ASGISA

ANNUAL REPORT 2007

ACCELERATED AND SHARED GROWTH
INITIATIVE FOR SOUTH AFRICA

THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA

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Preface

The essence of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) is that shared growth is a national effort. It is not devised and implemented by government alone. Its success depends on how widely its implementation is discussed, prepared and monitored. In this *Annual Report* an analysis of successes are presented, as well as efforts that have been less successful and need to be given special attention in the next year.

This report emphasises infrastructural issues. A separate report on skills development and the Joint Initiative for Priority Skills Acquisition (Jipsa) is published, although a concise chapter on skills education and Jipsa is included in this report.

In the area of infrastructure investment, we are exceeding our expectations. The rate of investment by government and public enterprises is very high, and in the past year it seems some key programmes, such as provincial infrastructure investment and hospital revitalisation have made rapid progress. With private-sector investment also remaining at high levels, we are now reaching rates of investment not seen for decades. Some old challenges in infrastructure investment are still not entirely defeated, and with the rapid pace of investment new challenges will inevitably emerge. New demands on the economy expose weaknesses, such as a continuing skills shortage and a low reserve margin in electricity supply. But overall, the successes in this area are exciting and gratifying.

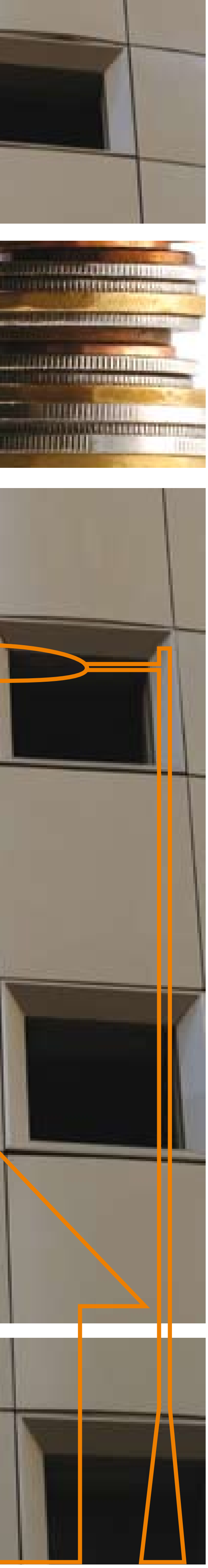
The results with skills development are more mixed. Important breakthroughs have been made in areas of engineering and artisan development, but each of these breakthroughs will need a few years to take full effect. Our economy has been bursting at the seams, and the need for more skilled labour has never been more evident. The number of graduates and skilled workers is growing, but not as fast as we would prefer. Having said this, Jipsa retains the confidence of government, labour and business at the highest levels, and we believe it will remain an important vehicle to drive skills and education programmes for at least another year or two.

The sector strategy area of work has made important progress with the launch of the Industrial Policy Action Plan by government. There has also been considerable progress in work on the original three AsgiSA sectors: tourism, business process outsourcing (BPO) and biofuels. In governance, there are several successful projects aimed at improving government management, especially at the level of municipal government. One indicator of success is the large increase in the value of municipal investment projects.

In the ***2006 AsgiSA Annual Report***, the need to scale up the impact of programmes targeting the Second Economy was identified. A review of existing programmes has underscored this need, and despite increased impacts in some areas, including the Jobs for Growth and the National Youth Service programmes, it remains the binding constraint to which much greater resources needs to be devoted.

During 2008 we intend to focus our greatest efforts at the Second Economy and anti-poverty strategies.

Deputy President Phumzile Mlambo-Ngcuka
April 2008



1. Introduction

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) was launched by Deputy President Phumzile Mlambo-Ngcuka in February 2006. After research and discussion with stakeholders, government identified six “binding constraints on growth” that needed to be addressed so as to progress in its desire for shared growth and to achieve its target of halving unemployment and poverty between 2004 and 2014. This could be achieved if the economy grew at an average rate of at least 4.5% in the period to 2009, and by an average of 6% in the period 2010 to 2014.

These binding constraints were:

- deficiencies in government’s capacity
- the volatility of the currency
- low levels of investment infrastructure and infrastructure services
- shortages of suitably skilled graduates, technicians and artisans
- insufficiently competitive industrial and services sectors and weak sector strategies
- inequality and marginalisation, resulting in many economically marginalised people being unable to contribute to and/or share in the benefits of growth and development (the Second Economy).

This is our second *Annual Report*. The first report was published in February 2007 and reported on AsgiSA’s progress, while also identifying key areas requiring greater effort. This report has the same purpose, taking the account one year further.

For each constraint, the *Annual Report* contains a chapter describing progress and identifying areas which the AsgiSA team believes requires greater effort.

The successes are striking: As discussed in Chapter 6, the rate of economic growth and investment has exceeded even our most ambitious targets. We have experienced a period of growth unlike any before in the country’s history. Never before have we experienced four consecutive years of growth greater than 4,5%. Employment has grown strongly, even though unemployment remains high.

However, there is still a great deal to be done to achieve government’s ambitious objectives. The next six chapters are designed to take the AsgiSA initiative forward by sharing experiences, ideas and proposals. This annual report focuses on the government’s performance in infrastructure investment as it is a central indicator of the country’s ability to respond to the challenge of accelerated and shared growth.

2. Infrastructure investment

In 2005, the low rate of investment in public infrastructure and inefficiencies in infrastructural services were identified as key constraints on growth. In the *2006 AsgiSA Annual Report*, several areas of deficient infrastructure investment were identified for special attention. This report measures progress in these areas.

An overview of all infrastructure expenditure flowing through the fiscal system is provided and the status of key national, provincial and municipal infrastructure projects and processes that were prioritised in the 2006 report are tracked. Finally, the report recommends a number of key infrastructure priorities for 2008. (More details can be found at *www.thepresidency.gov.za*)

2.1 Infrastructure and gross fixed capital formation

An expansionary R482-billion infrastructure expenditure plan – 6,6% of gross domestic product (GDP) – between 2008 and 2011 is recorded in the proposed 2008/09 Medium Term Expenditure Framework (MTEF).

Table 1: 2008 MTEF: Infrastructure expenditure estimates

(R million)	2006/07	2007/08	2008/09	2009/10	2010/11
		Estimate	Medium-term estimate		
National departments*+	4 626	4 810	5 601	6 367	8 899
Provincial departments+	26 731	32 709	34 432	42 481	44 502
Municipalities	21 441	28 768	30 663	33 871	36 773
Public-private partnerships (PPPs)□, of which:	2 443	4 050	7 886	9 288	11 367
• South African National Road Agency Limited (Sanral)		797	1 429	1 807	2 732
Extra-budgetary public entities	3 999	4 747	4 950	5 323	7 814
Non-financial public enterprises, of which:	37 176	53 165	64 570	63 956	63 687
• Eskom		23 803	25 010	34 010	31 578
• Transnet		16 935	21 481	17 480	12 714
• Infraco◊	627	-	1 131	872	92
• South African Rail Commuter Corporation (SARCC/Metrorail) rolling stock, signalling, buildings, tracks and equipment	688	1 029	1 696	2 267	3 484
• SARCC Public Transport Infrastructure System (PTIS) and systems grant		180	476	210	450
• Sanral PTIS and systems grant			130	100	200
Total	**96 416**	**128 249**	**148 102**	**161 286**	**173 042**
Percentage of GDP	5,4%	6,4%	6,6%	6,6%	6,4%
GDP	17 8731	2 019 148	2 230 281	2 458 882	2 723 837

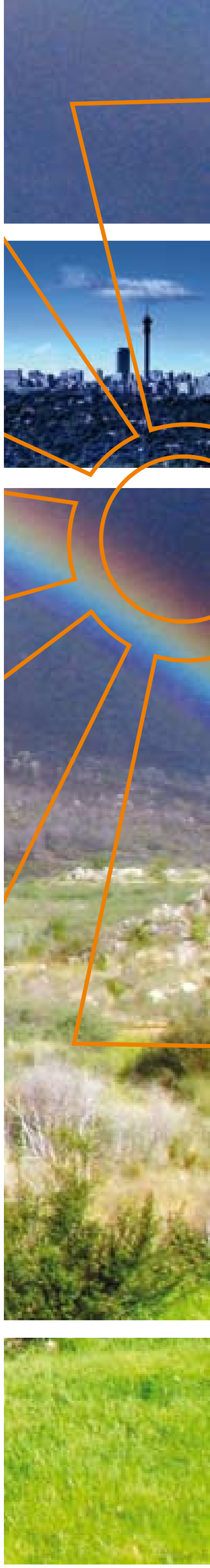


Table 1: 2008 MTEF: Infrastructure expenditure estimates (continued from page 3)

(R million)	2006/07	2007/08	2008/09	2009/10	2010/11
		Estimate	Medium-term estimate		
Transnet Capex					
Transnet Freight Rail		7 878	8 869	7 210	5 603
Transnet National Ports Authority		3 949	5 691	4 631	2 452
Transnet Port Terminals		3 136	2 642	1 343	1 338
Pipelines		900	3 282	3 289	2 302
Rail engineering		699	774	796	866
Other continuing business		373	223	211	153
Total		**16 935**	**21 481**	**17 480**	**12 714**
Eskom Capex					
Generation		15 837	20 057	23 802	23 200
Transmission		3 739	6 393	4 831	3 637
Distribution		3 797	4 327	4 569	4 113
Corporate		430	693	808	628
New business					
Total funded by Eskom		23 803	25 010	34 010	31 578

(National Treasury, 2007b.)

* *Transfers between spheres have been netted out.*

\+ *Includes maintenance of infrastructural assets.*

□ *Infrastructure expenditure on PPPs overseen by the Treasury PPP Unit, Sanral, Department of Public Works and at municipal level.*

◊ *Department of Public Enterprises, 2007, p. 52.*

2.1.1. Infrastructure delivery performance of national departments

For the 2006/07 financial year, ending 31 March 2007, national departments (excluding infrastructure transfers to public entities/agencies and conditional grants to provinces) had spent 86,7% (R4 009 million) of their budgeted R4 626 million on infrastructure expenditure. This represented an increase of 31% compared to spending in 2005/06. The improvement in expenditure levels continued during the first and second quarters of the 2007/08 financial year ending 30 September 2007, with national departments spending 32,9% (R1 842 million) of their budgeted infrastructure expenditure – an increase of 12,7% compared to the same period in 2006/07.

Table 2: National consolidated infrastructure budgets and expenditure as at 31 March 2007

Department	2006/07 adjusted budget+ R million	Actual spending (31/03/07) R million	Actual expenditure % of budget	2005/06 outcome (31/03/07) R million	Year-on-year growth (%)
Arts and Culture	166	180	108,4%	117	53,8%
Correctional Services	642	532	82,9%	791	-32,7%
Defence*	71	168	236,6%	179	-6,1%
Environmental Affairs and Tourism	170	151	88.8%	104	45,2%
Foreign Affairs	205	148	72,2%	46	221,7%
Home Affairs	43	25	58,1%	49	-49,0%

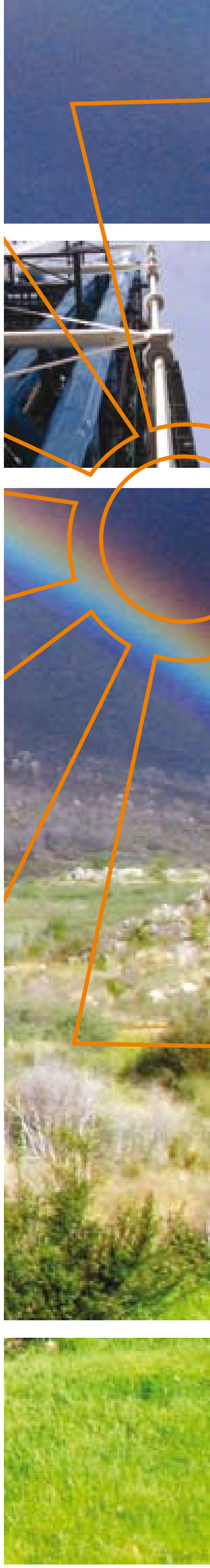


Table 2: National consolidated infrastructure budgets and expenditure as at 31 March 2007 (continued from page 4)

Department	2006/07 adjusted budget[+] R million	Actual spending (31/03/07) R million	Actual expenditure % of budget	2005/06 outcome (31/03/07) R million	Year-on-year growth (%)
Justice and Constitutional Development	336	322	95,8%	302	6,6%
Public Works	493	415	84,2%	158	162,7%
Safety and Security[1]	288	498	172,9%	452	10,2%
Science and Technology	65	49	75,4%	110	-55,5%
Trade and Industry	987	369	37,4%	325	13,5%
Water Affairs and Forestry (repairs and maintenance, etc.)	1 160	1 152	99,3%	428	169,2%
National total	**4 626**	**4 009**	**86,7%**	**3 061**	**31,0%**
Transport (Sanral)	3 487	3 027	86,8%	2 350	28,8%
Infrastructure Grant to Provinces	-	-	-	-	-
Integrated Housing and Human Settlement Development	6 751	6 547	97,0%	4 588	42,7%
Hospital Revitalisation Programme	1 760	1 560	88,6%	888	75,7%
Infrastructure transfers to municipalities					
Electrification Programme	1 118	892	79,8%	148	502,7%
Municipal Infrastructure Grant	6 265	5 796	92,5%	4 163	39,2%
Total	**24 007**	**21 831**	**90,9%**	**15 198**	**43,6%**

(National Infrastructure Project Register, National Treasury.)

* *The budgeted expenditure does not reflect projects that are on a recoverable basis. However, these are included in the spending column.*

\+ *The figures contained in data released earlier reflected the estimated expenditure, which has since been revised.*

Notwithstanding this improvement in aggregate, expenditure in some departments has declined when compared to the same period last year. The Department of Trade and Industry recorded the largest component of underspending in 2006/07 on their Industrial Development Zone (IDZ) programme as a result, in particular, of the delay in a decision by Pechiney/Alcan/RTZ on the proposed aluminium smelter at Coega.

The second largest decline was registered by the Department of Correctional Services. The department requested the Parliamentary Finance Portfolio Committee to approve the rollover of R512,9 million for the Kimberley Prison Project and a reduction of R1 100 million in the 2007/08 budget owing to delays in implementing other prison projects, caused by the escalation of bid construction costs, and interdepartmental responsibility overlaps with the Department of Public Works and National Treasury.[1] In the 2007/08 financial year, the Department of Correctional Services planned to build five new prisons (in Paarl, East London, Port Shepstone, Nigel and Klerksdorp) through the public-private partnership (PPP) procurement process, to house 3 000 inmates each. The PPP Unit will announce the preferred bidders by November 2008, and construction is expected to start in April 2009 for completion by June 2011.[2]

1 *Department of Correctional Services, 2008.*

2 *Ibid.*

It is important to note that much of the infrastructure funding is actually managed and spent at provincial and municipal government levels; although the actual allocation of funding may be done through the respective national department. A good example is the R6,5-billion Integrated Housing and Human Settlement Development (IHHSD) Grant - one of the largest conditional infrastructure grants on government's budget.

Water infrastructure: De Hoop Dam

This is an AsgiSA flagship project of Limpopo. Spending on bulk water infrastructure over the MTEF period is expected to increase from R801 million to R1,9 billion, driven by the additional allocations for the Olifants River Water Resources Development Project (De Hoop Dam) and related bulk distribution infrastructure; the Dam Safety Rehabilitation Programme; and the initial financing of the National Water Resources Infrastructure Agency.[3]

Since 19 June 2007, when the Department of Water and Forestry was finally given access to the De Hoop site, construction of the dam, houses for contractors and site access roads have been well underway. Project costs have increased owing to scope changes, rising construction industry costs and additional environmental specifications.

National Infrastructure Project Register (NIPR)

Infrastructure expenditure is monitored and evaluated using the NIPR. The register is compiled and managed by National Treasury and is the most comprehensive mechanism available for tracking and monitoring infrastructure expenditure across national government structures, tying this expenditure to the MTEF that governs the South African Government's budget over a three-year rolling period.

As at 30 September 2007, the NIPR had 22 706 registered projects with an estimated project value of R183,7 billion. Some 8 150 projects worth R74,6 billion were in the construction stage, with 7 885 projects at various other stages of planning. The balance of 6 671 projects were at various stages of completion.

The bulk of the projects were in the housing sector (7 857) and under the Municipal Infrastructure Grant (MIG) (8 434) – mostly water, sanitation and municipal roads projects.[4] Of the 8 150 projects under construction, 431 (5,3%) were overdue, reflecting a slight deterioration compared to September 2006 (when 4% of projects were overdue). Reasons for project delays included poor planning, hold-ups in the Environmental Impact Assessment (EIA) processes (including De Hoop Dam), late conclusion of funding arrangements, unavailability of land and legal issues relating to bid processes. A larger proportion of projects had shifted into the construction stage at September 2007 – 50,7% compared to 41,8% in September 2006.

3 Department of Water Affairs and Forestry , 2007, p. 105.

4 These projects are recorded in the database against the Department of Provincial and Local Government because the MIG funding is transferred to provinces and municipalities through the Department of Provincial and Local Government's national budget.

2.1.2 Infrastructure delivery performance of provinces

Provincial infrastructure expenditure performance improved in the 2006/07 financial year ending March 2007, with provinces spending 98% of their infrastructure budgets (excluding conditional housing grants transferred through national departments and provincial transfers to their own entities and maintenance).

Table 3: Provincial infrastructure budget performance (2006/07) by province

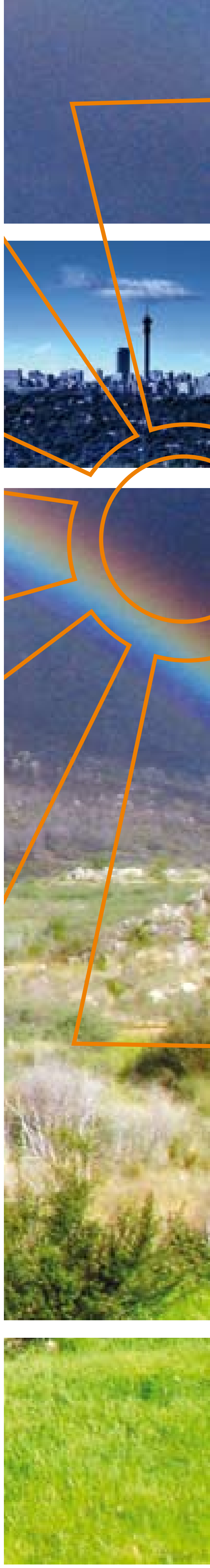
	Adjusted budget 2006/07 (R million)	Expenditure as at 31 March 2007 (4th quarter) (R million)	Actual versus budget (%)
Eastern Cape	3 098	2 938	94,8%
Free State	1 230	1 565	127,2%
Gauteng	2 663	2 719	102,1%
KwaZulu-Natal	3 610	3 487	96,6%
Limpopo	2 457	2 293	93,3%
Mpumalanga	902	923	102,3%
Northern Cape*	711	616	86,6%
North West	1 526	1 428	93,6%
Western Cape	2 307	2 171	94,1%
Total	**18 504+**	**18 140**	**98,0%**

(Technical Committee on Finance, 2007.)

* *Final expenditure figures might increase as there were unpaid invoices owing to incomplete certificates received and late invoice submissions from consultants.*

\+ *This total differs from the total provincial budget figure of R26,731 million in Table 1 because it does not include: a) the R6,404-million IHHSD Grant, b) transfers to provincial entities and c) maintenance.*

This trend continued during the first and second quarters of 2007, with provincial expenditure at 41,7% more than spending levels in the same period of 2006. On aggregate, provincial departments had spent 39% (R9,6 billion) of their budgeted infrastructure expenditure at 30 September 2007.[5]



5 *National Treasury, 2007a. See also National Treasury 2007f.*

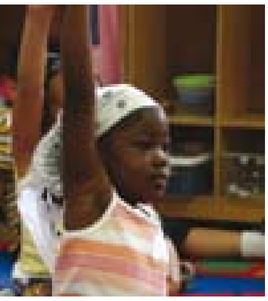



Table 4 : Provincial infrastructure budget performance (2006/07) by sector (R million)

	Number of projects	EPWP projects (R million)	Allocated budget 2006/07 (R million)	Expenditure for EPWP projects (R million)	Total expenditure March 2007 (R million)	Actual versus budget (%)
Agriculture	1 072	171	700	152	643	91,8%
Economic affairs	0	0	339	0	0	-
Education	5 755	487	3 845	357	3 819	99,3%
Environmental Affairs	0	0	0	0	0	-
Health	2 086	45	4 108	118	4 114	100,1%
Housing	72	0	329	0	345	104,9%
Public Works	756	79	636	50	647	101,8%
Roads and Transport	1 185	243	8 340	3 031	8 355	100,2%
Social Development	85	0	50	0	51	102,4%
Sports and Recreation	53	39	130	3	140	107,9%
Tourism	16	0	25	0	27	104,9%
Tradition affairs	0	0	0	0	0	-
Total	**11 080**	**1 064**	**18 504***	**3 714**	**18 143**	**98,0%**

(Technical Committee on Finance, 29 May 2007.)

* *This total differs from the total provincial budget figure of R26,731 million in Table 1 because it does not include: a) the R6,404-million IHHSD Grant, b) transfers to provincial entities and c) maintenance.*

The bulk of provincial expenditure was for housing, roads and transport, health and education. During 2006/07, 70 new schools were built (2 901 classrooms), mostly in KwaZulu-Natal and Limpopo.[6]

A significant proportion – 20% (or R3,7 billion) – of the R18,5 billion provincial infrastructure expenditure was made under the Expanded Public Works Programme (EPWP) (see the section on the EPWP below), mainly in roads and transport infrastructure, creating 69 990 jobs during the 2006/07 financial year (47 530 during 2005/06). Provinces which overspent their infrastructure budgets included the Free State (27%), Gauteng (2%) and Mpumalanga (2%).

2.1.3 Key components of provincial infrastructure provision

Provincial infrastructure expenditure is underpinned by a number of targeted conditional grant programmes.

6 *National Treasury, 2007c, p. 20.*

Table 5: Provincial MTEF: Infrastructure expenditure estimates, 2008

	2006/07	2007/08	2008/09	2009/10
	Revised estimate (R million)	Medium-term estimate (R million)		
Provincial departments*	26 731	32 709	34 432	42 481
Infrastructure Grant to Provinces	4 983	6 164	6 847	7 997
IHHSD Grant	6 404	8 238	9 853	11 531
Health: Hospital Revitalisation Grant	1 527	1 907	2 283	2 582
Health: Forensic Pathology Services Grant	562	551	467	422
Further Education and Training College Recapitalisation Grant	470	596	575	0
Transport: Gautrain Rapid Rail Link Grant	3 241	3 029	3 266	2 507
IDZs Grant	58	0	0	0
Total	**17 245**	**20 485**	**23 291**	**25 039**

(National Treasury, 2007c, p. 143.)

* *Source: MTEF.*

Infrastructure Grant to Provinces

The Infrastructure Grant to Provinces (formerly the Provincial Infrastructure Grant) supplements the funding of infrastructure programmes funded from provincial budgets to address backlogs in provincial roads, school buildings, clinics and other infrastructure. This general-purpose grant is allocated to, and subsumed within, the budgets of provincial departments responsible for education, health and roads. In 2007/08, an additional allocation of R2,8 billion to the Provincial Infrastructure Grant strengthened the EPWP, focusing particularly on rural access roads. It is anticipated that this will create additional work opportunities for about half a million people over the next three years, while contributing to improved access to social services and markets for rural communities.

