is populated by saints (despite what some of its staffers may think).

Even as you read this, some devilish journalists are sniffing around politicians' private parts with bad intent. In a reverse of the creation story, they take humans and turn them into dirt. It's done, purportedly, by professionals working in the public interest. Yet, the reason is often sheer publishing sensation or being party to political intrigue.

And besides the mischief-makers and ideologically driven reactionaries playing fast and loose with facts, there are also the many incompetents and plagiarists holding down jobs in the media.

These are the roots of stereotypes about press people, and about politicians. Each resonates with perceptions on either side. But there is more to the whole shebang than the occasional lying minister and the spectre of scurrilous journalists.

In fact, some edu-tourism is in order, so as to get a more nuanced grasp of the wildlife in the Public Sphere Game Park. We're going to scrutinise the Big Five. Live.

Consider the media as one of the Five. Its representatives are sometimes regarded as wild dogs, even as hyenas. Fair enough, in some cases. Yet even these creatures are a rightful and even valuable part of the overall ecosystem. They may often be irritants, but very few are actually the equivalent of malaria-bearing mosquitoes.

Think of other species of media as well: those that co-exist rather than compete with the political lions, leopards, karakuls and cheetahs. This is the journalism that, instead of scavenging for rotten scraps, actually helps to grow life. The mediascape includes flowering groundcover in the form of community media, pollinating bees like the Media Development and Diversity Agency, and a huge hippo like the SABC. Quite variegated, in other words.

The other four creatures in the Big Five are the primary political institutions: ruling party, parliament, presidency and ministry. ANC is the common colouring through all these, but nevertheless these institutions are, or should

Sunday Times

be, different sub-species. The party sets the direction for the spring migration, but its fellows in other herds are charged with travelling through different spaces.

This overall savannah is replete with stereotypes about "media" and "politicians" and the relations between them, and so it is helpful to haul out the binoculars to examine their nuances and contradictions.

ECOSYSTEM OF DIFFERENT ANIMALS

First, not only is media a mixed bag, it's dynamic. Some parts of it are too close to the Big Four. Other elements are at loggerheads with them. Some journalism combines both elements. Some journalists fail to distinguish between being a watchdog for the underdog and behaving like an opposition political party. There are also rivals within this camp: editors at odds with other editors, and bosses unhappy with editors. There's a contested concept called "editorial independence" that upholds the notion that newspeople should be immune from the influence of owners, advertisers and sources. That's an area of substantial tensions.

Second, the Big Four are also multi-dimensional. On the one hand, there is a lack of coherence between them, and on the other, there has also been too much cohesion. Within the Big Four, this is how it goes.

The party's role is to win elections on the basis of broad policy proposals, which should then be followed through by the legislature and the executive. But in cases like the ANC's repeated policy call to de-commercialise the SABC, this is ignored by the three other political institutions.

Instead of pushing for its broad policy to be effected more specifically, the party has gone to the other extreme and become involved in micro-control. For instance, the parliamentarians are in charge of interviewing candidates for the SABC board ahead of nominating a slate of names to the president. But last year, they forfeited this by submitting the list to the party HQ for approval. And when the party, without regard for the first-hand experience and knowledge of the MPs, changed the list, the MPs accepted this. The MPs are supposed to hold the executive to account. But when they resolve that the SABC board should be fired, the (then) president, with whom lies the power, simply ignores the call.

The ministry elaborates policy and drafts laws. But in the case of the Electronic Communications Act, there was no substantive policy – and parliament had to try and work through the issues at the same time as re-writing the law over a two-year period.

Parliament makes law that is more or less in line with the ruling party policy, although including cognisance of wisdom in other parties as well. But the party's communications committee and ANC members of the parliamentary communications portfolio committee operate almost as parallel bodies.

Seeing the wood for the trees in the tangle of this political jungle, it's clear that there have been cases of conflating

The contradiction for the SABC is that to do more public service broadcasting, it needs money, and making more money takes it away from public service broadcasting.

roles on the one hand, or of acting as a law unto themselves on the other. One institution has disrespected the mandate of the other.

We need to discern the different purposes and mandates of the diverse animals in both media and political packs.

LOVE, HATE AND MISUNDERSTANDING

In the big picture, there's a fickle synergy between many in the media and many in politics and governance. Using and abusing each other, there's consent and manipulation, and love and hate, amid mutual dependence.

For instance, there's resentment among the ANC political people. The freedom they fought for is now being used to criticise them. There's also some unhappiness about confidential briefings of journalists, although sometimes the same circles are involved in the dirty business of leaking information. There is hurt caused by negative coverage, sometimes when it is unfair, and even when it's not. It's only human nature to experience even justified criticism as unwelcome.

On the journalists' side, there is concern about spin and secrecy, and about having regulatory guns put to their heads.

Added to this is a huge amount of ignorance and misunderstanding all round. Very few journalists actually know how government works. Very few political people understand that the news media in a competitive context works as a complex, and usually chaotic, machine that confounds the single-minded pursuit of a specific partisan agenda. With the dynamism of news, even a defined political orientation is not easy to sustain without inconsistencies and contradictions. The result too often is a resort to stereotypes, and credence that "the other" is a hotbed of hostile conspiracy. Suspicion, ignorance and unfamiliarity fuel this outcome.

One recent mutual misunderstanding concerns the issue of self-regulation. Some in the press misperceive this as a device to serve the industry, rather than a sincere mechanism to make redress available to aggrieved members of the public. However, under the strong regime of ombudsman Joe Thloloe, the reality is beginning to challenge self-serving conceptions.

Among ANC politicians, many incorrectly think that the ombudsman system deprives citizens of their right to approach the courts with complaints. Yet, it is only when they choose to go with the self-regulatory system that – akin to any arbitration process – the participants agree to take as final the decision of the press council which hears appeals against the ombudsman.

On all sides, there is also a shared misunderstanding about "the role of the media". This idealistic discussion assumes that there is a single entity called "the media" and that it can simply play a defined part in society, if we could only just agree what that should be.

But for most media houses (though not all – community media, for instance), their fundamental role is business survival, through assembling audiences and selling them to advertisers. After all, if they're not economically viable, they won't even exist to play any other role. This applies even to the SABC, which has a legislated role. Likewise, other broadcasters have statutory mandates as laid down in their licence conditions. Print media is a little more free-floating, but its parameters are also severely constrained by real world conditions. In all, there are various determinants that are too often forgotten in normative and voluntarist discussions about "media role".

There are thus many roles in media reality, not only by design but also by default. And these can shift according to issue or timing. There are also – even often – contradictions between roles. A given journalist may want to increase the educational function of a worthy story, but the audience being served prefers to consume the light and entertaining stuff.

In the realm of information, there are usually shortfalls between the "prescribed" ethical role and actual practice. It is common for politicians to criticise such discrepancies between lofty journalistic ideals and grubby reality, taking journalists as pure hypocrites and their high-minded professional claims and public-interest rationales as really hollow, even cynical, mystifications. But both the ideal roles and the real roles need to be held onto – in order to keep sight of the connection, flimsy as it might sometimes be, and to reduce the gaps as much as possible.

ELECTIONS AHEAD

As part of this edu-tourism excursion to study the Big Five, it is now opportune to signal that there's a "voter crossing" junction hoving into view. The general points about roles, rhetoric and reality, have immediate relevance here, pertaining to the behaviour we can expect from both media entities and political players in the upcoming national election.

We might assume that this is an occasion for each side to "grease" the other's particular needs, and for defined roles to be played to ensure that an interested electorate picks the party with the best promise for the country. That is the case, but also a somewhat blinkered perspective. It sees elections in a very narrow way, reducing them to an end in themselves. Yet a poll is more profound than a "horse race", concerned with which specific force is ahead or whether the media aids one contender or another. And certainly it is also more significant than enabling a media house to sell extra copies or increase its audience share at a time of increased political interest.

From a longer-range point of view, an election is about building citizenship – developing civic cultures, participation and social accountability. It is not only about who gets to lead and define how society will move, and which followers will enjoy priority access to pastures green, important as these are. It is also profoundly about the behaviour and collaboration of everyone en route, and it has a major bearing on what happens after the milestone of the poll has been passed.

In order to see this, we need to take to the air, rising above the day-to-day details to the level of an eagle, to soar above the issues of electoral contestation and take account of the longer-term lay of the land. How possible is such a perspective among the participants in the Public Sphere Park? Unfortunately, it's probably unlikely for some ANC members, and also for some journalists.

THIRD TIME LUCKY

Party president Jacob Zuma has analysed the media as being ideologically out of synch with the rest of society, and argued that "what masquerades as public opinion" is really "minority opinion", reflecting the still-untransformed nature of commercial media. Many in the tripartite alliance go further and see "the media" as "racist" and "counter-revolutionary", a lapdog of the ruling class, a mouthpiece of the capitalists or an ideological apparatus of the advantaged.

This "us and them" analysis can be suitable in the case of some privately owned media, mainly newspapers, where journalists often don't seem to get much above the fray. But the analysis is not so clear-cut with other media sectors. It also tends to overlook the influence and control of ANC people like Cyril Ramaphosa, Tokyo Sexwale and Murphy Morobe in the media. It risks over-generalising and simplification.

Others in the Alliance take a more strategic approach and assess the media as a whole as a fluid "site of struggle", rather than as a tool of a single force. In the ANC's policy conference in June 2007, the media indeed was characterised as a terrain in the battle of ideas. Again, that analysis seems confirmed in a number of instances. When a few warning shots are fired at the media hyenas, they make a noise but they also moderate their worst behaviour.

Yet this characterisation underrates the possibility of journalists living up to the aspirations of their craft. Instead, it can only see them being drawn into or against one or other camp or ideological tendency. Implying that everyone is engaged in a struggle, this analysis reduces to the view that either you are with "us" (the ANC in general, or a particular camp in particular) or you are against us.

Accordingly, it reduces the institution of journalism to a shell in which wider interests and ideologies contest, diminishing both the potential of professional ethics and the power of journalists' personal integrity. Just as the institutional integrity of each the Big Four is sometimes reduced by the overwhelming presence of one of them vis-à-vis the others, so too there are problems with perceiving the media in purely instrumentalist terms.

A third perspective on the media, again suggested at the ANC's June 2007 conference, allows for more flexibility in analysis. The party resolved to strengthen interaction with journalists in all media, acknowledging that even where there are disagreements, "opportunities nevertheless exist for progressive voices". It followed that the party urged its members to engage with the public discourse in the media.

It was in this spirit that, before he became president, Kgalema Motlanthe addressed a meeting of the South African National Editors' Forum (SANEF) earlier this year. He said that the party's new leadership had met with SABC CEO Dali Mpofu to complain about what he called the "obvious" factional role of the broadcaster in the build-up to the Polokwane conference. Mpofu, he said, had accepted the criticism, and would henceforth only appoint journalists with "integrity".

With the dynamism of news, even a defined political orientation is not easy to sustain without inconsistencies and contradictions.

Of course, conceptions of integrity are not likely to be shared across the board. Motlanthe's point brings to mind the once-shocking remark in the early 1990s by Nelson Mandela that he accepted the integrity of FW de Klerk. Rather than a sign of naivety, this was a profound reaching out by Madiba to elicit the best within people – a far cry from cynically reading humans as immovable and eternally untrustworthy foes.

This pinpointing of integrity is not only applicable to an analysis of media, but also of the Big Four political institutions. To even allow for South Africans being "alive with possibility" is to avoid the two pitfalls of a wholly deterministic or a wholly combative view of media. It breaks down rigid thinking that politicians are inherently power-crazy and corrupt, or that journalists are intrinsically ethically challenged.

During the coming elections, it is this third analysis that needs to be foregrounded on all sides.

LET FREE MEDIA ROAM

The strategic thrust of three conceptions of media described above can be summarised as "an incorrigible anti-transformation write-off", as "open to contestation", and as "having ethical potential". These are, one can argue, all views of the savannah when the day is young and the light is bright.

A different set of snapshots emerges at dusk when an uncertain night is falling and angry cloud cover threatens to block out the stars. This is the view that comes from some hard-line political forces that believe journalism needs to be forced into a particular model of behaviour – and notably before the election.

Such has been there in the unedifying sight of parliament's efforts to force the dismissal of the SABC board. When MPs took the rare step of initiating legislation to force the president's hand, their unseemly haste came across as being driven by short-term electoral concerns rather than by genuine interest in structural overhaul to strengthen the independence of the broadcaster. Lest we forget, their target is the very same slate of names that the very same MPs sent to the president for appointment not even twelve months earlier.

Among the really important steps that should have been taken to de-politicise the public broadcaster are these:

- the board's terms should be staggered, so that it is never possible for all members to be appointed or removed in one fell swoop
- some appointments should be made by sectors outside the political institutions – e.g. vice-chancellors, trade unions, religious groups – and SABC staffers themselves
- the corporation itself should be remodelled along similar lines to what was done in Germany, so that instead of being one massive tempting target, it is divided into several independent and parallel public broadcasting bodies, each with their own boards. (As with the unbundling of the AT&T telephone company in the United States, this would also break with the inefficiencies endemic to an organisation of such large scale and complexity.)

Instead of the nation seeing parliament engage with these issues, it was exposed to a quick-fix change to oust the board ahead of the polls. In the end, of course, the law change was probably rendered redundant when the president himself was fired.

The apparent short-term obsession to topple the board highlights the spirit of institutional capture. Seeing the board as having been a tool of the Mbeki camp in the original contaminated nomination process, the parliamentary actions appeared cynically aimed to shift control forcefully to the other side.

How much better would it have been to see serious considerations for insulating the integrity of the SABC and ensuring that its own board and staff really champion the existing legislated charter and its requirement for political independence and fairness in the public interest?

Besides this case, a penchant for coercive pressure was also apparent in ANC recommendations for a media appeals tribunal (MAT) for the press. Raised at the June policy conference, this proposal was hardened in Polokwane in December with the addition of the word "statutory". The resolution claims that a MAT would "strengthen, complement and support the current self-regulatory institutions (press ombudsman/press council)", but it flags the desire of its authors to see compulsory state-based regulation through an institution "established through an open, public and transparent process, and be made accountable to parliament".

One factor driving this approach appears to be unhappiness arising out the *Sunday Times* coverage of former Health Minister Manto Tshabalala-Msimang. Thus, the initiative is justified as ensuring an appropriate balance of "the right to freedom of expression, freedom of the media, with the right to equality, to privacy and human dignity for all". The starting point for this is the claim that the existing institutions of voluntary self-regulation in the print sector do not work. That's hard to sustain, because the ombudsman was never tested by Tshabalala-Msimang. Nor, for that matter, were the courts.

Poorer people, and those not speaking English or Afrikaans, are ignored or poorly catered for.

In contrast, when Jacob Zuma felt unfairly treated in some media, he went to court rather than cry out for regulatory controls. Further, when he perceived that his reputation had not been damaged, he reduced his claims to infringement of dignity.

This is why the MAT is being read as a strategy to control the press. It is the case that broadcasting is statutorily regulated. But where public airwaves are being used, specific claims can legitimately be made that operators abide by political neutrality, carry local content and tread carefully about intruding disturbing content into households. Newspapers, however, have no such character, and attempts to have their content overseen by a state institution would probably be unconstitutional.

In a third "big-stick" diagnosis of the media, advertising is threatened for punitive purposes. This was the case with *Grocott's Mail* in Grahamstown, where the Makana municipality instituted a year-long advertising boycott in response to coverage of an auditor-general's report about missing monies. The council backed down in August 2008 when legally challenged that its action was unconstitutional and a violation of municipal governance protocols. In terms of public finances, advertising spend is the most cost-effective means to reach designated audiences. Abusing it as an instrument for other purposes – punishing critics or rewarding sweethearts – distorts the fundamental rationale.

These control-oriented approaches to media are the dark side of this edu-tourism expedition. Should the SABC be weakened rather than strengthened in its capacity to transcend political leanings, its full election potential will simply not take flight. If the MAT were to be implemented, print media would equally be grounded. If advertising is used to deal with problems that should really be addressed through other channels, the manipulation of state resources for narrow ends will distort democracy.

If South Africa should not go to those places, where then should we be heading?

MEDIA MUTATION OR DEVELOPING DIVERSITY?

We enjoy media freedom today, but an ongoing concern of most South Africans is that the media landscape inherited from the past is still inadequate – especially in terms of choice of service in mother tongues.

In print, the major companies – Independent Newspapers, Avusa, Media24 and Caxton – do not address this need. Aware of this, the ANC faced two choices at the time of the political transition. It could either press, controversially, for the break-up of these groups and/or their diversification into community service, or it could try to complement them by supporting newcomers to diversify and expand the sector.

The second route was selected, and the vehicle designed for the journey was the Media Development and Diversity Agency (MDDA). In a masterly development, the MDDA was not set up in competition with the mainstream, but with both print and broadcast industries as paying partners. Although the government today provides more than half the budget, the two industry sectors are firmly on board in supplying the remainder.

This important development relates to bigger issue of how media reflects the society. Journalists are often accused of having missed, or underestimated, the movement that culminated in new political leadership in the ANC. While there is no dispute that they should have done better, there are two reasons why they did not.

The first relates to their closeness to the people who used to be in power. It is a common phenomenon worldwide that journalists begin to take on the perspectives of the political elite – which in turn points to the importance of journalists being vigilant of their

professional ideals as a counterweight. The second reason can be attributed in part to the character of the journalists and the media in which they work. In many cases, there is a middle-class tilt to both aspects. This flows from the professional, white-collar status of many journalists and, much more, from the predominant business model of the media. The media becomes skewed in order to serve up the audiences desired by advertisers who are in search of the market with the purchasing power to consume their products. The result is that poorer people, and those not speaking English or Afrikaans, are ignored or poorly catered for.

This assumes that there is a single entity called "the media" and that it can simply play a defined part in society, if we could only just agree what that should be.

It's not too often that advertisers can bully or bribe editors and owners, but the bigger issue is structural: an advertising-based business needs to orient its content mix towards group demographics that constitute an attractive market. This commercial model arises out of the particular class and racial configuration of South Africa, and it also permeates the SABC.

Last year, for instance, the broadcaster registered that it needed to start providing public service programming to cater for fast growing sectors of people who previously never had access to TV or electricity. But as long as it depends on advertising revenue for most of its revenue, this can only happen with difficulty. It depends entirely on cross-subsidisation. The contradiction for the SABC is that to do more public service broadcasting, it needs money, and making more money takes it away from public service broadcasting.

It is against this backdrop that the MDDA's work – developing businesses and business models for viable media at the "bottom of the pyramid" – is hugely significant. These are grassroots enterprises that can operate below the economic thresholds of the bigger media players because they are able to mobilise unpaid volunteer labour and hyper-local advertisers (a township butchery, for instance). Such small-scale media also have no inhibitions about catering to local communities in their mother tongues.

But now we come to a surprise observation in this edu-tour. We need to pause and focus our gaze on other creatures that are doing media business at community level. This is the mass tabloid print media – the most sold and read of all print media (though mainly in English).

TALKING TABLOIDS AND POPULIST POLITICS

A paper like *The Sun* seems apolitical, and certainly it doesn't play at the level of mainstream exposé and political debate. However, the former editor of a sister paper once argued that their combined influence should not be underestimated – that they, like their British counterparts, could swing an election.

Most political people probably ignore these papers, and prefer to read about leadership battles and investigations in the *Mail & Guardian*, *Sunday Times* and *City Press*. It's certainly more in their line than tabloid stories about *tokoloshes*, tik addiction and soured love trysts. But the tabloids obviously are touching on aspects of ordinary people's lives – they would not be selling otherwise. While the tabloids may not necessarily decide election results at this stage of our history, they do have other political significance.

One such instance is the less-than-constructive role that a paper like *The Sun* has played in regard to xenophobia – at least in the years prior to, and in the earlier phases of, the 2008 violence. South African media across the board need to do far more to reflect the multi-national nature of this country, and to combat violence as a way to deal with conflicts, and *The Sun*'s leadership really needs to raise issues of integrity in regard to coverage around xenophobia.

And the Big Four political people need to understand this towering teenager within the media. *The Sun* is calculated to have 5.14 million readers, and it keeps growing.

ENGAGING WITH THE "ENEMY"

The resonance of tabloids with reactionary tastes and sentiments at grassroots level raises a deeper issue about whether South Africa's media should directly reflect their audience or whether they should also seek to challenge and change some of the things in that constituency.

More important, however, is the underlying sentiment of some in the ANC that each medium should reflect, proportionately, the political diversity of this country. The dangers of such an equivalence are recognised in our broadcast media regulations, which provide for boosting minority views during election periods to help level the political playing field.

The "proportionalist" perspective also suggests that the media only follows, rather than also providing leadership to, the audience. Yet, considered plainly, not even parliament necessarily reflects the majority views of South African society on every matter – for instance, on capital punishment or abortion. Instead,

MPs abide by their over-arching responsibility to respect the constitution on this kind of question.

As long as the media respects the constitution, too, its synchronisation (or lack thereof) with popular attitudes should be seen within the same framework. It is wholly legitimate for them to go against the grain if they choose to do so. Ultimately, wherever there is an enforced correlation between coverage and status quo, it is dissidence and free speech that suffers. In a democracy, media freedom means that (aside from public service media like SABC) the media is entitled to be as partisan as their owners permit their editors to be. They may voluntarily choose to mirror the mindsets of the majority, or they may lean towards one or other minority view, and they may change the balance according to issue and timing.

If parallelism is improbable, then this reality has to be lived with. The Big Four of the political sector can deal with unsympathetic media by taking up the kind of media liaison advice offered by Impacs (www.impacs.org): be available to the media, be prepared, and keep the "beast" fed with publishable information. And if you don't know something, or don't want to give an answer, never lie or fabricate. That behaviour will boomerang back on you. The easiest thing is to say that you need to find out, and then get back with as much relevant information as you can.

For anyone in the Big Four, hiding behind official spokespeople is certainly not conducive to credibility. A leaf can be taken here from the police services' book. SAPS Standing Order 156 operates on the basis that any of its members is free to speak to the media – within the reasonable parameters that the issue at hand should be within the police officer's expertise or responsibility, and that police work should not be jeopardised. There are a few taboo areas (e.g. suicides), and a couple of areas that have to be referred upwards, but the general ethos is that, on all else, the media can get concrete details, context and colour direct from the source. This makes for much better journalism than the alternative of bland, delayed and second-hand information received from a spokesperson. The Standing Order also suggests commendable ethics. As public officials, police are banned from exercising favouritism by giving news to one medium and not another. They are also discouraged from giving confidential briefings.

To even allow for South Africans being "alive with possibility" breaks down rigid thinking that politicians are inherently power-crazy and corrupt, or that journalists are intrinsically ethically challenged.

The Big Four can also benefit from understanding their interlocutors. On the media side, SANEF is about the only effective journalistic player in the country. Most of its members are concerned about ethics and about what their peers think of them. But it also operates on the principle that, because each editor takes final responsibility for the content of his or her medium, they will not generally intervene in each other's affairs. Because of this, SANEF stresses that it is a forum for discussion, not a party with a chief whip. At the same time, it does come up with some general positions – for instance, recommendations on the tricky issue of confidential briefings. It can therefore be engaged on a range of matters by the political actors.

KEEP THE FAITH

There are many in the media who still believe in the beacon of ethical journalism and whose practice strives to live up to it. There will be differences in interpreting what such ethics mean in a given instance, but the overall integrity of the intention should not be dismissed in a knee-jerk fashion. Equally, for journalists, there are many in political life who retain their idealism.

Taken in ensemble, the Big Five are an integral part of the democratic landscape – and all should work towards their respective ideals. Seeking to conflate the five into one monolithic entity is not the way to go forward.

Under apartheid, editors of the Afrikaans press were often explicitly political actors, while people in resistance media at the time also saw no reason to distinguish their two identities. But in conditions of democracy, it's possible – and desirable – for them to be separated and the difference respected. Although there may be tensions between the different interests, responsibilities and visions of each, stereotypes and suspicion are not inevitable.

Especially with the election upon us, now is not the time for either press-bashing or politician-bashing. Instead, the country's fourth democratic celebration should be a time to move beyond all-round cynicism and to reflect the flame of the democratic dream to which both surely subscribe.

DISCLOSURE

The author is a chair of the board of the David Rabkin Project for Experiential Journalism, which owns *Grocott's Mail*. He is also a member of the MDDA board and of the SANEF council.

South Africa faces a unique set of socio-economic challenges which require unconventional responses. The impact of apartheid policies on the domestic economy, and subsequently on social development, is something which will undoubtedly take immense effort to eradicate.

Amongst other things, the apartheid government barred the majority of the population from acquiring science and technology-related knowledge, which is one of the main sources of manufacturing production, and subsequently, job creation. Through a number of laws, more specifically the two Land Acts of 1910 and 1936, as well as the Group Areas Act, the apartheid government also ensured that the black majority did not build any capital base. The objective, which was accomplished, was to produce surplus labour.

Economically, the outcome of all apartheid Acts is that the majority of the population neither has the skills to create new products and jobs, nor does it have the capital to bring in these technologies in any conventional way. In simple terms, the economic challenge can be summed up as follows:

- The majority of the population is not involved in research, development and innovation, which can lead to new product development and manufacture;
- On average, black persons who aspire to start a business do not have capital, or access to it, and on the rare occasion that they do, they invest in low-tech or retail businesses;
- The economy is dominated by mining and production of primary products;
- The economy is importing basic manufactured goods, leading to a balance of payments challenge

As a result of this technology and capital deficit, the economy is not creating enough jobs.

South Africa now therefore faces the imperative of accelerating economic growth and development, in the creation of more sustainable employment, and the alleviation of poverty. Government's growth and development agenda therefore places a strong emphasis on increasing investment in critical areas of the economy, such as telecommunications, electricity and logistics infrastructure. The availability of these serves as a catalyst for improving the country's growth and employment prospects, and improves the attractiveness of South Africa as an investment destination.

In addition to its role of creating an enabling environment for technology development or importation, the South African government should also participate in technology importation and commercialisation (TI&C). This strategy does not refer to primary R&D, but rather to importation and commercialisation of near proven or proven technologies, preferably where there is IP, bench-scale or pilot plants, as the objective is rapid job creation and empowerment.

As a direct player in the TI &C strategy, government would be complementing other technology importation development and commercialisation strategies of the private sector, both domestic and international.

Developed countries like the US, Germany, the Uk and Japan are leaders in technology development. The US, for instance, spends about USD100bn per year solely on public research. When monies spent in specialised laboratories and the private

sector are added, this figure climbs to about a trillion dollars. The EU and Japan spend similar amounts on technology development. In contrast, South Africa spends about US1bn in this area. Technology progress in the developed world is driven by government funding collaborating with the private sector. This is the"developmental"role these governments are playing for their societies, in addition to all other direct industry subsidies and tariffs.

There is a considerable amount of technology that South Africa can tap into in order to augment its efforts, yet data shows that South Africa is not doing this.

Government could create an"Enterprise Development Agency", to import technology in an effort to augment the country's technology effort. A single development agency would provide government with economies of scale, management focus, specialisation across technology importation and commercialisation. The agency would interact with other government departments and the private sector about technology importation ideas.
The above would solve the problem of technology and capital deficiency in South Africa by allowing for a partnership between government and business to bring in new technologies for job creation and possibly create new export industries. This method of bringing in technology is not only applicable to manufacturing industry, it can be used in infrastructure projects as well, in the telecommunications industries for example.

As is the case presently with the Pebble Bed Modular Reactor (PBMR), a number of universities and research councils can be used to execute this strategy, thus improving efforts to turn South Africa into a knowledge-based economy.

Conclusion

There are too few people and firms involved in technology development in South Africa. Most of the marginalised are the previously disadvantaged, the majority of whom are unemployed and do not have any means to run a business. The idea that most unemployed South Africans can"self-employ"themselves out of unemployment is not borne out by experience. Most self-employed people throughout the world are educated or have prior high-level work experience which enables them to start their businesses, have some money to start the investment, or they have invented a product for example. Most of South Africa's unemployed lack all these criteria.

The challenge for the Developmental State is therefore to create opportunities for skills development and job creation, and build the South African economy into a strong manufacturing hub. As we work to eradicate the impact of apartheid policies on South Africa's socio-economic development, government will be required to lead, with partnership from the private sector, in order to ensure that the South African economy can turn the technology and capital deficit around, and create more sustainable employment opportunities.

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Public participation in our democracy

Form or substance?