Expanded Public Works Programme

Good progress has been made in achieving the EPWP target of creating more than one million net new work opportunities over the five-year period of the programme. The programme reported 281 626 jobs (38% of the targeted 750 000 work opportunities) created through the Infrastructure Sector Programme, the largest component of the EPWP. In providing work opportunities and skills, this programme makes a significant contribution to government's anti-poverty strategy. Given that a large percentage of the unemployed are youths, the EPWP is increasingly being steered towards youth employment. Although not directly linked to infrastructure, in the 2006/07 year, the Umsobomvu Youth Fund committed funds for 5 130 unemployed young people recruited nationally under the National Youth Service Programme Category 2 and 3, to be trained as home-based caregivers.

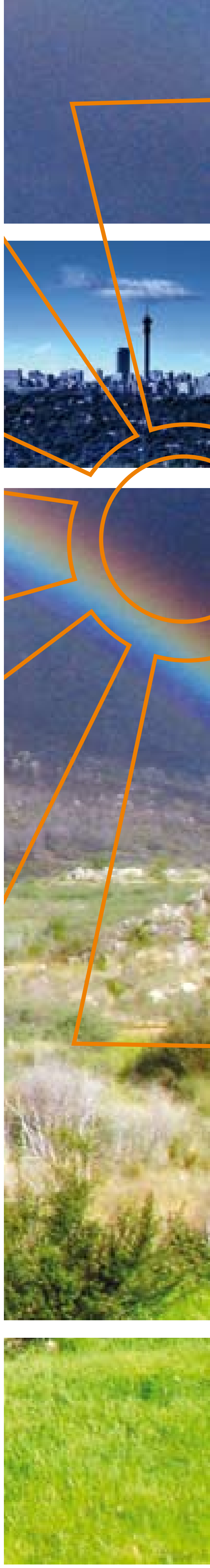




Table 6: EPWP Infrastructure Sector Programme (provincial government departments): Annual achievement against five-year targets by province

	Five-year target	Year one (2004/05)	Year two (2005/06)	Year three (2006/07)*	Total	Percentage of target
Eastern Cape	61 650	1 998	2 772	1 869	6 639	11
Free State	25 460	141	1 018	3 153	4 312	17
Gauteng	27 805	88 132	1 809	2 506	92 447	332
KwaZulu-Natal	70 350	39 721	32 135	29 152	101 007	144
Limpopo	54 270	11 481	2 142	883	14 506	27
Mpumalanga	25 785	4 911	3 433	2 683	11 026	43
Northern Cape	17 420	3 209	4 851	2 788	10 848	62
North West	30 485	3 060	4 414	1 643	9 118	30
Western Cape	21 775	4 291	7 737	4 038	16 066	74
Total	**335 000**	**156 944**	**60 312**	**48 714**	**265 970**	**79**

(EPWP Unit, Department of Public Works, 2007. More recent data is included in Chapter 3.)

* *Figures reflect gross work opportunities delivered per financial year. For the third year, the figure indicates data up to end December 2006.*

□ *Percentage of gross work opportunities delivered against target.*

The largest number of jobs was created in KwaZulu-Natal and Gauteng, and by the end of year three of the EPWP, 79% of the five-year target had been achieved.

Less success has been recorded by municipalities, with only 16% of the EPWP target being reached at the end of the third year. As reported in the *2006 AsgiSA Annual Report*, the main reason is the lack of professional, technical and management capacity in some municipal departments.

Table 7: EPWP Infrastructure Sector Programme (municipalities): Annual achievement against five-year target by province

	Five-year target	Year one (2004/05)	Year two (2005/06)	Year three*	Total	Percentage of target
Eastern Cape	84 245	0	171	7 055	7 226	9
Free State	36 520	0	21 152	673	21 825	60
Gauteng	60 175	0	1 634	585	2 219	4
KwaZulu-Natal	85 490	0	9 470	9 726	19 196	22
Limpopo	55 610	0	273	853	1 126	2
Mpumalanga	31 540	0	2 017	3 078	5 095	16
Northern Cape	7 470	0	1 608	273	1 881	25
North West	34 030	0	1 584	640	2 224	7
Western Cape	19 920	0	5 779	473	6 252	31
Total	**415 000**	**0**	**43 688**	**23 354**	**67 042**	**16**

(EPWP Unit, Department of Public Works, 2007. More recent data is included in Chapter 3.)

* *For the third year, the figure indicates data up to end December 2006.*

□ *Percentage of gross work opportunities delivered against target. Figures reflect gross work opportunities delivered per financial year.*

Integrated Housing and Human Settlement Development Grant

In 2006/07, the conditional IHHSD Grant to provinces constituted 24% of the total infrastructure budget of provinces. Provinces had spent R6,5 billion of their total infrastructure budget of R6,8 billion during 2006/07. By the end of the second quarter of 2007/08, housing expenditure totalled 35,3% (R2,9 billion) of its total infrastructure budget of R8,2 billion.

The IHHSD Grant of R6,4 billion in 2007/08 will rise to R11,5 billion in 2010/11 and provide the major portion of financing for national housing programmes, facilitating the establishment of habitable, stable and sustainable human settlements and the progressive eradication of informal settlements on a phased basis through the formalisation of informal settlements.

The Department of Housing recorded provincial expenditure of 96% of the grant budget during 2006/07, with 166 523 housing subsidies approved and 271 219 housing units being completed. These spending figures are a significant improvement of 30,7% from 2005/06. However, a total of R144,4 million of the Housing Conditional Grant was not transferred by the national Department of Housing owing to a lack of spending capacity, with the Eastern Cape (R85,3 million) and Mpumalanga (R59,1 million) being the affected provinces constrained by lack of capacity to implement projects, financial constraints of emerging contractors and a shortage of bricks and cement.[7] Problems experienced in executing the N2 Gateway Project are also reflected in the Western Cape's record of unspent funds.

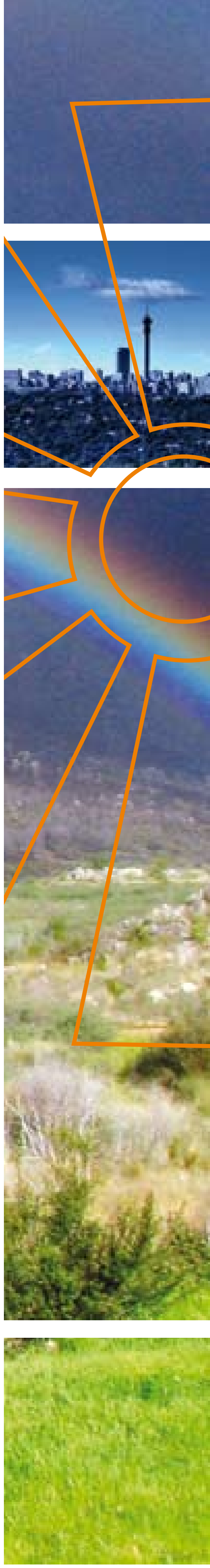
Table 8: Provincial expenditure performance of the IHHSD Grant: 1 April 2006 to 21 March 2007

Province	Voted (R million)	Additional appropriated (R million)	Appropriated at province (R million)	Total available (R million)	Transferred funds (R million)	Spent by provinces (R million)	Unspent funds (R million)	% of total spent
Eastern Cape	761			762	677	638	124	84%
Free State	523		6	529	523	528	1	100%
Gauteng	1 758			1 758	1 758	1 748	9	99%
KwaZulu-Natal	1 048			1 048	1 048	1 074	-26	102%
Limpopo	521		100	622	521	647	-25	104%
Mpumalanga	421		-91	330	362	330	0	100%
Northern Cape	104,8			105	105	105		100%
North West	613	84	3	700	697	696	3	100%
Western Cape	599	388	11	998	987	768	230	77%
Total	**6 349**	**472**	**29**	**6 851**	**6 678**	**6 534**	**316**	**95%**

(Department of Housing, 2007, p. 24.)

Provinces recorded 7 857 housing projects worth R84,1 billion on the NIPR, with 4 016 under construction. Large projects under construction by September 2007 included: Cape Town N2 Gateway (with a plan to build 22 149 housing units); Alexandra Far East Ext 7 (1 977 units); Doornkop, Greenfields and Cosmo City. A total of 953 projects have been recorded to be moving slowly or lagging, of which most are located in the Free State (155), Western Cape (154) and KwaZulu-Natal (138).

7 *Department of Housing, 2007b.*






The backlog of affordable housing (of about 80 m^2 area and costing less than R200 000) at 31 March 2007 was estimated to be well in excess of two million units.

Table 9: Analysis of national affordable housing needs (2003-2010)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Number of households earning R2 500 to R7 500 pm	2 465 873	2 525 050	2 580 605	2 632 210	2 682 216	2 710 009	2 737 109
Housing stock needed	2 509 946	2 572 494	2 629 723	2 683 237	2 734 629	2 763 681	2 791 318
Existing units	1 933 271	1 950 274	1 968 977	1 989 551	2 012 183	2 037 077	2 064 461
Need	576 675	622 220	660 746	693 686	722 446	726 604	726 857

(Rust, 2006.)

The Department of Housing cites a backlog of 2,4 million units[8], a figure that is also the adopted target of the Financial Sector Charter. The Financial Sector Charter intends on deploying R42 billion to finance housing for the targeted 2,4 million households earning between R1 600 and R8 200 per month, and who are thus eligible for finance in the affordable housing market.

Table 10: Number of housing units completed or in the process of completion (2002/03 to the second quarter of 2007/08)

Province	2002/03	2003/04	2004/05	2005/06	2006/07	1994/95 to March 2007	Second quarter of 2006/07 (to Sept)	Second quarter of 2007/08 (to Sept)
Eastern Cape	58 662	27 119	37 524	19 825	16 526	**288 231**	10 140	4 897
Free State	9 155	16 746	16 447	20 536	19 662	**161 250**	22 806	3 981
Gauteng	24 344	49 034	66 738	59 310	77 044	**592 457**	33 462	9 721
KwaZulu-Natal	24 485	33 668	36 734	35 872	38 290	**390 098**	24 993	19 436
Limpopo	14 953	15 810	16 514	46 813	23 609	**217 513**	12 788	4 177
Mpumalanga	21 649	21 232	18 000	14 986	10 651	**169 962**	4 865	5 564
Northern Cape	6 056	3 787	3 598	8 667	3 880	**49 145**	1 829	1 702
North West	23 784	10 484	10 037	35 515	46 972	**228 361**	27 827	10 017
Western Cape	20 500	15 735	11 756	11 310	34 585	**258 896**	20 208	27 167
Total	**203 588**	**193 615**	**217 348**	**252 834**	**271 219**	**2 355 913**	**158 918**	**86 662**

(Source for 2002-2007 data: Department of Housing 2007, p. 24. Source for second quarter of 2007/08 data: Housing Portfolio Committee, 2007.)

While the delivery rate of subsidised houses since 1994 has been unparalleled internationally, the challenge in the next period will be to accelerate the supply of housing in the face of a number of impediments.[9]

8 *Department of Housing, 2007a, p. 20.*

9 *National Treasury, 2007a, p. 68-69.*

- Demand is outstripping supply. Some 271 219 houses were built in 2006/07, while the estimated need was 693 696.
- There has been sharp rises in the costs of land, property, building material and building costs.
- There are capacity constraints in the low-income housing construction sector.
- Constraints at municipal level are preventing the growing housing backlog from being eradicated. The speed at which land is released and zoned has slowed down.
- The process for registration and approval alone takes up to 59 months, while the timeframe for actual housing development has increased from five to 19 months.
- Some projects involving 70 423 houses have stalled.[10]

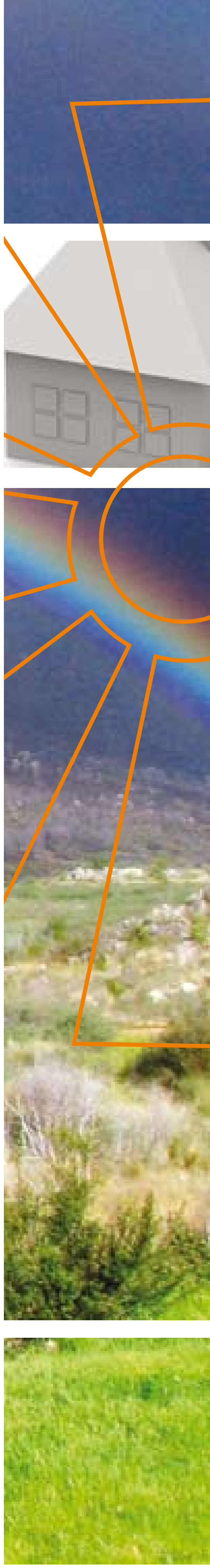
A number of significant policy changes were implemented during 2006/07. Despite these measures, by September 2007 only 35,3% (R2,9 billion) of the R8,2 billion allocation had been spent; with the Northern Cape (58,3%) and Western Cape (45,9%) recording the highest spending levels and the Eastern Cape (9,1%), Limpopo (21,9%) and Free State (28%) the lowest.[11]

Only 86 662 houses had been completed or were in the process of completion by the end of the second quarter (September 2007), compared to 158 918 in September 2006. This low level of expenditure in specific provinces has been the cause of considerable concern. In addition to the impediments indicated above, this was caused by:

- the underperformance of emerging contractors
- municipal procurement delays
- delays in the approval process and/or the non-availability of beneficiaries
- local authorities not servicing sites
- system-related problems with processing of payments to contractors.

Briefing the Housing Portfolio Committee in November 2007, the Minister of Housing cited this as unacceptable.[12] In response, the national department, after discussion with the Provincial Minmec, reallocated R543 million of unspent Eastern Cape funds to other provinces that were capable of accelerating their housing programmes in the 2007/08 financial year. In addition, the department plans to heighten its project delivery support, deploying management teams to priority provinces and re-examining project-management processes. The department also attempted to address the problem of substandard homes being built. In November 2007, the Minister of Housing directed the National Home-Builders' Registration Council to conduct a forensic audit on an alleged substandard housing project in the Eastern Cape.

Further to the measures outlined above, a key challenge in the provision of integrated human settlements is developing integrated planning processes, thus ensuring that socio-economic infrastructure and services are aligned with housing development. Existing business-planning processes do not provide for the necessary alignment between municipal infrastructure services and provincial and national infrastructure planning for services such as schools, clinics and police stations. Better co-ordination within the housing sector and national and provincial government should be strengthened to ensure sustainable integrated human settlements.[13]

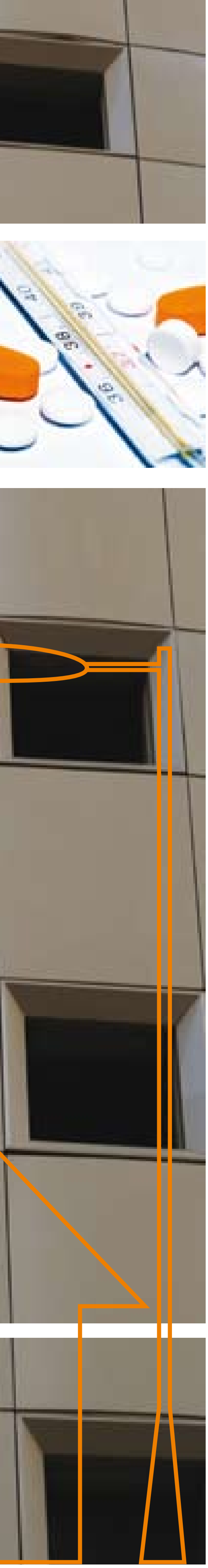


10 National Treasury, 2007a, p. 68.

11 National Treasury Intergovernmental Relations Unit, 2007; and National Treasury, 2007d.

12 Housing Portfolio Committee, 2007.

13 National Treasury, 2007a, p. 72.



In regard to improving national energy efficiency, the National Electricity Response Team, convened by government in February 2008, is giving consideration to amending housing regulations and specifications to make solar-heating systems and energy efficiency mandatory.

Over the next financial period, the Department of Housing will continue to shift policy emphasis, broadening the provision of housing as to create sustainable human settlements. This will involve stimulating the residential property market, supporting spatial restructuring and sustainable human settlements, a social (medium-density) housing programme, an informal settlement upgrading programme, institutional reform and capacity-building and housing subsidy funding system reforms.

Provincial health infrastructure: Hospital Revitalisation Grant

At 28,2%, health is the second largest component of provincial budgets,. Provinces collectively overspent their overall health budgets by 0,7% during 2006/07 but underspent on their capital budgets. Gauteng, Limpopo, Free State and the Northern Cape overspent on their budgets. By September 2007, capital expenditure in the health sector reached 42,1% of the budget, compared to 20,9% in September 2006. At this rate, six provinces could overspend their health capital budgets during 2007/08 – reflecting the improvement in capacity to execute capital projects effectively.

The lowest rate of health capital spending was in Mpumalanga (29,5%) and the Northern Cape (34,5%), with the Free State and KwaZulu-Natal recording the highest rate of spending (69% and 49,9%, respectively).[14]

Health-infrastructure spending is growing rapidly at about 27,5% per year for the past three years. Hospital revitalisation is growing even faster (33,2% per year), becoming a major part of capital funding and envisaged to constitute 50% of the Health Facilities Programme by 2009/10. This programme, started in 2002, supports the physical upgrading or replacement of entire hospitals, with subcomponents for medical equipment, hospital management and quality improvement. By 2006, the programme comprised 26 hospitals with contractors on site and a further 22 hospitals in various stages of planning and procurement.

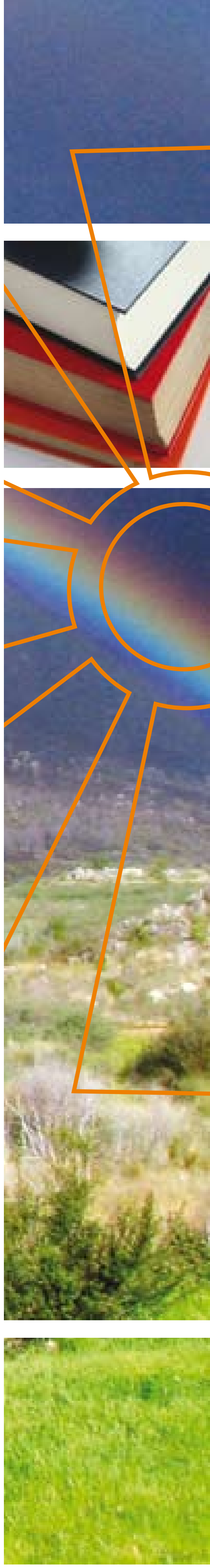
During 2006/07, 91,9% of the hospital revitalisation budget had been spent.[15] By September 2007, provinces had spent 41% of the 2007/08 programme budget – a decline in spending of 21,4% compared to the same period in 2006.[16] Expenditure in some provinces had improved when compared to the same period in 2006. The lowest rate of spending on the programme among provinces was recorded in Mpumalanga (15,7%), the Eastern Cape (37,7%), and KwaZulu-Natal (38,4%), while the Western Cape (57,8%) and Free State (45,6%) recorded the highest spending.

Hospital projects that anticipated significant spending in 2007/08 include Frontier and St. Lucy's (Eastern Cape), Boitumelo and Pelonomi (Free State), Chris Hani and Zola (Gauteng), King George and Hlabisa (KwaZulu-Natal), Lethaba and Thabamoopo (Limpopo), Ermelo and Rob Ferreira (Mpumalanga), Kimberly Psychiatric Hospital (Northern Cape), Moses Khotane and Vryburg (North West) and Paarl and Worcester (Western Cape).

14 *National Treasury, 2007d.*

15 *National Treasury, 2007c, p. 36.*

16 *National Treasury, 2007a.*



The new Forensic Pathology Grant finances the transfer of forensic pathology services from the South African Police Service to provincial health departments, thus strengthening these services. During 2006/07, the 56,3% (R270 million) underspending was mostly due to delays in bidding for capital projects and in recruiting personnel.[17]

A number of issues in the Hospital Revitalisation Grant are being reviewed, including how to improve funding predictability; clarifying roles (such as when projects are co-funded); and the possibility of increasing the number of projects undertaken through PPPs.

Provincial education infrastructure: Further Education and Training (FET) College Recapitalisation Grant

Education remains the largest portion of provincial budgets at 42,2%. Capital expenditure in education has been growing at a rapid rate of 13,1% annually, from R2,6 billion in 2003/04 to R3,7 billion in 2006/07, and is budgeted to grow at 16,1% annually to R5,2 billion by 2009/10. Much of this expenditure is made through the MIG. During 2006/07, 70 new schools and 2 901 classrooms were built.[18]

Provinces had spent 99,1%[19] of their 2006/07 education capital budgets – a significant 39,8% more than the audited spending in 2005/06. The Eastern Cape (78,9%) and Mpumalanga (85,5%) recorded the lowest expenditure, while Gauteng (112,6%) and KwaZulu-Natal (108,4%) had the highest expenditure. By September 2007, provincial education departments had spent 38% of their capital budgets – 28,7% more than the same period in 2006/07.[20]

The FET College Recapitalisation Grant funds the recapitalisation of 50 FET colleges to improve their capacity in contributing to skills development and training. In addition to skills development, the grant also contributes to the upgrading of physical infrastructure for the colleges and acquisition of equipment. The grant has been allocated R595 million for 2007/08 and R795 million for 2008/09, and is phased into the equitable share by 2009/10.[21]

During 2006/07, the full R470-million budget was transferred to FET colleges and an 89% expenditure level was achieved. In the 11 months to 29 February 2008, provincial education departments transferred R631,090 million or 100% to colleges, of which the colleges spent R513,636 million (81,39%) of the transferred funds. The remaining funds were committed to infrastructure and equipment.[22]

Gautrain (Gauteng)

The Gautrain Rapid Rail Link project in Gauteng is Africa's largest PPP project with a 54-month development period, although the first part of the 80-kilometre (km) high-speed commuter rail system will be in operation by June 2010. Over the MTEF, national (through transfers from the budget of the Department of Transport) and provincial government will each contribute R8,8 billion, while the private-

17 *National Treasury, 2007c, p. 36.*

18 *National Treasury, 2007c, p. 20.*

19 *This figure is probably post-audit data because it differs from the 96,5% recorded in National Treasury, 2007e.*

20 *National Treasury, 2007f.*

21 *National Treasury, 2007c, p. 246.*

22 *Department of Education correspondence.*

sector contribution will amount to R2,1 billion. During the development phase (2006/07 to 2011/12), the total project cost to government, excluding land and contract management fees, amounts to R22,6 billion. After 2011/12, the project will move into the operational phase and costs will be covered by operating revenue.[23]

The Gautrain project has been incorporated into the Consolidated National Rail Plan as the main public transport spine around which new commuter rail enhancement and linkages through intermodal facilities and feeder system will be formed.[24]

By September 2007, the Gautrain project had progressed well on many of the construction sites, with Phase One at 24,4% and Phase Two at 20,4% completion. The main activities are focused around Johannesburg's Park Station, Rosebank Station, Sandton Station, Mushroom Farm Park, Rhodesfield Station, Marlboro Portal Depot located south of Midrand, and sections between Sandton and the OR Tambo International Airport. The overall project was reported to be 30,8% completed as at 31 August 2007 (against its target of 36,4%), suggesting that the project was slightly behind schedule (about seven weeks). Although the delivery programme shows some delays resulting from design developments, land handovers and approvals of project designs by third parties, the role-players are confident that these delays can be mitigated. They are not anticipated to significantly impact on the operating commencement dates.