By **Jody Kollapen**

The author is chairperson of the South African Human Rights Commission

Democracies across the world, ours included, pride themselves on the fact that, far beyond advancing and securing democracy through the ballot, the democratic spirit is also enhanced by processes that advance public participation in decision-making. Clearly, the classical notion of democracy incorporates the public freely electing their chosen representatives, participating in the process of government and governance and then ultimately enjoying the yield of such participation.

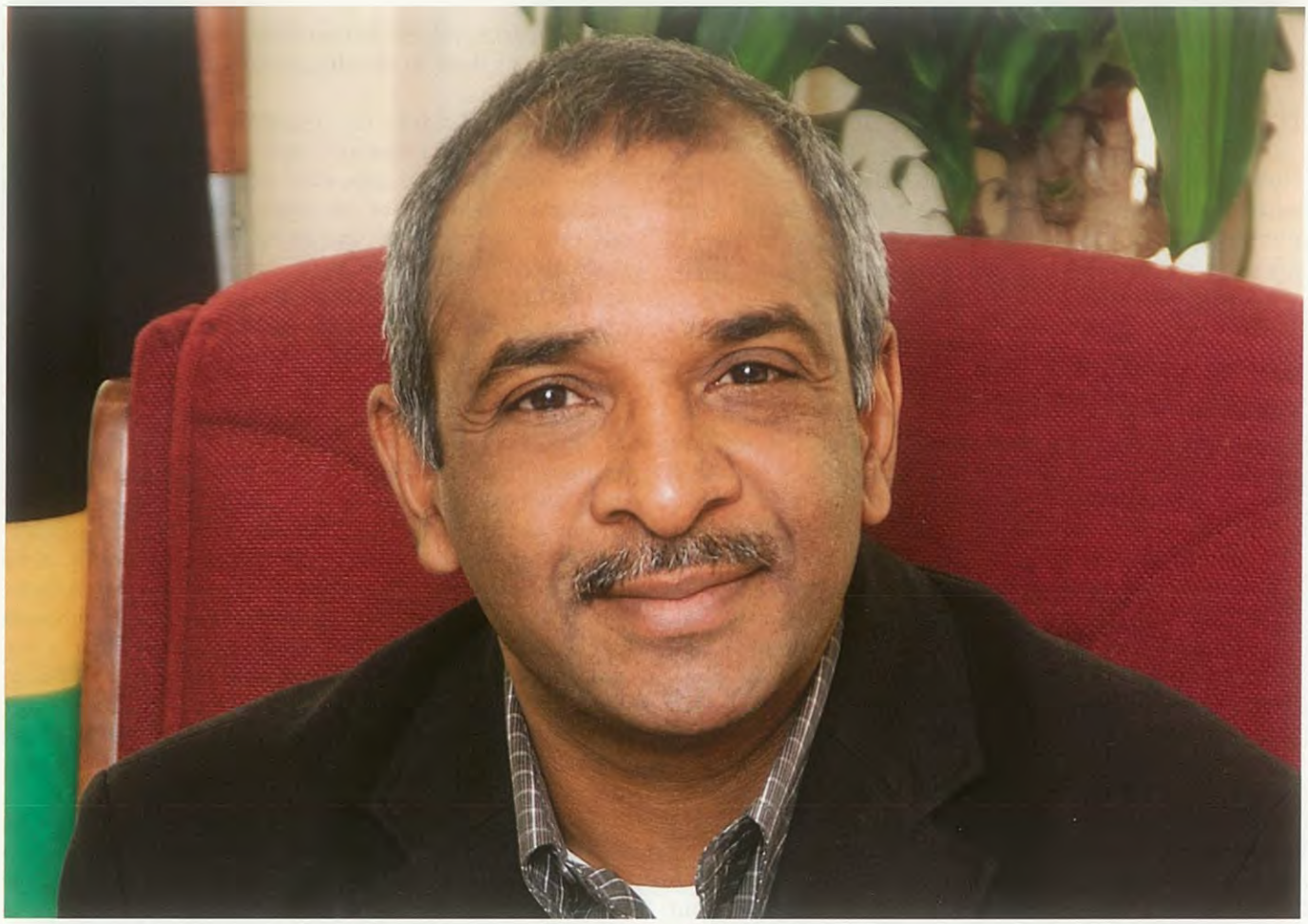
During a visit to South Africa, the Indian Nobel laureate Amartya Sen distinguished between two perspectives of democracy. The first is the "public ballot" perspective, which looks to ensure that the public is able to use the ballot to express their will. The second is what he termed the "public reasoning" perspective of democracy, describing this as "government by discussion", the ability of government to respond to public reason. It is this latter aspect that provides substance to democracy, and public participation is at the heart of discharging the public reasoning perspective of democracy.

CONSTITUTIONAL PROVISIONS

This idea of government by discussion certainly finds resonance in our own constitution. The Preamble to the Constitution speaks of the need to "lay the foundations for a democratic and open society in which government is based on the will of the people". In Section 1, the founding values of the Constitution include a commitment to "accountability, responsiveness and openness". In keeping with this, all the various sections relating to the workings of every level of government require public access and involvement (Sections 59, 118 and 152(1)(b)(e)). Finally, the basic values and principles governing public administration enjoin the public service to ensure responsiveness to people's needs, participation in policy making, an accountable and responsive public service advanced through timely, accessible and accurate information (Section 195).

All of these provisions seek to optimise the public participation of citizens in the workings of government, ranging from the choice of public representatives to the formulation of policy, the development of legislation, the construction of programmes and the delivery of services.

Public participation has relevance and value as both "ends" and "means". On the one hand, it can ensure an output that the public wants. On the other hand, the very process of public participation can serve to moderate the relationship between government and citizen. It can change power relations so that citizens become empowered and government imbibes and internalises the ethic of service and accountability. It thus has value as a "means" quite apart from whether or not the desired output is achieved.



Given this highly sophisticated constitutional framework for public participation, it would be reasonable to assume that 14 years of democracy have advanced the quality of our democracy, led to an improvement in governance, bridged the communication divide between government and citizens and improved both the content and the quality of services delivered. It must be obvious that these intended benefits have not materialised in the manner expected. The significant number of service delivery protests – many occasioned simply by a lack of information provided to citizens – must attest to people's deep disaffection, not just about their material conditions but in their sense of disconnection from their elected leaders. Poverty hearings and public inquiries conducted by the Human Rights Commission into areas such as healthcare, education and the rights of farm workers have confirmed this state of affairs.

REALITY GAP

In fact, in this the year, in which we celebrate 60 years of the Universal Declaration of Human Rights, it is evident both here and virtually everywhere else that the gap between the laudable standards and benchmarks we set and the reality on the ground is a big one. And that unless we seriously bridge that gap, there may well be cynicism about the standards we set and whether they are capable of being converted into reality. Trends across the world indicate low voter turnouts, falling rates of membership in political parties, and citizens taking up creative and non-institutional means to articulate and advance their interests.

Accordingly, care should be taken to ensure that the concept of public participation is not merely a matter of form, or even compliance, but rather a substantial exercise in democracy and in making choices. Mdunyelwa (2006) found that public participation had not brought about any significant improvement in service delivery. At best, the study found, public participation was undertaken for compliance purposes. Budget choices were influenced largely by political choices and council preferences. The very assumption of a causal relationship between public participation and policy choices is put in question, and correctly so.

The gap between the laudable standards and benchmarks we set and the reality on the ground is a big one.

However, if we are to continue advancing its value and benefit, we also need to be realistic about what public participation can achieve, what opportunities it provides but also what its limitations are – both legally and politically.

THE RATIONALITY PRINCIPLE

While public participation may ensure consultation, inclusiveness and responsiveness, it does not change the locus of decision-making. In the matter of *Matatiele Municipality and Others v the President of the Republic of South Africa and Others*, the Constitutional Court confirmed that "the purpose of permitting public participation in the law-making process is to afford the public the opportunity to influence the decision of the lawmakers." Lawmakers must provide opportunities for the public to be involved in meaningful ways, listen to their concerns, values and preferences, and consider these in shaping their decisions and policies. They are required to consider the representations made and thereafter make an informed decision. Were it to be otherwise, the duty to facilitate public participation would have no meaning.

This raises the question of what "consider" means and what legal effect the views and preferences of the public should have on decisions. In the matter of *Merafong Demarcation Forum and Others v the President of the Republic of South Africa and Others*, the Constitutional Court dealt with the way that legislative power is to be exercised, affirming the principle that public power has to be exercised rationally. The Court relied on its view expressed previously in *Prinsloo v Van der Linde*:

> "This has been said to promote the need for governmental action to relate to a defensible vision of the public good, as well as to enhance the coherence and integrity of legislation. In Mureinik's celebrated formulation, the new constitutional order constitutes 'a bridge away from a culture of authority... to a culture of justification'."

It went on to caution that, provided a legitimate public purpose is served, the political merits or demerits of disputed legislation are of no concern to the court.

What the courts are saying is that neither the court nor the public can become decision-makdecision-makers by default: public participation does not mean that the views of the public automatically become those of the decision-makdecision-makers. On the other hand, decision-makdecision-makers have a duty to listen to "the concerns, values and preferences" of the public and to "consider them in shaping polices and decisions".

It is accordingly easy for decision-makdecision-makers to pass the test of rationality and thus ensure the legality of the decisions they take, even when such decisions are contrary to the views of the public. The public might well use political processes, including the ballot, to express their dissatisfaction, but their options at the legal level are limited. Indeed, apart from non-compliance with process, it may be difficult to upset a decision where the rationality requirement has been met.

WHO IS HEARD

In assessing the power and value of public participation, a second issue is the power differential in the context within which public participation takes place. Decision-makers often have the backing of bureaucracies that carry considerable relevant expertise. The public often lacks access to such expertise and there is a risk that the views of the knowledgeable and the articulate will carry the day. In this regard, it is important for those who facilitate public participation to recognise this variable and factor it into the process so that the power of knowledge and expertise is moderated by the reality of lived experience.

In the same context, it would be naïve not to recognise the existence of powerful and influential groups within the public sphere that have similar access to resources and expertise and then purport to speak for all. The essence of participation is that there should be an authenticity to the voices and the views that are solicited and heard. Certainly in the South Africa context, strong and organised groups, including issue-driven NGOs, have tended to dominate the public participation opportunities. I raise these matters simply to point out that public participation must be a matter of substance and not only of form.

We have certainly struggled over the past 14 years to convert the promise of the Constitution into reality for the millions of South Africans who still yearn for a better life. The modality of public participation, even with its limitations, provides a powerful vehicle by which we can strengthen and consolidate democracy – provided of course that there is a genuine and sincere attempt to both hear and listen and to be responsive and transparent. Perhaps with the benefit of hindsight we see we have become a nation of slogans, often without commitment to go beyond and engage with the substance of democracy: to exercise power on behalf of citizens for their benefit.

REFERENCE

Mdunyelwa, LM. 2006. Public Participation in Local Government: Its Impact on Service Delivery

Participatory democracy

By **Justice Albie Sachs**

The author is a member of the Constitutional Court of South Africa. He made these observations in concurrence with the judgement of Justice Sandile Ngcobo (Ngcobo J) in the case of *Doctors for Life International v Speaker of the National Assembly and Others*, 17 August 2006

I support the judgment by Ngcobo J, and add observations on two matters. The first concerns the special meaning that participatory democracy has come to assume in South Africa. The second relates to what I consider to be the need for caution when developing remedies in this area.

I believe that it would be gravely unjust to suggest that the attention the Constitutional Assembly dedicated to promoting public involvement in lawmaking represented little more than a rhetorical constitutional flourish on its part. The Assembly itself came into being as a result of prolonged and intense national dialogue. Then, the Constitution it finally produced owed much to an extensive countrywide process of public participation. Millions of South Africans from all walks of life took part.

Public involvement in our country has ancient origins and continues to be a strongly creative characteristic of our democracy. We have developed a rich culture of *imbizo*, *lekgotla*, *bosberaad* and *indaba*. Hardly a day goes by without the holding of consultations and public participation involving all "stakeholders", "role-players" and "interested parties", whether in the public sector or the private sphere. The principle of consultation and involvement has become a distinctive part of our national ethos. It is this ethos that informs a well-defined normative constitutional structure in terms of which the present matter falls to be decided.

ACCOUNTABLE, RESPONSIVE, OPEN

This constitutional matrix makes it clear that, although regular elections and a multi-party system of democratic government are fundamental to our constitutional democracy, they are not exhaustive of it. Their constitutional objective is explicitly declared at a foundational level to be to ensure accountability, responsiveness and openness. The express articulation of this triad of principles would be redundant if it was simply to be subsumed into notions of electoral democracy. Clearly it is intended to add something fundamental to such notions.

It should be emphasised that respect for these three interrelated notions in no way undermines the centrality to our democratic order of universal suffrage and majority rule, both of which were achieved in this country with immense sacrifice over generations. Representative democracy undoubtedly lies at the heart of our system of government, and needs resolutely to be defended. Accountability of parliament to the public is directly achieved through regular general elections. Furthermore, we live in an open and democratic society

in which everyone is free to criticise acts and failures of government at all stages of the legislative process. Yet the Constitution envisages something more.

MORE THAN ELECTIONS

Elections are of necessity periodical. Accountability, responsiveness and openness, on the other hand, are by their very nature ubiquitous and timeless. They are constants of our democracy, to be ceaselessly asserted in relation to ongoing legislative and other activities of government. Thus it would be a travesty of our Constitution to treat democracy as going into a deep sleep after elections, only to be kissed back to short spells of life every five years.

Although in other countries nods in the direction of participatory democracy may serve as hallmarks of good government in a political sense, in our country active and ongoing public involvement is a requirement of constitutional government in a legal sense. It is not just a matter of legislative etiquette or good governmental manners. It is one of constitutional obligation.

Furthermore, although the way in which the public is involved in legislative processes will inevitably have a programmatic dimension and grow over time, the use of peremptory language in the Constitution, read in the light of the foundational principles and the national ethos of consultation referred to above, indicates that the section is intended to have immediate operational effect. The constantly evolving means used to facilitate public involvement are therefore to be seen as the product of a constitutional duty placed on the National Council of Provinces (NCOP), not as its creators.

TO SPEAK AND BE HEARD

The need to prioritise mainstream concerns in a country that still cries out for major transformation in no way implies that only the most numerous and politically influential voices of our diverse society are entitled to a hearing. There will be many individuals and groups who in general might support the transformative programmes of the ruling majority of the time, but who might disagree on this or that aspect of a proposed law. Others might have more fundamental objections to the policies of the ruling parties. All will for differing reasons wish to have a say in connection with proposed legislation.

A vibrant democracy has a qualitative and not just a quantitative dimension. Dialogue and deliberation go hand in hand. This is part of the tolerance and civility that characterise the respect for diversity the Constitution demands. Indeed, public involvement may be of special importance for those whose strongly held views have to cede to majority opinion in the legislature. Minority groups should feel that even if their concerns are not strongly represented, they continue to be part of the body politic with the full civic dignity that goes with citizenship in a constitutional democracy.

Public involvement will also be of particular significance for members of groups that have been the victims of processes of historical silencing. It is constitutive of their dignity as citizens today that they not only have a chance to speak, but also enjoy the assurance they will be listened to. This would be of special relevance for those who may feel politically disadvantaged at present because they lack higher education, access to resources and strong political connections. Public involvement accordingly strengthens rather than undermines formal democracy, by responding to and negating some of its functional deficits.

A long-standing, deeply entrenched and constantly evolving principle of our society has accordingly been subsumed into our constitutional order. It envisages an active, participatory democracy. All parties interested in legislation should feel that they have been given a real opportunity to have their say, that they are taken seriously as citizens and that their views matter and will receive due consideration at the moments when they could possibly influence decisions in a meaningful fashion.

The objective is both symbolic and practical: the persons concerned must be manifestly shown the respect due to them as concerned citizens, and the legislators must have the benefit of all inputs that will enable them to produce the best possible laws. An appropriate degree of principled yet flexible give-and-take will therefore enrich the quality of our democracy, help sustain its robust deliberative character and, by promoting a sense of inclusion in the national polity, promote the achievement of the goals of transformation.

UNREASONABLY DEPRIVED

I turn now to the question of remedy. I agree with Ngcobo J that the facts in the present matter call for invalidation of the two statutes in question. The NCOP established the framework for public involvement and then, simply because of timetabling difficulties, reneged on its commitments. Though there was no question of intentional exclusion or other form of bad faith, the objective result was that sections of the public relying on those commitments were unreasonably deprived of a promised opportunity. The applicant had assiduously expressed an interest in making representations in relation to both Acts. The Choice on Termination of Pregnancy Amendment Act raised questions of intense concern to it. The applicant had a right to be heard in the manner originally established by the NCOP. As far as the Traditional Health Practitioners Act is concerned, the

applicant's interest might have been relatively tangential, but the record makes it clear that many traditional healers themselves objected strongly to the granting to and then the withholding from them of a reasonable opportunity to have their say.

For decades, even centuries, traditional healers have been ignored and even persecuted by various legislatures. If the stated purpose of the measure was to rescue them from marginalisation, their right to an audience with the lawmakers would have been particularly pronounced. More than just their dignity was involved. The subject matter of the Act was new and they were peculiarly well situated to make inputs that could have had a direct effect on policy, structures and implementation. Their involvement in law-making would have been a precursor to their later working together as recognised health agents with hospitals and state scientific bodies.

Moreover, the nature of their work was closely tied to the topography, flora and fauna of the areas in which they lived. They were in a position to contribute strong local dimensions to the ideas and information being considered. Consultation was especially called for at the provincial level, where they would have the time and comfort to express themselves fully and in a manner that appropriately conveyed regional particularities to the legislators. This was legislative terrain that clamoured for participatory democracy.

MEASURED RESPONSE

On the facts of this case I accordingly agree with the orders of invalidation made by Ngcobo J, subject to the terms of suspension he provides for. In doing so I do not find it necessary to come to a final conclusion on the question of whether any failure to comply with the constitutional duty to involve the public in the legislative process must automatically and invariably invalidate all legislation that emerges from that process. It might well be that, once it has been established that the legislative conduct was unreasonable in relation to public involvement, all the fruit of that process must be discarded as fatally tainted. Categorical reasoning might be unavoidable. Yet the present matter does not, in my view, require us to make a final determination on that score.

New jurisprudential ground is being tilled. Both the principle of separation (and intertwining) of powers in our Constitution and the notions underlying participatory democracy alert one to the need for a measured and appropriate judicial response. I would prefer to leave the way open for incremental evolution on a case-by-case basis in future. The touchstone, I believe, must be the extent to which constitutional values and objectives are implicated. I fear that the virtues of participatory democracy risk being undermined if the result of automatic invalidation is that relatively minor breaches of the duty to facilitate public involvement produce a manifestly disproportionate impact on the legislative process. Hence my caution at this stage. In law as in mechanics, it is never appropriate to use a steamroller to crack a nut.

Having made the above observations, I concur in the monumental judgment of Ngcobo J, with which I am proud to be associated.

Liane Greeff

Statistics - Power for the People

The role of Statistical Research in the oversight function of the KwaZulu-Natal Legislature

In 2005 the Speaker of the KwaZulu-Natal Legislature decided to follow the National Mandate and take Legislature to the People. There were two reasons for this – taking the Legislature to people who lived long distances from the Provincial Legislature so that they could gain a better understanding of how the processes of legislation worked, and to enable the Legislature itself to hear directly from the people what their concerns were.

To this end a multi-party/multi-discipline committee was formed. A District Municipality was chosen and this committee sat twice a day in four of the local municipalities. During these sittings people were invited to speak and their words were recorded. After these Committees have completed their task the information was collated and reports were presented to the Speaker for dissemination. The whole Legislature then sat formally for four days in a central venue, followed by the Speaker's Responsibility Day on Friday. To allow the greatest number of people possible to participate in this experience, people were bussed in from all over the district. Again, the ordinary citizens were given time to speak and their opinions were recorded.

After the first sitting I noticed a large pile of papers in the Head of Committee's room and asked whether I could make copies of them. These were papers handed out so that people without a chance to speak could write down their concerns. There was no format and no questions on these forms, but the research department decided to analyse the content of what turned out to be 1 700 forms.

Once we began analysing these forms, we realised that they were pure gold in terms of the oversight role of the Legislature. The number of people who were able to speak at Committee meetings and at sittings was limited, but now finally we had a potential instrument that would enable us to collect as many opinions as there were people who wanted to share them with us.

We then explained to the Speaker and the Secretary that in order to standardise and collect these opinions, the Research Department wanted to formulate a questionnaire that would be hand-administered at outside committee meetings and Legislature sittings when we did "Taking Legislature to the People". We were given permission to go ahead. In addition we purchased the computer program SPSS (Statistical Package for the Social Sciences) to assist with our analysis.

The questionnaires were designed to be as simple as possible and we tried not to make them look like Government-related documentation. We began by heading the questionnaires with an explanation of their purpose and an assurance that the contents were confidential. There was a block for names and addresses, but we stressed that these were not compulsory and if people felt threatened by giving these details, they were quite free to be anonymous. The questionnaire is an ongoing work, but at the moment it consists of 69 questions, most of which need one word or number answers. At the end of the questionnaire, we attached an empty page for people to add any comments they wanted.

The questions are mainly demographic, asking about types of dwellings; number of people in the household; income; grants; electricity and water; distance from schools and clinics; and municipal or Tribal Authority services, among others. During this process, we consulted with researchers in other institutions who felt that although the instrument was sound, people were simply not going to complete it. We disagreed, and decided to test it at our next Taking Legislature to the People.

In order to gain the cooperation of the people being surveyed we asked the Chairperson of the Committee at each venue, and the Speaker during sittings, to make an announcement about the questionnaires and to ask people to fill them in, telling them that the reasons for administering the questionnaires were so that we could find out what they, the people, wanted to tell us about their lives and experiences. Because of the nature of the regions, which were mainly rural and semi-rural, the questionnaires were in Zulu.

Since then, they have become available in the three official languages of the KwaZulu-Natal Legislature: English, Afrikaans and Zulu. We tried to administer the questionnaires in an orderly fashion and set up a table where we could help those who were illiterate. As there were only five researchers, two of whom did not speak Zulu, other members of staff who had free time assisted us. To our utter amazement our predictions not only came true but far exceeded the optimistic expectations we had held. At every venue community workers, other literate people and school children came to the assistance of the people of the communities who wanted to fill them in.

People who had missed being issued with a form came forward to ask for them; people asked for extra forms and took them to neighbours who were not attending to fill in and then walked all the way back to give them to us. Even more amazing was the fact that most people not only gave us their names and addresses, but added post office box numbers or cell phone numbers. At the same time we used cameras to record the conditions and the people who were there, always after asking for their permission. Another surprising result was that about 65% of the people who filled in questionnaires filled the extra blank pages at the back of the questionnaire, thus giving us far more information than we had ever expected.

We have now issued these questionnaires at four of the Taking Legislature to the People initiatives and have never once been received with anything other than excitement, enthusiasm and goodwill. Indeed, this is so great that we have to constantly tell people that this information will be processed by the Legislature who will then inform the relevant Departments and return to ensure that delivery has taken place. In order to counter too much expectation, we stress that we will pay attention to each questionnaire but that delivery will take time.

During Taking Legislature to the People in three districts, the lack of water available to the people was heart-wrenching. In addition, people complained that they had been waiting for delivery of water and electricity for a very long time and this was not only causing hardship and misery, but affecting the community in terms of both formal and adult education. It was also affecting the quality of service clinics could render and the ability for people to meet, visit or move safely after dark.

So then, what have you done with all this information, you may ask?

An initiative of the Speaker and senior Office Bearers to refer the problems to National Ministers gave us the chance we needed. We offered to give them statistical analyses of the water and electricity in three districts. The number of questionnaires collected in the three districts was more than 8 500, which, when we used the average of eight people per household, gave us a sample of over 68 000 people.

Five of the researchers embarked on coding, entering and analysing this data for details of the water conditions. The writing-up of the methodology and generating tables and graphs, and then the writing of the final report, was completed in five days and nights. The analysis of electricity using the same sample was a little easier, but it still took four days to complete. We analysed the data using Excel, as our SPSS program was not yet installed.

These reports were delivered to the Speaker and Senior Office Bearers who then used them in their oversight capacity. The Minister of Minerals and Energy and later the Minister of Water and Forestry were given the reports and asked to address the KwaZulu-Natal Legislature, which they did. The severity and dire conditions of the people in these three districts and the statistical analysis as well as the qualitative data provided these Ministers with enough information to give money for electricity and water services amounting to R2.38 billion, above their normal allocations.

"This is the water we have to drink. A pregnant young girl was killed by wild animals when she went to fetch water."

As I write this, the money given is being utilised by the relevant Departments, with close oversight by the Legislature. We also now have a sample of 11 500 questionnaires which we have to code and capture. When all of these are completed, they can be analysed, using SPSS in thousands of ways. The process of statistical analysis will give us the ability to provide information on any situation

in any district we have gone to. It will contribute hugely to the oversight of the Legislature, enabling almost instant recognition of delays in delivery; education problems; health problems; transport and road deficiencies, and most other information required.

We will have a large database, which will increase with every visit or primary research done, and it will give a true reflection of the state of the Province to the Legislature. With this statistical knowledge, the oversight function will improve dramatically and delivery to the poor, and sometimes the forgotten, will increase exponentially.

From now on the Legislature will hear many more people speak and be able not only to hear them, but ensure they get the delivery they need so badly. Once this has happened, their trust in the Legislators and the Government will no doubt soar.

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Addressing the artisan skills crisis

By **Brian Angus**

The author is retiring as the executive director of the Steel and Engineering Industries Federation of South Africa (SEIFSA)

The Accelerated and Shared Growth Initiative for South Africa (ASGISA), designed to achieve 6 percent economic growth in the country by 2014 and to distribute economic benefits more widely, identified six "binding constraints" on growth. One of these is the shortage of skilled labour. The Joint Initiative on Priority Skills Acquisition (JIPSA) was established to identify solutions to the current skills crisis. One of the critical skills shortages identified by JIPSA is in the area of engineering, particularly skilled artisans. According to the JIPSA annual report for 2007: "South Africa is experiencing a severe shortage of well-qualified, competent and experienced artisans. While the economy currently produces approximately 5 000 artisans per year, research suggests that at least 12 500 artisans should be produced each year over the next four years to meet demand." This paper identifies some of the initiatives currently under way to increase the number of trained artisans. It also looks at some obstacles encountered in these initiatives and suggests ways forward to address these.

There are a number of reasons for the current artisan crisis in South Africa. The local and international economic recession of the 1980s, coupled with the high costs of apprenticeship training, resulted in significant reduction in the number of new apprentices and shrinking training budgets. The increased business focus of the state-owned enterprises (SOEs) in recent years has led to a very substantial reduction in their number of trainees, including apprentices. Organisations such as Transnet and Eskom used to effectively help to train for the nation; they now focus, quite understandably, on training only for their own needs. The major steel producer, Iscor – now Arcelor Mittal – has also substantially reduced its intake of apprentices since its privatisation in 1989.

Unintended consequences resulting from the Skills Development Act of 1998 have also played a role. The introduction of the new learnership system created the impression that the apprenticeship system was being phased out. Faced with this uncertainty, many companies either reduced their apprentice numbers or else stopped training apprentices altogether. In many instances, the sector education and training authority (SETA) system has resulted in lengthy bureaucratic delays, such as those caused by accreditation requirements and in contract registration. These discourage employers from training apprentices.

CURRENT INITIATIVES

At least ten major projects to increase the numbers of artisans and other technical staff have recently been initiated in the private sector, according to research undertaken for Business Leadership South Africa (BLSA)

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by the National Business Initiative (NBI). Some of these are in the form of public/private partnerships:

- **The College Industry Partnership** includes a number of major companies in the construction, mining and engineering sectors. Its purpose is to promote strategic partnerships between further education and training (FET) colleges and industry to support better alignment between vocational education programmes and workplace occupation requirements and to create a more modern and responsive college sector.
- **Learnership 1000**, a joint project of the Gauteng department of transport and the construction sector, will assist 1 000 unemployed learners in mainly rural areas to complete learnerships and find employment.
- **Masakh'iSizwe**, a project involving the Western Cape provincial government and the construction sector, aims to build engineering and professional capacity across both public and private sector organisations by managing students to ensure high throughput rates and success at institutions of higher learning.
- The Metal, Engineering and Related Services SETA (MERSETA) **Accelerated Artisan Training Project (AATP)**, which involves the metal, engineering and motor sectors, aims to substantially increase the number of artisans in these sectors by encouraging larger employers to train above their own immediate needs ("above equilibrium training"). These apprentices are trained within an accelerated 80-week training model.
- Involving both learnerships and apprenticeships, the Chamber of Mines' **Employment and Skills Development Agency (ESDA)** seeks to increase the number of skilled people in core mining-related occupations.