Moloto Rail Corridor Development (Mpumalanga)

Following the completion of the feasibility study on the rail link, which will improve the safety and reliability of public transport between Siyabuswa and Tshwane, currently served by the infamous and dangerous Moloto Road, Cabinet approved the initiation of the Moloto Rail Corridor Development initiative in March 2007. Progress on the estimated R8,6-billion project will be monitored by a project implementation and management office within the Department of Transport, jointly with the Mpumalanga Provincial Government. An EIA study is to be undertaken in 2008 and all affected municipalities will update their integrated development plans and integrated transport plans to ensure alignment with this initiative.

King Shaka International Airport (KwaZulu-Natal)

In 2007, the Department of Environment approved the project and issued a Record of Decision. The project is now being implemented and is due for completion in 2010.

Free State Biofuels Logistics Hub

After extensive research and consideration, Cabinet approved a National Biofuels Strategy in December 2007, which excluded the use of maize owing to food security concerns. This decision will impact on the Free State's flagship biofuel project, since it was originally based on maize.

North West agriculture and airports

North West has developed a business plan with potential investors to kick-start a cattle beneficiation project in the 2008/09 financial year. A provisional amount of R4 million has been allocated for infrastructure development. The Department of Land Affairs is currently acquiring some 20 000

23 *National Treasury, 2007c, p. 59.*

24 *Department of Transport, 2007, p. 5.*

hectares (ha) for the project. Several co-operatives are also being established in the province to ensure adequate and quality production. Emerging farmers will also be involved in the total value chain of beef production.

It is estimated that R96 million will be required for fencing, planted pastures, fire belts, fire equipment and livestock handling facilities. To give impetus to this project, government will provide all the required support to co-operatives in the province involved in livestock improvement programmes, veterinary services support on a regular basis, as well as all fencing, water infrastructure and required fire breaks.[25]

Options for the Mafikeng airport are still under discussion.

Mzimvubu Development Zone (Eastern Cape)

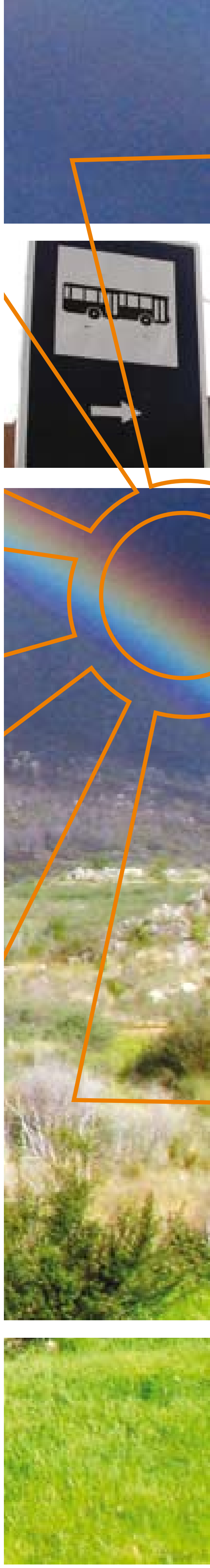
Forestry development in the Eastern Cape, particularly the Timber Industries Development Initiative (Umzimvubu Catchments), is being guided by the Forestry Sector Industrial Action Plan which has been adopted by stakeholders. Implementation is being effected through the AsgiSA Eastern Cape Agency. Challenges being addressed include speeding up the forestry licensing process, facilitating equitable and empowering deals between companies and communities, and accelerating efforts to achieve the ambitious goal of 100 000 ha of new forestation. A furniture incubator has been set up in Mthatha to develop and support small and micro-enterprises in the sector.

Western Cape N2 Gateway

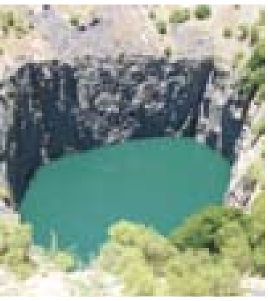
A key aspect of the Cape Flats Renewal Programme is the development of social infrastructure. Construction of houses and services at the N2 Gateway Project, as well as the housing developments in Mitchell's Plain, Browns' Farm and Delft are also in progress. The provincial government is busy compiling a register of all state-owned land on the Cape Flats that will be made available for mixed housing development. Initial funding has been secured for the building of two hospitals in Khayelitsha and Mitchell's Plain, and the construction of secondary schools is also nearing completion in Delft and Khayelitsha.

Public transport infrastructure projects are being implemented, such as the rehabilitation of the Klipfontein Corridor and widening of the N2 Transport Corridor to include bus rapid transport (BRT) lanes for buses and taxis to relieve traffic congestion in the rush hours and bring public transport to the people. Funding has also been approved, and construction started, on the Langa and Khayelitsha interchanges, which includes the upgrading of five stations in Langa, Philippi and Khayelitsha. In addition, an integrated fare management system is under development and will be piloted by the middle of 2008.

Construction will also start this year on several catalytic projects to revitalise economic development on the Cape Flats, such as the Dreamworld Film Studio outside Khayelitsha, the upgrading of the Mitchell's Plain and Khayelitsha central business centres and the development of the Monwabisi Coastal Node as a tourist attraction.



25 *Premier E Molewa, 2008.*



Northern Cape

Diamond-beneficiation activities are accelerating. The Kimberley Diamond Building has been upgraded to facilitate cutting and polishing, and efforts are being made to attract investors to the facility. The feasibility study for the jewellery hub has been completed and three possible sites have been identified. The commercial farming of the Kalahari kid goat is proceeding well. A total of 92 co-operatives have been established (involving 1 004 women and 896 men) and each co-operative is to receive 100 does and three rams as seed stock. Milk goat production is currently under discussion with relevant stakeholders, including the Department of Trade and Industry and farmers in Rietrivier. A socio-economic baseline study has been completed for the Square Kilometer Array (SKA) project, and the South African SKA Project Office (SASPO) was awaiting the report by end of March 2008. An economic impact study has commenced and will be finalised by the first quarter of 2008/09. A solar-power feasibility study has been commissioned by SASPO and is expected to be completed by May 2008.

Public-private partnerships

The value of PPP projects in infrastructure delivery is set to grow from R4 050 million in 2007/08 to R11 367 million in 2010/11 (see Table 1, which includes infrastructure expenditure on PPPs overseen by the Treasury PPP Unit, Sanral, the Department of Public Works and at municipal level). Of the R96 billion in infrastructure expenditure for the 2006/07 financial year, 2,5% is planned through PPPs.

Agreements for six PPP projects were finalised in 2006/07 and a further two were expected to be finalised in the first half of 2007/08. By September 2007, 17 PPPs were being implemented. The PPP Unit expects to reach financial closure for at least six PPPs in the 2008/09 financial year, with a number of additional ones closing shortly thereafter. There are 14 municipal PPPs registered with National Treasury in the areas of solid waste management, commercial property development and water services.

Comprehensive feasibility studies are at various stages of completion for 55 projects and the value of 23 of these projects under consideration across a number of sectors is shown in the following table:

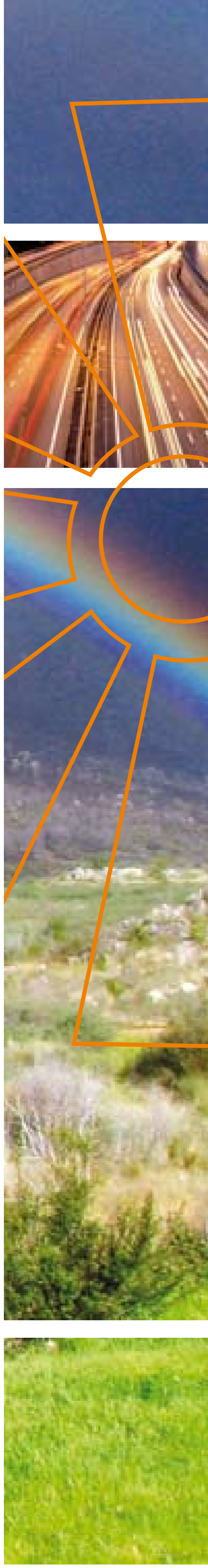
Table 11: PPP project capital value by sector

Sector	Medium-term estimates* R million		
	2007/08	2008/09	2009/10
Health care	116	45	4
Transport	7 169	6 194	4 860
Other infrastructure	3	1 333	1 330
Serviced accommodation	641	2 270	1 162
Information technology	37	37	37
Total	**7 966**	**9 879**	**7 393**

(National Treasury, 2007b.)

* *Includes government capital contributions. Excludes national toll roads undertaken by Sanral.*

These projects represent significant private investment in public infrastructure (R3,8 billion) and an opportunity to transfer operational risk over significant periods of time to private-sector participants.



Measured over the full concession periods of between 11 and 25 years, the projects include significant commitments to maintenance and operations systems that will ensure service standards are maintained and the assets remain in good condition.[26]

Currently, the procedures and regulations for PPPs are defined in the Public Finance and Management Act, 1999 (Act 1 of 1999), and the Municipal Finance Management Act, 2003 (Act 56 of 2003). During 2005/06, some private-sector participants suggested that these procedures and regulations were too complex and time-consuming to implement, resulting in extended transaction times and high transaction costs, thereby inhibiting the provinces' and municipalities' use of PPPs as a method of mobilising private-sector capacity to build, finance and/or operate major infrastructural investments. At the time, the PPP climate was characterised by apparent mistrust and suspicion, and generally inadequate engagement and communication among key players.

In response, during 2006/07, the Support Programme for Accelerated Infrastructure Delivery (SPAID) – a project initiated by The Presidency and the Business Trust – investigated support measures that could contribute to accelerated infrastructure delivery. One of the programmes focused on reviewing the current mechanisms for establishing and operating PPPs in South Africa and creating a constructive dialogue to facilitate recommendations on to how these could be revised. The study's observations and recommendations are currently under discussion by the relevant stakeholders.

During 2007/08, as part of improving contract management throughout government, the contract-management plans and systems for PPP projects that are underway will be reviewed, with assistance given to the implementing departments where necessary. The National Treasury's PPP Unit was due to issue guidelines for municipal PPPs early in 2007, but this is now expected to happen in 2008.

National primary roads – South African National Roads Agency Limited

During 2006/07, Sanral's infrastructure investment involved the extension of the primary road network by 4 838 km, resurfacing 1 969 km, strengthening 368 km and the continuous maintenance of the network under road-maintenance contracts. The extension of the Intelligent Transport Systems pilot project along the N1 Ben Schoeman Freeway in Gauteng was completed. The total value of work allocated to small, medium and micro-enterprises for the year amounted to R487 million, of which 86,8% was done by Black Economic Empowerment companies. Sanral created jobs amounting to 15 493 156 person hours, which equates to 7 748 full-time jobs. Sanral has sought alternative finance sources for road infrastructure and opportunities to reduce dependence on tax-based revenues, through PPPs. During 2006/07, concessionaires had spent R519 million on 1 374 km for maintaining, rehabilitating and strengthening toll roads.[27]

Budget allocations over the MTEF period will increase significantly to fund a number of key projects,[28] including the Gauteng Road Network Improvement Programme (dedicated lanes for high-occupancy vehicles, public-transport operators and free-flow tolling); the N2 Tsitsikamma Toll Road (targeted for completion in 2009); the N17 Springs-Ermelo Road (target for completion in July 2009); and the R30 Bloemfontein-Kroonstad Road.

26 *National Treasury, 2007b.*

27 *Department of Transport, 2007*

28 *Sanral, 2007.*



Environmental objections have severely delayed the N2 Wild Coast Toll Road, the N1-N2 Winelands Toll Highway and the R300 Cape Town Ring Road. Rising road input costs are expected to weaken Sanral's capacity to deliver infrastructure over the MTEF period and will need to be monitored.

2.1.4 Municipal infrastructure provision

Municipalities vary significantly in size, governance power, fiscal capacity and the infrastructure challenges they face.

The aggregate size of the municipal budget in South Africa has nearly doubled over the past four years – from R64 billion in 2001/02 to R119 billion in 2005/06. Municipal budgets also vary widely: metropolitan municipalities, as multifunctional nodes with large populations, have budgets ranging from R3,6 billion (in Nelson Mandela) to R19 billion (in the City of Johannesburg). Small rural councils, on the other hand, have limited business activities in their areas and budgets of only a few million rand to provide services to largely poor populations.

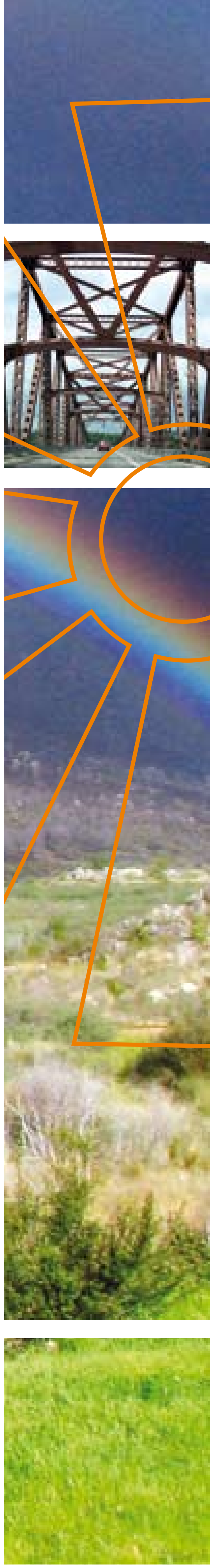
Capital budgets of municipalities have been growing disproportionately quickly in relation to the overall budget in recent years, registering a 34% increase in 2005/06. Much of this growth has been through targeted conditional grants, which are listed and discussed below.

Table 12: 2008 Municipal MTEF infrastructure expenditure estimates

	2006/07	2007/08	2008/09	2009/10
	Revised estimate (R million)	Medium-term estimate (R million)		
Municipalities*	21 441	28 768	306 63	33 871
Transfers made directly to municipalities				
MIG	6 756	7 549	8 053	9 130
National Electrification Programme	355	465	596	897
Public Transport Infrastructure and Systems Grant	170	1 174	3 170	2 325
Neighbourhood Development Partnership Grant	50	500	1 500	1 650
2010 World Cup Stadiums Development Grant	600	2 700	3 800	1 300
Indirect transfers (in-kind transfers)				
Water and Sanitation Operating Subsidy	440	490	531	393
Integrated National Electrification Programme (INEP)(via Eskom)	893	973	1 151	1 421
Water services bulk infrastructure	0	300	450	650
Backlogs in water and sanitation at schools and clinics	0	105	210	350
Backlogs in the electrification of clinics and schools	0	45	90	150
Total	**1 333**	**1 913**	**2 432**	**2 964**
MIG (Bucket Eradication Programme)		400		

(National Treasury, 2007c, p. 143.)

* *Source: MTEF.*



Municipal Infrastructure Grant

The largest infrastructure transfer is made through the MIG, which supports the capital budgets of municipalities, and facilitates integrated development planning, stimulating local economic development and job creation over the medium term. Municipalities are required to dedicate a portion of their capital budgets to labour-based infrastructure methods to meet the objectives of the EPWP.

The Department of Provincial and Local Government reported that MIG expenditure totalled 97% of the budget by June 2007. In the first six months of 2007/08, municipalities recorded expenditure amounting to R2,9 billion (or 39,3% of the total MIG allocation). The bulk of expenditure was spent on water infrastructure (R1 112 million), sanitation (R866 million) and municipal roads (R546 million).

Table 13: Monthly expenditure on MIG projects

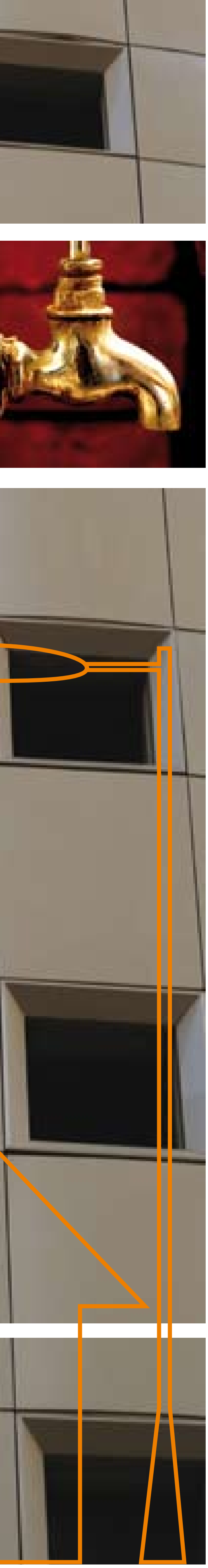
Type of infrastructure	April	May	June	July	August	September	Actual expenditure at 30 September 2007 (R million)
Roads	49,4	88,4	107,9	92,0	96,3	111,8	546,1
Sanitation	60,8	113,2	155,0	171,1	194,0	171,4	865,8
Water	90,3	185,4	243,1	187,7	212,3	193,7	1 112,7
Other infrastructure*	27,0	41,7	72,0	46,8	45,4	85,5	318,6
Unclassified	3,2	3,9	7,7	6,7	30,2	71,2	123,1
Total	230,9	432,8	586,0	504,4	578,4	633,8	2 966,6

(National Treasury, 2007a.)

* *Other infrastructure includes fencing, community facilities, taxi ranks, buildings, etc.*

A total of 2 208 MIG projects were completed between March 2007 and September 2007, while 2 345 projects moved to the construction stage over the same period. The total project value increased by 3,5% over the six-month period – rising from R46,6 billion in March 2007 to R48,2 billion in September 2007. There were about 8 434 projects registered, representing an increase of 827 new projects between March 2007 and September 2007.

During 2006/07, the Department of Provincial and Local Government allocated additional capacity to 62 municipalities where 43 senior engineers, 77 students and 31 graduates were deployed. A total of 238 municipalities were supported to comply with financial-management requirements and 168 municipalities showed significant improvement, particularly in the fields of reporting and spending. Engineers were mobilised in 19 municipalities to assist with project management. Despite this, a total of R513 million of the MIG transfers were stopped in terms of Section 19 (stopping of allocation) of the Division of Revenue Act, 2006 (Act 2 of 2006), owing to persistent underspending by those municipalities.



Bucket Eradication Programme

The cost of the Bucket Eradication Programme has totalled in the order of R1 600 million[29] since 2005, when the backlog was estimated at 252 254, including all formal and informal settlements.[30]

Table 14: Backlog status (Bucket Eradication Programme backlogs)

Province	Backlog February 2005	Backlog end November 2007	Buckets removed during December 2007	Backlog end December 2007
Eastern Cape	48 417	8 005	4 771	3 234
Free State	127 658	46 171	3 056	43 115
Gauteng	5 169	0	0	0
Mpumalanga	15 172	0	0	0
North West	35 189	2 264	1 664	600
Northern Cape	16 691	2 685	624	2 061
KwaZulu-Natal	80	0	0	0
Limpopo	750	0	0	0
Western Cape	3 128	596	596	0
Total	**252 254**	**67 066**	**4 963**	**49 010**

(Department of Provincial and Local Government – Status report to The Presidency. January 2008.)

In 2007, the Bucket Eradication Programme gained momentum and 81% of the buckets were eradicated by the end of December 2007 (of the original target of 252 254 buckets at February 2005). This was lower than the projected target of 90%, owing to a number of factors. The challenges faced in achieving complete eradication by December 2007 varied across provinces, ranging from unexpected rock excavations being required, lack of technical capacity, inadequate capacity for monitoring and evaluation, rejection of dry sanitation options by some communities and lack of available water, particularly in the Northern Cape.

Integrated National Electrification Programme and addressing backlogs in the electrification of clinics and schools

In line with the objective to eradicate backlogs in electricity access, government plans to spend R6 billion over the next three years on the INEP. Of this amount, R2 billion will be spent by municipalities directly and R3,8 billion by Eskom on behalf of municipalities. The programmes are administered by the Department of Minerals and Energy.

The grant to schools and clinics provides funding to the amount of R285 million over the next three years for connecting 6 928 schools and 411 clinics with electricity by 2009/10.

29 *Budget allocations were as follows:*

- *R200 million to municipalities with capacity for quick wins (2005/06)*
- *R400 million to municipalities with some capacity (2006/07)*
- *R600 million to municipalities with no capacity and those receiving bucket allocations for the first time (2007/08)*
- *R400 million at the beginning of 2007.*

30 *Department of Water Affairs and Forestry, 2007.*

Table 15: INEP: Municipalities and Eskom (2006/07 and second quarter of 2007/08 performance

	2006/07				Second quarter of 2007/08 (to 30 September 2007)			
INEP expenditure	Budget (R m)	Trans-fers (R m)	Actual expen-diture (R m)	%	Budget (R m)	Transfers (R m)	Actual expenditure (R m)	%
Municipal households	391	391	336	85,6	467	94	63	13,7
Eskom households	680	677	682	100	888	450	312	35,1
Eskom schools and clinics	47		29	60,8	85	18	18	21,2
Total	**1 118**		**1 047**		**1 440**		**393**	

INEP connections	Planned	Actual	Actual vs planned (%)	Planned	Actual	Actual vs planned (%)
Municipal households	77 413	56 021	72,	66 756	6 652	9,9
Eskom households	76 490	76 244	99,7	102 432	27 754	27,1
Eskom schools and clinics	472	335	71	782	11	1,4

(Department of Minerals and Energy, 2007.)

By the end of March 2007, municipalities had achieved 72% of their household connection targets, while Eskom had connected 99,7% of household targets and 71% of the 472 schools and clinics targeted. Expenditure performance was more or less in line with the number of connections.

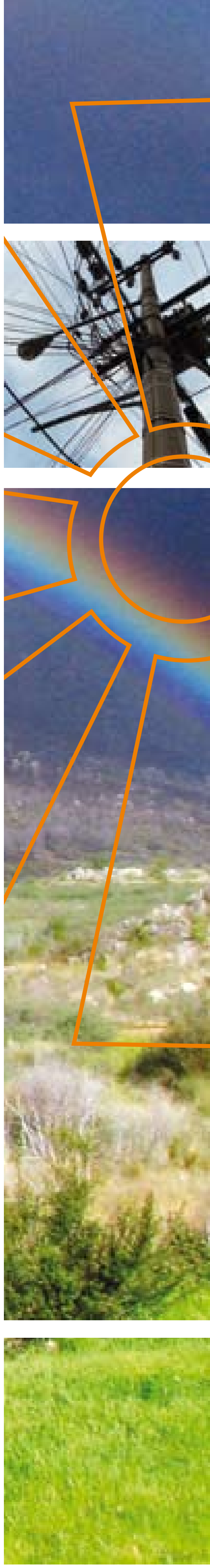
INEP targets for 2007/08 included, 150 000 households, 700 schools and the eradication of the clinics' backlog. The schools backlog is expected to be overcome by 2010. By September 2007, Eskom had achieved only 27,1% of targeted household connections (102 432). Only 1,4% of Eskom's 782 schools and clinics targeted had been achieved by September 2007, although 497 schools and clinics were released to consultants and contractors for implementation. Eskom experienced a late start to the programme due to the finalisation of the list of schools to be electrified by the various institutions. Municipalities totalled 9,9% of household targets. However, it should be noted that the financial year for local government ends on the 30 June.