The skills development strategy has too many goals and targets to ensure that the most important skills needs are effectively addressed.

- The oil, gas and chemical manufacturing companies' **Artisan Skills Training Project (OG&CM ASTP)** is to increase the number of artisans in six key trades in the petrochemical and refinery sector, particularly in shutdown and maintenance projects.
- **The Department of Public Enterprise ESDA** will facilitate structured workplace placements for FET college graduates with SOE suppliers. This project is focused on increasing the pool of skilled artisans for SOE strategic and capital investment projects and reflects a commitment by the public enterprises to train outside their own immediate needs.
- **The South African Federation of Civil Engineering Contractors (SAFCEC) Construction Centre of Excellence** is to provide skills training and learnerships in scarce skills in civil engineering and building (artisans, technicians and engineers) through the co-ordination of training efforts in the Western Cape.
- The Steel and Engineering Industries Federation of South Africa (SEIFSA)/Department of Labour **Accelerated Artisan Training Project**, funded by the Gauteng South department of labour, is increasing the pool of artisans in the metal and engineering industry by providing funded training for FET college graduates at two private technical training centres in the East Rand. These apprentices are also trained according to the accelerated model referred to above.
- **The Technical Skills Business Partnership** involves six major companies in various major sectors of the economy, including SOEs. The partners share best practice and training facilities for trainees in a number of skills areas, the key focus again being on artisans. Artisans, operators and miners are undergoing training, and targets per company and sector have been set.

This list is by no means exhaustive. A number of other projects involving government and the private sector are also in progress. SETAs and the department of labour have also intensified their focus on the training of artisans with additional incentives and support for apprenticeships and learnerships, as well as improvements to the quality of trade tests and the trade test system.

However, an analysis of the number of artisans who will qualify from all of these initiatives has indicated that, unless far more extensive action is taken, the number of artisans trained by 2010 will fall short of JIPSA's target of 50 000 by between 15 000 and 20 000. A recent survey has indicated that, whatever may have been the case in the past, business is now a major player in the skills arena, with the percentage of payroll spent on training by larger companies in the region of 5 percent, well exceeding the 1 percent levy payable to the various SETAs.

BLSA has also established a business leadership skills initiative. The chief executives represented in BLSA have announced their commitment to achieving a significant increase in the number of skilled people in all areas required by business. They have also agreed on an overall strategy to further accelerate artisan development in South Africa.

SOME OF THE CHALLENGES

The research conducted into these projects also analysed the key constraints and obstacles encountered in their development and implementation. It is clear that a more focused artisan development initiative is needed to address these.

Poor co-ordination of economic, and education and training policies

There is a serious lack of co-ordination between the country's economic needs and its current education and training strategies and policies. The skills development strategy has too many goals and targets to ensure that the most important skills needs are effectively addressed.

A limited pool of suitably qualified FET college graduates

The department of education (DoE) has recently terminated the former "N" courses, which offered the theoretical component of training for engineering apprentices, replacing them with the longer national certificate vocational (NCV). While a number of students with an N3 or higher qualification have not managed to obtain an apprenticeship in recent years, there are few accurate records of these individuals in the FET college system. To address this problem, a database of FET graduates with an engineering-related qualification needs to be developed and made available to prospective employers. The South African FET College Principals Organisation could possibly develop such a database. Employer organisations could also embark on camaigns to get these graduates to forward their CVs to an identified centre to be accessed by prospective employers. The national employer federation, Business Unity South Africa, could even undertake this on a national basis.

Becoming an artisan is not seen as desirable

The poor image of the artisan in the eyes of school leavers is a further problem that needs to be addressed

if suitable students are to be attracted to artisan careers. Unfortunately, blue-collar occupations that involve work in factory conditions are often viewed as far less desirable than careers in information technology or other white-collar jobs. A great deal needs to be done to address this problem, including much better career guidance at schools and colleges and a more concerted effort by the business community to enhance the image of the artisan in the eyes of today's school leavers. Industries and colleges could also work together to develop programmes to inform students of the opportunities that a technical career can open up, and also of the required subjects and aptitudes.

Matching students to the right career opportunities

Improved career guidance and aptitude testing is also needed to address the problem of students who embark on a course of technical studies and later find themselves to be unsuited to, or uninterested in, this type of career. While it would not be easy to introduce really effective programmes of this nature at educational institutions, the waste of time and money involved when students undertake – and even complete – courses towards a career for which they are unsuited is enormous. Even relatively simple interventions like organised visits to factories for new college entrants could go a long way towards addressing this problem.

Relevance of FET college curricula

A lack of proper liaison between business and government, and in particular the DoE, over many years has resulted in FET college curricula that are often out of date and not properly aligned to the needs of industry. The introduction of the new NCV programmes in 2007 was an ideal opportunity to address this problem, but business is of the view that there was not adequate consultation. A number of businesses and business organisations have established formal links with various FET colleges and the DoE in an attempt to address matters relating to the college curricula. While these have met with some success, suitable structures need to be established between business and government at national level to ensure that this matter is more systematically and comprehensively addressed.

Lack of properly qualified FET college staff

Many business organisations that interact with the FET colleges report that one of the major challenges they face is a lack of properly qualified and technically up-to-date staff. This is unsurprising in an environment where a serious lack of technical skills is the order of the day. Competent staff are often lured away by business into much more lucrative positions than the colleges themselves can afford. This is a complex problem, but more arrangements to enable college staff to spend time in modern factory environments and to keep up to date with modern manufacturing practices and methods would certainly be a partial solution. The education authorities as well as the unions in this sector also need to be far more creative in seeking ways to retain competent technical staff in their institutions, including special incentives and salary differentials between these staff and others in less commercially marketable occupations.

Insufficient workplace training capacity

The relative neglect of technical training in recent years by both business and state-run institutions has resulted in a serious lack of institutional training capacity in both sectors. Skilled training personnel have been allowed to retire without suitable replacements being found or trained. Possible solutions to this problem include recalling suitably qualified and experienced persons, particularly those who may have taken early retirement; more intensive training of other qualified and experienced personnel to take up these positions; and even overseas recruitment campaigns. More attractive long-term career paths need to be designed for people willing to enter a career in training, as these positions are often seen as dead end jobs. Suitable individuals could be encouraged to enter a training post for a limited period of time or as part of their normal occupation, or, when promotional opportunities occur in the organisation, preference could be given to those who have been prepared to enter these positions.

The education authorities as well as the unions in this sector need to be far more creative in seeking ways to retain competent technical staff.

Funding and other issues

Some sectors are having considerable success in encouraging employers to train above their own immediate needs (above equilibrium training). Increasing their pool of trainees obviously enables these employers to select the better candidates for continued employment at the end of their formal training period. Many larger employers have shown a willingness – and indeed a commitment – to do this, provided that the programme can be funded in a manner that is at least cost neutral to the company.

The Business Leadership Skills Initiative is actively encouraging and challenging more employers to make this commitment, and employer organisations in all sectors should be undertaking similar campaigns. However, the difficulty of accessing the necessary funding has proved

to be a limiting factor in persuading employers to buy in to this challenge.

Employers who provide above equilibrium training to previously disadvantaged individuals could also be enabled to score additional points on their broad-based black economic empowerment (BBBEE) scorecards.

Insufficient assessment and certification capacity

Indlela and other decentralised trade test centres are unable to cope adequately even with the current number of apprentices seeking to qualify as artisans. For some trade tests, the current waiting period at Indlela is reportedly around 12 to 18 months. Many employers report that the quality of trade testing is also a serious problem. Since significant increases in the number of artisans can only exacerbate this situation, an effective national system needs to be re-established. Obvious short-term solutions include calling back retired assessors where possible and training more artisans in assessment, making them available on a roster basis to conduct testing at Indlela and other centres. Longer-term solutions would involve a complete overhaul of the present system, including improving the quality and consistency of assessments and the commissioning of additional testing facilities.

Role of the SETAs

The administrative inefficiencies of some of the SETAs and the existing systems for training grant payments often act as disincentives for employers to train artisans, either through the apprenticeship or the learnership system. Employers recruiting trainee artisans are often not able to obtain grants for all their trainees, owing to fact that, in terms of their service level agreements with the department of labour, the SETAs have to comply with numerous other funding priorities.

THE WAY FORWARD

It will be clear from the above that the problems and challenges relating to JIPSA's targets for artisan training are numerous and complex. Finding and implementing solutions requires a co-ordinated effort at the national level, involving all the key role players. While JIPSA has succeeded in raising some awareness of the problem, in setting targets and agreeing on some of the solutions, much more needs to be done to ensure that practical steps are taken to implement these.

- JIPSA should agree to urgently establish a public-private technical skills partnership to address these and other issues that relate specifically to the training of artisans. This body should comprise senior leaders from government, business and the trade unions who have an understanding of these matters. The role of this body would be to agree on the key problem areas (much of this work has already been done) and then to establish clear, time-bound objectives and plans. Consideration could be given to broadening their role to include other technical careers.
- Further resources need to be found to establish working groups that would develop practical implementation plans to address each of the key problem areas and ensure that these are implemented within the agreed time frames. These working groups would provide regular reports on progress to the main partnership group, which would agree on corrective action needed where key objectives were not being met.

At least ten major projects to increase the numbers of artisans and other technical staff have recently been initiated in the private sector.

Even were these structures to be established and made operational by the end of 2008, JIPSA's ambitious goals for artisan training are unlikely to be met within the agreed time frame. Without additional and concerted effort, South Africa's industrial development will continue to be stifled by the lack of skilled artisans.

Finally, a word on the SETAs. While the establishment of these bodies was a bold step forward in developing a more consensual and co-ordinated approach to training, few would argue that they have been a great success in their present form – not only in the area of artisan training, but in all the areas in which they operate. In most sectors, many employers continue to ignore them and simply treat their skills levy payments as a form of additional tax. The future of these organisations is due for review by March 2010. This presents an important opportunity for the social partners to reconsider the progress made in the field of training since their inception, embark on a comprehensive legislative and landscape review and agree on a more effective way forward. South Africa simply cannot afford for mistakes to be made in this vital area of social policy and it is essential that the review of the SETAs is both thorough and objective. More importantly, it is vital to gain agreement on more effective and workable structures to ensure that the country's skills development programmes are built on a firmer foundation.

NOTE

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Food security in a developmental state

By **David M Dlali,** MP

The author is a member of parliament's portfolio committee on agriculture and land affairs. This speech was made during the department of land affairs and agriculture's 2007 budget debate. It has been edited

Food security is included in section 27 of the South African Constitution, which says that everyone has a right to access to sufficient food and water. The constitution obliges the state to provide legislation and other supporting measures to ensure that all citizens are able to meet their basic needs. Furthermore, South Africa has to conform to international obligations to achieve food security. One of these is the Millennium Development Goal to eradicate extreme poverty and hunger, with a target of halving the proportion of people who suffer from hunger by 2015.

Poor rural South Africans face a wide range of food security challenges:

- rural households are unable to feed themselves from their small production. As a result, they depend on purchased food and rely on non-farm income to meet most of their household needs. They particularly depend on social grants and often unreliable migrant remittance, making them vulnerable to food insecurity
- poor households are typically characterised by few income-earners and many dependants. The limited scope of income opportunities in the rural areas has caused diminishing purchasing power
- the HIV/AIDS epidemic and other communicable diseases have further undermined food-insecure households
- the lack of a state structured disaster management system to deal with food security disasters, such as droughts or floods, which occur at regular intervals.

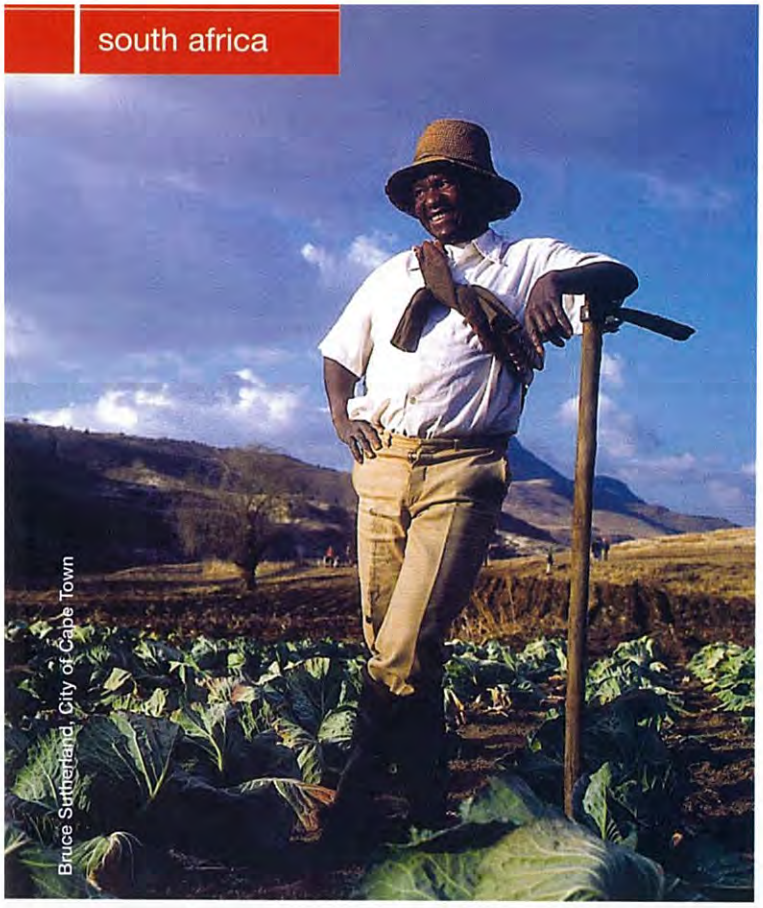
INVESTMENT IN THE AGRICULTURAL SECTOR

Although more than 70 percent of the extremely poor and undernourished population in Africa live in rural areas, agriculture dominates the economy of most African countries, providing jobs, income and exports. The sector employs about 60 percent of the population and contributes 20 percent of the continent's export earnings. Thus, a stronger agricultural sector is fundamental for Africa's overall economic growth. A continually growing agricultural sector is crucial for addressing hunger, poverty and inequality. In the rural development literature, agriculture is considered a tool to reduce poverty. In most developing countries, agriculture and agriculture-related activities provide most of the rural employment. This implies that increasing growth in agriculture may have a large positive impact on poverty.

Despite this, agriculture has, until recently, been given a relatively low importance on the political agenda of most African countries, receiving only about 5 percent of budgetary allocation. To address this situation, African Union (AU) heads of state and government endorsed the *Maputo Declaration on Agriculture and Food Security in Africa* in July 2003, committing themselves to allocate a minimum of 10 percent of their annual budgets to the agricultural sector.

The AU's Comprehensive Africa Agriculture Development Programme (CAADP) has been adopted as an initiative to increase agricultural growth rate to 6 percent per annum and create the wealth needed for rural communities and households in Africa.

We in South Africa have not yet fulfilled this commitment. At the moment, the allocation to the department of



Bruce Sutherland, City of Cape Town

agriculture for 2007/08 financial year is R2.28 billion, which represents 0.76 percent of the total budget of the country, and an increase from the 0.42 percent of the previous financial year. Although this is much smaller than the 10 percent commitment, the expenditure for agriculture, has increased from 2005–06 to 2008–09, except for a slight decline in 2006–07.

The biggest challenge for the achievement of the 10 percent target is the alignment and integration of NEPAD and CAADP objectives with those of African states. In the case of South Africa, while agriculture remains a priority, the government has to balance this with other priorities, such as education and health. Secondly, spending is scattered among different parts of the national budgets, often making it difficult to monitor the extent of progress towards the target. For example, while the budget allocation for the department of agriculture comprises less than 0.6 percent of the national budget, the total expenditure on agriculture is estimated to be 2.3 percent. Although the budget allocation for agriculture shows a steady increase in the medium term, at the current rate it will take longer to achieve the agreed target of 10 percent.

MAIZE FOR FUEL

Maize and food prices are a worrying factor in the agricultural sector. The National Agricultural Marketing Council (NAMC) reported in March 2007 that, although the food price inflation ending for the year December 2006 was 7.88 percent – a drop from 9.45 percent in 2005 – some important staples in poor people's diets had increased much more dramatically. The average maize price increase was 28 percent. Sugar rose by 12.6 percent.

Globally, at the end of 2006, grain prices were the highest they had been for a decade. By March 2007, maize prices were nearly R2 000 a tonne, way up from the R600 a tonne of recent years. The use of maize for biofuel in the United States is said to be driving this and forcing up local prices. With serious drought recurring in South Africa, and in Africa as a whole, these increases are set to continue.

In April 2007, Cuban leader Fidel Castro bashed what he described as US president George Bush's "new-found fondness" for biofuel. In a newspaper article headlined "Condemned to premature death by hunger and thirst: more than 3 billion people of the world", Castro warned that food stocks for millions of people could be threatened by a new trend towards biofuel. He cautioned that valuable agriculture land in poorer countries could be taken over for crops destined for wealthier nations. I am also informed that the US department of agriculture has reported that maize growers plan to plant 36.4 million hectares in 2007, up 15 percent from 2006. If this is true, it will be the biggest crop since the Second World War. American growers intend to cut their soya planting by 11 percent (to 27.1 million hectares) as they act to cash in on the soaring maize prices largely caused by the demand for ethanol.

A stronger agricultural sector is fundamental for Africa's overall economic growth.

Maize is not the only biofuel feedstock to go up in price recently. Wheat, which is also used to make ethanol, has increased its price by 35 percent. South Africa is a net importer of wheat and further increase will impact the price of bread. Soya beans, used for making biodiesel, have increased by almost 30 percent in the past year, while sunflower seeds, also a source of biodiesel, have seen a local price increase of about 25 percent.

I am raising this matter in particular because South Africa is part of the world family and is bound to be affected by the global trends, whether we like it or not. Having said that, we need to look carefully at small-scale and subsistence farming for their viability and sustainability. As a developmental state, we are really representing

the poor. One can look at the example of Chile, where they are really focusing on developing family and small-scale farming, with a specific agency to assist financially and technically.

The small-scale farming sector includes a range of growers, from those farming purely for sustenance to commercial operations. Subsistence farming in South Africa is characterised by poverty and a lack of services and infrastructure. Small-scale commercial farms share all the characteristics of their bigger counterparts, except that their limited area under cultivation denies them economies of scale.

QUESTIONS FOR THE DEPARTMENT

Most people living in rural areas are "rural dwellers" rather than farmers. Subsistence agriculture is practised as a survival strategy.

This raises the issue of the Batho Pele principle in the departments of land affairs and agriculture. Is "people first" really a priority within these two departments? In particular, do the extension officers exist, and what are they doing on a day-to-day basis? Are there any monitoring mechanisms in the various provinces? Is there any infrastructure assistance by the various departments? Construction and maintenance of roads in these areas? What are we doing about soil erosion and land care? Are we closing the dongas in these villages? Are we really monitoring all these matters? What are the roles of Onderstepoort Biological Products (OBP), the Perishable Products Export Control Board (PPECB), NAMC and the Agricultural Research Council (ARC)? Are these institutions effective or visible? How are we assisting these poor small scale and subsistence farmers to enable them to survive or to access the market?

For example, we just heard of those poor farmers who had been hit by disease that killed most of their livestock. They were without any assistance in some areas, and the medicine is very expensive and not affordable. That is their challenge. Do we have enough veterinarians to assist these poor farmers? Maybe not.

Most people living in rural areas are "rural dwellers" rather than farmers.

I am told that a recent survey in Flagstaff in the Eastern Cape showed that, although 42.7 percent of all rural dwellers on communally owned land felt that agriculture was important, only 8.6 percent of their income was actually derived from agriculture. A staggering 69.9 percent was or is derived from government grants, which is not sustainable. This is also a challenge to the provinces to develop land care programmes that can assist in job creation.

If the issue of biofuels is handled well, it could increase incomes and employment in rural areas.

MAIZE FOR FOOD

Food security is an important motive for growing maize. If a household can grow enough maize to see it through a year, it knows that it will be able to survive if money income sources fail.

However, the effective price it gets is not the price the commercial farmer gets when he or she delivers a truckload to a dealer (77.5 cents/kg in 2004), but the 1.6 cents/kg that a rural dweller would pay for a 50kg bag of maize at a local shop.

Recently, I visited Kokstad, a small town in KZN. I went to three different places where they sell 50kg bags of yellow maize. One price was R120, another R109 and the last one was R103. This shows the fluidity of the market. Certainly, it is unrealistic to expect subsistance farmers to produce at an ex-farm price lower than that paid to the commercial farmers, after covering their higher transport cost. This is so especially as commercial farmers are struggling, despite their advantage, to get a return on maize and other potential biofuel crops.

A doubling of the price of maize would cause a 16 percent jump in the cost of living for the average rural dweller and an even greater jump for a family in the "very poor" category. Prices for foodstuffs like maize meal, bread, sugar and cooking oil – which are staple foods for poor people – will increase significantly due to increase in biofuel production and climate changes. We need to make contingency plans to relieve the distress that could be caused by the increased use of food as fuel. However, if the issue of biofuels is handled well, it could increase incomes and employment in rural areas.

FARMERS' ORGANISATIONS

If I am correct, there are the white farmers' organisations, AgriSA and TAU SA on one hand, and the National African Farmers' Union (NAFU) on the other. The three agricultural organisations need to integrate as one farmers' union, and not be formed only on a racial basis. I understand that there is a memorandum of understanding between AgriSA and NAFU. This is appreciated, but they need to go further and integrate as one organisation, including TAU SA, in order for them to speak in one voice at all times in matters of concern.

Limpopo

A Traditional dancing group entertaining guests at a Sectoral Parliament

Limpopo Provincial Legislature is established in terms of the Constitution of South Africa 1996 and its mandate is oversight, lawmaking and public participation. The institution's motto – 'It's your voice, use it' – ensures that the voice of the voiceless are given platform through Sectoral Parliaments and this approach inherently promotes, advances and deepens democracy, which forms the basis for governance in South Africa.

Sectoral Parliaments empower individuals or communities to highlight their concerns on any matter; be it individual or community-related. These concerns are formally tabled in the Legislature, as the institution represents a conduit from which people's voices can be heard and acted upon by the executive departments, including municipalities. In 2007 the Legislature hosted the following sectoral parliaments:

- *Workers' Parliament – Vhembe district*
- *Youth Parliament – Mopani district*
- *Women's Parliament – Capricorn district*

*When the Legislature through its Standing Committee on Quality of life, Status of Women, Youth and Disabled People hosted **Youth Parliament** in Mopani, the following themes were discussed:*

1. *The impact of policy interventions on youth unemployment and poverty*
2. *Fighting poverty through skills development*
3. *The role of community-based and non-governmental organisations in youth development, and*
4. *The role of youth in xenophobic conflicts.*

The Hon. Speaker of Limpopo Legislature Dr T. Sarisani and other members of Legislature

*The Legislature further hosted a **Workers' Parliament** with special focus on farm and domestic workers. The House noted the poor working conditions despite the effort of government to protect these vulnerable sectors with the legislation in place. The House resolved that:*

1. *The Department of Labour and trade unions should intensify programmes which educate domestic and farm workers about their rights*
2. *Routine inspections should be conducted on a regular basis to ensure that exploitation of workers comes to an end*
3. *The Basic Conditions of Employment Act should be enforced and those who do not comply should be held accountable, and*
4. *The education system should be broadened to include training which prepares domestic and farm workers for the workplace.*

Legislature

*The **Women's Parliament** hosted in Capricorn District had among its motions discussed women and macro-economic policy. Noting that women are active participants in the economy of the province, the House resolved that:*

1. *Information should be disseminated to women in their own languages, especially those in remote rural areas to afford them an opportunity to participate in the economy, and*
2. *Emerging businesses should be encouraged to form joint ventures and harmonise their resources to enable them to sustain their businesses and access funding.*

Women atttending the Women's Parliament

The Oversight process is a Constitutional mandate, and in the context of the Legislature the process is implemented in various ways. As a way of implementing a decision of 70/30% strategy on oversight, which in effect means that 70% of committees in the Legislature should be on fieldwork, this has been successfully implemented. A number of committees have already held meetings in various sites. For example, the Portfolio Committee on Education had visited schools and met the department at the site to reflect on critical issues of education. This strategy is being implemented by other committees. This Oversight approach is important as it ensures that the Legislature does not get insulated and inward-looking in character, but goes out to the people.

Limpopo Legislature

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The Reserve Bank and inflation:

An agenda for reform

By **Joubert Botha**

The author is professor emeritus of economics of the University of the Witswatersrand and past president of the Economics Society of South Africa

The monetary policy of the South African Reserve Bank over the past quarter of a century has had limited success in combating the inflation that has plagued the country for so many years. For this, its interest rate policy is largely to blame. One of its gravest consequences has been a veritable transfer of wealth from individual households to the commercial banks. This contributed in many ways to a widening of the gap between the rich and the poor. The Bank did not show sufficient concern over the devastating socio-economic effects of its policy.

It dates back to the beginning of the 1980s, when the Bank introduced what is known as the repo rate, the interest rate at which banks obtain credit from the Reserve Bank. It will be shown below how the repo rate system facilitates the provision of credit to the banks, so swelling the money supply and fanning the flames of inflation.

The banks gained all around. This is well borne out by statistics. The tertiary sector is the only sector whose percentage contribution to national income has increased over the past quarter of a century. In the light of the policy stance of the Reserve Bank, this is not surprising.

There is a second reason why the banks increased their share of the national income. A very important move was made in the 1980s, when the banks took over the business of the building societies, i.e. non-profit organisations specialising in housing finance. This was a hard blow to individual households. Previously, housing finance constituted a financial sector to itself – a sector specialising in long-term loans at fairly steady long-term rates. When the banks took over, housing finance became subject to the fluctuations of short-term interest rates on the money market. It succumbed to the profit motive of the commercial banks.

As the building societies also accepted deposits, albeit on a moderate scale, the change meant that banks were given the monopoly of the deposit business in the country. Ironically, given past admissions that they were not really in the housing business, banks resorted to the crude practice of repossessing houses and other assets whenever individuals fell behind with their instalments.

These are serious allegations in regard to the financial set-up in the country. It will be argued below that the time is ripe for a serious reconsideration of the repo rate system, its socio-economic effects and the general efficacy of the anti-inflation policies of the Reserve Bank over the past quarter of a century.

Pic by Nigel Louw. 05/08/2008. © Daily Dispatch

CURRENT RESERVE BANK PRACTICE

Whenever a sizeable increase in the general level of prices brings hardship to individuals, the Reserve Bank usually reacts by raising the repo rate. This normally causes an immediate reaction from the banks in the form of a still larger increase in their lending rates to the public. This will be discussed further below.

Most economists acclaim the current policy of the Reserve Bank as the only truly acceptable response to inflationary pressures. Thus, a very complex process is to be combated through the use of only one instrument.

Every time the rate increases, the instalments on mortgage and bond repayments increase. The higher the rate goes, the higher the levels of income of those whose lives are made miserable by the probability that their houses and other assets will be repossessed. Time and again, small businesses – significant employers of labour – also suffer from an increase in the rates payable on capital equipment acquired with borrowed funds.

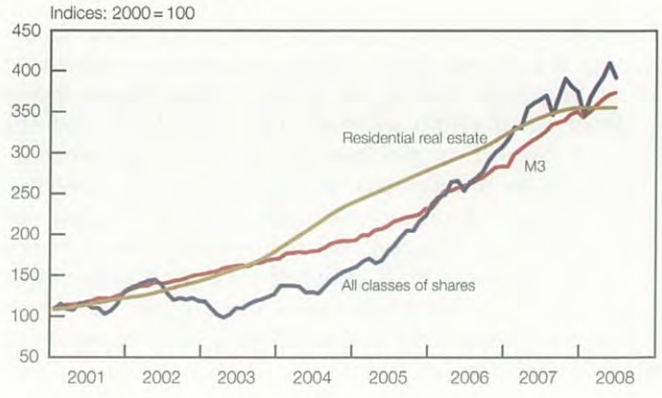
The accepted view is that a change in the rate of interest works itself out only over a period of some eighteen months to two years. As everyone knows, this is only partly true. The moment an increase in the rate is announced, thousands of individual home owners can immediately calculate how they will be affected, many of them seriously. Just how seriously can soon be measured by the numbers of liquidations, houses repossessed, second-hand car sales and other indications of individual hardship.

This is then said to show the "efficiency" of the Reserve Bank's monetary policy. It is given in terms of trauma for a large section of the population – a lowering of their standard of living and a reduction in consumption expenditure – and a channelling of more funds to the banks.

This "efficiency" of the policy is shown in a graph from the 2007/8 *Annual Report of the Reserve Bank* (35). Since about the middle of 2005, there has been a significant drop in the expenditure – in real terms – on consumption and durable goods, and also in disposable income. The rate of interest has played its role.

What the graph really illustrates is the well-known two-way relationship between consumption and income: if consumption is squeezed, so is income; if income is squeezed, so is consumption. The series of interest rates increases has been throttling the economy. Also, the sharp drop in the real values of these items is largely due to the rising price levels, which the higher interest

Asset prices and M3



rates were supposed to arrest – and did not. Hard-pressed consumers had to divert expenditures to honouring their monthly instalments to the banks. Again, a transfer of wealth from the poor to the rich.

The interest rate policy of the Reserve Bank represents one of the most ugly faces of the capitalist system. It is within the power of the Bank to change it. Whether it will do so is questionable – at least so long as the present policy is embedded in the thinking of its advisers.

THE BACKGROUND

This policy goes back to the beginning of the 1980s, during apartheid days under the governance of Gerhard de Kock and Chris Stals. When Tito Mboweni took office, he inherited advisers steeped in their doctrines and traditions.

He had, no doubt, received similar advice from other central banks visited during his *de jure* stint as governor-in-the-making. Central banks in many other counties – with different institutional set-ups – also rely heavily on interest rate increases as the major weapon in the battle against inflation. In those cases, the above argument largely also holds.

The interest rate policy has never been successful. On two occasions, in the time of de Kock in the 1980s and of Stals in the 1990s, the repo rate reached the incredible level of 25 percent. Yet it had no telling effect on the inflation. The surest result has always been the trauma of thousands of households all over the country losing to the banks properties essential to a civilised living. There is a huge transfer of money from the common man to the financial sector – again, a veritable transfer of wealth from the poor to the rich. The banks end up as the only beneficiaries.

The current inflation is clearly the result of both demand and cost factors.

There is no economic logic to this policy. It is simply wrong. It is based on the fallacious premise – advanced as a veritable article of faith – that there exists a direct relationship between the price level and the rate of interest: a mechanistic, mythical relationship. The literature of monetary economics over the past two hundred years points to no such relation. During our long period of inflation, no economist came forward to justify on theoretical grounds this supposedly close relationship. It has never been questioned. To do so would have been regarded as naïve, a term on occasion used by Stals himself.

TWO KINDS OF INFLATION

Let us next consider why this policy is unacceptable, economically and socially. The rock bottom of inflation analysis is to study the effect on prices of the interplay between the supply of money and the supply of goods – between the "monetary" and "real" spheres. Events in either could cause a rise in prices.

Inflation is – in the words of Hugh Dalton, one-time British Chancellor of the Exchequer – "too much money chasing too few goods". If the supply of money is markedly increased, prices may be expected to rise. This is known as a *demand inflation* – a demand-pull inflation – where the higher demand expressed in terms of money pulls prices up.

Then the reason for the higher prices lies purely on the side of money. It is the primary function of any central bank to prevent or contain this kind of inflation. Convention allows it to do so in either or both of two ways: increasing the cash ratios and/or engaging in open market operations. Both aim at mopping up excess liquidity in the market and so limit the creation of credit by the commercial banks. It is an intervention in the monetary process that is, understandably, not welcomed by the banks.

Even then, a rise in the general price level does not justify an increase in the rate of interest. For there is a second reason for higher prices, one that is not related to the level of the money supply. It results from changes in the demand and/or supply conditions in the commodity markets, higher energy and service charges, an increase in the level of wages with productivity constant or falling, or higher priced imports. The very high price of oil is currently the most spectacular example of higher prices due to higher costs.

In cases of this nature, there is no excess supply of money chasing too few goods. There is an increase in costs, in some industries more so than in others, resulting in an increase in the general price level. It is a *cost inflation*. The Dalton definition of inflation breaks down.

Cost inflation is extraordinarily complex. For one thing, with cost increases the term *inflation* becomes a misnomer. Cost increases do not inflate the money supply directly. They do so indirectly. The higher costs require more money to go round, so pushing up the quantity of money in circulation. The money supply, with a lag, adapts to the higher general price level. It is "pushed up" by the higher general level of costs. There is nothing that a central bank can do to stop the process.

A cost inflation cannot be identified as easily as a demand inflation. It cannot, as in the case of a demand inflation, be calculated by comparing over time the rise in the

money supply with the rate of growth of the economy. A sizeable increase in costs in one industry is not going to call for an increase in the rate of interest by the central bank. If the central bank is to take notice of cost increases in the economy as part of its anti-inflation policy, it needs to question the point at which it should begin to take serious notice of cost increases. By the time these become noticeable, the price level has most probably already been adulterated by factors in both the monetary and real spheres.

A cost inflation results from a gradual shift in the nominal and relative price and cost structure in the economy. The banks enable it to happen. They merely oblige – as is their business – by supplying credit to customers squeezed for cash. No central bank can reduce the cost structure of the economy. It is not its business to attempt to do so. Furthermore, higher interest rates will have zero direct effect on cost-induced increases in the price level. Retail prices in the supermarkets cannot be expected to fall just because of a higher interest rate. There is an indirect effect to the extent that rates cause a channelling of money towards increased periodic instalments on bonds and mortgages, leaving less for outlay on consumer goods.

CONSUMER EXPENDITURE TARGETED

Consumer expenditure is indeed the primary objective of the anti-inflation policy of the Reserve Bank. The Bank studiously watches increases in the price level, centring on food and energy prices and household consumer expenditure. The Bank puts its trust in the hope that a higher interest rate will reduce consumer expenditure, and so moderate price increases. Consumer expenditure having normally a low price elasticity, a decrease could be interpreted as a sure sign that consumers are obliged to skimp on necessities – so as to pay the banks and not lose their houses, cars, etc.

The banks lose only to the extent that they suffer bad debts due to their easy credit policy. They do not lose in the case of repossessions, because the assets are sold and the instalments already paid are kept. The tentacles of the Reserve Bank reach down to the individual household for the benefit of lenders in the financial sphere. Monetary policy is then triumphantly said to work.

There are two processes underlying an inflation: an increase in the money supply and an increase in costs. The demand and cost factors interact closely, which makes it difficult to separate them. This effectively rules out the rate of interest as the panacea it is made out to be. The current inflation is clearly the result of both demand and cost factors – the current easy credit policy of the banks, the spectacular continual increases in the price of oil, higher food prices, etc.

The relevant institutions in the monetary sphere seem to have no empathy for the domestic effects of higher interest rates. Higher rates have even been suggested as a means of attracting foreign capital – portfolio investment on the stock exchange – to ease the shortfall on the balance of trade. Put differently, the negative balance of trade, caused primarily by high imports of capital goods during an upswing, could be mitigated by adding to the misery of private households. It ignores the erratic nature of portfolio investment as funds that could be withdrawn at short notice for investment more profitably somewhere else in the world, where there is good governance and less uncertainty.

It is not for the central bank to intervene in processes in the real sphere caused by changes in the supply and demand conditions in the commodity markets.

TWO BRANDS OF ECONOMISTS

These matters are regularly reported on by economists and journalists. We are used to a continual flow of comments on inflation and the interest rate by economists the country over. There is an inexplicable consensus among many of them on the so-called direct relationship between prices and interest rates. They support the Reserve Bank policy almost to a man. No one has pointed out publicly the questionable economic reasoning underlying it. During the apartheid days, a mere questioning of Reserve Bank policy was seen as sacrilegious, a mean attempt to undermine authority. It was bad form to criticise the Reserve Bank.

Two leading economists at the time once dared do that, with dire consequences for their careers. It provided a sharp caveat to others, a kind of negative demonstration effect. The herd instinct dictates compliance with the majority, rather than ploughing the lone furrow of the iconoclast. One is reminded of JK Galbraith saying that in economic matters the majority is always wrong. He has certainly often been correct.

One can distinguish two brands of economists. The first are those whose employers benefit from higher interest rates. They occupy the high ground of popularity, not least because of their connection with the big names in the market. The second group are at a disadvantage, either because of their independence, association with the "ivory tower" of learning, or little or no practical experience. Their views, however, are not shackled by private interests. Their reasoning in macro-economic policy matters is different, levelled not at the interests of

a private firm or institution, but at the well-being of the general population.

The latter stance is by far the more important. History gives us the reason why. The neglect of the needs of the common man on various occasions in the past led to revolutions that changed the face of society. There is a socio-economic dimension to the study of economics that transcends the micro-interests of private firms and institutions – a wider study bordering on politics and philosophy, much wider than what is important for the day-to-day running of a business.

GREENSPAN'S ADVICE

A central bank should not be accused of neglect of the socio-economic impact of its policies. We are, however, not alone in this respect. The latest high-level advice – given at a conference recently by Alan Greenspan in the US through a dramatic satellite conversation – was that an increase in interest rates was the only remedy for South African monetary problems.

Greenspan is surely the last one to give us advice. He certainly – during his time at the Federal Reserve Board – is partly to blame for the mess the US financial sector is in at the moment. It did not arise overnight. For many years, the US banking system has been notorious for its easy credit policies towards the common man, borrowing on an unimaginable scale, and deep levels of debt. The FRB has been conniving at the excessive credit from their mighty commercial banks, with results much worse than what we have been experiencing since the early 1980s. The US situation is an object lesson of the effects of unbridled freedom. A free market can also be too free. When freedom gives way to licence, avarice takes over.

The present low rates in the US are meant to stimulate economic growth. Greenspan now suggests we must increase ours, supposedly to reduce economic growth. That is bad advice. It spells further inflation and increased misery for thousands of South Africans.

RESERVE BANK MEASURES

The interest rate policy of the Bank is applicable to neither cost nor demand inflation. Cost inflation does not properly lie within the purview of the duties of a central bank. It is not for the central bank to intervene in processes in the real sphere caused by changes in the supply and demand conditions in the commodity markets.

With demand inflation, the major task of a central bank is to keep an eye on the money supply in relation to the economic activity of the country generally. The rate of

The new Banks Act is a move in the right direction, but it is too early to assess its effect on the ease with which banks are allowed to extend credit.

interest cannot bring that about as a short-term remedy against an excessive money supply. When the major constituent of the money supply is bank credit created within a fractional reserve system, the banks virtually conjure money out of thin air. Unless the central bank, for political reasons, should deliberately embark on a policy of inflating the money supply (Germany in 1923; Zimbabwe today), the blame for an excessive money supply rests, therefore, primarily with the banks.

The banks have gone so far as to invite the public to borrow on easy terms. Easy credit – a phenomenon abhorred by all responsible central bankers – has for long been allowed to pass. The Reserve Bank has not, for many a year, called the banks to order. The new Banks Act is a move in the right direction, but it is too early to assess its effect on the ease with which banks are allowed to extend credit.

Put differently, the two actors in an inflationary process are the lenders and the borrowers. The Reserve Bank's anti-inflation policy in the past focused on the borrowers, leaving the lenders more or less alone. The policy of favouring the banks is camouflaged by putting the blame for the excessive credit on the borrowers, irresponsible personal financial practices ("we want it all, and we want it now") and, to a large extent, indifference towards falling in debt.

There are two reasons for this state of affairs. First, people under the age of 40 grew up with inflation, realising that money loses its value over time, which eases the discomfort of repaying loans and blunts the normal propensity to save. Under inflation, a call for increased savings, understandably falls on deaf ears.

Second, the banks made this all possible after the demise of the building society movement. They have a lot to account for. They failed to act responsibly in the long-term housing business, which for a long time they correctly admitted lay outside of commercial banks' normal activity of supplying short-term self-liquidating credit to commerce.

The question now arises: what should the Bank have done to combat the inflation over the past quarter of a century? If the repo rate has been so demonstrably ineffectual, what should the Bank have done instead?

The short answer is that it should have scrutinised the operation of the repo rate and better monitored the creation of credit by the banking system. It should have promoted the re-introduction of the building societies. It should have started by comparing the effects of the repo rate with those of the conventional Bank rate.

BANK RATE AND REPO RATE

The conventional Bank rate used to be the highest rate in the short-term market, marginally above the market rate. It meant that if a bank were to borrow from the Bank, it paid a penalty equal to the difference between its rate and the higher Bank rate.

The repo rate, in contrast, is also the rate at which banks obtain assistance from the Bank, but at a lower rate than market rate. Bank rate is stood on its head. The repo rate is not a penalty rate. It is a rate that – unbelievably – facilitates borrowing from the Reserve Bank. There is a margin of profit involved, not a margin of cost, as with the Bank rate. The repo rate in effect fans the flames of inflation. It has done so for many years. It is the most dubious heritage of the De Kock-Stals era.

Bank rate – inherited from the London money market – was a sophisticated instrument to regulate short-term money flows in a highly sensitive and well-organised money market. It was used to regulate the flow of short-term funds in the commercial sector, not to combat inflation.

The De Kock-Stals policy abandoned the Bank rate: the rate that brought the banks to heel.

CASH RESERVE RATIOS

Around 1732, Richard Cantillon, one of the earliest economics theorists, stated that banks could get by with a cash reserve ratio of only 8 percent. London banks for many years voluntarily adopted that as their anchor reserve position. The rest of the deposits could be lent out as credit that added to the money supply.

In South Africa, the statutory ratio for a long time stood at 10 percent of cash deposits. This is money that banks were required by statute to deposit with the Reserve Bank, interest-free. Today it is down to a mere 2.5 percent. At this rate, the banks can lend out four times what was possible under the 10 percent ratio. Herein lies one of the major reasons for the easy credit in South Africa, and the very high rate of increase in the money supply. In India, the cash ratio is 8.75 per cent, plus a statutory liquidity ratio of 25 percent. In China, the cash ratio is 17.5 percent.

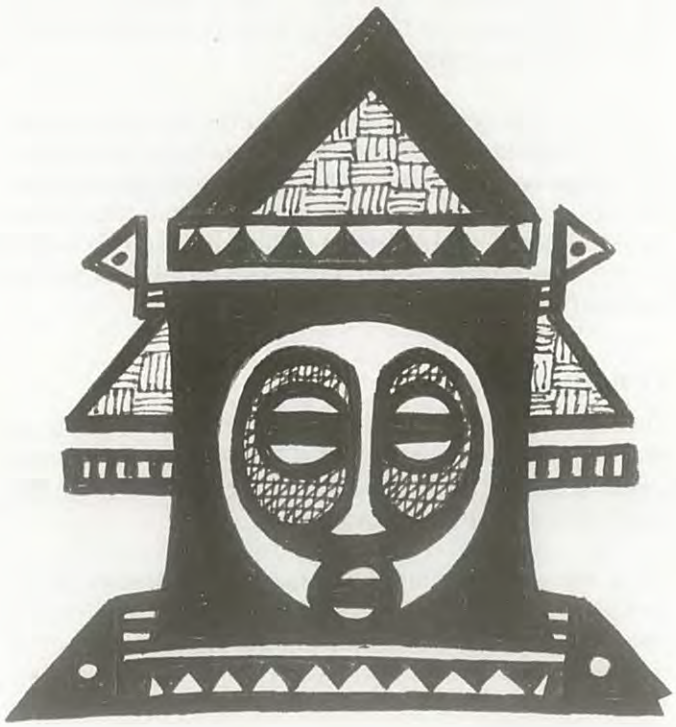
There is ample reason why the Reserve Bank should seriously look into the question of the cash reserve ratio. It serves as a qualitative hold over the lending activities of the banks and, simultaneously, as a brake on the excessive demand for private consumer credit. As a qualitative measure, it is far more acceptable than the crude method of a ceiling to advances, which leads over time to a stifling of relative inter-bank positions.

THE BUILDING SOCIETIES

The interest rate weapon is nothing but an impediment to civilised living. It affects all – the well-to-do marginally, and the middle- and lower-income classes drastically, often traumatically. No monetary measure that forces individuals to sell their houses or cars can ever be defended, least of all when it can be proved ineffectual. It is ineffectual because there is no mechanistic connection between interest and prices.

After every increase in the rate, the media dwell on its effect on individual households with such measures as the number of houses repossessed and cars sold. Currently, the press reports that nearly 2 000 properties are auctioned each month. A total of 55 000 homeowners are already in arrear with their instalments. Some 8 000 homeowners are three months in arrear and stand to lose their houses.

In a huge takeover operation, the banks ousted the building societies – non-profit organisations specialising in housing finance. Why this took place has never been



Retail prices in the supermarkets cannot be expected to fall just because of a higher interest rate.

explained satisfactorily. It is true, as the banks used to say in mitigation, that they are not really in the property business. So why are they in it at all, if this was not their normal line of business? How can long-term housing finance be reconciled with short-term self-liquidating credit? Their argument borders on the disingenuous, considering the wealth that they have been accumulating over the years from property.

The banks took over from the societies, earning handsomely in the process. They did so for reasons wholly partisan. It in no way promoted the interests of the householder. The normal housing contract – a long-term contract at long-term rates of interest – was replaced by long-term contracts at rates in the short-term money market, influenced by myriad factors unconnected to housing. Also, the long-term contract of the householder contains a bizarre clause that allows the lender to change the rate unilaterally.

The need to re-introduce the building societies – a kind of stokvel – has been sorely evident all through the years since the De Kock-Stals era. The coldly calculating commercial banks cannot ever hope to fulfil the role of the non-profit building societies. Housing finance constitutes a sector all its own in the capital market, as is so clearly shown by the well-organised societies, such as the *Bausparkassen* in Germany, with its own specialised interest rate structure.

There is a telling difference between the two institutions: the *raison d'être* of the banking system is the promotion of commerce and industry; that of the building societies, the promotion of the well-being of the individual householder. It is a difference in kind, not a difference in extent. It is one that cannot be bridged by the commercial banking system.

CONCLUSION

This article questions the economic basis underlying the anti-inflation policy of the South African Reserve Bank. It points to five aspects that call for a thorough reconsideration by the government.

First, the economic theory underlying the Bank's policy postulates the existence of a mechanistic relationship between the price level and the rate of interest – which has never been proved. Whenever prices rise noticeably, the Bank turns its gaze to the rate of interest as the only possible remedy.

There is no close relationship between prices and the rate of interest. This is clearly seen if a comparison is drawn over the past quarter of a century between the squiggly interest rate curve and the quite different behaviour of the price level. The interest rate policy of the Bank reminds one – to use a Milton Friedman phrase – of a space vehicle that has taken a fix on the wrong star.

Second, although a demand inflation (cost inflation being another matter) is a process involving two parties – lenders and borrowers – the Reserve Bank focuses on the borrowers. They are accused of borrowing excessively. But this is made possible by the banks urging the public to borrow, sometimes on conspicuously easy terms. About this, the Reserve Bank is strangely quiet.

Third, the banks are fed with liquidity from the borrowers, of whom thousands are sure to lose their homes and other assets whenever the interest rate is increased. But it cuts deeper. More expensive credit discourages small firms – very significant employers – to invest, with deleterious effects on employment. Here is a part explanation of the continued high level of unemployment.

Fourth, the high and easy credit has been due largely to the introduction of the repo rate. As we have seen, it is just the opposite of the conventional Reserve Bank rate. Where the Bank rate acts as a brake on credit creation, the repo rate facilitates it. As the banks usually increase their rates by about 3 percentage points above the repo rate, borrowing from the Reserve Bank does not involve them in a loss. The logic of this arrangement is inexplicable.

Fifth, the banks got themselves involved in housing finance. Long-term housing loans are currently contracted at the flexible rates ruling on the short-term money market, and determined unilaterally by the lenders. The result is socio-economic trauma.

The disappearance of the well-functioning building societies was a heavy blow to homeowners. The monetary authorities owe the public an explanation of the move from these non-profit organisations to the profit-motivated commercial banks.

There is ample reason for an enquiry into the nature – and the effects – of the Reserve Bank's anti-inflation policy. The public would want to know why the Bank has always turned a blind eye to the unacceptable domestic effects of monetary policy, despite evidence that the policy had never worked. It is a matter of the greatest public interest, which calls for a proper investigation by a troika of experts to delve into these complex matters and prepare a public report for the government. This is the only sure way of exorcising the economic legacy of the De Kock-Stals doctrine of the apartheid years.

Renew the democratic movement

our revolutionary task

An excerpt from Thabo Mbeki's widely publicised letter to ANC President Jacob Zuma, dated 9 October 2008

In my view, with which you are free to disagree, the revolutionary tasks we confront [include the renewal of] the democratic movement on the basis of:

- opposition to the cult of personality
- the defeat of careerism and opportunism
- the defeat of the use of violence in the ANC and the rest of the democratic movement to impose particular leadership cliques interested in winning government tenders for themselves and their friends
- the defeat of the bureaucratic parasitic tendency leading to the abuse of state power for self-enrichment
- the rejection of the phenomenon of the emergence of a black comprador bourgeoisie which, in the context of BBBEE, is ready to front both for the domestic white and international capitalists
- commitment to the implementation of a socio-economic programme focused on economic growth and development, the restructuring and development of our economy, reducing unemployment and poverty, and sharing the wealth of our country in terms of our national, class and gender categories.

FROM THE FREEDOM CHARTER TO POLOKWANE: THE EVOLUTION OF ANC ECONOMIC POLICIES

By Prof Ben Turok MP

This book traces the economic debates in the ANC from the Freedom Charter and Morogoro to the RDP and the present.

It shows that the shift to macro-economic stabilisation in the transition to democracy in 1994 was due to international pressure and how it changed the trajectory of ANC policies.

The government became frozen in the pursuit of cautious economic policies in the interests of fiscal prudence.

The commitment to development lost momentum, compensated partially by the provision of modest social services and social grants.

The book traces the revolt against economic orthodoxy at the ANC Polokwane conference which was pressed forward at the Tripartite Economic Summit in 2008. The book analyses the economic challenges that will face the new government in 2009, with original insights into what should be done to address the economic crisis. It sets out a framework for alternative development programmes based on a change of mindset about the centrality of development planning in a pro-people developmental state.

The analysis is based on 15 years of work in parliament and in economic committees of the ANC which provided unequalled access to vast documentation and discussions with the top policy makers of the ANC and government.

The contents include extensive examination of the international conditions at the transition in 1994, the creation of the RDP, the switch to GEAR, the distortions of BEE, the dual economy, the lessons from Africa and the reasons why the productive sectors of the economy have stalled. There is a postscript on the decisions of the Tripartite Economic Summit in which the proposed changes to government policies are assessed.

Prof Ben Turok is a member of parliament in South Africa and visiting professor at the University of KwaZulu-Natal. He is a veteran of the ANC, editor of New Agenda, and founder of the Institute for African Alternatives in the UK and Africa. He has published many books on development economics and politics in Africa.

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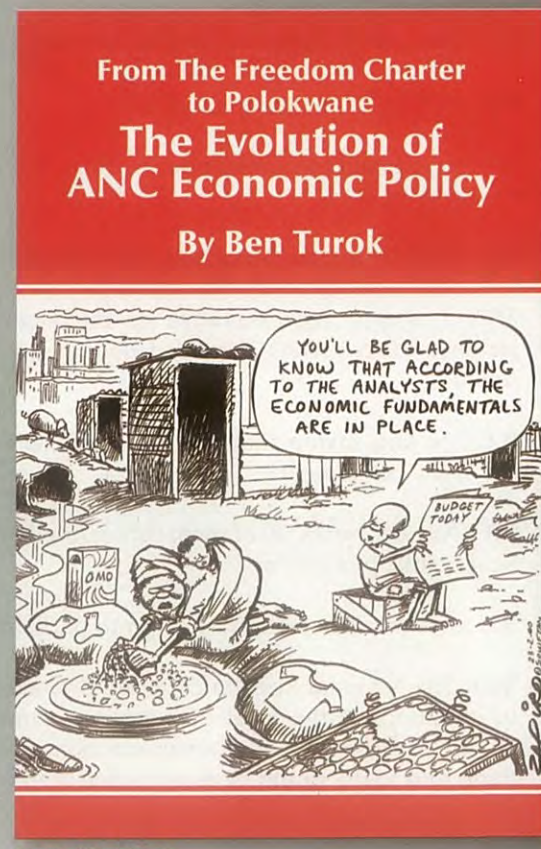


AVAILABLE SOON

When military intervention is justified

By **Mugisha Muntu Oyera**

Major General Oyera is the former commander of the Uganda People's Defence Forces. Ben Turok interviewed him in Nairobi, 28 August 2008

Ben Turok: General, I'd like to discuss with you the role of the military in a democracy. Before you retired, you were head of the defence force in Uganda. What is your position now?

Mugisha Oyera: I am a member of the East African Legislative Assembly, one of nine from Uganda.

BT: When did you leave the army?

MO: I resigned as commander in 1998, but retired from the army in 2005.

BT: What were you doing between 1998 and 2005?

MO: I was a representative of the Uganda People's Defence Forces (UPDF) in the Ugandan parliament, one of ten.

BT: Are you saying that ten senior officers of the army sat in the parliament?

MO: Not necessary all of them senior. Some of them were lieutenants, just officers.

BT: And who selected them to go to parliament?

MO: The National Resistance Army Council is composed of members at the level of battalion commanders and chiefs of departments. Names are nominated from the floor, and there would be a secret ballot to elect them.

BT: This is a unique arrangement in any parliament in the world, as far as I know.

MO: A few African countries have had it. I know that Tanzania used to have representatives in its parliament. The only difference is that, when Tanzania adopted a multiparty system of governance, this ceased be the case. In Uganda, that's what we have hoped to happen as well. Unfortunately, it has not happened. It had been done in our case as a transition process because of the history of Ugandan politics. We believed that the army would completely pull out when the situation stabilised at some point.

BT: What did you do in parliament? Did you make party political speeches for the army?

MO: Most times, the military would only come in to take positions that would not be controversial. It was expected of us to express the concerns of the military or to explain in committees where there were issues that concerned the defence affairs of the country. But there are also some issues that are not necessarily military. For example, there was a time when I personally was involved with another colleague – who was not in the military – to support a motion to cause a total separation of the arms of government. We proposed that, if you became a minister and part of the executive, you relinquished your position as a member of parliament, because of the natural tendency for the executive, in some cases where members of parliament are part of the executive, to compromise

parliament. In some African countries, it is a tool that can be used effectively. Unfortunately, that motion was lost.

BT: Was being in parliament a mechanism to co-opt the military, or what was the purpose?

MO: In the unique history of Uganda, we've had so many changes of government since independence in 1962, and all of them had been through violence. We never had a peaceful transition, handing over power from one president to another through an electoral process. In 1986, the National Resistance Movement (NRM) – Museveni's movement – captured power. There were no parties; it was a mass movement and there was a military wing. At that time, it was the National Resistance Army, but during the constitution making processes in 1985, we changed the name of the army to Uganda People's Defence Forces.

I was one of those linking the armed forces as part of a political force. We were focusing on professionalising it, anticipating a period when we would evolve into a multiparty system of government. We were working to ensure that the army remains neutral in the politics of the country. If the Movement would change itself into a political party, and if other parties emerged and contested for power and won, then the military would ensure that the party that won would get into power and govern, because that would be the will of the people.

So we were looking at the participation of the military in a transitional period, as it disengaged from the political processes, as it disengaged from being part from the armed struggle. We were trying to be part and parcel of the process where we would see a change in mindsets, because that is one of the biggest problems that we have in African politics: political mindsets, political culture.

BT: Just to be clear: the armed struggle you are talking about was a struggle against whom?

MO: The Uganda Freedom Fighters (UFF) was a Ugandan rebel group led by former president Yusufu Lule. The group merged with Yoweri Museveni's Popular Resistance Army to create the National Resistance Army (NRA). The NRA would go on to topple the military junta of Tito Okello and take power in 1986.

POLITICS FIRST

BT: In the ANC, we had Umkhonto we Sizwe, and our rule was that politics must rule the gun and not the gun ruling politics. What is your view on that?

MO: I agree with that. Its practice depends on the political culture that is prevailing within a particular society. In my own assessment, military intervention should be seen as a symptom of a larger problem. To me, when the military intervenes, it's simply a symptom of weakness within the political sphere. It can't hold its role and, therefore, there's external intervention. External in a sense that what shouldn't necessarily be participating directly in politics now is sucked into that political process.