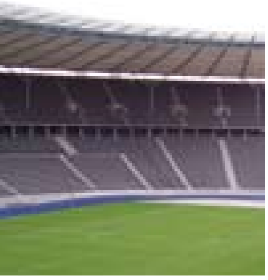
By 2007, the majority of electrification projects (53%) were in the planning stage, and 22% (320 projects) in the construction phase (compared with 8% in the last quarter of 2006). The remaining 25% of projects were on tender. Projects in the construction stage accounted for 15 882 connections, while those in planning and on bid accounted for a further 75 226 connections to be made.[31]

Reasons for poor performance include:

- the absence of bulk infrastructure, especially in the rural parts of KwaZulu-Natal, the Eastern Cape and Limpopo, which has led to R282 million of INEP funds being diverted to bulk infrastructure
- poor integration of housing and electrification planning by municipalities
- late project approvals by municipalities (council resolutions)
- communication problems between Eskom and municipalities on project execution

31 *National Treasury Quarterly infrastructure expenditure status report to The Presidency.*





- prolonged processes of proclaiming areas.[32]

Public Transport Infrastructure and Systems Grant

The PTIS Grant to municipalities and 2010 World Cup host cities is administered by the Department of Transport. It is allocated to accelerate planning and to establish, construct and improve new and existing public transport infrastructure and systems. This includes R1,1 billion for commuter bus and rail transport.[33] A key priority intervention will be the establishment of BRT systems in the host cities. In addition, a pilot project in Travel Demand Management will be monitored and expanded to improve traffic management, particularly in host cities.[34]

2010 World Cup Stadiums Development Grant

The grant provides R8,4 billion for the design and construction of new stadiums and the upgrading of existing ones in 2010 host cities. Municipalities are required to plan and budget for construction and rehabilitation of stadiums, taking into account their own revenue potential and allocations from national government. This will ensure that affordable stadiums are constructed to FIFA standards using available resources.[35]

Stadium costs could be contained and reduced after a December 2006 intervention by National Treasury and subsequent negotiations between host cities and contractors to ensure that the designs were compliant with FIFA requirements and to maximise the fixed cost component of the contracts. Contractors have increased the provisional cost components in response to bid specifications that were either over-engineered or not sufficiently defined. The approach of asking cities to negotiate prices with contractors has resulted in reduced costs of about R2 billion.[36]

Some R600 million was transferred (via Sport and Recreation South Africa) for construction and renovation of stadiums in 2006/07. The following stadiums are expected to be completed for the Confederations Cup in September 2009: Ellis Park (renovation), Prince Alfred Park, Vodacom Park, Royal Bafokeng and Loftus Versfeld (renovation).[37]

Oversight of the grant will be a challenge in future. In the 2006/07 financial year, Sport and Recreation South Africa received a qualified audit on the administration of this programme. Since then, steps have been taken to ensure that the appropriate systems are in place to manage this grant effectively.

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32 *Department of Minerals and Energy, 2007.*

33 *National Treasury, 2007c, p. 146.*

34 *Department of Transport, 2007.*

35 *National Treasury, 2007c.*

36 *National Treasury, 2007g.*

37 *National Treasury, 2007c.*

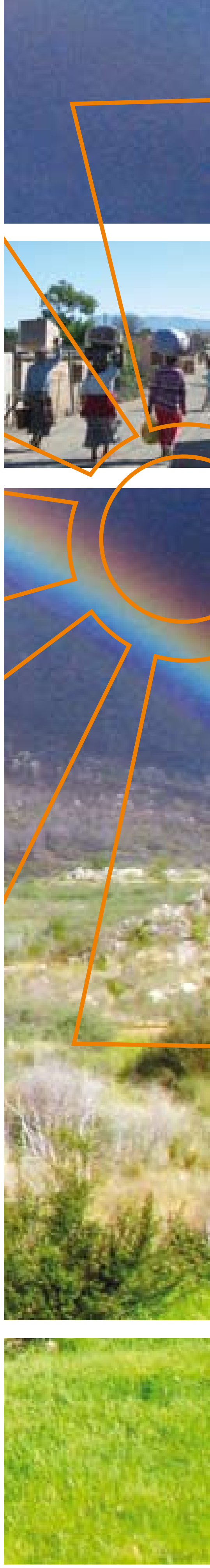
Table 16: Funding for the 2010 World Cup (2005/06-2009/10)

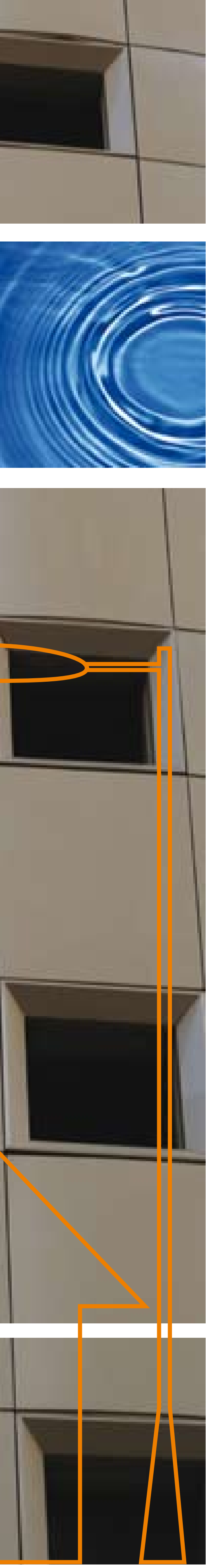
	2005/06	2006/07	2007/08	2008/09	2009/10	Total
2010 World Cup transport infrastructure-related allocations (R million)						
Pretoria-Tshwane	13	11	105	400	165	694
Johannesburg	107	184	329	540	160	1 320
Cape Town	8	120	230	358	50	766
Mangaung	23	30	25	220	–	298
Rustenburg	4	–	15	50	–	69
Polokwane	4	10	40	125	–	179
eThekwini	23	12	125	558	133	851
Nelson Mandela	54	69	132	265	–	520
Mbombela	2	1	55	154	–	212
Sanral	–	–	130	100	200	430
SARCC	–	180	476	210	450	1 316
Cross-Border Road Transport Agency	–	1	–	–	–	1
BRT systems	–	–	–	500	1 817	2 317
Municipal buses	–	–	–	–	–	–
Monitoring and evaluation (Department of Transport)	–	–	20	20	25	65
Total	**238**	**618**	**1 682**	**3 500**	**3 000**	**9 038**
2010 World Cup Stadiums Development Grant						
Green Point (Cape Town)		98	434	947	451	1 930
Durban Stadium (eThekwini)		109	392	847	452	1 800
Soccer City (Johannesburg)		98	339	696	397	1 530
Ellis Park (Johannesburg)		4	146	79	–	229
Vodacom Park (Mangaung)		4	106	110	–	220
Mbombela (Nelspruit)		88	390	377	–	855
Prince Alfred Park (Nelson Mandela)		110	435	350	–	895
Peter Mokaba (Polokwane)		81	333	282	–	696
Royal Bafokeng (Rustenburg)		4	72	71	–	147
Loftus Versveld (Tshwane)		4	53	41	–	98
Total		**600**	**2 700**	**3 800**	**1 300**	**8 400**

(National Treasury, 2007c, p.147.

Neighbourhood Development Partnership Grant

The Neighbourhood Development Partnership Grant, administered by National Treasury, provides financial assistance to municipalities for partnership-based community and commercial infrastructure in townships and informal settlements. Successful municipalities seek to leverage increased private-sector investment by providing opportunities for retail, mixed-income housing, manufacturing and other commercial developments in township nodes. The emphasis is on precinct, town-centre and high-street development projects with an estimated project value of over R9,2 billion over the next decade. The grant supports the creation of high-quality developments that aim to overcome the spatial and economic distortions endemic to townships. A key principle is to retain and increase buying power within townships, and create environments that improve the quality of life and attract private-sector investment.





By the end of September 2007, 22 concept-stage funding agreements had been concluded and 20 awards given to pre-feasibility stage projects. Technical assistance totalling R50 million has been allocated for redesigning and upgrading existing and emerging township town centres and main streets, in Bara Central in Soweto (Johannesburg), Njoli Square in KwaZakhele (Nelson Mandela) and Ngangelizwe (Mthatha). Planned interventions in eThekwini Bridge City and KwaMashu will improve transport and employment accessibility, enhance community infrastructure, upgrade the urban environment and provide additional job opportunities for the residents of Inanda, Ntuzuma and KwaMashu. Tshwane and Ekurhuleni municipalities will use the grant to identify nodes in townships and informal settlements, and put in place long-term programmes providing a meaningful kick-start to the implementation of prioritised nodes.[38]

The Neighbourhood Development Partnership Grant has also highlighted local investment opportunities in smaller township areas such as Mphophomeni in Mngeni, Nkowankowa in Tzaneen and Ndwedwe.

2007/08 targets for National Treasury were to have 50 projects receiving technical assistance and one project to have started construction using the capital grant facility by October 2007.[39]

Water services bulk infrastructure

The new Water Services Regional Bulk Infrastructure Grant is government's response to the need to scale up bulk water supplies, thus enabling local municipalities to connect more households to their water and sanitation systems. The funds are allocated to municipalities through the Department of Water Affairs and Forestry. This grant supplements the financing of the social component of regional bulk water and sanitation infrastructure.

During 2007, systems to effectively monitor South Africa's drinking water quality were upgraded, which revealed that the quality of drinking water largely conforms to national specifications. However, some problem areas have been identified, stemming from water-quality management by municipalities and the limited capacity at local government level. Rectifying problems will enjoy a high priority in 2008 through a number of initiatives led by the Department of Water and Forestry, including a special initiative to address the institutional gap in waste-water management and an asset-management strategy at municipal level with associated actions in partnership with National Treasury, the Department of Provincial and Local Government, the Development Bank of Southern Africa (DBSA) and other role-players.

State-owned enterprises (SoEs)

- Eskom
  Eskom continues to invest in capacity-expansion projects, which include return-to-service projects, open-cycle gas turbines (OCGTs), coal-fired power stations and pump-storage hydropower stations. The return-to-service projects include Camden (1 552 MW), Grootvlei (1 170 MW) and Komati (955 MW). Expansions in this area also include replacements and refurbishments to meet the short- to medium-term growth in demand and the provision of reliable services. The three projects are worth R16,1 billion. The Medupi Coal-Fired Power Station Project is one of the major investments undertaken by Eskom. The approved budget for this project is R85,6 billion. The

38 *National Treasury, 2007c.*

39 *National Treasury, 2007h.*

first unit of this project is to be commissioned by March 2012, with the last unit scheduled for July 2015. Construction of this project started at the end of May 2007. Another megaproject is the Bravo Coal-Fired Power Station (4 818 MW) with an approved budget of R84,8 billion. The targeted March 2008 start date for commencement of construction was delayed pending the outcome of an appeal on environmental authorisation. The appeal was rejected in March 2008 and construction will soon start with expected completion by December 2015.

Table 17: Eskom's capacity expansion project: Target dates and progress as at 30 September 2007

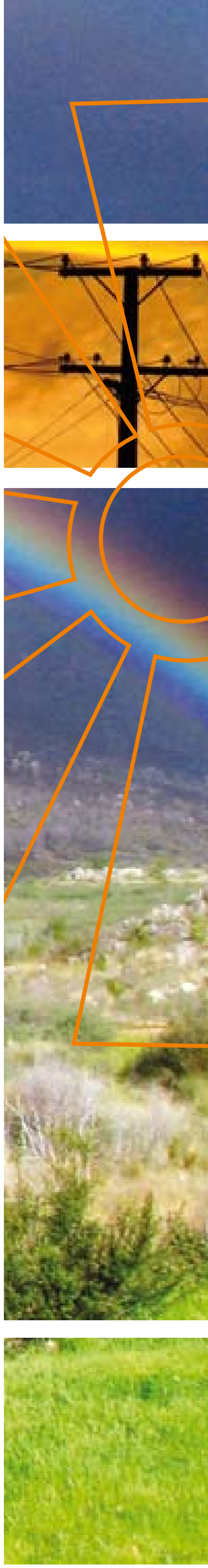
Projects	Total project cost (R billion)	New capacity (MW)	Start date	Completion target date	Progress September 2007 (%)
Camden	5,20	1 552	May 2003	March 2008	75% complete
Grootvlei	4,80	1 170	June 2004	Oct 2009	20% complete
Komati	6,10	955	May 2005	Oct 2011	15% complete
OCGT (Ankerling and Gourikwa)	3,50	1 042	Jan 2006	June 2007	100% complete
OCGT Gas 1 (Ankerling and Gourikwa)	4,30	1 036	Sep 2007	May 2009	1% complete
Medupi	85,80	4 788	May 2007	July 2015	1% complete
Bravo	84,80	4 818	March 2008	Dec 2015	0% complete
Ingula	8,90	1 352	March 2005	March 2012	20% complete

(National Treasury, 2007a.)

Eskom's capital expenditure was slightly lower than budget at 1 July 2007. Underexpenditure was recorded mainly owing to delays at the Grootvlei, Komati, OCGT and Medupi projects and deferred asset purchases owing to delays in land purchases for the Bravo, Lima and Medupi projects. Some overexpenditure was registered in the Kendal, Duvha and Hendrina overhaul projects.[40]

During 2007, South Africa was subjected to a number of high-profile electricity disruptions due to ageing distribution infrastructure. In early 2008, disruptions arising from generation capacity shortfalls severely disrupted the country. Monitoring and accelerating the progress of the Electricity Distribution Industry (EDI) restructuring process and the capacity expansion projects will be given high priority by AsgiSA during 2008/09.

- Transnet
  By 31 March 2007 (2006/07 financial year-end), Transnet had spent 99% of their R11,8 billion capital budget. By the end of the second quarter, on 30 September 2007, R6 638 million (39,2% of the budget) had been spent.



40 *Department of Public Enterprises, Internal State-Owned Enterprise – Project Status Dashboard.*

Table 18: Transnet's capital expenditure by division (2006-2008)

Transnet divisional capital expenditure (R million)	Actual end Sept 2008*	Target March 2008	Year-end March 2007		Year-end March 2006
			Actual	Target	Actual
Freight Rail	4 248	7 878	7 487	7 253	3 809
Rail Engineering		699	623	375	189
National Ports Authority	1 649	3 949	1 026	1 964	783
Port Terminals		3 136	1 740	1 415	776
Pipelines	243	900	310	226	220
Other	431	373	488	603	
Total	**6 571**	**16 935**	**11 674**	**11 847**	

(Transnet, 2007.)

The main underspending was at Coega, resulting from delayed dispute-settlement issues and delays in getting EIA approval in Cape Town for the container terminal expansion.[41,42] The Department of Environmental Affairs and Tourism finally approved the terminal project through its Record of Decision issued on 21 September 2007.

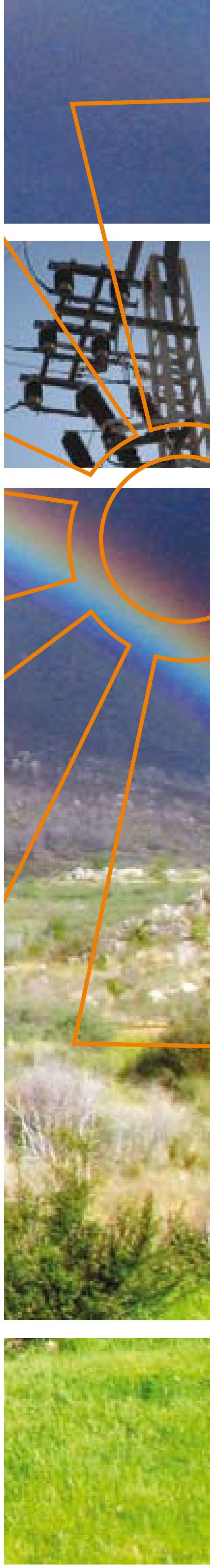
- Information and communications technology (ICT) infrastructure cost
  Improving access and reducing the cost of ICT is an important objective of AsgiSA. The implementation of the Electronic Communications Act, 2005 (Act 36 of 2005), has empowered the regulator, the Independent Communications Authority of South Africa (Icasa), to begin determining what remedies it should apply to counter the unwarranted exercise of market power in this sector. During 2007/08, Icasa initiated a number of investigations and determinations in line with its mandate. By its legal nature, this process is time-consuming, and the high profitability of the ICT industry is an added incentive for vested interests to slowing down these processes.

  Government's intervention to increase competition significantly to reduce South Africa's high broadband costs by creating a rival national long-distance and international connectivity infrastructure to Telkom began in 2006/07, when R627 million was allocated to the Department of Public Enterprises to purchase the full service national long-distance network from Eskom/Transtel. A further step was taken in 2007/08: after some intense interaction, the National Assembly endorsed the creation of Infraco as an SoE on 17 October 2007. The National Council of Provinces endorsed the Broadband Infraco Bill on 21 November, allowing Infraco to embark on their infrastructure investment programme.

- Commuter rail infrastructure
  The SARCC promotes commuter rail services as the primary mode of mass transport. Following Metrorail's incorporation in March 2006, the process of consolidating the state-owned commuter rail institutions was not completed during 2007. Delays have been encountered in the incorporation of Shosholoza Meyl (long-distance passenger rail services) and the legislative agreement with Transnet on the use of common rail lines. Funding issues are expected to be resolved by March 2008.

41 *Transnet, 2007.*

42 *Transnet, 2007, p. 111.*



- Regional Electricity Distribution (RED)
  RED industry restructuring is given a high priority by AsgiSA, seeing that the national economic cost of supply disruption is estimated at between R2 900 million and R8 600 million per year, owing to fragmented, ageing, undercapitalised and poorly maintained distribution systems. With an infrastructure backlog estimated at R7 000 million, EDI Holdings estimated that, if the necessary full capital requirements were met from 2006 onwards, supply quality would only be achieved by 2012 for 70% of the national distribution network. The attempt to create RED1 by 2006 failed, owing to an absence of an enabling legislative framework, incompleteness and misalignment of the existing legislative regime and because the negotiated nature of restructuring made it very difficult to assure the anticipated objectives and results within the stipulated timeframes. Currently, enabling legislation is being prepared, ring-fencing of distribution assets are at various stages of completion (Eskom has achieved 100% asset ring-fencing) and transaction advisers are being appointed to craft appropriate options for financial engineering of the restructuring process.

Capacity-building

A range of targeted support programmes by government, parastatals, business organisations and donor organisations are currently in place.

Table 19: Capacity-building support programmes (September 2007)

National government: General programmes	• Planning, Implementation and Management Support System • Integrated Sustainable Rural Development Programme and Urban Renewal Programme • MIG Project Management Unit • Expanded Public Works Support Programme • Municipal Finance Management Technical Assistance Programme • Project Consolidate Service-Delivery Facilitators
National government: Sector-specific programmes	• Masenzeni (Department of Water Affairs and Forestry) • Bucket eradication
Parastatal-supported programme	• Siyenza Manje
Professional association-supported programmes	• Engineers Now Ensuring Roll-out by Growing Young Skills • Institute of Municipal Finance Officers • South African Association of Consulting Engineers
Donor supported programmes	• Local Government Support Programme • Consolidation of Municipal Transformation Programme
Private sector-supported programmes	• National Business Initiative • Old Mutual Group • Business Trust
Provincial support programmes	• Integrated Provincial Support Programme • Infrastructure Delivery Improvement Programme • Mpumalanga Operational Support Teams

(SPAID, 2007)

Details of these programmes can be found in the references cited. It is important to note that these programmes are quite substantial in aggregate, with transfers to municipalities amounting to more than R1,5 billion between 2007/08 and 2009/10.

Table 20: Capacity-building grants to municipalities

(R million)	2004/05 outcome	2005/06	2006/07 revised estimate	2007/08	2008/09	2009/10
				Medium-term estimates		
Direct transfers	699	588	790	695	350	400
Municipal Systems Improvement Grant	182	200	200	200	200	200
Restructuring Grant	388	255	445	350	–	–
Financial Management Grant: Municipalities	129	133	145	145	150	200
Indirect transfers	69	66	53	53	50	–
Financial Management Grant: DBSA	69	66	53	53	50	–
Total	**768**	**654**	**844**	**749**	**400**	**400**

(National Treasury, 2007c, p. 148.)

In addition to this, the DBSA's Siyenza Manje has been allocated a further R742 million over the three-year MTEF period to expand the programme. The terms of the MIG allow a recipient to allocate up to 1% of the grant to capacity-building and programme support, while the Infrastructure Grant to Provinces allows 5% of the project's value to be utilised for support.

In its MIG review, the Department of Provincial and Local Government points to the following important inhibitors to project implementation:

- a lack of comprehensive infrastructure planning capacity (project identification, supply management, technical reports and EIAs
- poor intergovernmental co-operation between municipalities, provinces and sector departments involved in MIG implementation
- lack of capacity of the Project Management Unit to manage MIG projects
- increased misalignment of national infrastructure grants (such as the Department of Housing, MIG, INEP, Department of Water Affairs and Forestry)
- institutional and governance issues (e.g. high staff turnover, political involvement in administrative issues, expectations of communities).

During 2006/07, the SPAID, initiated by The Presidency and the Business Trust, investigated support measures which could contribute to accelerated infrastructure delivery. It concluded that the municipal and provincial challenges related to:

- no capacity to spend (rather than purely fiscal constraints)
- conditionalities in respect of grants
- lack of co-ordination and alignment of various funding instruments
- weak authority functions
- inability to secure long-term technical skills.

The SPAID concluded the following in respect to the need for additional support programmes:

- there were already a significant number of existing support programmes for municipalities and (to a lesser extent) provinces

- the programmes had diverse objectives (infrastructure delivery is only one concern)
- programmes are unco-ordinated and predominantly public-sector initiatives
- there is limited focus on authority functions (the ability to procure and manage contracts and service-providers) and limited focus on longer-term operations and maintenance.

There appears to be a lack of a strategic approach to support, with no ability to deal with trade-off between support to municipalities with the greatest backlogs and those with the best capacity to deliver.

An important unintended consequence is that, because most of the programmes are short term and focused on gap-filling, they do not often result in sustained capacity development. This results in a return to the original problems faced and a cyclical dependence on such support.

Despite these shortcomings, the 2006/07 improvement in provincial and municipal expenditure can partly be attributed to a range of targeted support programmes by government, parastatals, and business and donor organisations.

2.2 Challenges and priorities for 2008/09

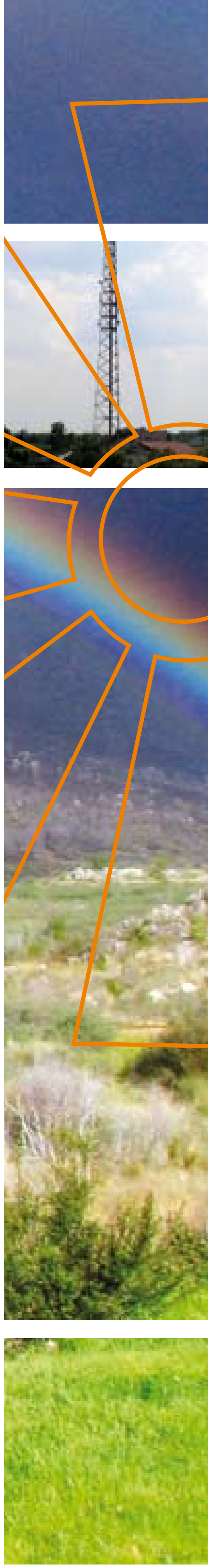
While the preceding is not a comprehensive review of all infrastructure, it provides some details on the steady progress that is being made towards reaching the national targets of eradicating the remaining backlogs in sanitation by 2008, water by 2010, electricity by 2012 and all other backlogs in basic service delivery by 2013.

Human-resource and organisational capacity and intergovernmental co-operation and co-ordination are the major factors constraining more effective delivery of infrastructure, particularly at provincial and municipal levels, where the largest proportion of infrastructure budgets are delivered. There are already a number of specific interventions that seek to address these constraints.

The departments and divisions of most large public and private organisations have a tendency to work very individualistic, particularly where they have been given clear mandates to achieve specific goals within their sphere of control. While goals are being achieved (as recorded above), synergy might be lost though such silo-like implementation. It requires enormous effort to align these departments in such a manner that the overall interests of the organisation and national interest is maximised. The intense focus and co-ordination efforts currently being applied to high-profile 2010 World Cup projects need to be replicated across a number of other infrastructure sectors.

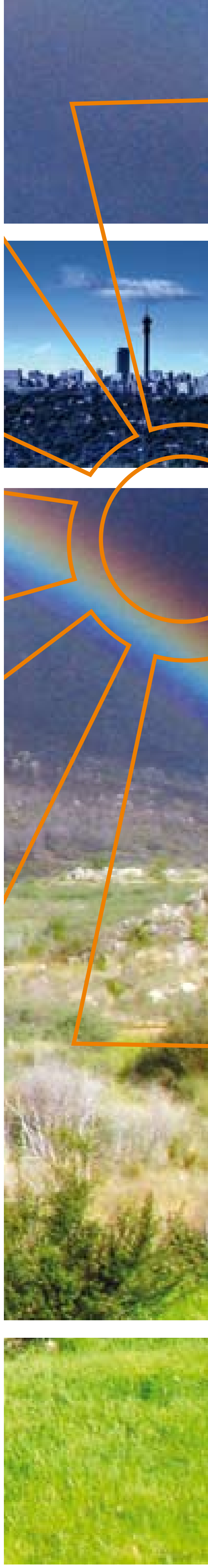
During 2008/09, the huge investments in power, rail, port and telecommunications infrastructure will be closely tracked, as will the efforts being made to improve the efficiency and to lower the costs of services provided by such infrastructure. The legacy of underinvestment in EDI infrastructure could result in serious economic disruption and the EDI restructuring project will be closely supported.

The importance of independent, empowered and well-capacitated regulators overseeing infrastructure performance is critical at this stage. With the very large infrastructure investment programmes being implemented by existing parastatal monopolies, it is critical to ensure that the energy, telecommunications, transport and other industry regulators are empowered and well resourced and that their independence is protected. Infrastructure parastatals and policy departments are under



intense pressure to deliver, particularly where security of supply is under threat. Subjected to such pressures it may be tempting, at the expense of improving internal efficiencies and management organisation, to try and achieve targets by simply passing on associated costs to consumers. In this regard, regulators are the only truly independent institutions that users of such services can rely on to judge what costs should legitimately be passed on.

Under the direction of Cabinet, government departments and their associated parastatal corporations have been mandated to produce the National Integrated Infrastructure Programme (NIIP), which outlines the areas of overlap and synergy between these important components of infrastructure. While this report shows considerable progress in individual infrastructure sectors, progress in achieving conscious and coherent integration appears to be slow, partly owing to the low priority which some entities seem to be giving to the NIIP process. Much effort will be required to ensure that Cabinet's requirement of a coherent NIIP is achieved in 2008/09.



3. Second-Economy initiatives

3.1 Background

At the start of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) process, it was recognised that, without interventions directly addressed at reducing South Africa's historical inequalities, growth would be unsustainable, and its impacts on the marginalised poor are likely to remain limited.

This is in line with trends in economic analyses internationally, which highlight that countries with high inequality tend not to grow fast, and when they do, such growth often does not impact much on poverty.

This analysis is of direct relevance to South Africa, and is sharpening our focus on issues within our policy and as part of anti-poverty strategies. Within AsgiSA, the focus on the Second Economy is part of this wider agenda – conditions in the Second-Economy are symptomatic of the wider structural inequality still keeping many people in poverty.

Addressing this requires major shifts in patterns of distribution, as well as in the structure of the economy as a whole; but it also requires pragmatic programmes that impact on poverty and marginalisation in the short term. AsgiSA's focus on Second Economy strategies is meant to do this, and to strengthen the economic dimensions of the comprehensive anti-poverty strategy. It does so by recognising that unemployment is at the heart of poverty, and that, while social grants play a vital role, employment creation is the key to breaking the cycle of poverty in a sustainable way.

Developing more effective strategies targeting the Second Economy requires innovation on a number of fronts: expanding public employment programmes such as the Expanded Public Works Programme (EPWP) and the National Youth Service (NYS), facilitating the delivery of more jobs and better jobs from within the private sector and improving the incomes earned by small and marginalised producers.

At the start of the AsgiSA process, the following priority areas were identified (where existing interventions targeted largely at the developed end of the economy needed to be leveraged to create new forms of access and opportunity for those on the margins):

- public employment: expanding The EPWP and NYS
- sector strategies to promote formal employment
- support to small and micro-enterprises (SMEs) and co-operatives, and promoting Broad-Based Black Economic Empowerment (BBBEE)
- unlocking productive assets by focusing on land access, agriculture, agrarian reform and skills.

While the *2006 Annual Report* noted progress in a range of areas, it also highlighted a range of critical challenges, and concluded that strategies targeting the Second Economy were insufficient and that where targets did exist, they were often too modest to make the kind of impacts required.

The core priority identified was to initiate a review of existing Second-Economy programmes to identify where potential existed to scale them up significantly, and where achieving increased scale might

require different strategic approaches and/or further programme design. It highlighted the fact that, if programmes were to reach the required scale, the targets and budgets needed to be considerably more ambitious, and prioritised the needs of marginalised groups such as women, the youth and former Bantustan areas more clearly.

The report emphasised that achieving these goals would require a centre within government to drive the process. It would need to consider new kinds of institutional arrangements able to facilitate impacts at scale, and a deeper understanding of a number of key issues: the role of growth in employment, the effect of the social wage on poverty and the implications of the National Spatial Development Perspective on the provision of government services and infrastructure over the next 20 years.

3.2. Summary of progress and obstacles

The review of existing Second-Economy programmes within national government is now complete. While progress is being made in certain areas, the review confirmed concerns about the limited scale of impacts of current programmes. A set of priority areas, where scaling up would achieve significantly increased impacts, has been proposed. A first step will be a wider process that also looks beyond current programmes to achieve wider impacts on the Second Economy. These are outlined in 3.3, with proposed targets.

At a more programmatic level, the main obstacles to scaling up include the following:

- Underfunding or funding that is dependent on redirecting existing departmental budgets: This is the case with, among other things, the EPWP, the NYS, integrated rural development and local economic development programmes. Different funding arrangements are needed, as well as a greater recognition that achieving greater impacts will require innovation and a level of risk.
- Co-ordination and implementation problems in government: Most Second-Economy programmes require interdepartmental co-operation. The lead department should not have line-function authority over other departments, and accountability is often hard to assert. This is a key challenge.
- Lack of voice and advocacy: In many key areas, scaling up would be helped along greatly by stakeholder organisations able to lobby and advocate on their own behalf – whether smallholders in the forestry sector negotiating terms of access as part of a sector strategy, or street traders clarifying their needs in interaction with municipalities. By definition, marginalised groups are seldom well organised.
- The interface between government programmes and markets: Creating employment and access to economic opportunities depends to varying degrees on the interface between government and wider markets. Government needs to get better at identifying and using tools that are able to catalyse change in the outcomes achieved in markets and from within the private sector.
- Low targets and a project-level focus: Many Second-Economy programmes remain focused at a project level. While this may be of vital benefit to participants, it leaves wider structural blockages and market failures unchanged.

3.3. Progress in each target area

3.3.1 Public employment

The table below shows the rates of expansion of the EPWP over time, up to March 2007. These trends have continued, based on provisional results, up to December 2007:

Table 21: Work opportunities created by sector, 2004-2007 (Annual data)

Sector	2004/05 (April to March)	2005/06 (April to March)	2006/07 (April to March)	Total (Up to Sept 2007)
Infrastructure	109 712	105 571	146 974	495 220
Economic	4 687	1 833	3 483	13 194
Environment	58 796	81 186	129 251	344 980
Social	1 650	18 308	37 106	101 459
Total	**174 845**	**206 898**	**316 814**	**954 853**

(Data assembled from the quarterly reports of the EPWP and annexures containing data and information for the period 1 April 2004 to 31 September 2007.)

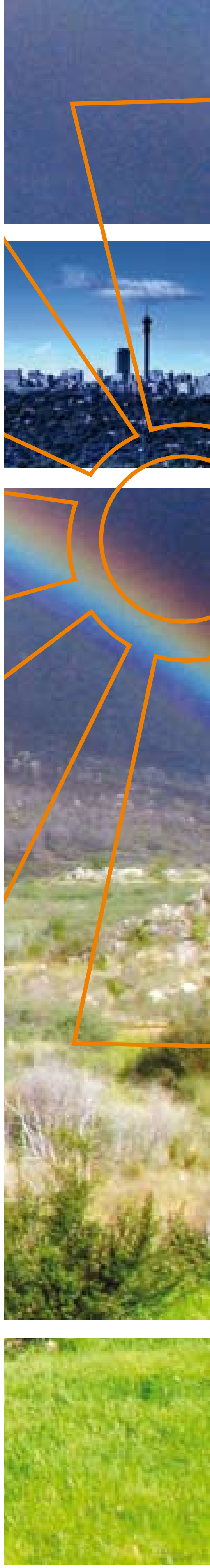
The *2006 Annual Report* anticipated that Early Childhood Development (ECD) and community and home-based care systems could create 72 000 permanent positions and 205 000 temporary opportunities in 2007. By the end of August 2007, 68 178 community caregivers were receiving stipends, almost doubling delivery in the social sector; 985 new ECD sites had been registered, bringing the total to 5 597 of the targeted 6 000 sites – with over 331 763 children receiving subsidies from the Department of Social Development through this mechanism. Despite a significant increase in the scale of delivery in some areas, these figures represent “work opportunities” rather than full-time jobs. A review of the EPWP has highlighted that a declining number of days per work opportunity in some sectors means poverty impacts are not growing at the same rate (as the figures suggest).

Significant effort has gone into a rigorous review of current public employment programmes to identify blockages, assessing constraints in current institutional and financial arrangements and developing proposals to address these in order to take public employment programmes to a different level. These include areas of innovation currently under discussion, such as the introduction of a form of minimum employment guarantee, expanded scope for public employment in the social sector, and opportunities to scale up environmental services such as woodland restoration, clearing of alien species and fire protection. Also being tested are ways of using public employment programmes as an avenue for increased investment in community services and assets at local level.

3.3.2 Youth programmes

National Youth Service Programme

The NYS Programme engages young people in meaningful community activities while developing them through learning and civic service. The participants are offered skills in a variety of areas including, but not limited to, community and home-based care; early childhood development; construction; community development work; and other critical skills areas. The participants of the NYS Programme are provided with life-changing opportunities and emerge with the following defining characteristics:



- a strong sense of civic service
- commitment to building caring and sustainable communities
- appreciation of hard work and personal responsibility
- an ability to defend democratic values through a lifelong commitment to human rights, social responsiveness and equity.

The NYS Programme has evolved considerably since its inception. Prior to 2004, the programme focused on conceptualising and piloting projects on a small scale, whereas post-2004 emphasis was placed on institutionalising, co-ordinating, expanding and strengthening partnership with government to deliver on a larger scale. The effective implementation of programme involves creating meaningful partnerships with various government departments and so enabling young people to serve their communities while engaging in activities that enable government departments to deliver their service-delivery imperatives.

The NYS Programme, defined as a critical Second-Economy initiative, is led by the National Youth Commission (NYC), The Presidency (Youth Desk) and Umsobomvu Youth Fund (UYF). An NYS Unit, responsible for the implementation of NYS projects, has been established and is located within the UYF. At executive level, the NYS Programme is co-ordinated by the Deputy President through the Inter-Ministerial Committee, which includes representation by various government departments. The Inter-Ministerial Committee, chaired by The Presidency, continues to provide political oversight to the programme, which has resulted in greater political support for the NYS within government.

In 2007/08, the NYS Programme experienced unprecedented growth in terms of reach and scale. This growth was propelled by the mainstreaming of youth development within government, resulting in 19 government departments committing to funding and supporting the implementation of NYS projects. In the period under review, the programme exceeded the target of involving 55 000 youths and volunteers (as pronounced by the President during the 2007 State of the Nation Address). For the period under review, more than 59 000 young people and volunteers were mobilised and were participating in projects. These projects were:

- Some 17 500 unemployed young people were recruited in NYS projects, focusing on structured and accredited skills training, community service and placement into identified exit opportunities. These include 5 000 youths participating in the public buildings maintenance initiative of the Department of Public Works. Public works construction projects are significant because they directly involve the nine provincial departments and the national department. It is an innovative intervention in that the department uses its maintenance budget to offer learning opportunities to unemployed youths.
- Some 10 600 young people from further education and training (FET) and higher education (HE) and training institutions were mobilised to participate in volunteer projects, including learner tutoring projects (in Mathematics, Science, Economics and Management Sciences) and positive living campaigns (such as HIV and AIDS awareness and drug abuse in schools).
- Some 31 000 people participated in volunteer projects, including the Global Youth Service Day (in which over 20 000 people were mobilised) and the Proud to Serve Campaign (in which over 10 000 people were mobilised).

The President, in his State of the Nation Address delivered in February 2008, specified that the NYS Programme should be intensified by engaging at least 70 000 youths. This will include an increase in the number of participants in the South African National Defence Force (SANDF) Military Skills

Development Programme – from the current 4 000 to 10 000. The SANDF initiative is just one example showing how the NYS Programme has become a priority for the whole country.

Youth Enterprise Development

The UYF's Entrepreneurship Development intervention, focusing both on entrepreneurs and enterprise development, has increased the support for entrepreneurial activity and self-employment through the delivery of:

- entrepreneurship information and training
- consultancy and advisory business development services
- access to market opportunities
- enterprise finance.

For the period under review, Entrepreneurship Development achieved the following:

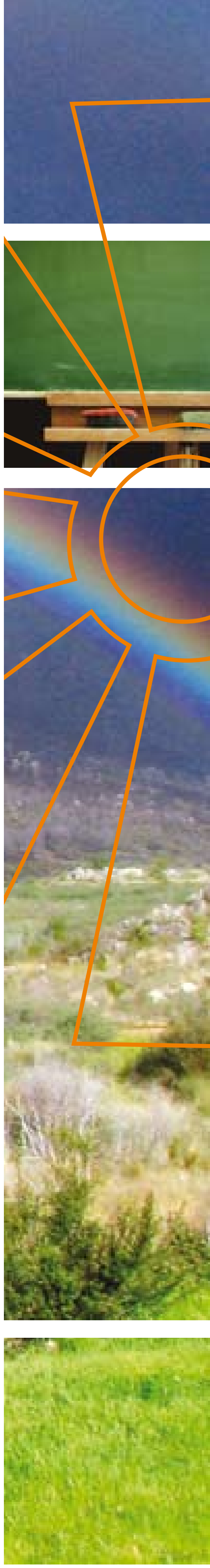
- Over 14 000 in-school youths were engaged in activities such as market research, business scoping and the drafting of business plans. About 300 out-of-school youths who have undergone training were also assisted to improve or start their own businesses.
- More than 9 288 business consulting service vouchers were issued to young entrepreneurs and women to help them start or expand their businesses. As a result:
    - more than 10 000 jobs were created
    - loans worth R135 million were accessed by voucher recipients
    - tenders worth R20 million were awarded to voucher recipients
    - altogether 114 entrepreneurs were matched with volunteer mentors who assisted them in growing or improving their business through offering advice and coaching.
- Sourced business opportunities worth R263 million was created through the Business Opportunity Support Service (Boss) Programme, to the benefit of 802 entrepreneurs.
- A total of 14 728 loans were granted to micro-enterprises and over 11 300 jobs were created or sustained. Altogether 148 loans were made to SMEs and 1 608 jobs were created or sustained. With the establishment of the UYF's 13 full-service Youth Advisory Centres (YACs) nationally and the implementation of the new microfinance group lending model, it is envisaged that these figures will still increase significantly.

Youth Advisory Centres

The YAC Programme provides access to information, advice, counselling and referrals relating to entrepreneurship, business development support, market access, skills training and jobs. The UYF, in partnership with municipalities, HE institutions and labour centres has established a network of contact points, including full-service YACs, YAC points and YAC mobiles.

There are currently 121 YAC projects operating nationally:

- 13 full-service YACs (two fully established)
- 12 YAC kiosks (nine resource centres and three kiosks in co-operation with the Department of Labour)
- 92 YAC points
- Four YAC mobiles.



In addition, 40 new YAC points are in the process of being established within municipalities and universities, and five new YAC mobiles will become operational. The YAC business model is being adjusted in an effort to increase and improve the capacity of centres to provide quality service and information to young people throughout South Africa. Full-service YACs have been established in all provinces, making all UYF products and services accessible to youths all over the country. The table below provides an overview of the geographical spread of the full-service YACs and YAC points.

Table 22: Full service YACs and YAC points

	Gauteng	North West	Free State	Eastern Cape	Western Cape	Limpopo	Northern Cape	KwaZulu-Natal	Mpumalanga
Full service YACs	2	1	1	2	1	1	1	1	3
YAC points	11	8	10	18	12	15	4	8	7

In the 2007/08 financial year, over 500 000 youths were reached through the YAC Programme and benefitted from the various product and services offered by the UYF. In the next financial year, the UYF is planning to reach over one million youths and women.

The YAC Programme specifically addresses the following AsgiSA binding constraint: "Shortage of suitably skilled labour amplified by the impact of apartheid spatial patterns on the cost of labour". The YAC network of offices invests in the dissemination of information about careers, business opportunities and study opportunities available in South Africa in order to create interest and direct young people towards accessing those opportunities. Further investments are done in capacity development of the infomediaries, focusing on key competencies required for youth development practitioners. It is believed that the YAC network of offices adds value in terms of improved access to employment and self-employment opportunities. The YAC offices also contributes to small and micro-businesses by providing access to Second-Economy interventions offered by UYF and other institutions.

3.3.3. Sector strategies

Effective sector strategies are key to meeting the AsgiSA target of halving unemployment. However, they will only do so – and contribute to shared growth – if they give priority to employment creation, to improved market access for marginalised producers and to a fairer distribution of ownership and returns from participation within markets and value chains.

These challenges in relation to the Second Economy cannot be tackled in isolation from wider sector strategies, and while progress has been made in certain targeted AsgiSA sectors (described below), sufficient priority is not yet being given to achieving these outcomes or to impacting on the Second Economy.

Meeting this challenge requires a combination of strategies that include the use of competitive policy as well as the effective use of BEE codes in ways that impact on opportunities on the margins – or in the Second Economy – and not only in relation to the commanding heights of the economy. Also key are strategies of co-operation and co-ordination between small or marginalised producers, creating economies of scale, and marketing the voice required to gain access to value chains and wider markets.

The priority is to ensure that all sector strategies identify targets for employment creation, market access for new producers, improve conditions for the most vulnerable workers, and monitor progress.

Support to small and micro-enterprises, co-operatives and broad-based empowerment

During 2007, Cabinet approved preferential procurement terms for 10 predetermined products: 85% of all government procurement of these products must go to small enterprises. Mechanisms were strengthened to ensure payment to SMEs within 30 days, including the decision to set up a call centre complaints hotline.

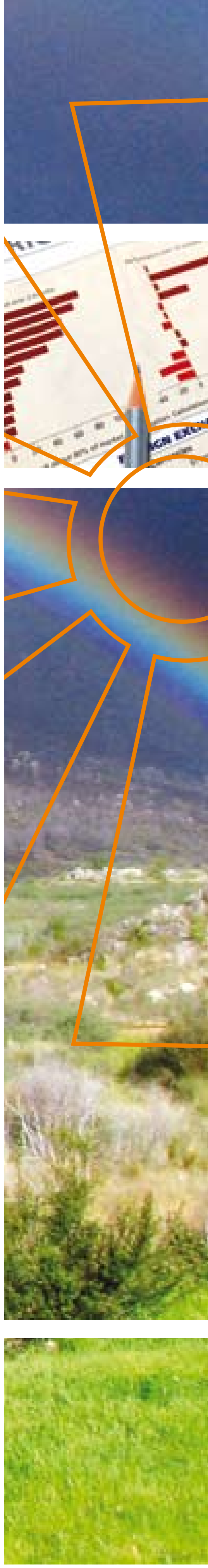
A range of regulatory issues were also addressed in 2007, such as work on municipal regulations, labour-market issues, taxation and a process to arrive at a common definition for small businesses for policy purposes. A manual was developed to assist municipalities to reduce red tape for SMEs. Regulatory impact assessment processes introduced for new legislation will also highlight potential impacts on SMEs.

The Financial Sector Charter includes a target of R5 billion in credit for SMEs. While this target is still far from being met, some progress has been made. The approval by Khula Enterprise Finance Ltd to partners increased to a record R746 million in 2007, representing a 60% increase over the period, with 65% and 32% of the funds disbursed to black and women-owned businesses, respectively.

Khula has also secured commitment from the top four commercial banks to sign a revised credit indemnity scheme.

Up to March 2007, during a pilot phase in three provinces, the Micro-Agricultural Finance Institutions of South Africa (Mafisa) disbursed R41 million in loans to 5 170 farmers. This was significantly higher than the rather modest target of 2 000 farmers. In terms of the quality of the Mafisa loan book, early indications suggest a default rate of 35% to 40%, which is higher than the target of 30%. Lending volumes from the South African Micro-Finance Apex Fund are still low.

While access to credit remains a significant challenge, access to other financial services is also key, including access to banking services, insurance and venture capital – including forms of micro-capital. Work to promote innovation in these areas, mainly through the Financial Sector Charter Council is needed.



3.3.4 Jobs for Growth

The National Programme for the Creation of Small Enterprises and Jobs in the Second Economy, commonly known as Jobs for Growth, is the component of AsgiSA's initiative that focuses primarily on the Second Economy. This programme is involved in developing strategies for critical interventions towards sustainable development, empowerment of the poor and mainstreaming them into the First Economy. This programme takes into consideration that enterprise development as a means of job creation in South Africa has been limited. The target group for this programme are women, the youth and people with disabilities in the rural and peri-urban areas. Jobs for Growth is recognition by government that the Second Economy can make a substantial contribution to the mainstream economy.

The goal is to create small enterprises and jobs in the Second Economy, with a focus on creating 1 000 000 jobs over a period of five years. The programme's objectives are:

- increasing employment and income for unemployed or underemployed poor people
- reducing income gaps in society
- providing more productive jobs in villages and small towns to lessen migration to big city slums
- effecting the economic empowerment of (mainly black) poor women
- addressing constraints that inhibit economic growth and shared benefits.