BT: The commander-in-chief of the Ugandan army now is the president, as in most countries. What is relationship of the head of the army with the commander-in-chief?

MO: You receive commands from the chief, who happens to be the president. The country has a developed defence policy, and it is the chief, of course, who gives the go ahead, but through quite a number of processes. Then the commander and his staff run the defence force on the day-to-day basis. And there will be a ministry of defence that represents defence issues and the department in cabinet and in parliament.

BT: In your experience, was there politics in the army?

MO: Of course. We were part and parcel of the political process, because we were a political military force, because of the nature of the struggle. When it was a people's war, the military was key in sending its commissars to build the political networks, the committees, the civilian support for the military, and ultimately in mobilising the population and explaining to them why the war was necessary, and ensuring that the civil-military relations were good. As guerrillas, if you don't have civilian support, you're like fish out of water:

you just perish. The military was involved deeply in all of that.

However, we realised in 1986 that the situation that we were going into... we knew that at some point the military had to completely move back. We had to work consciously towards that. But, you know, to operate in a country where there are weak political institutions, where at times there are individuals in the political process who develop a vested interest – this can become an impediment in the smooth withdrawal of the military from participating directly in politics and becoming a purely professional force.

BT: This is not the system in most African countries, where the military are military and not political. So, because of the people's war in Uganda, you are advocating that this should become the system: the deep politicisation of the military.

MO: In a few cases in Africa, I think we have seen success in terms of the military remaining purely professional, and this also happens to be in countries that have never become caught up in a political crisis. The only country that clearly comes to my mind is Botswana.

BT: But take countries like Nigeria, where the military is very political.

MO: Yes, exactly.

BT: They are actually a political party. (laughs)

MO: We have undergone a lot of phases of development in Africa. Look at the post-independence years. At some point in the 1960s, 1970s and the beginning of the 1980s, it was a period when possibly, I don't know, half of the continent was led by the military. I've seen the tail end of that and, going back to my earlier observation, I think that was a symptom of the weakness of the political culture that existed. New governments came in. They didn't have experience. They didn't know how to exercise power democratically or observe the separation of powers. The levels of intolerance were quite high. The thinking of most of the people who took over power after independence – most of them were used to an authoritarian advantage.

BT: What was the relationship of the army in your time to other security forces?

MO: For the first 15 years, the working relationships were quite smooth. There was cohesion in the whole system then – the military and the entire external security services. In most African countries, the police force is never directly enclosed within the security service establishment because of its role to be in the centre of internal intelligence gathering...

BT: But the police can call in the army?

MO: In some countries, yes. In a number of countries, that was never the case. Again, we are seeing a transition. Where the armies pull back from politics and get into the professional role, the police now become the key players, which is also changing the character of the police in some countries. So, we would like to see the transformation of the police, but more so, to see the political structures within a country take the central role in stabilising security. Then the military is not seen in the civic sectors, other than when some elements get caught up in some of the issues. Again, a transition. In some cases in Africa, we've seen significant steps in that direction. In some, is not necessarily the case.

A TIME FOR INTERVENTION?

BT: What is the role of the army in elections, in Uganda and other countries in Africa?

MO: In Uganda, we've not yet fully broken off from the government, so the transition is not yet complete, not as we would want it to be.

In this case, I would like to say it is not always the military that wants to stick into politics. It's a two-way process. In some cases, the parties in Uganda seem to see the military as part of them getting into power. When they start losing political support, they want to create an image psychologically, within the population, that the country cannot survive unless they stay around. They want to create the impression that they are the only ones that can manage the military. More or less, they take the country as hostage. But it's not sustainable, as we've seen in our proud history.

Whoever is interested in military-political relations would want to keenly observe the Ugandan transition, because this is another issue that we are confronting. I am part of the opposition in Uganda. One of the areas we are looking at is how the military ceases to be a factor in terms of the electoral processes in the country. It's an issue that we are discussing, it's an issue that we are actively engaged in and even sending signals to the military. But they themselves must play a proactive role to become a stabilising factor in transitional process and electoral

In some cases, it is best for the military to maintain stability in the country and let the political processes evolve to a level where there will be responsible government.

processes, to ensure that the military observes the will of the people, once it has been determined through the electoral process. It's a key area, and one that up to now has not been well observed by the military. But we would still want to give them the benefit of the doubt.

I don't think you can completely divorce the military from the political, economic and social life of the country.

We move towards the transition. Again in 2011, we have got an election. The military will take part, they can vote, but they should not interfere in the political processes. This is not only good for the country but also good for the military because, at the end of the day, they should not see themselves as part of a regime. A regime comes and goes but the military stays.

So, it is in the interest of them, as officers and men, and the military as an institution. We would like to see a situation, for example, like what happened in Ukraine. When there was a crisis within the political factions, the military almost intervened. But part of the military played a big role behind the scenes. They acted in a manner that made very clear that no part of the military should intervene in that crisis. Whatever the population desired is what should happen. We can see success in what happened there. I believe in some African countries similar actions have taken place. In Kenya, in the first transition, between the Moi and Kibaki governments, the military also played a key role.

BT: And you believe that military should respect popular power?

OM: It should.

BT: Not like in Zimbabwe today?

OM: I think it's not even in the interest of the military, in the medium and long term, unless they are short-sighted.

BT: What is your attitude to a coup d'état, especially where there is a corrupt government? Recently there was a coup, I'm forgetting what country, possibly Mauritania, and maybe that was a positive development.

OM: At some point, it was inevitable. The military simply came into a power vacuum, but it was never a solution. It can never be a solution. You can only give what you have, and you cannot give what you don't have. The military by its nature, by the way it operates, is not democratic. For such an institution to run a country on a democratic basis is very difficult. The only case when a military intervenes is to stabilise the situation, to create a conducive atmosphere for an election to take place and let the politicians run government.

BT: If you have a really corrupt, rotten government, are you saying that's a desirable process?

MO: In the 1960s, that might have been the case. Right now, there are so many other dynamics within the political processes in Africa. You can see countries where situations look desperate politically but at the same time, there are, for example, political parties able to take over power. In some cases, it is best for the military to maintain stability in the country and let the political processes evolve to a level where there will be responsible government.

BT: Do you think there are exceptions?

MO: There are exceptions, I think. There are countries where the situation becomes so desperate that nobody knows what the solution can be and, in such cases, the military simply intervenes. But that kind of intervention is, again, a symptom of a fundamental weakness within the political fabric of that country.

BT: What is your advice to armies right across the continent?

MO: I think we are also observing a transformation in the quality of the military personnel, which is also a significant factor. Immediately after independence, there were countries where officers and men in the militaries were largely not that well educated. In a number of countries in Africa now, you find officers at a graduate level. In such cases, the army does not necessarily participate in the day-to-day politics of the country, but officers need to develop a high level of political consciousness. Even when they don't participate directly in politics, they act politically in terms of stabilising the country and give advice to leaders. To that extent, I don't think you can completely divorce the military from the political, economic and social life of the country. It is in the nature of how they interact with the political players.

INTELLIGENCE MATTERS

BT: Does that include getting security information, political intelligence?

MO: Absolutely. They should advise the politicians and I think they should be informed in their advice. For example, when politicians are trying to manipulate the political process, the military should formally advise them not to do that.

BT: You are going quite far in the direction of a police state.

MO: No, no, no. They should advise the leaders that the direction they are taking is likely to cause negative impact on the political order within the country.

BT: If a group decides to start a new political party, and they feel that they need demonstrations and to provoke public unrest, do you think that military intelligence needs to monitor that and report to the political leaders?

MO: Not in such a case. In such a case, there are civilian arms of intelligence that should do that.

BT: And there should be no link between civilian and military intelligence?

MO: No, except where there is danger to the country. In your case, where opposition political parties are engaged in mobilising public support, it is a legitimate activity. The only area where the military has to intervene is if there's any extra-political activity, where you find that maybe there are activities of sabotage or terrorism that are going to create chaos and undermine stability in the country.

But, you see, for that to happen, mostly it is a response to something going on wrong in the way the country is governed. That's why I was saying that, in a case where the military realises that the political processes are being compromised – for example, if you know the sitting regime is in the process of rigging an election, if such information was picked up and analysed by the military – in my view, it should formally advise the sitting government not to do that.

BT: If you were in charge, would you stop it? Would you intervene apart from advice?

MO: Intervention becomes a bigger problem. If you intervene, you now bring the military into politics. It's a very tricky situation.

BT: So, when governments are corrupt or manipulate politics, you believe the military should advise but not actually intervene.

MO: Not intervene in the presence of consensus. My thinking is that we can see success in terms of the metamorphoses our societies are going through, from independence to now. There was a time when we are groping in the dark. There were so many factors at play –

I can see successes in some countries. The situation is not as desperate as some people seem to think.

When the military intervenes, it's a symptom of weakness within the political sphere.

for example, the East-West conflict. We never developed our own internal capabilities to manage power. I can see we are undergoing a situation now where we evolving through those phases. I can see successes in some countries. The situation is not as desperate as some people seem to think, but it's still a process. There are a number of challenges that we still have to face. Right now we are dealing with uncertainty in Uganda; nevertheless, it's a challenge. Yes, there are impediments, but generally we're moving in a positive direction.

EXTERNAL FORCES

BT: When there's violence – military or rebel action – very often, people say that some "foreign interest" is behind it. In your experience, have foreign interests been actively stimulating military actions?

MO: In some cases, yes. In Uganda, I think that external forces were involved in the coup of 1971. In 1981, there were no external forces.

BT: Do you know of external military forces elsewhere in Africa?

MO: Yes, in some cases, there are direct external forces supplying arms and some resources.

BT: Is it widespread?

MO: Not as much as it was in the 1960s and '70s. In some areas, the conflicts are local and the causes are locally generated rather than external.

BT: So, the speculation that there's always a foreign force behind violent action in Africa – a rebel movement or whatever – is not justified.

MO: If you've developed a political culture and you establish certain values within governance, that in itself creates cohesion in the country. And if there were interests that wanted to be served in that very country, if such a situation prevailed, they wouldn't succeed. So, even when they succeed in interfering, the main cause is still internal weakness.

BT: Anything else you want to add?

MO: I hope and believe that we are seeing the tail end of the instability that we've experienced in Africa, that the way countries are governed is going to stabilise, and we can enjoy the richness of our country.

Avoiding the curse

Strategies for resource-based development

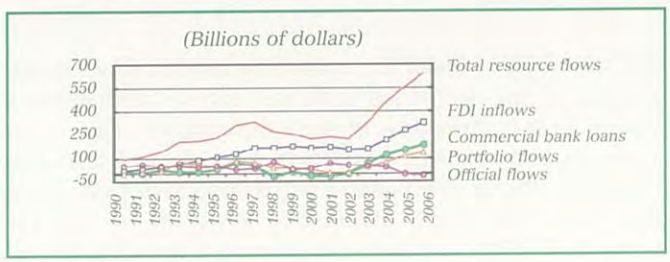
By **Paul Jourdan**

The author is the former CEO of Mintek and consultant to the African Development Bank (AfDB). This is an edited version of a longer paper, "A Resource-Based African Development Strategy and African Development Corridors", AfDB, March 2008

Africa's comparative advantage lies in its vast and extremely rich endowment of natural resources. In the current Asian-led boom, the minerals sector can provide the economic rationale for the provision of infrastructure that can also benefit agriculture and other natural resources. The continent could use mineral endowments to develop other sectors.

After several decades of stagnation, many African states have recently shown strong growth, due to the recent commodities boom induced by strong demand from China, India and even Vietnam. Many of these states also have significant potential for commodities production, especially minerals. Foreign direct investment (FDI) into Africa has displayed a marked upturn since 2002, mainly into the mineral resources sector. (see Figure 1) But the critical question is: will this boom last, or will it peter out like so many earlier commodity booms? The answer lies in the global outlook for minerals.

Figure 1: Total net resource flows[a] to developing countries[b], by type of flow, 1990–2006



Source: UNCTAD WIR (2007:34)

THE HISTORICAL RECORD

The colonial powers sought the mineral wealth of their African colonies. On gaining independence, the new states established strongly "statist" natural-resource exploitation regimes. However, there followed a low intensity phase with weak demand and low prices. This promoted a widespread revision of natural resources regimes in the 1980s and 1990s (generally initiated by the World Bank) to attract FDI from transnational corporations (TNCs), typified by a low share of resource profits to the state and low linkages of the resources sector into the domestic economies.

As evidenced by almost all mature developing economies, the intensity of resource use tends to fall off once the basic national infrastructure is in place and the domestic market has been developed. From then on, growth tends to be in services, with a proportionate fall of employment in manufacturing.

It seems safe to assume that the current commodities boom will continue strongly as long as China and India keep up their robust growth. This leaves us with the question of how the current commodities-stimulated

growth in African states can be transformed into sustainable industrialisation and development.

CURSE OR BLESSING?

The "resource curse" is a much debated and studied phenomenon, but it is clear that a resource endowment is not always a curse. If well-managed, it can be a "blessing", as evidenced by strong sustained growth in several resource economies (or erstwhile resource economies), such as Sweden, the United States, Norway, Malaysia, Finland, South Africa, Australia, Canada, New Zealand (Aetoroa), Australia and Botswana.

An extensive and illuminating analysis of a large sample of countries refines the impact of the resource curse with the following findings (Collier and Goderis, 2007):

- empirical evidence suggests that commodity booms have positive short-term impacts on growth, but negative long-term impacts on developing countries
- these adverse long-term impacts are only experienced by exporters of "high rent" mineral (non-agricultural) commodities
- the key determinant of whether a mineral boom will be a "blessing" or a "curse" appears to be the level of governance, particularly the existence of "sufficiently good" institutions
- The main channels of the curse are:
  - o high public and private consumption
  - o low or inefficient investment
  - o overvalued (strong) currency.

However, all of these channels can be neutralised or ameliorated through appropriate policies and strategies, and the resource curse turned into a blessing through targeted deployment of resource rents and opportunities. This paper will explore such strategies, particularly for Africa and minerals, and also look at possible strategies for the critical governance indicator.

THE DUTCH DISEASE

A resource boom often has several negative impacts on the local economy. Referred to as the "Dutch disease", following the natural gas boom in Holland in the 1960s, these fall into three broad symptoms.

One symptom is that the strengthening of the current account through the boom provokes increased resource rents. This tends to strengthen the local currency, causing other sectors to become less competitive, particularly manufacturing, which contracts, leading to possible de-industrialisation.

Another sign is limited local capital and human resources being sucked into the booming resource sector, leading to the underdevelopment of other sectors and consequently increasing macro-economic dependence on the natural resource sector.

The third is fiscal instability caused by sudden drops in state revenues at the end of the cycle that cannot be matched by concomitant contractions in state expenditure. This in turn results in state deficits, increasing recourse to fiscal deficit financing, greater indebtedness and debt servicing obligations (the "debt trap") and inflationary pressure on the local currency. This is a fairly accurate picture of what happened in Zambia in the 1980s with the fall in copper prices.

A RESOURCE-BASED DEVELOPMENT STRATEGY

The key element of a strategy that uses natural resources to catalyse industrialisation is to optimise linkages from the resource sector into the local economy.

The principal resource endowment opportunities are:

- **resource rents:** the use of resource differential and windfall rents to improve the basic physical and knowledge infrastructure of the nation through investment in physical infrastructure (e.g. transport, telecommunications, energy) and social infrastructure (e.g. human resource development (HRD), research and development (R&D), technology)
- **infrastructure:** the collateral use of the high rents to open up other zones of economic potential that, because of lower returns, cannot afford their own requisite infrastructure (e.g. agriculture, forestry and tourism)
- **downstream value addition:** taking advantage of location to establish resource processing (beneficiation) industries that could then provide inputs for manufacturing
- **upstream value addition:** the use of the resources-sector market to develop the resource supply/inputs sector (capital goods, consumables, services). This often offers a relatively large market for specific inputs for particular resource exploitation
- **technology/product development:** resource-exploitation technologies generally need to be adapted for local conditions (e.g. climate, mineralogy, terrain), which provides opportunities to develop niche technological competencies. This sector tends to be knowledge-intensive and accordingly needs "priming" through investment in HRD and R&D. Several studies have shown technology's capacity to "reinvent" itself outside the resources sector: the lateral migration of technological competencies can produce new products for other (non-resource) markets.

LIMITING FACTORS

Using these same categories, we can then ask why the bulk of African states have not been able to take advantage of their resource endowments to make these critical linkages:

- **resource rents:** as per the extensive "resource curse" literature (see below), there is often a diversion of rents into short-term (imported) consumption and clandestine foreign exchange outflows, resulting in low levels of reinvestment. However, the lack of effective and appropriate institutions also has a fundamental impact on the state's share of resource rents. Weak African states generally fail to impose resource tax regimes that ensure an equitable share of the rents, particularly windfall rents, due either to a lack of state capacity or its subversion to produce overly investor-friendly outcomes
- **collateral use of resource infrastructure:** most resource-based African economies take advantage of this is to some extent, but the development of the other sectors – particularly commercial agriculture – is often severely constrained by the macro-economic impacts of a resource boom and by the failure to invest in and maintain the necessary feeder infrastructure linked to the resources infrastructure
- **downstream value addition:** the reasons for this failure are numerous and include the non-availability of other critical inputs necessary for competitive beneficiation, such as energy, and the high entry barriers of many beneficiation processes (e.g. iron and steel, aluminium and copper) and the global corporate beneficiation strategies of the TNCs. They often prefer to send crude resources to a central beneficiation facility in another country or to keep their "core competence" of resource extraction, making only the semi-processed resource available to the local market at a monopoly (import parity) price if they have a monopoly or oligopoly position in the country concerned. This results from a governance failure to impose a condition for minimum levels of beneficiation in the resource extraction contract or license
- **upstream value addition:** the main failures here are the centralised purchasing strategies of most resource extraction TNCs, the domestic business sector's lack of the necessary capacity and access to capital to take up these opportunities and the lack of local human resources and technological expertise to establish these generally knowledge-intensive industries
- **technology/product development (lateral migration):** this is closely linked to the previous point, in that targeted investment in HRD and R&D is needed by the state and the resources companies. The TNCs generally centralise their R&D in selected countries (often their home bases), which already have the necessary human resources and R&D infrastructure, including state support/incentives for technology and product development.

Weak African states generally fail to impose resource tax regimes that ensure an equitable share of the rents, due either to a lack of state capacity or its subversion to produce overly investor-friendly outcomes.

The key strategy for optimising a resource endowment in Africa is through a resource regulation regime that directly determines the relative "division of the spoils"

and indirectly influences the deepening of the sector through downstream and upstream linkages to the local, national and regional economies.

NEGOTIATING WITH THE TRANSNATIONALS

Creating the capacity for African states to negotiate this with the resource-based TNCs is no easy matter. Generally, these negotiations are extremely asymmetrical, as the TNCs are highly resourced and skilled compared to the affected state. In one of its most critical interventions in recent years, the World Bank has been correcting this asymmetry by contracting world-class consultants to support the state in these crucial contract or license negotiations and to concurrently develop the state's own capacity. The African Development Bank is establishing a legal advice facility to support its member states in such complex long-term contract negotiations.

The development of African capacity for ongoing auditing, monitoring, and regulating processes could be facilitated by requiring a skills-transfer clause in all contracted consultancies during the lease/license negotiations. Given the dearth of people with these skills in Africa, consideration could be given to pooling resources with neighbouring states through cross-border resources infrastructure regulation (e.g. transport authorities, power pools, water catchment bodies), possible joint management of cross-border resources and the creation of a regional capacity within the regional economic communities (RECs).

RESOURCE GOVERNANCE

As shown by Collier and Goderis (2007), the key element that determines whether a resource endowment will be a curse or blessing is the level of governance and the existence of robust institutions. However, this could be a "chicken and egg" situation for underdeveloped African states with weak governance and institutions which have weak governance because they are underdeveloped. There are clearly no short cuts out of this conundrum, but it can be argued that the international environment has improved for breaking the "resource curse" cycle. Consider:

- the world is increasingly globalised, with increasing global monitoring and regulatory systems, such as the WTO, the United Nations Framework Convention on Climate Change (Kyoto Accord) and the Equator Banking Principles
- corruption of African governments is now an offence in most countries (it often used to be tax deductible)
- the end of the Cold War has given the major powers less incentive to prop up corrupt African governments for political reasons
- much greater civil society oversight of resource TNC activity in African states; most now produce a "sustainable development report"
- new global resource and resource-rent monitoring systems for African states, such as the Extractive Industries Transparency Initiative (EITI), the Kimberley Process and the recently launched construction industry transparency (COST) initiative
- new regional and sub-regional monitoring and governance assessment systems, such as the African Union's African Peer Review Mechanism
- the rise of China and India as resource markets and investors has given African states more options than were available under the old Western colonial and neo-colonial hegemony.

Integrated multi-state development corridors provide concrete expression of a resource-based African development strategy.

THE DEVELOPMENT OF LOCAL CAPITAL

Ultimately, a resource sector dominated by foreign capital – TNCs and junior resource companies (JRCs) – is likely to be politically unsustainable or at least problematic. In addition, several factors indicate that local capital is generally more likely to make critical resource sector linkages into the local economy.

Due to better local networks, they may have a better knowledge of local supply opportunities. The lack of a global purchasing network (as per the TNCs) can encourage a local company to find local supply opportunities (e.g. lime and activated carbon from coconut shells for gold processing). Despite local availability, these are generally imported by the TNCs in gold-producing African states. The lack of technology development capacity outside the African state may also oblige domestic capital to develop technology (R&D) at local institutions or in-house.

Most of the TNCs and JRCs have a corporate strategy of resource exploitation ("dirt digging as the core competence") that focuses exclusively on resource extraction and denies the African state the opportunities of resource beneficiation and supplier industries. However, in many developing countries there is a tendency for the growth of diversified conglomerates in the early stages of development, in order the build the requisite corporate capital base for large projects, such as the *zaibatsu* in Japan, the *chaebols* in Korea, the "Bombay Club" in India and the diversified mining houses in South Africa and Zimbabwe. Over time, these tend to break up into specialised industry-specific companies.

Finally, there may be an inherent willingness to develop the local economy (the role of "patriotic" capital), which is often bolstered by greater state and public influence on local companies.

However, for a wide variety of often country-specific reasons, the domestic business sector is typically extremely weak in African states, which renders it unable to effectively realise the numerous opportunities within both the resource sector and "linkage" sectors. Focused, customised strategies need to be developed to enable local capital to take advantage of resource endowment opportunities, but there are a few generic strategies worth mentioning.

Development finance institutions

Access to capital (credit) is probably the most widespread constraint experienced by African businesses and, in addition to an independent and robust banking system, local and regional development finance institutions (DFIs) could play an important role. DFIs with a clear shareholder mandate and without interference in their day-to-day running have had a positive impact on the development of local capital. The experience of African DFIs is not very positive, mainly due to political intervention to fund non-viable projects or to dump failing companies onto them.

The development of mineral resources requires the amelioration of geological (exploration) risk, which generic DFIs are not usually equipped to do. Thus it is sometimes preferable to establish a specialised exploration DFI with the requisite earth science skills to partner local JRCs in high-risk exploration projects. For example, a specialised DFI (SOQUEM) was established to build a local French-speaking mining capital in the province of Québec, Canada, in the 1960s.

Partnerships

Partnerships with multilateral (e.g. World Bank, United Nations) and donor agencies as well as philanthropic organisations are becoming increasingly common to provide risk capital and skills in Africa.

Regional integration

Macro-economic stability gives greater predictability and lowers the cost of capital for new entrepreneurs. This is often facilitated through regional integration in the form of common monetary areas and customs unions and constitutional provisions that are difficult for future regimes to negate or override.

The ability of the state to impose conditions is concentrated at the beginning, so it is of seminal importance to get it right from the outset.

Skills, technology, infrastructure

Access to skills for both the entrepreneurs and the staff of new local enterprises is critical and could be enhanced through partnerships with multilateral institutions, neighbouring states and appropriate donor agencies.

Access to technology is important and could be facilitated by local/regional higher education institutions and R&D bodies and through technology partnerships with the local TNCs facing similar technological challenges.

Access to the requisite infrastructure is also important and would be enhanced through open-access provisions on infrastructure developed through DFIs (TNCs).

Licence provisions

Arguably the most important vehicle for building local capital are the foreign and transnational resource investors who have the requisite capital, skills and expertise, but are not naturally inclined to facilitate the growth of local competitors. Therefore, this needs to be built into the exploitation contract license through provisions, such as those contained in the South African mining charter, which include:

- local skills development
- local professional and managerial staff complement targets
- local purchasing targets
- local beneficiation targets.

State incentives

Local R&D targets and incentives, and the establishment of local venture capital funds should be considered as well. As mentioned, the ability of the state to impose conditions is concentrated at the beginning (granting of the exploitation license), so it is of seminal importance to get it right from the outset, to avoid messy renegotiations at a later stage.

AFRICAN INFRASTRUCTURE CONSTRAINTS

In many African states – particularly the landlocked countries – a resource-based development strategy is severely constrained by the lack of requisite infrastructure (especially transport and energy). In general, Africa's relative logistics costs for operations and maintenance and infrastructure provision are about 250 percent of the global average. (UNCTAD, 1999) This is because:

- Africa, with the greatest altitude, has few navigable rivers
- 93 percent of Africa is located in the inter-tropical convergence zone, with high levels of precipitation
- incoherent European balkanisation resulted in 14 African states being landlocked
- only 10 percent of the land in Africa is within 100

kilometres of a coast (compared with 18 percent in OECD countries and 27 percent in Latin America)
- only 21 percent of its people live within 100 kilometres of a coast (compared with 69 percent in OECD and 42 percent in Latin America).

The resources of many African states are thus "stranded". They cannot currently be exploited because resource rents are insufficient for individual projects to absorb the huge costs of necessary infrastructure. Nevertheless, groups of projects or a few high rent projects (generally in minerals and energy) could collectively underwrite infrastructure investments through user-pay contracts with infrastructure providers. As resource terrains seldom follow political boundaries, such usage pooling usually requires cross-border collaboration.

Consequently, rather than another colonial "scramble for resources", the huge resources potential of Africa could conceivably be realised through integrated multi-state development corridors (DCs).

DEVELOPMENT CORRIDORS: COLLECTIVE SELF-RELIANCE

Development corridors were first implemented in southern Africa under the South African spatial development initiatives (SDIs) after liberation in 1994. The NEPAD secretariat and the African Development Bank have recently adopted DCs as an important tool for configuring, prioritising and promoting interrelated infrastructure and large scale economic sectoral investments as a means to promote trade and investment-led economic growth, optimise the utilisation of infrastructure, encourage value-added processing (beneficiation), and enhance the competitiveness of African economies.

Their strategy is informed by the success of the Maputo Development Corridor (MDC) between South Africa and Mozambique, which began as an initiative between the respective heads of state – Nelson Mandela and Joaquim Chissano – and their ministries of transport and trade and industry. First conceptualised in 1994 as a rehabilitation project for an already existing but non-operational transport corridor, it was expanded to incorporate all the economic sectors into the SDI. The MDC provides useful lessons, both positive and negative, for other DCs and SDIs in Africa and elsewhere, particularly for states like Mozambique that have inherited non-existent or destroyed infrastructure.

DCs could be configured to strengthen African governance through "collective self-reliance", to recall a slogan popularised when frontline states established the Southern African Development Co-ordination Conference (SADCC) during the struggle against apartheid. This could be achieved through cross-border institutions for both the DC itself and the associated infrastructure and facilities.

Corruption of African governments is now an offence in most countries (it often used to be tax deductible).

Using examples from the Maputo Corridor, these could include:
- the DC governing organ (multilateral heads of state)
- DC agencies to promote investment and smooth operations (in the Maputo Corridor Logistics Initiative (MCLI), this is embodied by private sector DC users)
- cross-border electricity and energy entities (the South African-Mozambican Motraco joint venture, and the gas pipeline public-private partnership (PPP) between SASOL and the two governments)
- cross-border transport concessions and PPPs (Trans-African Concessions (TRAC) for the MDC highway)
- joint border post administration to facilitate rapid transit (e.g. the planned "one-stop" MDC border post).

A collective self-reliance strategy could pool the meagre resources of participating states as well as broaden the ownership of the DC utilities, which would militate against unilateral intervention by any one participating country. It could also draw on the resources of any member country with stronger governance capacity. A middle-income country could thus indirectly support governance in the neighbouring participating states, such as South Africa's role in southern Africa. Furthermore, as DCs are regional initiatives, they could draw on governance support from regional economic communities, such as SADC, COMESA and ECOWAS, where appropriate.