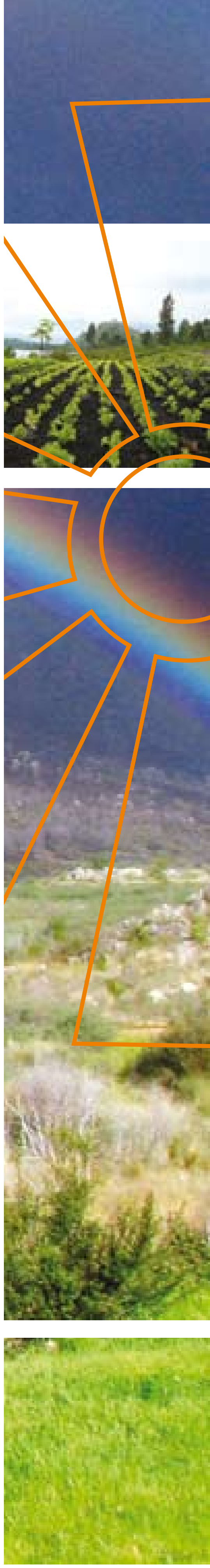
The intended outcome of the programme is the establishment of viable and sustainable economic enterprises/businesses that have scope for growing local economies, creating quality jobs and higher incomes for individual entrepreneurs, workers and their families.

Initiated in 2006, the programme aims to facilitate the creation and growth of 300 000 viable enterprises by supporting self-help groups, co-operatives and micro-enterprises.

As such, in relation to co-operatives and micro-enterprises, the Jobs for Growth Programme has attempted to increase interdepartmental co-ordination in this area, and has facilitated off-take agreements from a number of key national buyers to create new market opportunities and entry points into supply chains for marginal producers and co-operatives. Agreements have been reached with Score, Mr Price Home, Umgeni Products, Woolworths and Shoprite/Checkers; while others are still under discussion. This is a key area of expansion for Jobs for Growth, and attempts to bridge the gap between small producers in marginal local economies and wider opportunities in external markets, whether in agroprocessing or niche products.

The challenges of linking marginal producers to external markets has highlighted the importance of different forms of marketing intermediaries and secondary co-operatives, an emphasis to be captured in the Co-operative Policy currently being finalised.

The Department of Labour has set a target of 814 small, medium and micro-enterprises (SMMEs) and co-operatives to be supported. By the end of December 2007, 412 (51%) small BEE firms and co-operatives had been supported. The Department of Labour is also involved in discussion with the Department of Trade and Industry on the unintended consequences of the Co-operatives Act, 2005 (Act 14 of 2005), in the clothing sector.



3.3.5. Unlocking productive assets – land access, land use and agrarian reform

Both the Integrated Food Security Strategy and certain provincial programmes to boost returns from commercialising subsistence agriculture have shown steady improvements in returns. In the Eastern Cape, with the Siyakhula/Massive Programme, yields improved by 360% over four years, to reach levels matching commercial norms – with rising participation from farmers. In addition, there are a range of initiatives to link smallholders into agroprocessing value chains, such as in relation to forestry, sugar and biofuels. Poverty levels in rural areas make this a key priority area. A threefold increase in budgets for extension services has been proposed by the Department of Agriculture.

The review of Second-Economy programmes has also highlighted the key urban dimensions of land access and use, the role of housing as an asset for the poor, and the limits placed on this as a result of township developments on poorly located urban land.

These urban and rural challenges both link with national spatial development planning issues.

3.4. Priority activities for 2008

The following priorities were identified as an outcome of the review, and are under consideration as part of the anti-poverty strategy:

3.4.1 Scaling up public employment

The EPWP is currently finalising proposals for the next phase of public employment programmes, intended to address weaknesses in the current model and reach a significantly increased scale. This requires a more flexible concept of public employment, able to support and respond to innovation. It will propose the use of more diverse delivery mechanisms for public employment, including ways of gearing the capacity of non-state actors to support the process. Ways in which the concept of a minimum employment guarantee could be adapted are under discussion, and the EPWP is also proposing the use of a matching grant for the wage costs of such programmes as a way of incentivising the use of labour-intensive methods within government – and possibly beyond government. Proposals from the EPWP are at an advanced stage, and are currently being refined and costed.

The target proposed in the draft anti-poverty programme is to achieve a million jobs per year by 2010 (measured as full-time jobs rather than "opportunities").

3.4.2 New approaches to community-driven investment

Building on work in the departments of provincial and local government and of social development and the EPWP, the design of a mechanism for more community-driven approaches to local investment is underway. This should draw on a range of current experiences in which communities are setting priorities for resource allocations in cross-cutting ways. Such an approach has the potential to make a major contribution to creating community assets, extending access to social services, localising public employment programmes, building social cohesion and creating new interfaces between government and communities.

Annual budgets would need to be targeted at meaningful levels to achieve results, and at sufficiently local levels to achieve empowerment. Getting the institutional and budget arrangements in place will entail some innovation and risk and new approaches to budgeting will need to be developed in partnership with National Treasury.

Proposals should be developed by the middle of 2008, with pilots for 2009 building on current experience. Indicative targets to consider would be to reach 200 000 households by 2009 and to scale up to three million households within three years and six million in five years.

Upgrading informal settlements

In urban areas, a massive programme to upgrade informal settlements will have significant impacts on poverty and marginalisation. The framework for this already exists by way of Breaking New Ground, but has not been extensively operationalised. This should prioritise the urgent extension of basic services to all informal settlements where there is a reasonable prospect of full upgrading in the future – with such upgrading planned to follow shortly thereafter.

Support to smallholder development

The development of a smallholder development strategy has been proposed, which will entail the following:

- Investment in the economic infrastructure of rural areas including, among other things, roads, fencing, land rehabilitation and access to irrigation, as applicable.
- Market-development approaches that facilitate linkages, market access and the development of appropriate marketing organisations; strategies to address access to market infrastructure (e.g. grain silos and the development of fresh-produce markets); and links to sector strategies.
- Fast-tracking support for the Eastern Cape's proposed model to support the commercialisation of smallholder agriculture, building on the Siyakhula/Massive Programme, targeting 70 000 households and identifying key success factors and the potential to replicate this in other areas. This requires a rethink on how land is prioritised and acquired as part of land reform by asking who benefits and how, thus ensuring that the outcomes are broad-based, reduce poverty and expand economic opportunities for the marginalised.
- As set out in the draft Anti-Poverty Strategy, the target is to achieve improvements in the livelihoods of 300 000 subsistence farmers and to reach 100 000 people a year through smallholder schemes.

3.4.3 Sector strategies

Every sector strategy should identify targets for employment creation; support and market access for new producers; improve conditions for the most vulnerable workers; and strategies to reach youths who have never worked before, and systems to monitor progress against them.

This methodology will be developed and applied in those sectors where strategies are in process, in particular:

- agroprocessing
- forestry
- plastics
- construction
- the retail sector.

In addition to a focus on street traders and spazas as part of a sector strategy, issues of market access for small producers and from labour-intensive sectors also need attention.

Market institutions and secondary co-operatives

A key aspect of sector strategies needs to include support to the forms of economic coordination and co-operation required to create economies of scale of various kinds to bridge the gap between small and/or informal producers and wider markets and value chains. This is a cross-cutting theme for sector strategies, SMEs and co-operatives and for smallholder development.

Such strategies also have as much relevance for street traders and the most marginalised entrepreneurs as they do for those in the zone of transition into more formal markets or into export markets. An immediate target proposed in this respect is for such approaches to aim to improve the livelihoods of 200 000 informal retailers – mainly street traders and spazas – who represent nearly 50% of South Africa's informal sector.

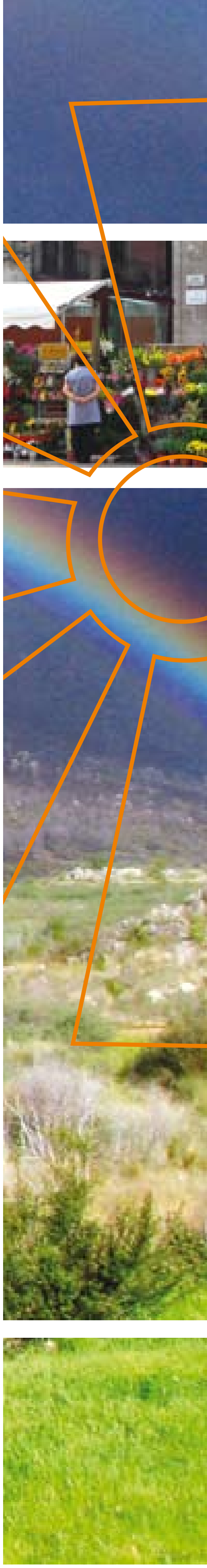
Strengthening voices from the margins

Support for forms of association and organisation of economic role-players on the margins is key to reducing their marginalisation, strengthening their voice and improving their ability to lobby and advocate for change on their own behalf. Mechanisms to support such forms of association need to be strengthened. Experience shows that such organisations struggle to achieve financial viability from membership fees alone, yet their lack of voice keeps them marginalised even on issues that affect them. The scope of the National Development Agency to support such organisations more effectively will be explored.

Targeting poor regulation and ineffective administration

Across all sectors, examples exist of regulatory hurdles and administrative status blocking opportunities for those on the margins. While regulatory issues have been a consistent focus of AsgiSA, the regulations that most affect the poor and marginalised, and the effective administration of these, need to be targeted now.

In addition to taking these priority areas forward, work on the Second Economy will look beyond the framework provided by current programmes to identify areas for further innovation.



4. Progress in skills and education and the role of the Joint Initiative on Priority Skills Acquisition (Jipsa)

Jipsa was launched on 27 March 2006. This report follows a successful bosberaad of the Jipsa Joint Task Team (JTT), held at the Presidential Guest House on 29 November 2007, at which Jipsa's co-ordinated problem-solving approaches to priority skills acquisition were reviewed. The progress to date received strong endorsement and support from all the social partners.

Jipsa is a high-level partnership between government, business and organised labour to accelerate the acquisition of priority skills. The initiative has identified the following priorities:

- high-level planning and engineering skills for the network industries, i.e. transport, communications, energy and water
- city, urban, town and regional planners
- intermediate artisan, engineering and technical skills required by the economy, including those required for the various AsgiSA projects and initiatives, such as the major infrastructure developments
- planning and management skills for the public education and healthcare systems
- Mathematics, Science and Language Competence in public schooling
- skills to support specific Accelerated and Shared Growth Initiative for South Africa (AsgiSA) priority sector strategies, such as business process outsourcing (BPO), tourism, biofuels and information communication technologies (ICTs).

In its first nine months of operation, Jipsa focused on setting up its structures and work processes, determining priorities, analysing the critical issues, quantifying the challenges and developing concrete proposals for the acquisition of engineering and artisan skills in particular.

From the beginning of 2007, the work was stepped up to expand beyond the initial agenda of engineers and artisans, and to address the challenges of town and regional planning skills; Mathematics, Science and Language Competence in public schools; and management and planning skills in the public health and education systems. Jipsa also initiated work in several other areas in support of the AsgiSA objectives, namely the graduate and professional placement programme, BPO, tourism, (ITCs and biofuels. Work in each of these areas is being actively taken forward by the respective project owners.

The JTT, supported by the Technical Working Group, the Secretariat, and a number of advisory groups and specialist consultants met regularly in 2007 to provide strategic direction and technical advice and support, and regular meetings with the various project owners helped ensure that progress was maintained in each work area.

The JTT bosberaad provided a useful opportunity to reflect on the progress made by Jipsa in its first 18 months, to revisit the rationale behind the initiative and to examine its future direction. A number of important lessons from Jipsa's first phase of operation are beginning to emerge, such as that the active leadership and engagement of key government departments, in particular education and labour, is vital to the success of the initiative. Jipsa has enjoyed considerable buy-in from government, business, organised labour and professional bodies. Significantly, it has helped to thrust the issue of skills higher on the national agenda and has persuaded key role-players to prioritise the acquisition of particular skills.

The Jipsa mode of working represents a form of joint public-private partnership, which seeks to understand the skills pipeline at a systems level and identify and facilitate co-operation between all key role-players and project owners to achieve a co-ordinated set of results. Jipsa has adopted a problem-solving approach to skills acquisition in a limited number of priority areas. Its mode of operation rests on the voluntary self-binding commitment by and co-operation between project owners, while providing an effective interface between all social partners.

Progress on the various areas of work is presented below.

4.1. Intermediate engineering skills

The JTT has approved a target of 1 000 additional engineers per year over a four-year period, starting in 2007, to meet the demands of the infrastructure-building programme and of an economy which is aiming to sustain a higher level of growth over the medium to longer term.

Steady incremental growth of BEng and BSc Eng graduates is forecast by the Department of Education and it is expected that by 2010, engineering graduations will rise by 500 a year to approximately 2 000 per annum. To achieve this growth, the Department of Education provided R48 million in 2006 to improve pass rates and graduation rates. For the period 2007 to 2009, the department has committed R439 million largely towards improving teaching and learning infrastructure.

Additional annual increases in graduations will require increased enrolments and further expansion of human and infrastructure capacity.

If there is to be an increase in engineers, there will also need to be greater emphasis on the retention and importation of skills and other measures to meet anticipated demand.

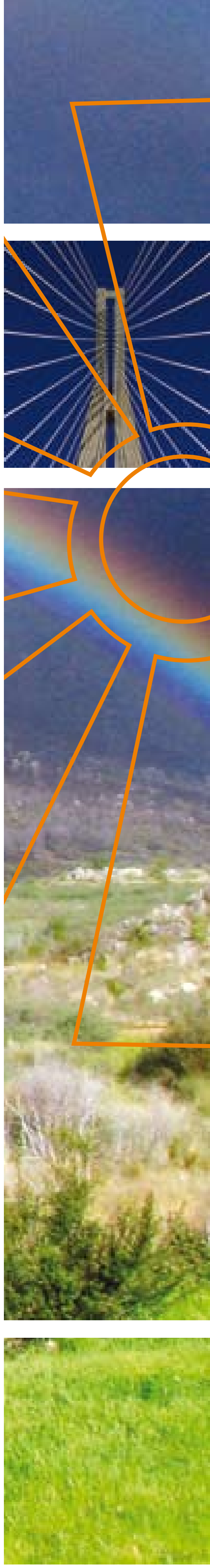
Jipsa believes that to meet the demand for engineering skills over at least the next three to four years, the following will be required:

- improving engineering throughputs in Higher Education (HE)
- improved throughput through the candidacy phase leading to professional registration, retention of engineers within industry and in the HE system
- recruitment of South African engineers living abroad and the importation of engineers.

Finally, it is proposed that a high-level Engineering Task Team be established, to provide leadership and drive the implementation of the measures outlined above.

The Engineering Council of South Africa is strengthening the candidacy phase and registration of engineers.

The Department of Home Affairs has published a revised scarce skills list and is actively promoting this abroad, in collaboration with the Department of Foreign Affairs. The list includes the following categories of engineers: chemical, materials, civil, structural, aeronautical, aircraft maintenance, avionics, electrical, electronic, industrial, mechanical, mining, quality engineers and engineers for specialist pipe engineering and manufacturing.





The department has published a pamphlet on the quota permit and set up an information desk to assist with the importation of skills.

4.2. High-level engineering and planning skills for the network industries

The central premise behind the decision to prioritise high-level planning and engineering skills for the network industries is that achieving AsgiSA's growth target of 6% per year will have major implications for the long-term development of South Africa's infrastructure, particularly energy, transport, water and communications. Simply put, we need to start designing and building the networks and infrastructure that will enable and sustain economic growth and development over the longer term.

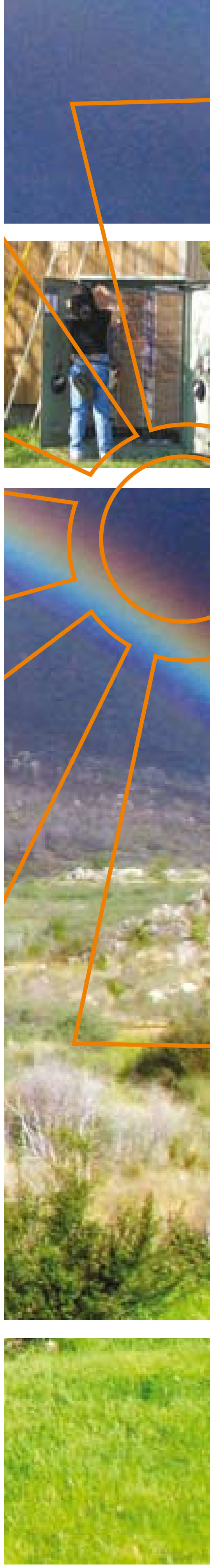
The following question then arises for Jipsa: Does South Africa have the integrated systems and the high-level knowledge, skills and capacity to develop and maintain the network industries required to sustain long-term growth and development? To test this analysis empirically, a case study of the energy sector has been commissioned. The findings of the case study will be used to inform further Jipsa interventions in this important area.

4.2.1. Artisans

The shortage of skilled and experienced artisans in the country has been identified by Jipsa as a critical constraint to economic growth. Through rigorous research and consultation Jipsa was able to quantify the shortage of artisans, as well as identify critical blockages within the system impacting negatively on artisan development and training. To this end, Jipsa has worked closely with the departments of labour and of education, as well as with other stakeholders, including organised business, organised labour and the provider community over the past year to fast-track the acquisition of artisans.

Key milestones achieved include:

- The Skills Development Amendment Bill, which will strengthen artisan development policy, has been drafted and will be presented to Cabinet. This Bill will repeal the last sections of the Manpower Training Act, 1981 (Act 56 of 1981) and consolidate artisan development through four very specific artisan training routes, namely learnerships, apprenticeships, recognition of prior leaning and the National Certificate (Vocational) plus an internship or skills programme. The last route integrates the efforts of the Department of Education's Further Education and Training (FET) college sector with workplace training under the auspices of the Department of Labour.
- The four artisan training routes above have been agreed to by all stakeholders and these training routes were gazetted on 14 December 2007 for public comment.
- The quality-assurance role of the Institute for the National Development of Learnerships Employment Skills and Labour Assessments has been agreed upon and is now positioned as a national artisan moderation body within the Skills Development Amendment Bill.
- The 2007/2008 service level agreements (SLAs) signed between the various Sector Education and Training Aurthorities (Setas) and the Department of Labour reflect a total of 18 879 artisans to be registered. Furthermore, provisional Seta SLAs indicate that an additional 20 000 learners will be registered for the period 2008 to 2009.
- The National Skills Fund allocated an additional R300 million for the training of a further 7 350 artisans.
- A pilot project in the safety and security sector has been initiated, which will determine the capacity of the defence, police and correctional service forces to train and assess artisans.



- The new National Certificate (Vocational) has been implemented in FET colleges since January 2007 for artisan-related learning.
- The scarce skills quota list published by the Department of Home Affairs includes scarce skills artisan trades to allow immigrants to enter the country to source work as artisans. Trades included on the list are: sheet metal trade workers, structural steel and welding trade workers, boilermakers, metal fitters and machinists, fitters and turners, precision metal trade workers and toolmakers, millwrights and electricians.
- Employers and the National Business Initiative have introduced the Technical Business Skills Partnership, which aims to increase artisan training in the country, through which companies will train above their own needs and be encouraged to provide training opportunities, work placements, mentorship and bursaries.

4.2.2. Technicians and technologists

The terms “technicians” and “technologists” are used in various ways in the workplace, and Jipsa has recognised that there is not a shared understanding of the definition and role of technicians and technologists. While there is agreement that there is a scarcity of individuals with these occupations, the nature of the learning and career pathway is still undefined. Industry players suggest that this impacts adversely both on the uptake of these graduates as well as the extent to which they are utilised in the workplace. This further exacerbates the pressure on engineers who, as a result, are required to do work that otherwise could be delegated to technologists and technicians.

Jipsa has therefore developed a problem statement which focuses on understanding the nature of supply and demand for technicians and technologists, and has laid the basis for a research and consultative process. Based on this process, Jipsa has developed a map of the learning pathways for technicians and technologists, and is now exploring:

- the scale of demand for technicians and technologists
- effective use of technicians’ and technologists’ skills in the workplace
- ways to increase supply by improving throughput
- the nature of the qualifications that these occupations attain and the relationship to the registration process
- possible mobility pertaining to learning and career pathways for technicians and technologists.

4.2.3. City, urban and regional planning

Studies conducted by Jipsa note that the nature of the town-planning function has changed significantly in recent years. Municipalities are much larger today than they were prior to 1994, and planning at municipal level therefore encompasses the concepts of both town and regional planning. This involves not only the design and regulatory aspects of planning traditionally associated with town planning (e.g. zoning and town-planning schemes), but also a broader perspective, incorporating long-term strategic planning for municipalities and integrated development planning generally associated with regional development planning.

The following key issues have emerged:

- there is a lack of understanding of what planners are, what they are expected to do and what constitutes a fully functional planning unit in municipalities
- there are a number of non-planners performing planning functions, especially at municipal level
- there are qualified planners who are not in planning positions and there seems to be a mismatch between the organisational structure, the function to be performed and the number of planning posts.

Jipsa, in consultation with key role-players, will develop a practical plan for strengthening urban planning skills. The key components of such a plan will include fast-tracking the definition of planning competencies, strengthening the South African Council for Planners, promoting the registration of planners and establishing a bursary fund for planning students. Jipsa will also engage with the relevant departments to help ensure that focused attention is given to prioritising and strengthening the planning function within the different tiers of government.

4.2.4. Management and planning skills in the public health system

The public health system faces skills constraints in a range of fields, and at different levels of the system. Jipsa has identified planning and management capacity as a priority skills requirement, both to ensure more effective and efficient management of the system, and to strengthen the capacity and the mechanisms to ensure that the skills that are available, are optimally supported and utilised.

Consultations with the Department of Health, health experts and practitioners have confirmed the relevance of this analysis, highlighting the challenges in health planning and management, as well as the difficulties in retaining the skills of a range of health professionals. These consultations further highlighted challenges regarding the funding of the public health system, as well as the need for closer co-operation and partnerships between the public and private healthcare systems.

Jipsa will hold further discussions with representatives from the Department of Health, National Treasury, The Presidency and other key role-players to expedite the development of a strategy to improve planning and management in the public health sector. Such a strategy will include issues such as:

- the nature and extent of planning and management training provided for the public health sector and also how these efforts could be strengthened further
- measures to retain the required professional skills in the health sector.

4.2.5. Management and planning in the education system

The Department of Education has requested that Jipsa should share information and advice as the department proceeds with the revised National Human Resources Development Strategy (NHRDS). Accordingly, Jipsa has accorded the relevant officials places on the Jipsa Secretariat, Technical Working Group and on the Reference Group overseeing the Jipsa review. Having representation from the Department of Education on these forums will ensure that lessons learnt through the Jipsa experience are incorporated into the revised NHRDS and inform its co-ordinating and catalytic roles, convening powers and its facilitation of dialogue.

Jipsa has worked closely with the national Department of Education's planning unit to identify and appoint external to Jipsa critical readers who will be responsible for advising, commenting on and providing feedback on the three identified studies commissioned by the NHRDS task team to revise the NHRDS for the country. Jipsa has also negotiated the services of an independent consultant with proven technical expertise on human resource development to provide assistance to the Department of Education in its task of revising the NHRDS for South Africa.

4.2.6. Mathematics, Science and Language Competence in public schooling

The Department of Education has identified measures to improve Mathematics, Science and Language Competence in public schools. The Dinaledi schools initiative provides the opportunity for a targeted and focused response to this challenge. However, the quality and number of matriculants studying Mathematics at higher-grade level remain a challenge. A number of professions such as engineering, medicine, accountancy and the sciences in general are drawing from this small pool to attract students into these fields. It is therefore of paramount importance that measures to increase the pool and quality of Mathematics, Science and Language Competence in public schools are strengthened.

Going forward, the Jipsa Secretariat will need to further engage the Department of Education in:

- additional support measures that can increase the pool and quality of matriculants with Mathematics and Science
- steps that can and are being taken to upgrade the skills of existing Mathematics and Science teachers, and to train and import additional teachers to meet current and future requirements
- ensuring that, beyond the Dinaledi schools initiative, adequate bridging measures are in place for learners to move from secondary education into HE institutions or the labour market.

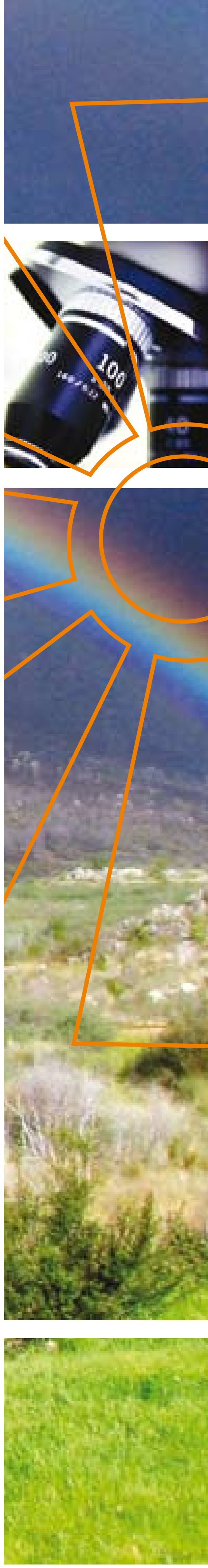
4.2.7. Tourism

Tourism has been identified by AsgiSA as an important focus area in government's drive to achieve accelerated and shared economic growth and development. Studies have shown that poor service quality and other weaknesses in South Africa's tourism industry are a significant factor of poor skills and training.

The Department of Environmental Affairs and Tourism, in collaboration with the Tourism and Hospitality Education and Training Authority (Theta) and the National Business Initiative, has completed an analysis of priority skills in the tourism sector. The analysis provides a picture of current skills and skills gaps, and identifies critical skills that should be prioritised and acquired. The report also identifies the roles and responsibilities of key role-players in the public and private sectors.

Some of the key blockages and constraints that need to be addressed include:

- the fragmentation and lack of co-ordination in the sector
- establishing work-experience programmes for young people
- reviewing the state of training in the sector
- developing specific training programmes for small, medium and micro-enterprises
- training more managers (especially black managers)






- developing a Theta turnaround strategy
- rolling out a countrywide customer service programme.

To improve skills levels in the sector, the Department of Environmental Affairs and Tourism has appointed a service-provider to develop a human resource development strategy for the sector. This strategy will identify the roles and responsibilities of the various stakeholders in driving skills development, and will recommend appropriate institutional mechanisms to drive the implementation of the proposed changes. The Department has further requested that Jipsa play an active role in critically evaluating the human resources development strategy, and providing comments and input on its development.

4.2.8. Biofuels

The biofuels sector lends itself well to linking the country's first and second economies: petroleum production is the domain of the First Economy, whereas the production of biofuels has the potential to benefit people living in rural areas. The success of this strategy does, however, depend on ensuring that agricultural extension officers have the necessary skills and capacity to provide meaningful support to farmers in their areas.

Jipsa commissioned a discussion paper that highlights critical questions that need to be answered with regard to the production of biofuels. These questions include choices regarding technologies and types of crops, how these choices impact on skills requirements, the role and responsibility of extension officers, support mechanisms and the role of commercial farmers.

Jipsa, through its engagements with the departments of agriculture, of minerals and energy and of trade of industry, has determined that South Africa faces a serious shortfall in agricultural extension officers. This shortage has negative implications for small-scale emerging second economy biofuels farmers as a process of extension support will not be in place to support these farmers.

The Department of Agriculture has confirmed that there is indeed a shortage of agricultural extension officers in the country and that the skills of existing extension officers will need to be upgraded. At present, there are about 2 000 agricultural extension officers – which represents a conservative shortfall of 5 000. To this end, the Department of Agriculture has developed and submitted the Agricultural Extension Officer Recovery Plan that was accepted by the National Treasury, committing funding support to this initiative. Going forward, Jipsa will engage the Department of Agriculture and HE institutions to ensure that an adequate skills pipeline of agricultural extension officers is put in place.

4.2.9. Information and Communications Technology

Jipsa has completed an environmental scan of the ICT sector to inform the development of an intervention strategy to address ICT priority skills. This has been handed over to the appropriate project owners, including the e-Skills Institute.

4.2.10. Business Process Outsourcing

A talent-development project of the BPO Sector Support Programme, a partnership between the Business Trust and the Department of Trade and Industry is currently being implemented. The project seeks to pilot an approach designed to enable South Africa to train 6 000 entry-level contact centre agents each year for five years in order to develop an internationally comparable talent pool.

The Monyetla Work Readiness Inception Programme for BPO is training 1 000 previously unemployed young people as entry-level contact centre agents. The project is part of the BPO Sector Support Programme, and is funded by the Department of Labour's National Skills Fund. Eighteen consortia of recruiters, employers and training-providers are implementing the inception programme, intended to inform and shape a larger investment in the sector's entry-level talent pool. Consortia are training in Gauteng, KwaZulu-Natal, the Western Cape and Eastern Cape.

A total of 840 learners have already begun the programme, and the first groups of learners was expected to complete their training in March 2008. By July 2008, the first 1 000 learners will have completed the course. The programme consists of a 16-week course, incorporating theory, practice and on-the-job training, leading to 60 credits at Level 2 on the National Qualifications Framework.

The Umsobomvu Youth Fund (UYF) has made a grant available to enable a further 250 unemployed young people to join the Monyetla Programme. The learners will commence training in May 2008.

An evaluation of the scope, scale and impact of both publicly and privately funded BPO training will be conducted by June 2008. This study will provide a situational analysis of current talent-development initiatives, with a view to ensuring synergy and identifying any gaps in provision.

4.3. Work Placement Programme

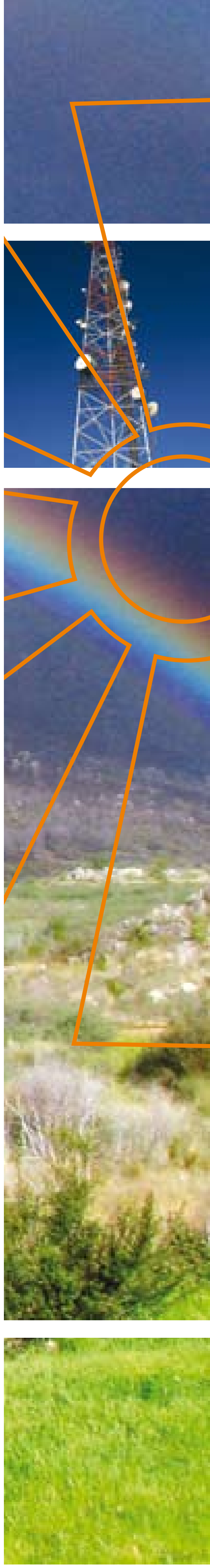
The Jipsa's Work Placement Programme is an intervention to fast-track deployment and improves productivity of qualified young persons with scarce skills. The programme includes the placement of unemployed graduates, both locally and internationally, and placement of retired professionals.

The Unemployed Graduate Programme was launched in December 2005, as one of the AsgiSA interventions to deal with the skills shortage within the economy.

Through the programme, graduates have been able to get work experience and therefore become more attractive to employers. One of the aims of this initiative is to impact positively on families where it can break the poverty cycle decisively. The programme has focused on the placement on women and targeted the following groups:

- placement of new graduates needing experience
- graduates who are unemployed
- young, mid-level career professionals
- undergraduate University of technology students who need work experience to qualify.

Mostly, placements have been in scarce skills: finance, tourism, engineering, ICT and Project management. This is in line with demand for scarce skills. Jipsa has liaised with a range of role-players including the UYF, South African Graduate Development Association (SAGDA) and Higher Education South Africa (HESA) to seek ways of addressing a range of graduate placement issues. Strategies include upgrading and consolidating the UYF database of unemployed youth and graduates, placing unemployed graduates and increasing experiential learning placements for university of technology students.



The local placement programme is run by the UYF through its Jobs Programme through which candidates source public and private-sector opportunities. Candidates are also linked to other UYF services such as entrepreneurship, the National Youth Service Programme and skills development programmes. Young people with an entrepreneurial interest are helped to develop business plans and access finance from the Enterprise Finance division.

Companies have responded positively to the call with the result that more than 20 000 offers have been received, and more than 15 000 graduates in total have been placed in South Africa and abroad. Eskom, Transnet, Microsoft, Shoprite Checkers, Old Mutual and Xstrata have all taken several hundreds each, as well as members of the American Chamber of Business. A lot of smaller companies and a a few black-owned businesses have also participated. The challenge, however, remains to get more companies involved. Government has been slow in participating. However, the Eastern Cape and KwaZulu-Natal have embraced the programme, placing the majority of graduates for work post placement. Eastern Cape is presently employing more than 700 trainees. Gauteng and Western Cape have also started. Government as a whole must take leadership in this issue. Unemployed graduates could be recruited to fill in positions at junior level.

The absorption rate in the companies surveyed has been around 80%. More work, however, needs to be done by both graduates and employers to market the trainees, while still in training. At the moment, there is still a time lag between programme completion and employment.

A few companies have recruited matriculants and in future will focus more on them as well as semi-skilled persons with potential for further training, especially in the retail and construction sector. Quite a few of the participating companies already train matriculants. Old Mutual, for example has recruited 471 trainees, and Shoprite Checkers 1 000 retail technicians. Both companies are willing to double the numbers if government partners them, and both will absorb trainees. Given that these companies are not unique, one can assume that there is more opportunity for partnerships in this arena.

The Jipsa international programme was designed jointly with the departments of foreign affairs, of public works, of trade and industry, state owned enterprises and the UYF. While the programme has placed mostly women and youth, priority is given to the most under privileged groups. To date more than 700 graduates, including women identified for fast-tracking, have been placed internationally, and the role played by South African embassies and consulates is commended.

Foreign missions in South Africa have embraced the programme as their response to Jipsa. Countries such as France, China, Canada, the United States of America (USA), United Kingdom (UK), Ireland, Australia, New Zealand, Japan, India, Germany, Thailand, Taiwan, Bahrain, Qatar, the United Arab Emirates (UAE), Cuba, Brazil, Argentina, Singapore, Malaysia, Luxembourg, and the Netherlands, have already participated or are committed to participation.

Multinationals and South African companies have also assisted through human and financial resource allocations or offering placement opportunities in their international offices - companies such as Tata, Areva, Sasol, Xstrata, Old Mutual, Standard Chartered, Telkom, PetroSA, Sahara, Jumeirah, Alec, Africon, Daimler Chrysler, Murray and Roberts, Ashok Leyland, Remco, Satyam Computers, Oracle, and several international hotels. Daimler Chrysler runs a programme for Southern African Development Community (SADC) countries which provides extensive training in work placement in Stuttgart.

The programme has received more offers of international placement from reputable companies, however, due to budget constraints and the costs of living in economies such as Japan, UAE, UK and the USA, some of the offers have not been taken up.

The placement of retired professionals is facilitated by the DBSA's Siyenza Manje Programme. A database of retirees will serve as an important intervention in dealing with the skills shortage. To date, 118 professionals have been placed at 101 municipalities, of which 67 were technical and 51 financial experts. In addition, 50 young professionals have been deployed. There are already 787 curriculum vitas listed.

While notable progress is being made in the recruitment and placement of candidates both locally and internationally, these efforts are still somewhat fragmented and a better co-ordinated strategy is therefore necessary. The development of a co-ordinated strategy is not an attempt to centralise the programme, but is rather intended to promote closer co-ordination of graduate placement efforts, improved sharing of information, the development of more rigorous placement processes as well as the introduction of monitoring and evaluation systems. The alignment between the graduate placement efforts and wider Jipsa initiatives is an overarching goal.

In an attempt to better understand how the graduate placement programme could be co-ordinated in a more efficient manner, Jipsa has commissioned a programme review. The review seeks to identify existing placement programme initiatives locally and internationally, identify the main role-players, advise on measures that might be needed to improve the placement programme and the supporting databases and processes, and make recommendations for an integrated and co-ordinated programme strategy.

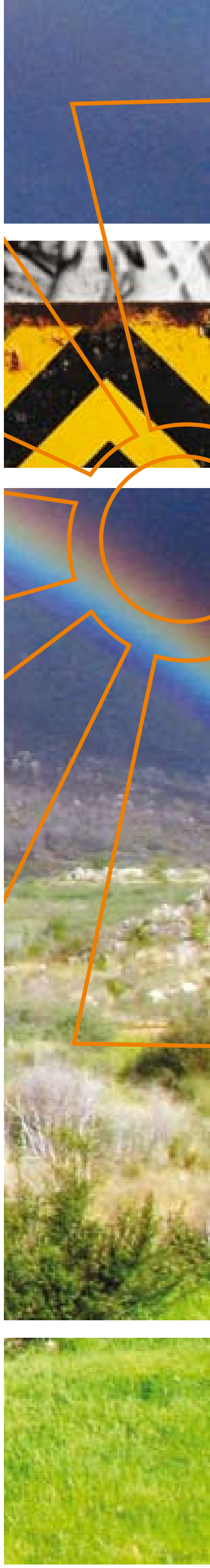
The work done by JIPSA points to the need for an integrated, high-quality database on education and skills that could facilitate the ability of policy- and decision-makers to make reliable labour-market projections.

A number of government departments and agencies already have databases which, if fully populated and co-ordinated more closely, could be reconfigured to establish a central resource that could serve as the national education and skills database.

In collaboration with the South African Qualifications Authority, Jipsa has commissioned a review of the National Learner Records Database to explore the possibility of this becoming a national skills and education database. The review will engage a number of data-providers such as the departments of education and of labour, Umalusi and professional bodies about the scope and quality of the information provided to the South African Qualifications Authority. The review will also assess the functionality and technical capabilities of the database.

4.4. Conclusion

The JTT bosberaad in November 2007 gave strong support for the continuation of Jipsa, to ensure the completion of the work that has begun, and to deepen the processes of co-ordination and alignment that have marked the work of Jipsa over the first 18 months of its existence.



In terms of the short-term future, Jipsa will retain its facilitating and catalytic roles, supported by strong political leadership from all the social partners who need to play a role inside and outside of the system. The future activities and interventions of Jipsa will thus continue to be shaped by how it engages with its partners, its ability to shape and refocus certain aspects of the project-based activities and, finally, its ability to find new solutions to old problems.

In attempting to facilitate more efficient skills delivery in these areas, it is also a strongly held view within the Jipsa structures that greater research and evaluation are required to actively guide Jipsa's deliberations through the provision of stylised facts and monitoring its impact.

Beyond the pursuance of the priority areas, it is hoped that the experience gained, human capital built and lessons learnt through the Jipsa process will not be lost. However, careful attention must be paid to the challenges of co-ordination, self-binding and voluntary co-operation, and the role of leadership.

A more detailed report of Jipsa's progress and challenges is contained in the *Jipsa Annual Report*, also published April 2008.

5. Industrial and sector strategies

5.1 Issues identified by the Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

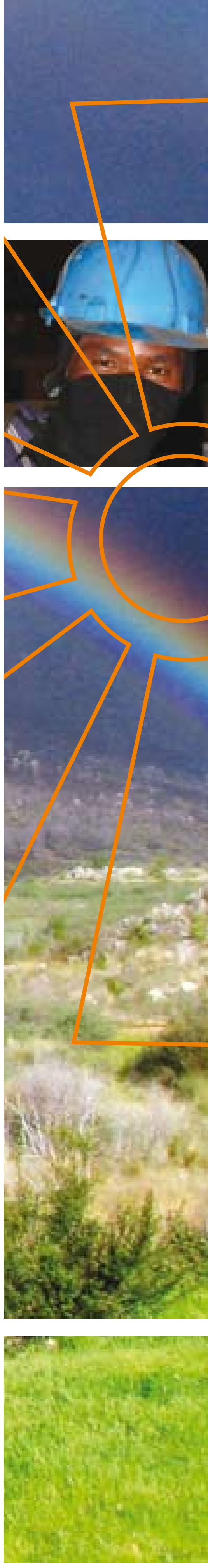
Industrial policy has three core aims, namely:

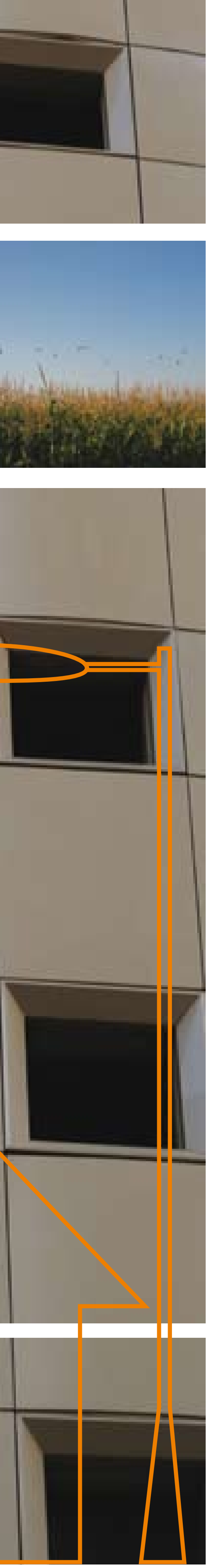
- Supporting economic activities that support shared growth by expanding both employment creation and smaller enterprises. Industrial policy should contribute to growth in industries that are both dynamic and able to generate opportunities for historically marginalised people and communities.
- To address sector-specific constraints in important industries to achieve the AsgiSA growth target. These constraints differ by industry, but may include infrastructural shortcomings, inefficient regulatory burdens, inadequate access to markets or problems with input, including skills and capital.
- To drive measures that reduce the cost of doing business for all industries, among other things, by supporting regulatory efficiency, competitive markets for input and wage goods and services, skills development and moderation in administered prices.

To achieve these objectives, sectoral programmes must work with stakeholders to identify the main constraints on investment, employment creation and small and micro-enterprises (SMEs), and come up with efficient and effective ways to collaborate in addressing them. At the same time, government has to ensure that its interventions are consistent and strategic, which requires improved capacity and collaboration across all the departments, spheres and agencies of the State.

AsgiSA's initial top priority sectors were business process outsourcing (BPO), tourism and biofuels. These industries have in common that they are labour-intensive, rapidly growing sectors worldwide, suited to South African circumstances, and open to opportunities for Broad-Based Black Economic Empowerment (BBBEE) and small business development. Additional priority sectors included agriculture and agroprocessing; chemicals; metals fabrication; the creative industries; clothing and textiles; consumer equipment; and forestry, wood and paper.

As cross-cutting industrial policy challenges, AsgiSA listed improving competition, particularly for input and wage goods; enhancing capacity for trade negotiations; a more co-ordinated African development strategy; improved incentives for private investment in research and development; and improving the use of BBBEE to encourage industry transformation beyond the transfer of equity.





5.2 Summary results

The main achievements in this area include specific policy interventions and the development of systems and capacity to improve government leadership in industrial policy in future.

At the sectoral level, significant progress continued in BPO and tourism, although the implementation of the Biofuels Strategy was delayed by technical concerns. Other important sectoral interventions have also been initiated, notably regarding agriculture and land, construction, steel and beneficiation.

Stronger and more strategic enforcement of competition policy represented a critical achievement in addressing the cross-cutting challenges. In addition, the National Economic Development and Labour Council (Nedlac) finalised a report on tariffs in economic infrastructure, and networks for trade negotiations improved, with increased participation by agricultural representatives. The finalisation of the BBBEE Codes laid the basis for a more transformatory approach.

In terms of policy coherence, under the 2007 and 2008 programmes of action, a more systematic review of key sectors began, aimed at ensuring maximised support for shared growth. The National Industrial Policy Framework and the first Industrial Policy Action Plan were finalised.

The main challenges for effective industrial policy work remain:

- the need to develop clear implementation systems that ensure co-ordination across the State as well as adequate resourcing
- the weakness of stakeholder organisations in many parts of the economy, particularly for poor and marginalised constituencies
- evaluating the likely impact of proposed programmes on the AsgiSA targets around growth, employment and poverty alleviation and monitoring their actual achievements.

5.3 Detailed results

In BPO, government has established a successful incentive scheme in mid-2007 with a budget of R110 million, which supported six investment projects that created around 10 000 employment opportunities in the first six months. In addition, the first phase of training was completed with support from the Department of Labour, and Telkom agreed in principle to a developmental pricing scheme that will support BPO in targeted rural and peri-urban communities.

The main challenges for 2008 are to accelerate implementation of the developmental pricing scheme, which requires support from the Department of Communications in particular; implementing a second year of training; and reviewing the criteria and procedures for the incentive scheme.

In tourism, the Airlift Strategy has made substantial progress, based on collaboration between the relevant departments. The main challenge remains finalising the Second Economy Strategy, including specific and targeted interventions.

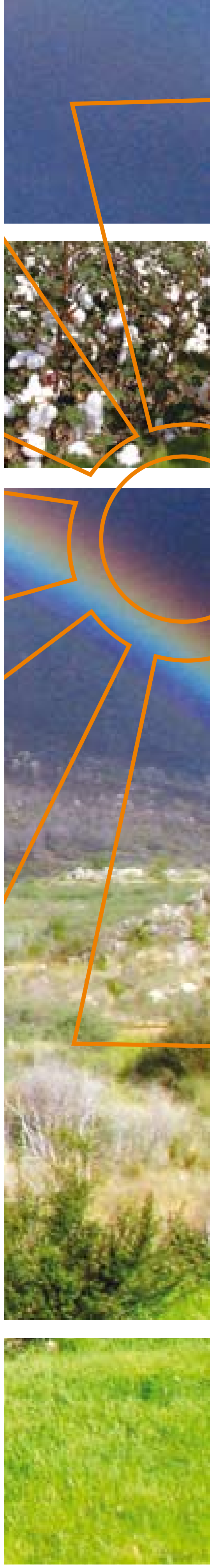
In the biofuels field, Cabinet adopted a strategy late in 2007 after dealing with concerns about food security, the level of the tax subsidy and the extent and nature of government support for ethanol use, which has led to some delays. Still, the process has stimulated increased interest in the industry, with a number of new investments on the horizon.

In addition, a number of other important sectoral interventions are underway. They include:

- The provinces and the national Department of Agriculture are working together on programmes to enhance rural production and livelihoods, which together should reach around 250 000 smallholders a year. The Eastern Cape has initiated a programme that will ultimately shift 70 000 households into cropping. The households should achieve increased food security as well as some sales of maize, cotton and canola seeds. The canola will feed a major new biodiesel plant geared primarily for exports.
- The Eastern Cape Government has begun work to expand smallholder forestry, which should improve the income of hundreds of thousands of households as well as providing input for furniture and paper. It is also working with the Department of Trade and Industry to support milling and furniture production.
- The Competition Tribunal required a new steel pricing mechanism, which has led to a significant reduction in the price of steel. This should significantly reduce production costs for fabrication, construction and mining, which are the main users of steel. In addition, the Department of Trade and Industry continues to engage with the dominant steel producers on ways to maintain efficient prices and expand downstream production.
- At Nedlac, government and stakeholders in the pharmaceutical industry agreed on the need to develop a strategy for the industry that would support a gradual expansion in local production while ensuring affordable medicines, particularly in the public sector.