In the longer term, DCs will inexorably draw the participating countries into greater regional economic integration, providing positive governance impacts through the sharing of best practices and diluting the impact of a negative political shift in any one of the partners.

Resource-based development corridors provide concrete expression of a resource-based African development strategy and are the integrating mechanism to deepen the African resources sector through critical upstream, downstream and sidestream linkages into local, national and regional economies.

However, such a strategy requires a high level of commitment from neighbouring African states and a concomitant will to work together for the common good of their respective peoples.

A RESOURCE-BASED AFRICAN DEVELOPMENT STRATEGY

With the level of demand from a combined population of some three billion people in the emerging economies of China, India and others, the current commodities boom is likely to continue for at least thirty years. To avoid "the resource curse", African states need to "deepen" their resources sectors by garnering the resultant finance for investment in physical and social infrastructure and the development of up- and downstream linkages.

However, this is critically dependent on governance – particularly, the effective operation of key state institutions. The capacitation of African states to govern their resources should be a priority for assistance to Africa. As the extent of resources is not generally well known, this should include assistance to assess their potential resource assets.

The current reliance on foreign transnational corporations (TNCs) – rather than domestic capital – to realise Africa's

Robbie Tshabalala

The resource "curse" can be turned into a "blessing" through targeted deployment of resource rents and opportunities.

resources potential carries several risks: in particular, the neglect of linkages to the local economy and of local human resource development and research and development. These risks can be diminished through resource contracts, leases and licenses, and interventions to stimulate local resource linkages. The equitable sharing of resource rents might be facilitated through flexible tax regimes based as profitability (rate of return) rather than profit (as is used in the oil and gas sector), and the use of auctions for known resource potential in order to flush out real value.

Furthermore, the development of resources potential is critically constrained by bad or non-existent infrastructure. The capital and skills required for infrastructure are far in excess of the capacity of African economies, necessitating the use of PPPs to acquire the necessary capital and skills from the international market. The development of appropriate state administrative and regulative capacity for this should be a key target for assistance.

A resource-based African development strategy (RADS) could provide a viable component of a growth and development strategy for Africa. It would utilise Africa's resources as a catalyst for diversified industrial development, as was done by Finland, Sweden, the Ruhr Valley in Germany, the United States and, to some extent, Malaysia, Brazil and South Africa. Africa's significant resource endowment could stimulate growth in other sectors, through both the reinvestment of profits and the establishment of development corridors to facilitate the provision of infrastructure for use by other sectors and to maximise resource sector linkages. As a first step, NEPAD has proposed an African spatial development programme (SDP), consisting of key development corridors across Africa. A selection of pilot DCs can serve as learning examples.

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Achieving human security in insecure southern Africa

A gender perspective

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Despite efforts to address gender inequality over three decades, women's plight and particularly women's security continue to worsen, thus making it very difficult to attain the Millennium Development Goal (MDG) of gender equality.

- "Amongst all the MDGs, MDG 3 – the one pertaining to gender equality – is moving the slowest." – Minster Joyce Banda (Malawi), SADC conference on poverty and development, Mauritius, April 2008
- "Government inaction has stalled progress on national implementation of global commitments". Few countries dropped their original reservations to the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and "explicitly discriminatory laws still remain" in some countries. – Women's Environment and Development Organisation (WEDO)
- "African governments continue to commit to international instruments promoting and protecting women's rights, but there has been a lack of effective implementation at the national level." – 7th General Regional Ministerial Conference on Women, Addis Ababa, October 2004

Many women are worse off than they were a decade ago and there is a real risk of more women falling behind and of human insecurity taking a more gendered face. The feminisation of poverty is growing in various parts of the world, particularly in Africa.

"Gender" refers to unequal power relations and the socialisation process; it is not about sex per se nor does it imply the exclusion of men. Simone de Beauvoir summed it up aptly: "We are not born men and women, we are made to become men and women." Unequal power relations and the lack of legal and constitutional rights continue to affect large segments of women in certain Southern African Development Community (SADC) countries. These barriers are key to understanding the complex relationships and realities surrounding the marginalisation, exploitation and oppression of women on the continent, as well as what should be done to attain and consolidate peace in the region.

Understanding the relationship between gender, human security and development first requires an understanding of the context in which we are operating. The first part of this paper therefore discusses the concept of human security and the need to further engender it. The second part examines the context in which southern Africa finds itself and maps out the contemporary gender and security landscape. The third part highlights advances but points out the number of gender concerns that must still be addressed. The paper concludes with recommendations

for achieving a more gendered security architecture so that peace, women's security and development can be consolidated and sustained.

FROM STATE SECURITY TO HUMAN SECURITY

In the post-Cold War era, we have witnessed a shift in focus from "state security" (conceived in terms of power, territorial integrity and sovereignty) to "human security", based on universal, indivisible, interdependent human rights that are recognised and protected by international law and enforced by states and international institutions. The United Nations defines human security as freedom from fear, wars and pervasive threats to people's rights, safety and lives.

Many states still view security as related to states and as the central element in international relations. They invest large amounts of resources to remain secure from perceived external, especially military, threats. The "human security" concept challenges this perception, arguing instead that security must be linked to real life experiences and survival strategies of people themselves, including social threats, those arising from the fact that people find themselves embedded in a human environment with unavoidable social, economic and political consequences.

The human security perspective highlights the difference between the security of states and the security of persons/citizens, not merely interpreting the security of persons as the physical safety of individuals during violent conflict, but also as their ability to access resources and satisfy their basic needs.

If we agree with Amartya Sen that "development is freedom" – freedom from want, disease, squalor, illiteracy and hunger – and that it should not be restricted to the narrow confines of economic growth, then development continues to elude large segments, particularly women in the SADC countries.

The rights to food, health, a safe and sound environment, education and housing or shelter therefore constitute important elements of the human security architecture. The questions that should therefore be posed are:

- to what extent can this architecture be translated into reality as the continent is further sucked into a world economic order which continues to be skewed towards the North and which perpetuates the exploitation of the South?
- how can we develop and attain engendered human security in this region when regionalism is dominated by trade which is not sufficiently linked to the soft infrastructure and the human security dimension?
- how is it possible to improve and ensure the security of individuals when the quality of governance itself is threatening their lives, particularly for women and children, in more ways than one?

The communiqué of the SADC Civil Society Forum on Democratic Governance and Regional Economic Integration (Lesotho, August 2006) noted: "[M]any SADC countries tend to prioritise state security over human security, yet human insecurity poses a major challenge to peace in the region today. Human insecurity is exacerbated by economic inequality, an endemic health crisis, unabated poverty and hunger etc."

The ripple effect of the crisis in Zimbabwe is taking a heavy toll, making it difficult or even impossible to think of the emergence of a human security architecture, let alone a genderised human security architecture. It highlights how easily progress made so far can be eroded and reversed.

THE SOUTHERN AFRICAN CONTEXT

One cannot appreciate the gender and security landscape without paying attention to the current food crisis, rapid climate change, the rising price of petrol and, more recently, the mounting xenophobia in southern Africa. All these elements exacerbate poverty and threaten human security. New challenges confront a significant section of the female population who are already powerless, voiceless and asset-less. Yet states have the responsibility to work towards ensuring the human security of their citizens, irrespective of gender.

Despite efforts to tackle poverty, the SADC conference on poverty and development in April 2008 once more reminded us how complex and intractable poverty is: a complicated tangle of political, social, historical, institutional, cultural and technological factors. Poverty is recognised as multi-dimensional, caused by lack of income and productive resources, hunger and malnutrition, ill health and resultant increases in morbidity and mortality, limited or lack of access to education and other basic services, homelessness and inadequate housing, social discrimination and exclusion, dependency on benefits and lack of participation in decision-making in civil, social and cultural life. Poverty can also force women into situations in which they are vulnerable to sexual exploitation, health problems and violence.

The lack of voice and power to influence policy making is perhaps one of the most fundamental challenges to our states. Illiteracy is still largely the order of the day, diseases (including HIV/AIDS) are destroying lives and causing wastage of human capital, more than half of the population lives on less than a dollar a day, gender inequality still prevails, and joblessness (which deprives

people of their most fundamental human right to work) is growing. The horrifying magnitude of abuse and exploitation, despite efforts in various quarters, testifies to the complexity of human behaviour and to how embedded patriarchy is. Under these circumstances, there is no choice but to question the legitimacy of the state.

The multiple realities of the southern African region highlight the diverse traumas and violence that women and children face on a daily basis. The missing girls in Congo, the high numbers of displaced women and children, the numerous rape cases and other forms of sexual abuse, and the trafficking of women speak to the extent and nature of human insecurity that prevails.

According to the *Southern Africa Gender Justice Barometer* (22 March 2008), on school violence, "games such as 'Hit me, hit me' and 'Rape me, rape me', where school children chase each other and then pretend to hit or rape each other were being played at South African schools." This has caused distress for many parents and the nation at large. The South African Human Rights Commission (SAHRC) declared: "This game demonstrates the extent and level of brutalisation of the youth and how endemic sexual violence has become in South Africa."

While many parts of the African continent still struggle with the aftermath of the World Bank/IMF imposed structural adjustment programmes, they now have to face these new crises in the context of globalisation which is rapidly changing its face, and causing growing feminisation of poverty in the southern African region.

The emerging giants of the world – India and China – are changing the configuration of globalisation that we in SADC are now confronted with. We should be cautious that the new discourse of "South-South co-operation" does not allow the new giants to engage with us on exploitative terms that privilege a few at the expense of the masses and, in the process, destroy further the livelihoods of African women.

Violence, including the economic violence linked to excessive neo-liberalism and governance by the market, threatens human security. If human security is to be promoted from a gender perspective, we should be reminded of what UNIFEM had to say in 2000 about the need to negotiate new kinds of institutions and incorporate new norms:

> "Extending the idea of human development to encompass women's empowerment and gender justice puts social transformation at the centre of the agenda for human development and progress of women... Women's situation cannot be improved unless there is a change in relations between women and men as well as in ideologies and institutions that preserve and reproduce gender inequality. This does not mean reversing positions, so that men become subordinate and women dominant. Rather it means negotiating new kinds of relationships that are based not on power over others but on mutual development of creative human energy... It also means negotiating new kinds of institutions, incorporating new norms and rules that support egalitarian and just relations between men and women."

There is an urgent need to recognise that women stand at the crossroads between production and reproduction, between economic activity and the care economy – the care of human beings – and therefore between economic growth and human development. They are workers in both spheres: those most responsible and therefore with most at stake, those who suffer the most when the two spheres meet at cross-purposes, and those most sensitive to the need for a better integration of the two. Unless gender is mainstreamed more effectively within all institutions and development efforts, southern Africa stands to lose.

ACHIEVEMENTS AND ONGOING CONCERNS

That women in southern Africa have made considerable progress at different levels and in different spheres is indisputable when we look at broad indicators. But when we stop to look at the multiple dimensions of women's lives, a disturbing stark reality hits one in the face.

In a brief overview of the instruments that impact on gender, the CEDAW convention of 1979 is perhaps the most significant. CEDAW has been ratified by some 179 states, 76 of which have become parties to its optional protocol that enables women to file complaints directly with the CEDAW committee. Fifty-one of the 53 African states have ratified CEDAW and 17 have signed its optional protocol. CEDAW was groundbreaking in creating an international bill of rights for women. It established the principle of equality through civil and political rights, including sexual and reproductive rights, as well as rights affected by cultural factors.

The Beijing Platform of Action of 1995 has been ratified by 189 states. It identifies 12 areas of intervention for the promotion of gender equity: poverty; education and training; health, including reproductive health; violence; armed conflict; economy; power and decision-making; institutional mechanisms; human rights; media; environment; and the girl child.

More recently, the African continent has been blessed with the AU Protocol on the Rights of Women (PRW) of the African Charter on Human and People's Rights. This Protocol provides a framework committing African

leaders to the principle of gender equity and sets out key protection mechanisms for African women.

The resolution "urges member states to ensure increased representation of women at all decision-making levels in national, regional and international institutions and mechanisms for conflict prevention, management and resolution of conflict". Despite this, there are currently still very few women on these structures.

In addition to the above, there is the SADC Gender and Development Protocol, which addresses a wide range of issues that affect women in the SADC region, including constitutional and legal rights, governance, education, productive resources, gender-based violence, health, HIV/AIDS, peace building and conflict resolution and the media. Nadi Ali, a Women's Rights Division Africa researcher notes:

> "The good news is that SADC has a road map to overcome gender inequality through the Gender and Development Protocol. But the bad news is that, for many of the SADC countries, the most fitting title for this map would be 'the road less travelled'."

HOW TO MOVE FORWARD?

In order to get on the road to craft a truly genderised human security architecture, there is a need for a change in mindset and to change assumptions, biases, mental images, feelings, views, traits and beliefs, values developed over a lifetime that reflect outdated, patriarchal teachings. A lot more has to be done to unshackle the continent from this heritage and move towards more gender-equitable societies. The recommendations made below, if advocated, lobbied for and implemented, would go a long way towards freeing southern Africa from gender based violence, insecurity, instability and underdevelopment.

Katherine Muick/Mail & Guardian Online/Times

- Stop being silent or pretending that no crisis exists in situations where good governance is absent and thousands of lives are at risk. The relevance of good governance for pro-poor outcomes and human security from a gender perspective goes without saying.
- Ensure that SADC and its various facets – political, economic, social, cultural and, more importantly, its human security dimensions – are incorporated into the national school curricula as well as at institutions of higher learning so that the "soft infrastructure " required to enhance human security from a gender perspective becomes more palpable and understood by citizens in the region.
- Get rid of pro-poor rhetoric and adopt macro-economic and trade polices which help to create and sustain livelihoods rather than destroy livelihoods. The more growth we have in joblessness, the more incapacitated and disempowered the citizens, particularly women.
- Speak with one unified voice on the economic partnership agreements (EPAs) with the EU. There is not enough transparency on this. With the looming food crisis, it is even more important to develop a solid unified position so that the crafting of a genderised human security becomes possible.
- Remove all gender biases in economic policy-making and ensure that the SADC Gender Protocol is adopted urgently so the growing feminisation of poverty can be reversed.
- Most importantly, develop national action and monitoring plans for UN Security Council Resolution 1325 on women, peace and security, which acknowledges not only that women and girls are often the victims of gender-based violence in armed conflicts but also draws attention to the role of women as peace builders.
- Consolidate donor co-ordination and aid effectiveness towards a genderised human security architecture.
- Make greater efforts to engage all stakeholders, including civil society and the corporate/business world, on the gender equality agenda.
- Strengthen the internal capacity of the SADC gender unit and its linkages with member state structures for the promotion of gender inclusive democratic developmental states.

The above recommendations are certainly not sufficient to eradicate poverty and free the continent from gender-based violence, but they are necessary if we want meaningful, gender-inclusive, democratic developmental states in the region. It is part of our collective responsibility to see that some of these measures are urgently adopted and implemented.

Death of the African renaissance

By **Adekeye Adebajo**

The author is executive director of the Centre for Conflict Resolution in Cape Town and co-editor of *South Africa in Africa: The Post-Apartheid Era* (UKZN Press, 2007). An earlier version of the article was published in *The Sunday Independent*

The recent traumatic xenophobic attacks in South Africa – an issue against which last year's African Peer Review Mechanism (APRM) report had warned a complacent government – demand a critical reflection on their implications for the country's much-vaunted African renaissance project.

I first came to this country in 1994 to observe apartheid's funeral as a United Nations monitor and a citizen of Nigeria, a country that had provided tremendous support to anti-apartheid efforts over three decades. Five years ago, I moved here from New York to contribute to efforts to establish a pan-African "brains trust" and provide credible black role models in a skills-starved environment. If Western-based Africans moved to South Africa, I reasoned, this could help reverse Africa's "brain drain" by at least keeping the knowledge on the continent.

I also witnessed the inauguration of Nelson Mandela as president of a free South Africa in May 1994. Almost exactly 14 years later, South African mobs in xenophobic acts of almost unimaginable savagery slaughtered their fellow Africans from neighbouring countries. The embarrassment of the images beamed across the world drenching the rainbow flag in a deathly red was felt throughout the continent. But much of the coverage of these events failed to contextualise the events or explain the xenophobia that pervades South African society.

A disturbing illustration of this came at a meeting I attended in England a few months ago, where an elite group of South Africans, British and other global citizens gathered in the salubrious surroundings of Ditchley Park, a castle near Oxford, to assess South Africa's domestic and foreign policy challenges. I raised the issue of xenophobia, having read with horror about the murder of 30 Somalis in Cape Town over a six-month period in 2006. The subsequent reaction from my defensive and denialist South African colleagues – senior opinion-shapers – was as alarming as it was revealing. One argued that South Africa did not owe its neighbours anything from past sacrifices; another linked foreigners to crime; one even suggested – publicly – that we discuss the issue "at the bar", rather than during the session.

At a braai a few years ago, a senior black South African pundit baldly told me that non-South Africans had no right to discuss South African politics. Mahmood Mamdani, the prominent Ugandan academic – who has questioned whether South Africa can lead an African renaissance without an Africa-focused intelligentsia – had noted during his unhappy stint at the University of Cape Town a decade ago that many of the black academics he encountered did not identify with Africa. Many African academics at South African universities have often complained of a climate of xenophobia. White Euro-American academics seem to fit much more comfortably into the culture of what are clearly more "ivory" than "ebony" towers.

While there have been some admirable responses by many South Africans to the recent incidents, some of the outpourings from the elite appear to be less heartfelt – "crocodile tears" in the context of views that create a permissive environment for prejudice to thrive. It is simply inadequate to explain these incidents in terms of uneducated and ignorant mobs, or with pseudo-theories of victims becoming killers by attacking the "other", or by focusing on an elusive and invisible "third force" which seems to absolve all of any responsibility. Evil must simply be called by its name – with no ifs, ands or buts – in order to avoid an even greater catastrophe next time.

Xenophobia has thrived in South Africa for many years, as incidents like the mob killing of two Senegalese and a Mozambican, flung to their deaths from a moving train in September 1998, graphically illustrated. Consider too that by 1998, 25 per cent of South Africans were said to favour a complete ban on migration into the country, as African migrants were accused of "stealing" jobs and women, committing crimes and spreading AIDS. Demands have been made to revoke the work permits of foreigners; calls made for foreigners with falsified documents to be jailed for extended periods before deporting them; and many foreign street hawkers have come in for particular harassment. Data in 2001 suggested that 60 to 65 percent of South Africans surveyed thought that undocumented migrants should be denied police protection or access to social services.

Furthermore, senior home affairs officials have called for the declaration of a "war" on "illegal immigration", which they described as one of the country's "major social and economic plagues". As with preludes to mass killings, African migrants have been dehumanised as parasitic "cockroaches", making it easier to justify their annihilation. In a perverse version of the *swart gevaar* under apartheid, many Africans are pejoratively derided as *amakwerekwere* and immigration policies have tended to be skewed against them. Between 1994 and 2000, South Africa deported 600 000 African migrants, while 177 000 Zimbabweans were deported between 2005 and 2006. In 2000, "Operation Crackdown" continued apartheid-era practices by arresting people in areas with black immigrant populations, which included the destruction of valid documents and other illegal tactics by the police. People were sent to the notorious Lindela detention centre and Human Rights Watch reported that undocumented migrants died in detention. The South African Human Rights Commission (SAHRC) condemned the nature of the arrests and has also spoken out after the recent attacks.

Sections of the media, through inflammatory and stereotypical coverage of immigration issues, have also contributed to the creation of a xenophobic environment. Even legal migrants and genuine asylum seekers are sometimes demonised as a lecherous, impoverished "flood" threatening to overwhelm the country. Words

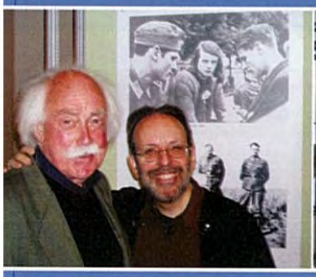
Pic by James Oatway, 15/08/2008, © Sunday Times.

like "hordes", "waves", "flocking" and "streaming" are ubiquitous in this reporting. Nigerians are condemned as drug-traffickers, Congolese as diamond-smugglers, Basotho as smugglers of copper wire, Mozambicans as carjackers and Zimbabwean women as prostitutes. Citizens of countries in North America and western Europe who are also involved in crimes are, however, rarely reported on. The Africanisation of crime clearly makes it easier to perpetuate xenophobia against these migrants.

Former South African president Thabo Mbeki has led peace efforts across Africa, and in a short decade has transformed South Africa from being the continent's greatest destabiliser to its most energetic peacemaker. He has been a key architect of the African Union and the New Partnership for Africa's Development (NEPAD). Some analysts have, though, sought to use these incidents as a stick with which to beat Mbeki, resorting to the infantile name-calling that has often masqueraded as genuine analysis. South Africa's former president has certainly made mistakes, but surely the current disturbing events in Zimbabwe cannot explain the recent attacks in South Africa.

For the first time since I arrived in this country, these events have given me pause to wonder about South Africa's future. A great nation that has produced four Nobel peace laureates momentarily appeared shockingly determined to consume itself in an orgy of hatred. This author – a nomadic Afropolitan citizen of the world who has lived over half of his life outside his native country – now questions whether this is really a place to call home. As has often been noted, exiles keep journeying but somehow never arrive. It is the kindness of strangers that sustains the nostalgia for home.

There is much poignant symbolism in this situation. Even as Mbeki, the prophet of Africa's renaissance – and himself once an exile in several African countries – stumbles wearily to a visibly tragic *fin de régime*, the recent xenophobic attacks may well represent the smouldering ashes of the death of his African renaissance project.



THE FRIEDRICH-EBERT-STIFTUNG

The Friedrich-Ebert-Stiftung (FES) was founded in 1925 as a political legacy of Germany's first democratically elected president, Friedrich Ebert.

Ebert, a Social Democrat from a humble crafts background who had risen to hold the highest political office in his country, in response to his own painful experience in political confrontation had proposed the establishment of a foundation to support especially the education of young people and the cooperation and dialogue between Germany and foreign countries. The Friedrich-Ebert-Stiftung was banned by the Nazis in 1933 and re-established in 1947.

[INTERNATIONAL COOPERATION IS FAR TOO IMPORTANT TO BE LEFT TO GOVERNMENTS ALONE]

Willy Brandt, former German chancellor, Nobel Peace Prize Laureate 1971

International cooperation and international dialogue is exactly one part of activities the Friedrich-Ebert-Stiftung is running in more than 100 countries all over the world. Besides of the international cooperation activities the FES is furthering the political and social education of individuals from all walks of life in the spirit of democracy and pluralism as well as facilitating access to university education and research for gifted young people by providing scholarships.

Development Cooperation

The FES maintains its own offices in 70 countries of Africa, Asia, the Middle East and Latin America. 70 German staff are posted in these countries at present and – within the assistance of numerous local staff – are engaged in projects in the fields of social-political development and economic and social promotion. Its partners come from politics, associations, trade unions, business, academia, and also from the communication sector and cultural institutions.

International Dialogue

In addition, the FES maintains offices in 33 countries of Western Europe, Central and South-East Europe and also in the USA and Japan. It fosters the dialogue between democratic forces with the aim of bringing about a balance of interest, resolving conflicts and drawing up policy options.

Political Education

It is the aim of political education by the Friedrich-Ebert-Stiftung to assist the citizens of the Federal Republic of Germany and worldwide in responding to changes in politics and society and thus to enable them to take part in a critical and proactive manner.

Research and Consulting

The practice-oriented research and consulting activities of the FES take place worldwide. Its centralized discussion circles on economic, technological, labour and social policies and also on social and contemporary history focus on topics which will be pivotal in shaping our society in future.

THE SOUTH AFRICA OFFICE OF THE FRIEDRICH-EBERT-STIFTUNG

Since 1979 the FES was supporting progressive forces in South Africa, which were fighting apartheid and working towards a democratic South Africa with equal rights and social justice.

Since 1990 the FES has a representation in South Africa and worked together with the ANC, trade unions, research institutions and civil society to support the democratic transformation.

The FES supported research and workshops to strengthen the social and socio-political dimensions of the economic policy and increase dialogue of representatives of government, parliament and civil society. Furthermore, the FES is supporting the participation of South African politicians and researchers in international conferences to represent South Africa and its ideas concerning the development in the region.

Political Dialogue

The political dialogue between Germany and South Africa, but also between India, Brazil and South Africa (IBSA) on issues like UN-reform, peacekeeping and social security is supposed to promote knowledge, share ideas and to strengthen democracy on the international level.

[IN LINE WITH THE WORK OF THE FES IN SOUTH AFRICA IS ALSO THE SUPPORT OF THIS PROGRESSIVE JOURNAL NEW AGENDA]

Cooperation of the FES with the trade union movement

Historically and internationally, the trade union movement forms an important partner of the FES. Trade unions and their allied institutions, represent an important social force in society – i.e. the working and poor people. A well-organised, assertive and visionary trade union movement has the potential to succeed in building a society based on the principles of substantive democracy and social justice. The FES cooperates with the trade union movement to enhance its capacity to become an effective stakeholder in the realisation of these broad objectives, and in advancing interests of workers at workplace and industry levels.

FES cooperation with trade unions in SA dates back to the days of apartheid when the trade unions were engaged in efforts to build a strong movement capable of challenging employers and, at the same time, contributing to the struggle for democracy alongside the liberation movement. This cooperative relationship continues today as labour grapples with challenges of democratic consolidation and economic transformation, under conditions dominated globally by neo-liberal economic thinking.

The fields of cooperation with unions include policy engagement, industrial restructuring, workplace transformation, gender issues, organisational strategies, collective bargaining, trade union internationalism, as well as debates on topical issues of interest to labour.

[WITHOUT DEMOCRACY NO FREEDOM (...). TO PROTECT AND TO RESTORE IT WHEREVER IT IS UNDER ATTACK IS THE TASK OF THOSE WHO CHERISH FREEDOM]

Friedrich Ebert

Gender

The FES objectives of women's empowerment and the gender approach is to improve the general socio-political conditions with the aim of enabling women and men to participate equally in economic, political and social development.

Despite a progressive constitution and the democratic underpinnings of our society, there exists an urgent need for cultural and social transformation as a follow—through of the democratic process, that not only breaks through the proverbial glass ceiling but also impacts on the private worlds of women. Although SA has come a long way in representing issues of gender and access, representation does not equate with power equality. Women must come up with strategies for progress and determine ways forward for all women.

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Correcting market imperfections

By **Mills Soko**

The author is a senior lecturer at the Graduate School of Business, University of Cape Town

Two recently published papers underscore the formidable challenges developing countries face as they attempt to overcome their structural limitations and marginal status in the global economy.

COMMODITY DEPENDENCE AND DEVELOPMENT

A collaborative effort between the South Centre and Action Aid, *Commodity Dependence and Development: Suggestions to Tackle the Commodities Problem* analyses the link between commodity dependence and development. The most defining characteristic of many poor countries' economies is the dominance of the export sector by a single or relatively few commodities. These commodities account for a preponderant share of export revenues.

The United Nations (UN) states that as many as 38 developing countries depend on a single commodity for more than 50 percent of their income, and 48 others depend on only two. Prominent examples of single-commodity reliance include Burundi (coffee), São Tomé and Principe (cocoa beans), Ethiopia (coffee), Malawi (tobacco leaves) and Uganda (coffee). In these countries, the export share of a single commodity exceeds 50 percent of total merchandise exports.

A positive correlation has been established between dependence on primary agricultural commodities and poverty, as measured by the UN's human development index (HDI). Countries that rely disproportionately on primary agricultural products score low on the HDI. This is largely due to extreme short-term volatility of agricultural commodities and persistent long-term price declines. Moreover, in recent decades a growing market power imbalance between producers, on the one hand, and retailers, on the other, has whittled down the producers' share in the final sales value of commodities.

This is attributable to three key features of commodity markets: price volatility, the secular decline of long-term prices, and market concentration. First, price volatility undermines economic development in commodity-exporting developing countries. It leads to fluctuations in export earnings, which in turn translate into uncertainty in domestic income, savings and government revenues. As such, commodity price fluctuations lead to macro-economic instability, which is harmful to economic development. The challenge is more difficult for countries that are unable to borrow abroad to offset short-term volatility.

Second, the persistent fall in long-term prices of commodities has characterised agricultural commodity markets for more than fifty years. Despite a nominal recovery in prices in recent years, thanks to higher

demand from China and India for commodities, the increase in demand has been largely confined to oil and minerals. Thus, the structural shift in demand has had very little positive impact on the poor countries that largely depend on agricultural commodities.

Third, expanded downstream market concentration in commodity value-chains has contributed to low export prices for traditional tropical commodities. Market power resides with a few processors, traders and retailers. With vast purchasing power, these companies control and dominate commodity markets, generating enormous profits at the expense of suppliers and consumers. Growing market concentration has shrunk the producers' share of income in commodity value chains for tropical and foodstuff commodities.

STRIDENT OPPOSITION

Over the past few years, industrialised countries and international institutions have pledged to increase financial and technical assistance to poor countries, and to create an environment conducive to the implementation of development-oriented policies. These efforts have been typified by a number of UN resolutions to establish an international diversification fund; the Monterrey Consensus on financing for stepping up official development assistance; pledges to increase and strengthen international compensatory finance mechanisms to tackle short-term balance of payments and export earnings fluctuations; and undertakings to create a fair and equitable global trading system through the elimination of trade-distorting agricultural subsidies.

Even though these measures are financially and technically feasible, their implementation has been hampered by a lack of political will, on the part of industrialised nations, to tackle the commodities challenge. Moreover, the advent of neo-liberal economic policies in many developing countries (largely under the aegis of externally imposed structural adjustment programmes) hastened the collapse of the active marketing role of national commodity boards.

The end of the market stabilisation roles of international commodity agreements as well as growing market concentration have been largely responsible for the decline of prices for some agricultural commodities, particularly tropical and foodstuff commodities such as coffee and cocoa. International commodity agreements played an important role in sustaining the stability of prices at levels remunerative to producers. Even so, it is unlikely that consensus can be forged to revive erstwhile schemes, given the industrialised countries' strident opposition.

The paper argues for a solution to the commodities problem that involves an active role for governments through measures such as supply management schemes for some commodities and regulation and promotion of industrial policy. This is not a call for reintroducing the import substitution policies of the past, but for strengthening the role of government in correcting market imperfections. The authors also emphasise the importance of financing for diversification and policy space as mechanisms for achieving economic diversification. Moreover, the report draws attention to the impact that national, regional and international competition policies could have on concerns related to corporate concentration in commodity markets.

THE AFRICAN BRAIN DRAIN

In the second paper, *The African Brain Drain: Scope and Determinants*, Abdeslam Marfouk uses recent original data sets on international migration to empirically analyse the determinants of highly-skilled emigration from Africa.

In 2000, Africa accounted for roughly 4.5 million immigrants into the OECD countries (7.6 percent), with 1.4 million of these being highly skilled. About 75 percent of African migrants choose destinations in European Union (EU) countries, although the EU attracts only 46 percent of highly skilled African migrants. Over 50 percent of these reside in the three so-called "traditional immigrant-receiving" countries (Australia, Canada and the United States).

The study shows that 10 of the 53 African countries have lost more than 35 percent of their citizens with tertiary education. The brain drain has been most severe in countries such as Cape Verde (68 percent), Gambia (63 percent), Seychelles (56 percent), Sierra Leone (53 percent) and Ghana (47 percent). Although some degree of skilled migration is necessary for poor countries to integrate into the global economy, an outflow of skilled people on such massive scales can harm growth and development.

Applying regression models, the author observes that economic and non-economic factors have a significant effect on the African brain drain. The key forces propelling highly skilled emigration from Africa are the extent of fractionalisation (ethnic, linguistic and religious) in countries of origin, job opportunities at destination countries, selective immigration policies, wage gap, geographical distance, former colonial links and linguistic proximity between countries of origin and destination.

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Improving aid accountability

By **Mary Robinson**

The author is a former president of Ireland and UN high commissioner for human rights. This was her opening address to the "Making Mutual Accountability Real" roundtable at the High Level Forum on Aid Effectiveness. Accra, 2–4 September 2008

I would like to suggest five areas where I feel that real progress can be made: understanding mutual accountability, accountability for international commitments, strengthening the role of all stakeholders in the process, follow-up action, and the Accra Agenda for Action.

UNDERSTANDING MUTUAL ACCOUNTABILITY

Five years ago, developing countries and civil society had little say in the debate on aid effectiveness, and mutual accountability was not even on the agenda. This situation is improving. Evidence shows that the Paris-Accra process has resulted in some partner countries developing aid management policies and that some donors are making serious efforts to improve their aid practices.

But the Paris Declaration evaluation report suggests that, despite some good practices, mutual accountability remains the least understood element of the aid effectiveness agenda and the one on which least progress has been made. Good practices exist at country and international levels, but we need to make them more mutually reinforcing and widely applied.

Through the Paris-Accra process, a more balanced understanding of what we mean by "mutual accountability" is emerging, one which will help to encourage behaviour change and promote a focus on achieving results. As the background paper to this roundtable suggests, this is more than a process by which partners hold one another responsible for commitments. It is about building trust and understanding, each partner taking responsibility for the achievement of shared objectives and being open to independent scrutiny.

ACCOUNTABILITY FOR INTERNATIONAL COMMITMENTS

Secondly, we need to understand that accountability has a broader remit. I particularly welcome the growing consensus that efforts to enhance aid effectiveness must be part of a broader context that includes international objectives and frameworks related to development, good governance, decent work, human rights, gender equality and the environment.

This year we mark the 60th anniversary of the Universal Declaration of Human Rights. Like the Millennium Development Goals (MDGs), agreed at the beginning of this century, the Universal Declaration offered a vision of a shared humanity and of shared responsibilities. It affirmed that fundamental rights and freedoms, such as the right to an adequate standard of living, including food, health and housing, are inalienable and inherent to all human beings.

As part of the preparatory process for this high-level forum, I had the opportunity to participate in two

workshops: in Dublin in April 2007 and in London in March 2008. Both workshops demonstrated how accountability can be strengthened and development results improved, in very practical ways, through greater attention to human rights, social exclusion, gender inequalities and the environment, and that these objectives, in turn, can be advanced through implementing the principles of the Paris Declaration.

These workshops in particular highlighted the weaknesses in taking a gender-neutral approach to aid effectiveness. Deficiencies in the Paris Declaration in relation to gender are somewhat addressed in the Accra Agenda for Action but the value of transformed gender relationships is still not fully appreciated.

Efforts to enhance aid effectiveness must be part of a broader context.

Dublin and London demonstrated that positive development results follow when gender responsive systems are in place for data collection and analysis, financial management and planning, and where policies prioritise gender equality and provide decent work opportunities for women.

On 30 August, over two hundred women's rights organisations met and came up with some very practical recommendations for this high-level forum, which I encourage you to take account of. Most pertinent to mutual accountability were recommendations that accountability mechanisms should include measurements of outcomes on gender mainstreaming and gender specific actions, such as women's employment and income, incidences of gender based violence, inheritance rights and rights to land and property, and women's participation in decision-making. This can be done by consciously and consistently strengthening the women's machineries in government and by supporting women's rights organisations at national and grassroots levels.

STRENGTHENING THE ROLE OF ALL STAKEHOLDERS

How can "ownership" of mutual accountability be strengthened to better reflect the important roles of the many stakeholders? Let me suggest some examples

Parliamentarians

At partner country level, in particular, parliamentarians can be powerful agents for change. They are well placed to ensure that national policy processes are inclusive and respond to social and economic realities. As political leaders, legislators, public role models, community representatives, advocates and government watchdogs, MPs regularly shape national responses to development needs by instigating legislative reform, influencing budget allocations and initiating public inquiries.

Partner countries have committed to strengthening the role of parliaments in national development strategies and budgets and to a more inclusive and participatory process when formulating and assessing progress in implementing national development strategies. But the limited involvement of parliaments in accountability efforts at both the partner country and international levels is a weakness that must urgently be addressed. The participation of parliamentarians at this forum is an encouraging step in this regard; a great deal more must be done to ensure their involvement in development processes at all levels.

Can inter-parliamentary organisations, such as the Association of European Parliamentarians for Africa (AWEPA) and the Inter-Parliamentary Union (IPU), play a role in strengthening parliaments' role in mutual accountability? And what difference would we expect this to make to development outcomes?

Civil society

Similarly, the role of civil society in supporting those whose voices otherwise are not heard and in holding governments to account needs to be supported and nurtured. It is crucial that the socially and economically marginalised have a voice in the accountability process. At the same time, civil society itself must be accountable to its constituencies.

The road to Accra has led civil society organisations to recognise that they too must address their role in relation to their effectiveness in development. On Monday, I heard how civil society has developed a proposal for a global two-year open forum for civil society organisation (CSO) development effectiveness. The purpose of this multi-stakeholder process is to elaborate key principles affecting civil society development effectiveness; to provide guidance on applying these principles; and to agree upon a common framework for measuring CSO performance on development effectiveness.

As civil society organisations commit to this process of accountability, it is important that their political space is secured and strengthened.

New aid architecture

The new aid architecture presents particular challenges. The increasing size and number of foundations, funds, and emerging – non-Development Assistance Committee (OECD-DAC) – donors adds a complexity to the aid architecture. There needs to be more

coherence and sharing of information from these actors leading to greater respect for and ownership of the Paris Declaration.

I welcome the example that Liberia is setting. President Johnson-Sirleaf and George Soros are convening a meeting for all of the foundations and CSO donors operating in Liberia to promote greater co-operation, co-ordination and coherence and to link their efforts to Liberia's national policies and strategies. Hopefully, this example will be followed by others.

Private sector

When we are talking about accountability, we can't ignore the private sector, and the responsibility of governments and multinational corporations to be accountable for the actions of the private sector, particularly in exploiting the natural and mineral wealth of countries.

Political leadership

Above all, political leadership is essential if mutual accountability is to become a reality. It is not sufficient that aid practitioners alone are committed to change: there must be political engagement with and ownership of the process.

Partnership and mutual accountability call for a much stronger collaborative working relationship between donors and partner countries, and between government, parliament, civil society, private sector, and individuals. It requires a stronger interaction between global, national and local accountability mechanisms. It requires mutual respect, open and frank dialogue and a sense of collective responsibility for achieving results.

FOLLOW-UP ACTION

We should ask ourselves what follow-up action will flow from this meeting. How can we carry this important agenda forward?

Mechanisms already exist. Can we look to the working party on aid effectiveness, which is playing such an important role in this high level forum, to be a champion of mutual accountability? Can we build on the experiences of the Accra preparations to have a more structured involvement of civil society representatives? Can the work on mutual accountability be better linked to work on donor incentives?

Even though partner countries have had increasingly strong representation in the working party, it is clear that their role needs to be further strengthened. The role of partner countries also needs to be strengthened more generally in the peer-review process of the DAC.

Above all, political leadership is essential.

On the road from Accra to Beijing, could the first step be a true commitment to mutual accountability?

The Paris Declaration is a landmark framework to make aid more effective. The challenge now is to adopt an agenda for action that clearly sets out the most urgent steps and the timeframe for these to be taken in order to ensure that the Paris Declaration becomes more operational and accessible. At the moment, we have to question whether the Accra Agenda for Action is pushing us far enough to deepen the commitments we have already made.

I would urge you all to do everything possible to ensure that the final agenda adopted here in Accra provides a clear timeframe and measurable actions so that we can deal with the obstacles that are currently preventing progress. The true significance of Accra will be measured by real outcomes.

CONCLUSIONS

I encourage political leaders and heads of agencies to really get to grips with the challenges and the blockages to progress, in making aid more effective and in using resources for the betterment of societies and communities. My challenge to you is to go further than the commitments made in Paris and now here in Accra.

This high level forum and the whole Paris-Accra process have the potential to build the momentum for much needed change. The success of this round table and this high level forum will come, not in the words we speak, but in the changed behaviour that will improve results on the ground. It's over to you.

I look forward to the discussions here and to working with all of you to strengthen our shared commitment to mutual accountability. We all know the Chinese proverb about the first step on long journey. On the road from Accra to Beijing, could the first step be a true commitment to mutual accountability?

We need to carry the same sense of commitment and of linking international action to results on the ground as we move to the review of the MDG commitments in New York later this month, and then on to the Doha Financing for Development conference, where commitments on aid volumes will be under the spotlight.

Parliamentary co-operation for aid effectiveness

By **Ben Turok**

The author is a member of the South African parliament and editor of *New Agenda*. This paper was presented to the Parliamentary Forum on Sustainable Development and Aid Effectiveness, held in Nairobi, 26–28 August 2008, prior to the High Level Forum in Accra, 2–4 September

Presently there is a curious paradox in Europe-Africa relations. As the Doha round on trade and investment collapsed and relations became increasingly sour, so talks about aid take on an ever more important and favourable aspect, building bridges and creating mechanisms for mutual monitoring. Even more, there is a strong lobby for "trade not aid" that may open the door for new thinking on both fronts. As I have previously argued (Turok, 2003), even though Europe and Africa are grossly unequal in many respects, the relations between them could be mutually beneficial. However, mutual benefit has to be built in deliberately, and aid, in the form of official development assistance (ODA), could be an important vehicle for this. No doubt much will be clarified at the forthcoming High Level Forum on Aid Effectiveness in Accra, which will review progress on the Paris Declaration.

Prior to the Paris Declaration on Aid Effectiveness in 2005, most debate about aid focused on the quantum of aid (e.g. as a percentage of GDP) and on the success or failure of individual projects. The Paris Declaration marked a movement towards more general considerations and a substantial shift in both the content of the debate and in the scale of agreement on the issues. It may be useful to trace this shift and examine its significance.

The Paris Declaration was a first in international meetings as a large number of stakeholders achieved unanimity on the objectives and desirability for aid. The main principles agreed were to:

- strengthen partner (recipient) countries' national development strategies
- align aid with partner country priorities
- enhance the respective accountability of donor and partner countries to their citizens and parliaments
- encourage collaboration with partner countries
- define standards of performance and accountability.

Although not developed in the document, the reference to parliaments was nevertheless significant, especially as it applied to national strategies and accountability systems.

Some of these issues have since been taken up in international parliamentary institutions, such as the European Parliament (EP), the Parliamentary Assembly of the Council of Europe (PACE) and the European Commission on the one hand, and the Pan African Parliament (PAP) and the African Union (AU) on the other. Various parliamentary meetings in Europe and

Africa engaged with the topic, and the Association of European Parliamentarians for Africa (AWEPA) has convened several meetings where aid was discussed in considerable depth. Various civil society organisations have also been involved.

JOINT STRATEGY

A resolution of the EP in October 2007 on "The state of play of EU-Africa relations" called for "a joint strategy... to develop a common political vision and practical approaches to the future partnership between the EU and Africa, based on mutual respect, common interests and values and the principle of ownership." It also noted that the EP and the PAP had established ad hoc committees in their mutual relations.

It also noted that, "too often, lines of accountability run directly from national executives to development partners, thereby bypassing any sort of parliamentary approval of international agreements." It also called for an appropriation of the European Development Fund (EDF) for the "political education and training of parliamentarians" and that "national and continent-wide parliaments must be expressly considered as beneficiaries of aid". There were also references to budget support, which "must be accompanied by the strengthening of the capacity of parliaments".

The PAP and EP issued a joint statement prior to the 2nd EU-Africa Summit in Lisbon (December 2007), which called for "upgrading the EU-Africa political dialogue" and for a "joint vision and shared values", "operational decisions and actions" and a "distinctive role" for parliaments. There was a strong emphasis on parliaments as decision makers, accountability, budget-monitoring powers, policy and oversight.

The Lisbon Summit heads of state and government resolved to "build a new strategic political partnership for the future, overcoming the traditional donor-recipient relationship and building common values and goals in our pursuit of peace and stability, democracy, and the rule of law, progress and development".

These texts were further developed in the AWEPA document, "Mobilising parliaments in the New Partnership for Africa's Development (NEPAD)", for special hearing of PACE in April 2008:

> As representatives of the people, parliamentarians should play their full constitutional role, exercising legislative, elective and budgetary power, holding the executive to account and influencing international affairs. In Africa, there is a need for a greater role and involvement of parliaments in the systematic scrutiny of how development assistance is used, in policy making, and monitoring of progress.

It also called for "the need to step up bilateral parliament-to-parliament dialogue and co-operation", "establishing development co-operation committees", "intensify the scrutiny of development policies", "strengthen oversight" and fuller use of the PACE North-South Centre, which has considerable network capability.

The Inter-Parliamentary Union Assembly met in Cape Town, 13–18 April 2008, and passed an excellent resolution on "Parliamentary oversight of state policies on foreign aid", which set out important positions endorsing these positions.

LEAD-UP TO ACCRA

More recently, several major meetings have taken up the issue in preparation for the pending High Level Forum in Accra. A meeting convened in Kigali by the African Development Bank identified the following key issues for Accra:

- country ownership
- managing for results and mutual accountability
- harmonisation and alignment
- aid effectiveness in conflict situations
- sectoral applications
- new aid architecture.

The first consultative draft of the Accra Agenda for Action also makes some very important proposals. It set out the five Paris principles – ownership, alignment, harmonisation, managing for results and mutual accountability – as the foundation for future discussion in which parliaments have an important role. Among the practical measures are:

- stepping up efforts to record all external as well as domestic resources in budget documents
- strengthening linkages among annual budgets, medium-term expenditure frameworks and national development policies
- developing good practice on conditionalities
- alignment with country priorities, systems and procedures
- public financial management, procurement and managing for developmental results.

It also encouraged a new drive to build the capacity and increased use of country systems and for "donor and partner countries to adopt the public expenditure and financial accountability framework". It spoke of a rolling three-year basis for aid, timetables for aid commitments, the pooling of donor funds and many other administrative measures. It proposed a joint statement on good practice for civil society and aid effectiveness, and support for the Legal Harmonisation Initiative. Significantly, it called for improved reporting to parliaments and citizens, mutual accountability mechanisms and wider participation procedures.

Too often, lines of accountability run directly from national executives to development partners, thereby bypassing any sort of parliamentary approval of international agreements.

THE WAY FORWARD

Beyond these administrative issues, how can parliaments support real progress? The answers are contained in these documents. In summary:

- systematic and sustained interaction between European and African parliaments, continental, regional and national
- information exchange between them
- donor country parliaments to ensure involvement in policy making, full disclosure of all aid commitments and accountability on spending
- recipient (partner) country parliaments should do their utmost to achieve the above
- aid should include allocations to partner country parliaments for capacity building, research and communication.

But what may be most important of all is to win the argument for effective aid in the public domain, in both Europe and in Africa. This means giving far more attention to explaining the basic reasons for aid, its inherent limitations, the question of costs to donor countries and the necessity of monitoring and oversight in Africa. The analysis of obstacles to the effectiveness of aid needs much elaboration and we need to include the best intellectuals in this work.

Special campaign committees are required to co-ordinate these activities in Europe and Africa with mixed participation by Europeans and Africans to demonstrate a new solidarity between us. It is clear that, although declarations at summits are important to commit governments and international institutions, they move very slowly if not supported by public pressure. Parliaments are well suited to this purpose.

EU & Africa: Key dates and documents

2002. March. International Conference on Financing for Development. Monterey, Mexico
2003. February. Rome Declaration on Harmonisation. First High Level Forum, Rome
2005. March. Paris Declaration on Aid Effectiveness. Second High Level Forum, Paris
2007. October 12. "The state of play of the EU-Africa relations". Committee on Development, European Parliament
2007. December 8. Lisbon Declaration. EU-Africa Summit
2008. March 18. First Consultative Draft, Accra Agenda for Action
2008. April 18. Resolution on parliamentary oversight of state policies on foreign aid. Assembly of the Inter-Parliamentary Union, Cape Town
2008. April 23. Special hearing on "Mobilising parliaments for NEPAD: Towards the Millennium Development Goals". Parliamentary Assembly of the Council of Europe, Belgium
2008. April 29–30. Africa Region High Level Forum. Kigali, Rwanda
2008. September 2–4. Third High Level Forum on Aid Effectiveness. Accra, Ghana

REFERENCE

Turok, B. 2003. "Can unequal partnerships be mutually beneficial?", conference on *The Challenges of Europe-Africa Relations*, Lisbon, 23–24 October

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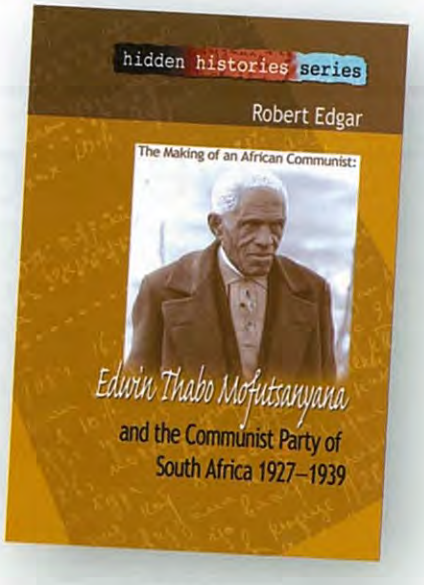
Reviews Editor: **Helen Douglas**

The making of an African Communist:

Edwin Thabo Mofutsanyana and the Communist Party of South Africa 1927-1939



Robert Edgar
UNISA Press: Pretoria, 2005. 58 pp

Reviewed by **Thiven Reddy**
(Political Studies, UCT)

Robert Edgar's focus on the internal factional battles of the Communist Party of South Africa (CPSA), and the challenging position in which African communists like Edwin Thabo Mofutsanyana found themselves in an extremely racially divided South Africa, makes a well-needed contribution to our understanding of liberation politics. This short history narrates the life of Mofutsanyana, a "stalwart" revolutionary of the CPSA and the African National Congress (ANC). He joined the Party in 1927 and the text focuses mainly on his activist period in the 1930s. He eventually went into exile after the Party disbanded, remained relatively isolated in Lesotho, and returned to South Africa in his nineties during the transitional period from apartheid.

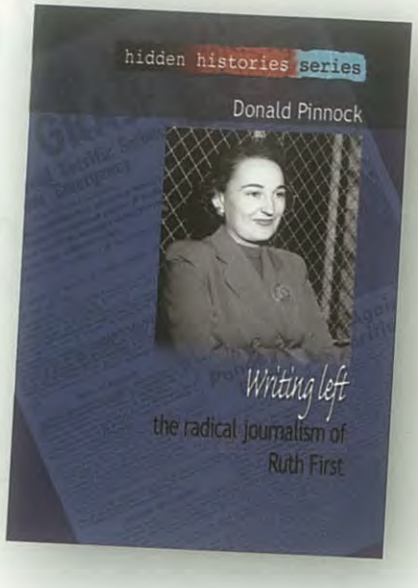
Edgar makes every effort to locate the life of Mofutsanyana in the political context of both the country and the Party. Born in Witsieshoek in the Free State, Mofutsanyana trained as a teacher, but became an administrative clerk in the mines where he developed his political awareness, initially influenced by the Industrial Workers Union (ICU), and later by the ANC. He concluded that these organisations avoided "militant protest" and chose to join the CPSA. As one of "its precious few African organisers", the Party soon assigned him to Potchefstroom, where community organising played a formative part of his political history.

Edgar does not shy away from the theme of racism in progressive circles, which seems integral to Mofutsanyana's life story. He seems to have found himself in an invidious position. He valued the "non-racial" character of the Party, where black and white activists worked together, yet he refused to ignore the practices of some white comrades towards black activists – in the Soviet Union and South Africa. He reluctantly supported the position to split the Party into white and black sections, which fortunately failed to pass.

In the 1930s, factional conflicts in the CPSA brought the organisation to near collapse, as many comrades were purged or left disillusioned. Edgar briefly discusses the battles over the dominance of whites, the Native Republic resolution, differences over race and class struggles and its implications for strategy. The last section of the book describes Mofutsanyana's role in the Native Representative Council, and ends with a cursory overview of ANC mobilisation in the 1950s.

Because of its brevity, the book excludes many lines of interesting inquiry. The period of the 1940s and 1950s, his personal relationships to family, friends and political influences, and especially his thinking on issues of ideology are not discussed in any depth, and more could have been said about his role in exile and why, after such an active engagement before the 1960 bannings, he chose to isolate himself from broader exile politics. Besides these minor criticisms of what is omitted, this book contributes considerably to revealing a "hidden history" of a fascinating revolutionary who played a major role during an important period of South African left politics.

Writing Left:
The Radical Journalism of Ruth First



Donald Pinnock
UNISA Press: Pretoria, 2007. 267 pp

Reviewed by
Chris Saunders
(Historical Studies, UCT)

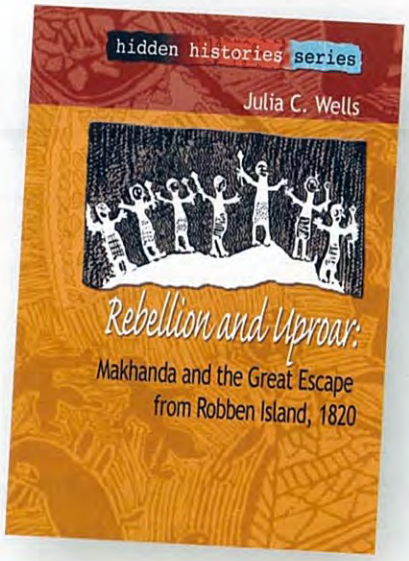
When Don Pinnock, today the editor of *Getaway*, began this book in the mid-1980s, he was on the staff of the department of journalism at Rhodes University and, as his book's sub-title suggests, his main focus was Ruth First's journalism. He does not confine himself narrowly to this, however, and his book is now the nearest we have to a biography of this remarkable woman. It moves from her early life in Johannesburg to her years on *The Guardian* and its successors, where she wrote prolifically and did extraordinary investigative work, to her detention in the early 1960s and eventually to her assassination in Maputo in 1982. It took a long time for Pinnock to gather the necessary material for this book, and there was another long delay before it finally saw the light of day in UNISA Press's relatively new "Hidden Histories" series.

The series is aimed at a semi-popular readership, and this book should be widely read. Well-illustrated and written in a very accessible style, it is, however, still not a full biography. Pinnock writes very briefly about First's career after she left South Africa. He does not mention, say, her continuing interest in Namibia or her involvement with the struggle in Eritrea. There is little here about the work she did in Mozambique and virtually nothing about her role in exile politics in the years before she opened the letter-bomb that was sent from South Africa to her office at the Centre for African Studies at Eduardo Mondlane University. Nor does Pinnock attempt a full analysis of her writing. He shows the range of her writing as a journalist, but does no more than mention, say, "the beautifully crafted biography of Olive Schreiner which she wrote with Ann Scott" (1980) and her important last book, *Black Gold* (1983).

In time, no doubt, there will be fuller and more rounded books on her life and work, based in part on further mining of the Ruth First papers, which are, alas, still nowhere available in southern Africa. For now, we can be grateful for Pinnock's admirable study of one of South Africa's leading campaigning journalists and writers, who achieved so much before her life was so tragically cut short.

Rebellion and Uproar:

Makhanda and the Great Escape from Robben Island, 1820



Julia C Wells
UNISA Press: Pretoria, 2007. 46 pp

Reviewed by
Chris Saunders
(Historical Studies, UCT)

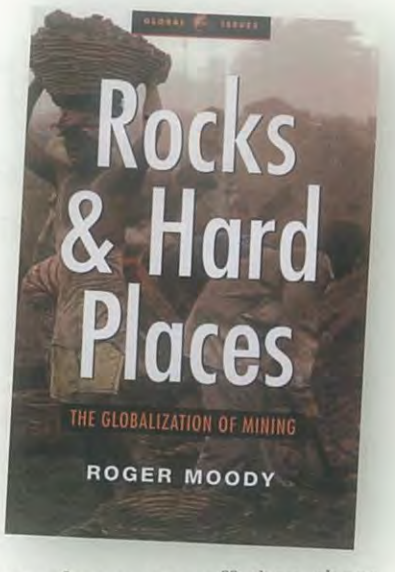
As a child, Nelson Mandela heard about Robben Island as the place to which the famous Xhosa warrior Makhanda had been banished, and from which he had tried to escape by boat, only to be drowned in the attempt. When a prisoner there, Mandela realised that the sea between it and Cape Town was an "uncrossable moat", and Makhanda's fate doubtless helped decide him and others that any plans for escape should involve other means than escape by sea. About Makhanda's fate, we have until now known all too little. Julia Wells of Rhodes University has now combed the archives to write a detailed study of the "great escape" of Makhanda and others in 1820.