In terms of cross-cutting interventions, the main developments included the following:

- The Competition Commission has enhanced capacity and has developed a strategic approach designed to ensure that its interventions support AsgiSA. It has focused effectively on key economic input and on wage goods and services, with notable successes in addressing monopolistic practices around steel pricing, bread and financial charges.
- South Africa continues to engage vigorously and strategically with trade negotiations at both bilateral and multilateral level. Capacity to support these negotiations through research and engagement at Nedlac has gradually improved. In future, the national Department of Agriculture will be represented more strongly in trade negotiations. In addition, the Department of Trade and Industry is working on a trade policy strategy to strengthen support for the overall industrial policy thrust.
- The BBBEE Codes were published early in 2007. They provide significant incentives for the broad-based aspects of BEE – notably around collective ownership, employment equity and skills development across the labour force, support for SMEs and corporate social investment. The challenge remains ensuring that business understands and implements these elements of the codes.
- The support for SMEs has been consolidated through the Small Enterprise Development Agency (Seda) and Khula Enterprise Finance. In 2006/07, 140 000 enterprises took advantage of Seda's services. SEDA's budget is expected to rise from R365 million in 2007/08 to R625 million in 2010/11. For its part, through intermediaries, Khula disbursed R655 million to 3 550 enterprises – an average of almost R200 000 each. Around half the recipients were women and 70% were black. Disbursements are expected to remain at this level for the next three years.
- Finally, substantial progress has been made in developing systems and procedures to improve the cohesion of state agencies around economic policy in the future.



The national Programme of Action committed government to developing perspectives on industries that are critical for shared growth – agriculture and agroprocessing, mining and beneficiation, retail, construction and consumer equipment.

The Industrial Policy Action Plan initiated a cycle of interventions, providing the basis for enhanced coherence and review. It focused initially on core industries falling under the Department of Trade and Industry. A challenge remains to ensure more concrete programmes with targets for investment, growth, employment and new enterprise development, and establishing a monitoring and evaluation system for each cycle.

5.4 Challenges and opportunities

Substantive opportunities for enhancing shared growth have arisen in the following areas:

- Government has committed to an agrarian development strategy, which is an Apex priority for the coming year. This strategy can play a critical role both in developing a core industry and in ensuring improved livelihoods, including in some of the poorest regions of South Africa. The strategy should include proposals to control the recent fluctuations in food prices, which has had a severely negative impact on both poor households and inflation.
- The commitment to beneficiation should translate into a better understanding of opportunities and constraints on fabrication (stages three and four), which – in contrast to smelting and refining (stages one and two) – can expand employment significantly. Crucial areas for further work include the production of input for construction and mining, and plastics based on the local petrochemicals industry.
- Retail and construction have contributed three-quarters of the growth in employment in recent years. The challenge is to maintain that growth while controlling cost escalation in construction, to enhance the quality of employment, particularly for the informal sector, and to ensure adequate support for smaller enterprises, both as participants and suppliers.
- Knowledge-intensive industries must form the pillars of future growth, although they currently remain relatively small and most do not promise much employment creation. Critical industries here include capital goods and pharmaceuticals.
- The commitment to increased investment in infrastructure should ensure long-term sustainability and reduced costs. In the short run, however, the funding mechanisms may impose higher costs on the economy. Government will work to improve understanding of the economic implications of different choices in funding new investments.

5.5 Priorities for 2008

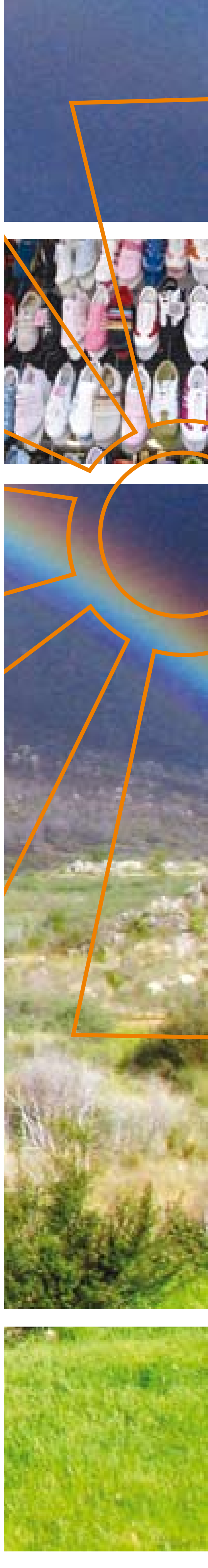
At sectoral level, the priorities for 2008 are to maintain momentum in the AsgiSA priority sectors and to develop a common perspective and key action plans for the major industries that are crucial for sustained and shared growth in the future. Proposals to achieve these aims are included in the 2008 Programme of Action. Critical steps include:

- for BPO, implementing the developmental pricing scheme and the second year of training, and performing a consistent review of the incentive scheme
- for tourism, continuing to implement the Airlift Strategy and finalising the Second Economy Strategy

- for biofuels, finalising an implementation strategy that includes measures to support smallholder production
- finalising the Agrarian Development Strategy with strong, quantified proposals on improving rural livelihoods and well-defined links to land reform
- ensuring a coherent approach to mining and beneficiation across the State, with proposals that ensure sustained growth in mining (including provision of infrastructure, an efficient regulatory framework and prospecting) and support for employment-creating fabrication
- developing strategies to upgrade informal retail and construction and assessing prospects for continued growth in these industries in the next five years
- establishing broad strategies for light industry and both public and private services that identify their core contributions to the AsgiSA targets.

The 2008 Budget provides for R2,6 billion to support industrial policy initiatives, mostly sector strategies, support for SMEs, and industrial development zones. In addition, government proposes to provide R5 billion in the form of tax incentives for industrial development over the three years up to 2011.

Among cross-cutting issues, current efforts to strengthen competition and trade strategy will continue. In addition, mechanisms must be developed to ensure the implementation of BBBEE in ways that systematically support economic transformation. Finally, the Economic, Investment and Employment Cluster will begin to develop a strategic approach to administered prices and infrastructure financing.



6. Macroeconomic developments

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) has identified the following macroeconomic principals or actions needed for sustained growth:

- reducing currency volatility through progressive improvements in macroeconomic policy management
- ensuring that inflation targeting continues to support growth
- ensuring spending efficiency and the elimination of government dissaving
- continuing improvements in budgeting to enhance economic growth
- removing obstacles to desirable forms of investment by the private and public sectors.

Though it weakened sharply in response to the current world economic slowdown and concerns about inflation and domestic growth, volatility of the Rand is now relatively low, especially compared with the volatility of the 2001 to 2002 period. The South African Reserve Bank continues to accumulate foreign reserves, which helps both to counteract a tendency to overvaluation when the prices of our exports are unusually high, and to act as a buffer against volatility in uncertain times. Gross foreign reserves rose by over 25%, from $26,6 billion at the end of 2006 to almost $33 billion at the end of 2007.

The Reserve Bank was able to build foreign reserves because, although the trade deficit remains high, the inflow of foreign capital more than compensated for it. Net investment by foreigners in South Africa continued to rise. In 2007, foreigners were net buyers of South African equities to the value of $8,9 billion (R62,8 billion)[43], and inward direct foreign investment was strong at about $5,5 billion (or R40 billion) during 2007.[44]

Inflation rose above 7% by the end of 2007, which is outside of the 3% to 6% range targeted by the Reserve Bank. Much of the inflation is imported in the form of higher fuel and food prices, which are driven by international commodity prices. The result was that the Reserve Bank raised interest rates by a further 2% over the course of the year, resulting in a prime interest rate of 14,5% by the end of 2007. Credit extension and consumption have subsequently trended sharply downwards and it is expected that the rise in the official rate has more or less peaked. If this is the case, interest rates will have peaked at a considerably lower level than during previous rate hikes since 1994 – which is another sign of increasing stability in macroeconomic variables.

The ability of the Reserve Bank to limit its rate hike was enhanced by the fact that government ran a small surplus in the last two financial years; with the result that government became a net saver in 2006 for the first time since 1981. Moderating the rate of growth of government consumption helped to reduce the tendency of the economy to overheat, and gave the monetary authorities more room in which to manoeuvre – to restrain the increase in the interest rate. The Medium Term Budget Policy Statement of 2007 introduced the concept of a structural balance budget to re-enforce this policy position.

Despite rising interest rates, the rate of investment has risen sharply. Real fixed investment grew at a rate of 14,8% in 2007, which resulted in investment rising to 20,6% of gross domestic product (GDP).[45] This is the highest investment ratio achieved since 1985, and takes South Africa rapidly towards the AsgiSA target of investment as 25% of GDP by 2014.

43 JP Morgan, 2008.

44 South African Reserve Bank, 2008.

45 South African Reserve Bank, 2008.

While private investment continues to account for two-thirds of new fixed investment and grew at 14,8% in 2007, public sector investment, as envisaged in AsgiSA, is also growing strongly. Investment by public enterprises grew at 32,6% in 2007. General government investment grew slowly by comparison.

Overall, the economy grew by 5,4% in 2006 and at over 5% in 2007. The AsgiSA growth target was for an average growth rate of more than 4,5% for the period 2004 to 2009.

Table 23: GDP growth rate (2004-2008)

GDP growth rate 2004 to 2008 (%)						
Year	2004	2005	2006	2007	2008* (estimate)	Average
GDP	4,9	5,0	5,4	5,1	4,0	4,9

(National Treasury, 2008 and South African Reserve Bank, 2008.)

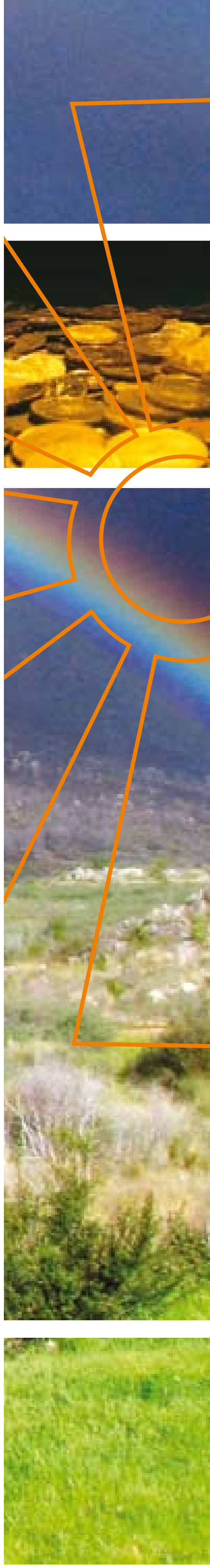
* *Estimate is that of National Treasury.*

As the table shows, it is likely that the growth rate will average in the vicinity of 4,9% for the five years up to 2008. This is above the AsgiSA target, and nearly 40% higher than the 3% average growth rate achieved in 1993 to 2003.

Real income per capita (average income per person) rose from R20 600 per person in 2001 to over R25 840 per person in 2007.[46] This is a sharp increase in per capita income. Real per capita income has been rising at around 4% per person annually since 2004.

Since March 2003, the rate of unemployment has fallen from 31,2% to 23% in September 2007. There are now about 1,8 million more people employed in South Africa than in September 2003. This is the strongest employment-creation performance we have had since 1994. A striking feature of our employment numbers is that essentially all of our increase in jobs since 2001 has been though the creation of jobs in the formal sector.[47] The type of jobs we are creating are thus “proper” jobs, mostly under the scrutiny of trade unions and the State, covered by labour laws and safety regulations. The quality of jobs has also improved as the real wage grew by about 3,4% annually between 2003 and 2007.[48]

Poverty has also been addressed in the right direction. Using an unofficial poverty line of R3 000 per year (in 2000), the percentage of South Africans living below the poverty line fell from 51,4% in 2001 to 43,2% in 2006. The poverty gap, which is the gap between the average incomes of those below the poverty line and the poverty line itself, fell by about 20% between 2001 and 2006. The income of the poorest 10% of the population rose from R519 in 2001 to R734 (in constant rands) in 2006. This has been an increase of 40% in only five years, according to an estimate by Van der Berg.[49] More recently, the *Income and Expenditure Survey* reported that incomes of the poorest 10% rose by nearly 80% between 2000 and 2006.[50]



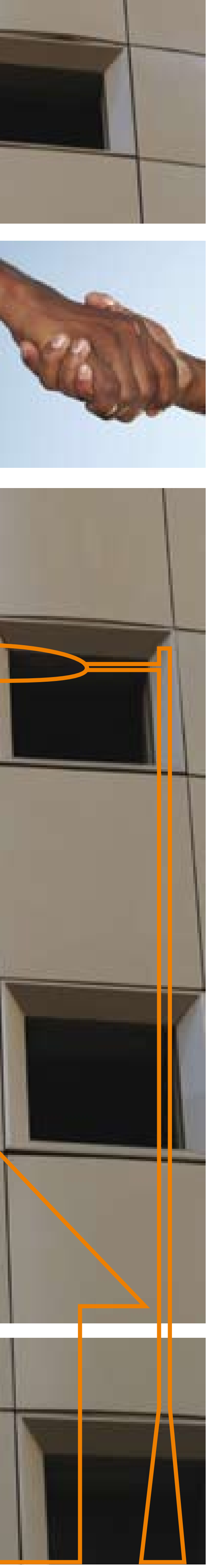
46 Ibid.

47 Statistics South Africa, 2007.

48 Statistics South Africa, 2003 and Statistics South Africa, 2007.

49 Van der Berg et al*, 2007.*

50 Statistics South Africa, 2008.

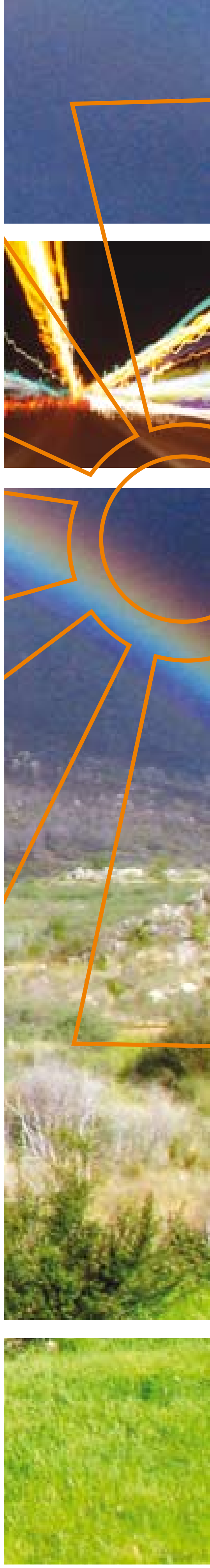


Poverty and unemployment levels remain unacceptably high, and the challenge of reducing poverty and inequality remains. However, the broad trends are currently in the right direction.

While we have achieved greater macroeconomic stability, many challenges remain. The fundamental challenge is to reduce poverty and inequality from still high levels. The key macroeconomic challenges are a large current account deficit and inflation above the target band.

Therefore, key macroeconomic areas of focus for 2008 are:

- bringing inflation under control without discouraging investment or slowing growth excessively
- continuing to guard against the volatility of the currency through continued accumulation of reserves
- ensuring that fiscal policy continues to support growth and broad-based development, but does not contribute to overheating the economy
- ensuring that South African products and services continue becoming more competitive in export markets through suitable trade, marketing, industrial and innovation policies, infrastructure investment and macroeconomic policies.



7. Governance and institutional issues

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) has identified the critical importance of the organisation and capacity of the State in relation to the challenge of accelerated and shared economic growth, and prioritised a number of interventions in this area in the *2006 Annual Report*. These included:

- implementing recommendations from the capacity assessment in relation to public transport strategy, micro-finance initiatives and issuing minerals and petroleum licences
- implementing recommendations of Vulindlela to enhance the human resources function, job retention and recruitment and organisational structure within the departments of trade and industry, of minerals and energy, of agriculture and provincial economic departments
- implementing the mainstreaming of the Project Consolidate approach to all 283 municipalities into the Five-Year Local Government Strategic Agenda (2006-2011)
- finalising the review of development finance institutions (DFIs) by January 2008
- piloting and implementing appropriate regulatory impact assessment (RIA) tools
- finalising implementation of new environmental impact assessment (EIA) processes and introducing alternative environmental impact management tools where appropriate
- finalising and introducing into Parliament the Land Use Management Bill
- introducing a one-stop investor centre within the context of restructuring trade and investment marketing and promotion of South Africa.

Assessments of departments' capacity to support the implementation of AsgiSA were conducted. An assessment was conducted of the capacity of the Department of Transport to implement the Public Transport Strategy. The report found that the current structure of the Public Transport Branch had a 42% vacancy rate. Changes to the structure were proposed, adding an additional 45 posts. The report concluded that there was insufficient capacity in the national Department of Transport to implement the Integrated Public Transport Strategy. The future focus of the national department, it was argued, should be on co-ordinating and monitoring the activities of other spheres of government, as well as laying down the broad policy parameters and strategic framework in which the provinces, metros and district municipalities must operate.

The Governance and Administration Cluster conducted an assessment of the capacity requirements for the effective and efficient implementation of the microlending projects of the departments of agriculture and of trade and industry. The lack of sophistication of many applicants, and the capacity gaps in some instances of those who process applications, have led to poor-quality applications and delays. Training programmes were developed after the staffing structures had been developed, as the pilots unfolded. The biggest risk for both schemes, however, was the insufficient reporting and monitoring systems in place.

A study was undertaken to establish whether the licensing processes at the Department of Minerals and Energy required re-engineering, since delays were experienced with the processing of applications. The study concluded that re-engineering of the department's licensing processes wasn't necessary. However, the study found that the process could be made more efficient and proposed and implemented a training programme for the department's staff, especially in the regional offices, to ensure greater understanding of the requirements of the Minerals and Petroleum Resources Development Act, 2002 (Act 28 of 2002)

Vulindlela conducted analyses in the departments of minerals and energy and of agriculture and in provincial economic departments. The retention of key personnel was identified as a serious need in these departments. The shortage of professionals re-emphasised the need for a remuneration dispensation that recognised the contribution of professionals in the Public Service.

In January 2006, the Project Consolidate approach was incorporated and mainstreamed into the Five-Year Local Government Strategic Agenda (2006-2011). Since then, a particular focus has remained on the targeted Project Consolidate municipalities. By the end of 2007, a total of 359 experts had been deployed to 105 Project Consolidate municipalities. A number of key partners, such as the Siyenza Manje initiative of the Development Bank of Southern Africa (DBSA), have also played a valuable role in improving municipalities' capacity. The involvement of national and provincial-sector departments in support of local governments has also improved, with more departments participating in the development of local government sector plans.

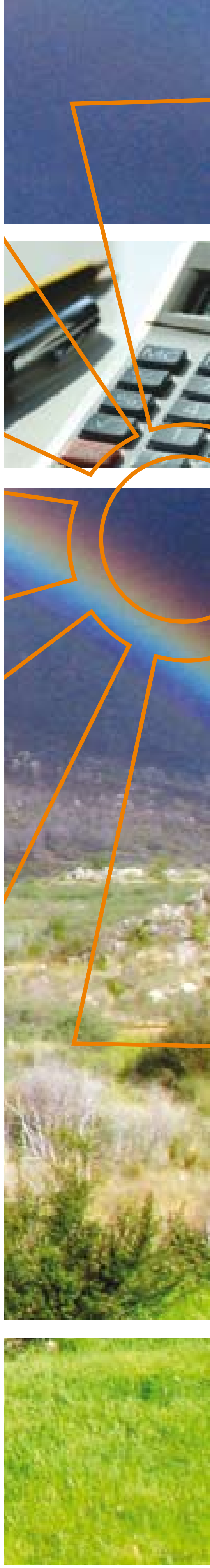
The review of the EIA process is complete, and revised regulations have been promulgated. The impact so far has seen a reduced number of EIA processes, faster EIA processes for activities with minimum impact, greater awareness of environmental consequences, improved governance systems and improved coordination between government departments.

In February 2007, Cabinet approved that RIA be implemented in South Africa through a two-year pilot phase. RIA is a methodology for improving the quality of regulation by systematically reviewing the potential impacts of proposed legislation and regulations. It is aimed to assist government and regulators to assess the likely direct and indirect costs and benefits of proposed regulations to various stakeholders as well as to understand the wider systemic consequences of introducing new rules into the existing regulatory environment. The pilot will include legislation at various stages in the law-making process, and will be based on the list of legislation proposed to Parliament, drawn up by the leader of the Government Business Unit situated in the Cabinet Office. In addition, the pilot will include one piece of existing legislation. One of the required outputs of the pilot is to facilitate and recommend basic training for RIA.

Since March 2007, the Implementation Committee, made up of members of National Treasury and The Presidency, has been convened. There has been agreement on the allocation of responsibilities between the two departments and an implementation plan for the pilot has been compiled to implement the South African RIA pilot phase. In terms of the plan, the first six months of the pilot will be spent on staffing the RIA units, developing a training programme and refining the valuation techniques to be used in RIA. The RIA website has been developed, training manuals are being compiled and consultations with relevant departments have been initiated for the selection of potential legislation that would be suitable for the pilot phase. The RIA implementation committee will report to Cabinet every six months on progress made with regard to the implementation of the RIA pilot.

The review of DFIs is expected to be completed by the first half of 2008. The exercise is aimed at ensuring that the mandates and operations of DFIs are co-ordinated and that they use economic resources more effectively and with greater efficiency in support of government's policy objectives. The review will cover the Industrial Development Corporation, Independent Development Trust, Khula, Land Bank, National Empowerment Fund, National Housing Finance Corporation, National Urban Reconstruction and Housing Agency, Rural Housing Loan Fund, Umsobomvu and DBSA.

The Land Use Management Bill was sent to Parliament in 2008. The one-stop investor call centre is one of government's priority projects and is expected to be operationalised during 2008.



Conclusion

The six preceding chapters sketch progress in addressing the key constraints of AsgiSA, and has made recommendations on some important areas. The evidence indicates that progress is being made, especially in infrastructure investment. And because of this, our faster growth rate exposes new areas that need attention almost daily.

Some of South Africa's notable achievements towards AsgiSA objectives are:

- raising the growth rate to an average of over 5% in recent years
- increasing the rate of investment to over 20% of gross domestic product from 15%
- increasing the rate of investment of government to over 10% annually, and that of public enterprises to an even higher level
- introducing effective tracking mechanisms for government projects
- reducing unnecessary red tape, for example in the implementation of ETAs
- getting universities to commit to rapidly increasing their output of engineers over the next three years
- developing new pathways to more than double the annual output of artisans
- developing and introducing key new sector strategies and an industrial policy action plan
- developing amendments to the Competition Act, 1998 (Act 89 of 1998)
- implementing successful programmes in the form of Project Consolidate and Siyenza Manje to support the strengthening of municipal management
- reducing the volatility of the currency and the severity of interest rate cycles.

The accounts and proposals put forward in this report will be shared with key stakeholders in government and in the broader economic community – business and trade unions in particular. In doing so we should be able to improve the quality and effectiveness of our policy development and implementation.

If we are able to continue to improve the quality of our policies and their effective implementation, there is a fair chance that we will be able to achieve the ambitious target of halving poverty and unemployment between 2004 and 2014. However, this will not happen without the continued effort that AsgiSA is designed to encourage.

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