An addition to the admirable "Hidden Histories" series, hers is a modest publication of no more than 30 pages of text. The book also has 16 illustrations by artists of the Egazini Outreach project in Grahamstown, although the quality of their reproduction is not good. This is more than made up for by what we learn of the escape, for Wells reveals much that was previously unknown. Of the 82 prisoners held on the island in 1820, at least 24 made their escape in whaling boats. Over half of these reached land, only to be recaptured and put on trial for "creating a rebellion and uproar".

Wells does not only focus on Makhanda. Another of the 1820 escapees, David Stuurman, a leader of the Khoisan resistance two decades earlier, had previously escaped successfully by whaling boat and returned to the eastern frontier, only to be recaptured and sent back to the island and later transported to Australia. Two of the leading figures in the 1820 escape were white men; at that time, the island housed both white and black prisoners. One of the whites drowned and the other was among those executed and beheaded. Makhanda, leader of the Xhosa who attacked Grahamstown in 1819, would presumably also have been hanged had he not drowned when the boat in which he was travelling was wrecked near Bloubergstrand.

Though Wells concludes that the "great escape" was "an important chapter in resistance history in South Africa... a final, desperate act of refusal to accept the domination of foreigners", her short book is narrowly conceived. She does not begin to trace the memory that later generations had of it, or situate the escape in the broader context of resistance politics. It is to be hoped that this is but a fragment of a larger study that Wells will give us in time.

Rocks and Hard Places:
The globalization of mining



Roger Moody
Zed Books: London and New York;
David Philip: Cape Town 2007. 213 pp

Reviewed by
Victor Munnik

This highly readable introduction to the mining industry sets out to stimulate new thinking and social action. Roger Moody, managing editor of the "Mines and Communities" website, makes good use of more than 20 years' experience dealing with mining-affected communities. His starting point is that the mining industry should no longer be allowed to decide who will mine what, where and when. The reasons soon become clear: the impact of mining on water and land, including the horrific dumping of mining waste in rivers and the ocean that destroys ecosystems and wipes out the resources that fisherfolk and others build their livelihoods on.

Moody tackles the politics of mining head-on. The story of Rio Tinto on the Papua New Guinean island of Bougainville stands out:

> "Leased in 1966, when the territory was under Australian control, within six years the Panguna mine had become the most commercially successful of all the company's operations. Costs were savagely cut by dumping all the mine's wastes (tailings) into the nearby river. By 1988, a few of the Panguna indigenous landowners, led by a former Rio Tinto mineworker, Francis Ona, demanded US$10 billion compensation for the ruination of their gardens, forest and waterways. The company jeered at the claim and refused to negotiate. Ona set up a nucleonic "Bougainville Revolutionary Army", declaring independence from Papua New Guinea. Backed by Australian helicopter gunships, troops from the mainland invaded the island. In the bloody civil war that ensued, up to a fifth of the island's population (between 15 000 and 20 000 villagers, many of them women and children) were to die before peace was reached in early 1998."

Moody discusses the resource curse, through which countries "blessed" with resources are often worse off than those more moderately endowed. Governments are held up as complicit in allowing people's environments and livelihoods to be spoiled. They also appear weak and powerless in their negotiations with mining giants – if they are not actively benefiting, as individuals, from their failure to protect their own populations.

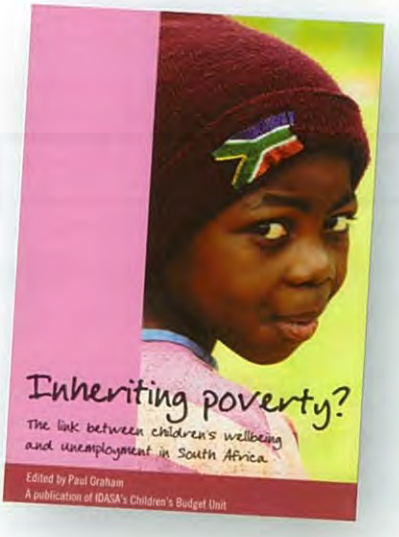
Moody makes the point that mining is inherently unsustainable. He details – in concise but fascinating accounts – how the mining industry attempts to obscure this. Mining moguls have taken taking leading positions in processes such as the 1992 Earth Summit and the World Summit on Sustainable Development in Johannesburg in 2002. They have co-opted big environmental NGOs, such as the World Wide Fund for Nature (WWF). The tactic seems to be always the same: profess broad support for sustainable development and conserving the environment, while avoiding all regulation from the state (in favour of self-regulation) and all discussion of specific cases of abuse.

Interestingly, Moody includes the ravages of the often-ignored construction industry, with its insatiable demand for building materials, from cement, clay and sand to marble and ground-up coral reefs.

Moody's book has great relevance for South Africa. Our mining history has shaped the country and, as commentators are acknowledging now, has brought us to ecological catastrophe in the Vaal and Olifants catchment areas. The current commodities boom makes this a living issue. In fact, the Maandagshoek case – where platinum miners, backed by state force, are pushing communities off their land – is one of the many South African cases discussed in this book. Well worth a read.

Inheriting Poverty?

The link between children's wellbeing and unemployment in South Africa



Paul Graham (Ed)
IDASA: Cape Town, 2006. 131 pp

Reviewed by **Nomkhosi Xulu**
(Industrial, Organisational and Labour Studies Research, UKZN)

The links between children's wellbeing and unemployment in South Africa are complicated and profound. The seven papers in this book map the deteriorating situation, including other contributing social issues – such as child labour, poverty, vulnerability, HIV/AIDS, childcare (or its lack), children's rights – and the responsibility of the government (mainly through the departments of social development, health and education) for children.

Although 66 percent of children were found to be living in income poverty (in 2004), it is important to note that "wellbeing" is not only determined by household income. Childcare is multi-dimensional, complex and dynamic. Domestic violence, sexual abuse, the impact of living with an unemployed parent or guardian, the presence of HIV-positive persons in a poor household, the quality of relationships that children have with the different members of the household, and the migration of households in search of a better life are crucial factors, over and above having enough income.

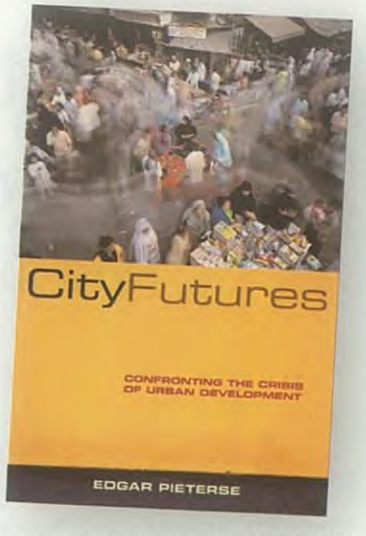
The major stakeholders essential for the wellbeing of children are children, caregivers, government structures, welfare organisations, relatives, neighbours and friends. The book quite correctly points out that our government has many good policies and legislation that, if properly and fully implemented, could have a great effect on the wellbeing of children. It mentions these and then points to the difficulties or the impracticality of implementation.

What I liked about this book is the comprehensive coverage of the issues. It is not like reading separate books on child labour or the effects of HIV on children or the role of government for children. Instead, one is able to read about all these themes and their specific link with wellbeing and vulnerability. It looks at wellbeing from different perspectives and examines all the interrelated issues.

What the book perhaps fails to emphasise enough is the fact that children should never be regarded as independent of caregivers. Although we are now living in an abnormal situation where the number of child-headed households is growing uncontrollably, the importance of caregivers has not diminished. This is important in so many different ways: for instance, where children become involved in child labour to support their families. It is also known that, in most cases, children acquire HIV/AIDS through their caregivers. As much as the child-parent relationship is a natural and biological one, the relationship between child and caregiver should also be nurtured emotionally, socially, psychologically and spiritually. This has great impact on the development of the child. Children who grow up without caregivers do not enjoy the basic rights that other children do.

The challenge, as argued in this book, is how we (the South African community) should engage with these issues collectively, in an integrated manner that will not exacerbate the already existing gaps in the implementation of policies and legislation.

City Futures:
Confronting the Crisis of Urban Development



Edgar Pieterse
Zed Books: London, 2008. 224 pp

Reviewed by **Ivan Turok**
(African Centre for Cities, UCT)

This ambitious book provides a broad framework of ideas to tackle urban poverty and inequality in less-developed countries such as South Africa. It is written mainly for practitioners seeking more far-reaching responses than typically offered by local and national governments and international agencies. Simple solutions are not provided here, but rather a set of propositions drawn from a diverse body of literature and the author's own experience as an activist, policy-maker and researcher.

The growing crisis of urbanisation in poorer nations of the global South is unprecedented for the sheer scale of population growth and the underlying character of urban-rural migration. To a greater extent than before, this is being "pushed" by rural pressures and problems, rather than "pulled" by buoyant economic opportunities in the cities.

Since city economies are weaker and less able to absorb the influx, urban society is becoming more fragmented and spatial segregation is growing. Governments can't afford to provide free universal services, so they differentiate between people and places on the basis of their economic contribution and political power. The effect is slum proliferation and extensive informality that exists alongside conspicuous wealth and richly-serviced gated communities.

Orthodox policy prescriptions don't get to the heart of these structural problems. For example, providing more secure land tenure in informal settlements fails to address the basic lack of jobs and incomes. City-level efforts to build partnerships and co-ordinate programmes ignore the real differences of interest and mismatches in power between different sections of the community. And the poor are treated too often as passive victims with little understanding of their own everyday coping practices and valiant efforts to improve their conditions.

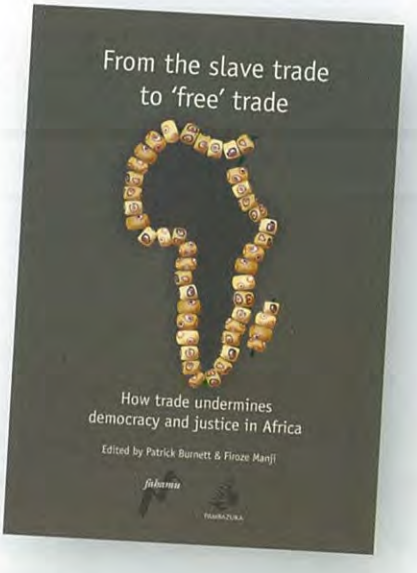
Pieterse advocates an approach that is more explicitly political to challenge established ideas and procedures. Poor and excluded groups should be centrally involved in urban development initiatives to ensure that the agenda is about transformation rather than tinkering. Progressives need a sophisticated understanding of the policy-making process to identify appropriate pressure points to exert maximum influence. For example, government sectoral and spatial planning systems are particularly important vehicles for engagement because they afford opportunities to address big strategic issues in new, more inclusive and sustainable ways.

Overall, the book offers a valuable way to think about development from a procedural and political perspective. It includes many insights that researchers and practitioners will find instructive, which, ideally, would go hand in hand with thorough analysis of the substantive content of development policy, to illuminate the options available and the tensions and trade-offs involved. To take a simple example, poverty eradication policies at the local level are constrained by economic as well as political considerations, including the resources available for redistribution and the impact of pro-poor policies on migration and investment decisions.

A final point relates to matters of language and representation. Urbanisation is widely portrayed by governments and the media in negative and threatening terms: concentrated poverty, uncontrolled slums and social conflict. But looking ahead, it also offers positive possibilities and the solution to many social and environmental problems, including more cost-effective service delivery and accelerated economic development. The challenge for us all is to work out how to harness the potential of cities.

From the Slave Trade to "Free" Trade:

How Trade Undermines Democracy and Justice in Africa



Patrick Burnett
and Firoze Manji(Eds)
Fahamu: Nairobi and Oxford, 2007. 169 pp

Reviewed by **Isaac Nkuna**
(Limpopo Legislature)

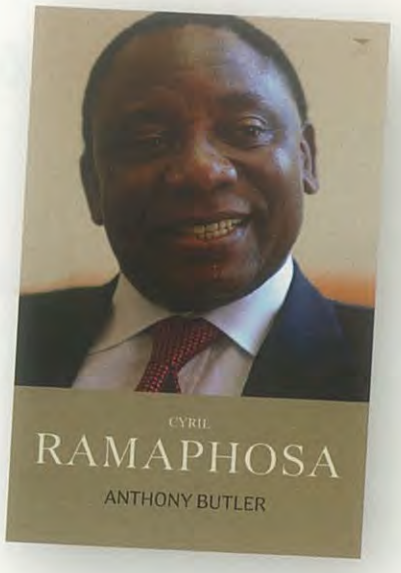
The simple yet captivating title encapsulates the book's fundamental argument – that that the scramble for Africa has not ended with the demise of slavery and colonialism: "after the transatlantic slave trade, the forms of brutal exploitation meted out through colonialism and imperialism have at least been modified by formal decolonisation processes". In this context, so-called free trade is an elusive myth that the poor countries of the world will pursue in vain.

The first part of the book examines the role of trade, investment and international institutions in Africa. In many instances, investment and aid are not necessarily benefiting African countries, such as where the outflow emanating from such initiatives is more than the inflow. Further, aid is not neutral: structural adjustment programmes call on governments to cut expenditure on social welfare in order to service the debt to rich nations. Democracy is undermined as African governments strive to please those who control the purse strings, and the fundamental rights of their citizens are undermined and trampled. The authors contend that when critical commodities such as water and healthcare are left to the market forces, the poor suffer. South Africa is not spared the sharp pen of the authors. For instance, they show that foreign investors are being attracted with promises of cheap electricity while its citizens struggle to access this basic commodity.

The second part of the book explores how trade policies have negatively impacted on women, both in terms of earning a living and their welfare in general. In a liberalised environment, those working in the informal economy (most of whom are women) are likely to suffer. Also, any cuts in social spending, such as healthcare, will mostly affect women, given their reproductive and care-giving role in society. The authors lament the fact that women are often not considered when trade policy is being developed.

The last part of the book focuses on agriculture and the environment. Local people do not often benefit from the exploitation of the environment by multinationals. For example, "oil corporations such as Shell and Chevron, who are major players in the Niger Delta, have admitted to contributing to corruption, violence and civil unrest". In reading this section, my eyes were opened to the reality of how democracy and justice are undermined through trade.

Cyril Ramaphosa



Anthony Butler
Jacana: Johannesburg, 2007
and James Currey: Oxford, 2008. 442 pp

Reviewed by
Helen Douglas

With Mark Gevisser's Thabo Mbeki, Padraig O'Malley's Mac Maharaj and, here, Anthony Butler's biography of Cyril Ramaphosa, it seems that South African political biography has cranked it up a notch or two. All three have managed to follow the careers of their principals against the backdrop of the arenas and periods in which they moved. These particularities bring the history of the liberation struggle to life with a narrative immediacy and a mobile perspective that is not found in either autobiographies or more general historic accounts.

In Ramaphosa's case, we have a national leader who gained much of his political and organisational experience before he even joined the ANC. In telling this story, Anthony Butler needs to lead us through the intricacies of growing up Venda in cosmopolitan Soweto, of the Christian student and black consciousness movements where Ramaphosa cut his teeth politically, of the mining industry and the political and economic role played by Anglo American and the Oppenheimers, and of the history of the National Union of Mineworkers – all set, of course, within the changing character of National Party apartheid rule and moving into the transition to democracy and Ramaphosa's singular role in the negotiations there.

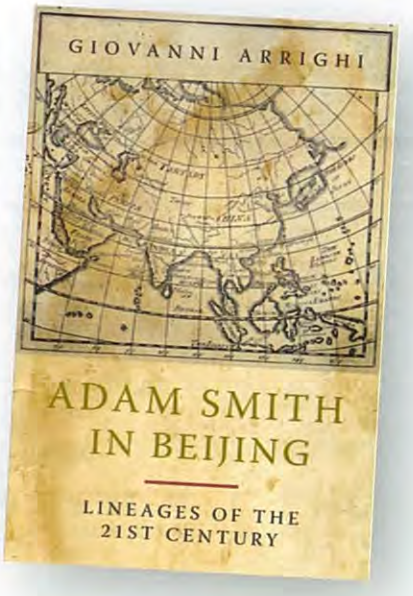
It is fascinating material and Butler handles it all with style, keeping the narrative moving with pace and clarity. He makes extensive use of written resources, such as Vic Allen's *History of Black Mineworkers*, and a vibrant array of personal interviews with Ramaphosa's friends and colleagues, although the man himself declined to be interviewed.

The section of the book that covers Ramaphosa's career in the private sector is entitled "Treading Water", appropriately enough. Ramaphosa's genius and passion is apparently much more suited to the political world than the corporate one, and Butler concludes with a hopeful expectation that we might see him active again in the public sphere.

What Butler has given us is a coherent, well-situated and well-documented version of an unorthodox career in the South African liberation struggle and transition period. As valuable as this is in its own terms, it also serves to disturb any simplistic notion we may have of this history and to remind us of its real breadth and complexity.

Adam Smith in Beijing:

Lineages of the Twenty-First Century



Giovanni Arrighi
Verso: London and New York, 2007. 418 pp

Reviewed by **Peter T Jacobs**
(Economics, UWC; Centre for Poverty, Employment and Growth, HSRC

In this monumental study, Giovanni Arrighi, a world-renowned scholar on the inner workings of the dominant global system, has developed a perspective on shifts in today's global political economy that consists of two main elements. One is that the United States is rapidly losing its global hegemonic status due to its self-destructing economic, socio-political, geo-strategic and military blunders. It is thus reduced to a dominant power but with its hegemony disappearing – a signal of its "terminal decline". The second is that China, as an "evolving non-capitalist market economy", is potentially set "to contribute decisively to the emergence of a commonwealth of civilisations truly respectful of cultural differences". The modern world is thus caught in a transition between the Washington Consensus and some vaguely defined Beijing Consensus.

To comprehend the seemingly chaotic fluctuations in the world, Arrighi urges us to re-read, assimilate and rethink the pioneering work of Adam Smith. Smith distinguished between "natural" and "unnatural" paths of economic evolution, without any teleological convergence to a singular capitalist model. A country developing along its "natural development path" normally goes through a step-by-step transition from agriculture to manufacturing to trade. While China is the exemplar of "natural development", Europe and America followed an alternative "unnatural" route.

Arrighi then applies an analytical framework derived from Smith to explain China's march to global superpower status, particularly during the "reform era", the economic policy changes initiated under the leadership of Deng Xiaoping in the late 1970s and pushed forward by subsequent leaders of the Chinese Communist Party. In a more historical context, Arrighi draws on his theory to account for China's prosperity before the "great divergence" of the 18th century (which, of course, fascinated Adam Smith). Secondly, he uses it to render a coherent view of the forces responsible for the rise and decline of earlier dominant and hegemonic powers: the pre-20th century world where "globalisation" pivoted in turn around the economies of Venice, Holland and Britain. This comparative historical overview places the contemporary transformations in China in a more meaningful perspective.

Reforms implemented in China over the last three decades have been contradictory and intensely contentious. The same can be said of the actual systemic direction of its transition, a mystery covered with vague statements occasionally issued by its leadership. In Arrighi's view, China's market-oriented reforms neither suggest nor inevitably lead to an accelerated development to neo-liberal capitalism, but this unbalanced account regrettably offers insufficient empirical evidence to support its assertions. Moreover, Arrighi observes only the positive developmental impacts of China's economic intercourse with countries in East Asia and Africa. Given that some Africans view the Beijing Consensus as tilting towards a new phase of colonial and imperialist exploitation of our resource-wealthy continent, some arguments in this book are controversial and contestable.

Changing Social Policy:

The Child Support Grant in South Africa

Francie Lund
HSRC Press: Cape Town,
2008. 144 pp

Reviewed by **Mathew Blatchford**
(English and Comp. Literature,
Fort Hare)

Although the title is dull, this remarkably interesting book provides something rarely found – an insider's perspective into the motives and constraints of government policy makers. It should be read by anyone trying to work with, or even to understand, officials of the state.

It deals with policy developments in the middle 1990s, just as the RDP was being sidelined and GEAR introduced. Lund's assessment is that these developments were an inconvenience rather than a crisis. Given that welfare spending was a comparatively new and weakly-supported part of the fiscus, GEAR need not have been the handicap which it proved to be for many departments. She admits, however, that conservative spending policies were a persistent problem for social development.

Lund chaired a committee that was supposed to get its work done fast. She was commendably prompt about this, but it meant that there was little space to consult or build a consensus. On the contrary, there was hostility to the committee from many sources. The committee received the poisoned chalice of the state maintenance grant (SMG), a substantial payment predominantly for white, coloured and Indian women that could not affordably be extended to all races. It had to recommend the phasing out of the SMG and its replacement with a child support grant (CSG) initially only one-seventh the amount (following NGO pressure, it was increased to one-fifth), which was inevitably controversial.

Meanwhile, Lund observes, the social welfare minister was weak. Before the breakup of the government of national unity, it was headed by Abe Williams, eventually sacked for corruption. It was difficult to build cabinet support for social welfare. Minister Nkosazana Dlamini-Zuma, while sympathetic, offered no support, seeming to feel that her then-department of health had enough enemies already, while the treasury looked on any proposals for increased spending with a fiercely unsympathetic eye. Legal experts inserted clauses into the legislation that undermined its impact, while many bureaucrats have subsequently seemed reluctant to implement the progressive recommendations that survived the drafting process. The SMG was phased out faster than Lund feels it should have been, while the CSG had problems in meeting its goals (though she emphasises that it has improved over time).

Her retrospective conclusion is that she would not have come to different decisions, but she might have handled the political obstacles more effectively. She also praises NGOs for monitoring the implementation of the CSG and thus helping with the process of improvement. It does seem that this link, between NGOs genuinely concerned for the welfare of the poor and a government genuinely concerned with the public interest, has been lost somewhere along the way. Possibly the book can be used as a discussion document towards recovering the sense of urgency and activism of that time.

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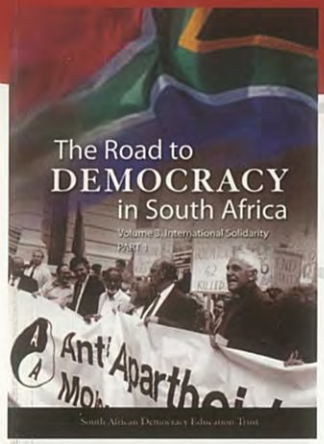

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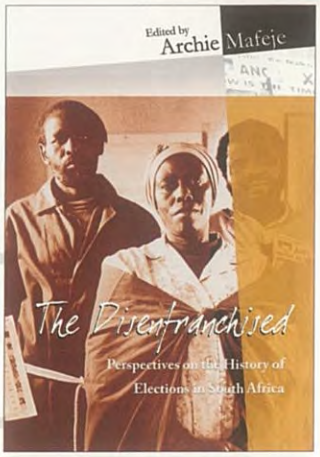

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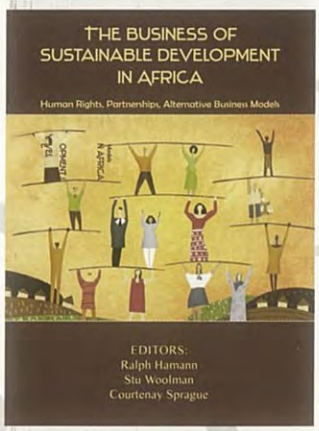

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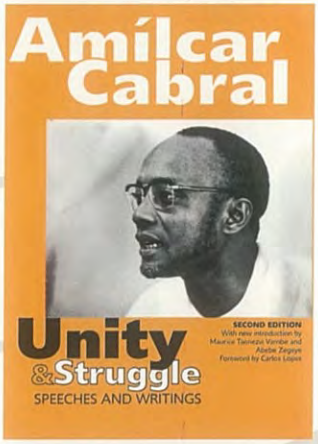

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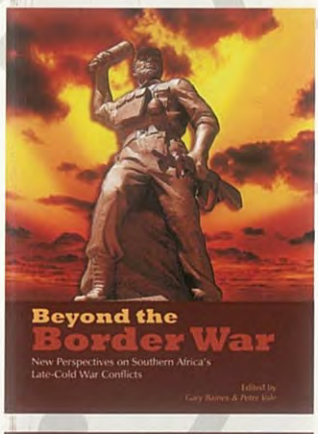

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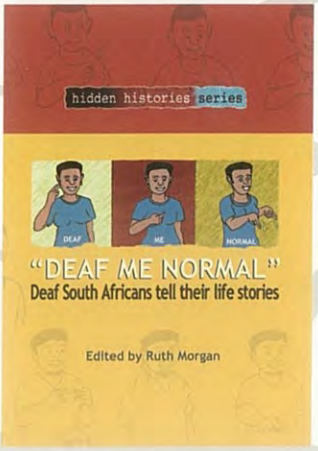

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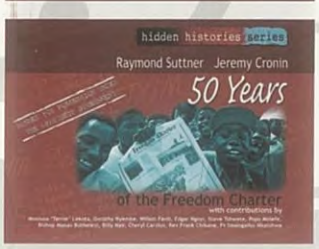

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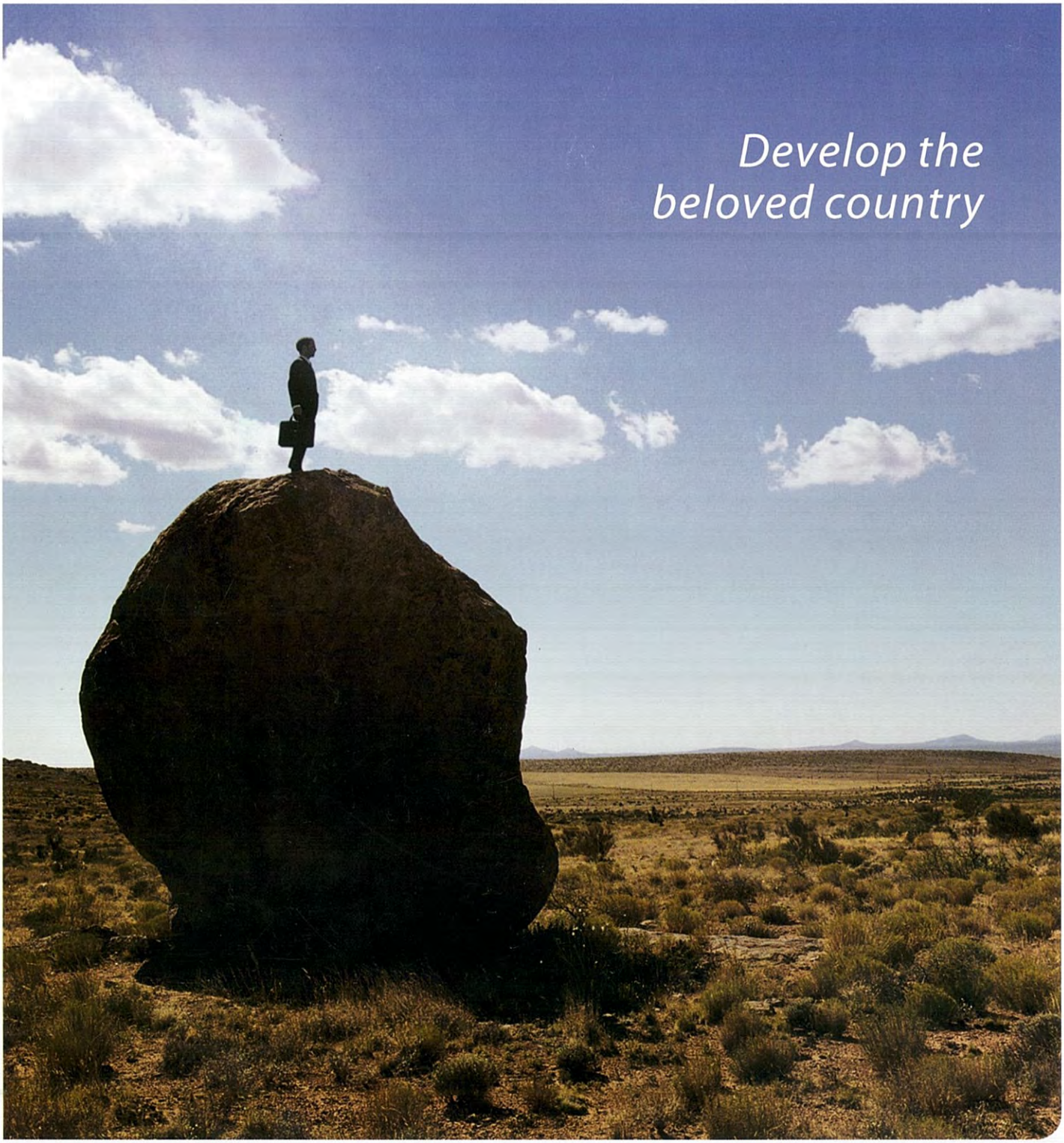

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