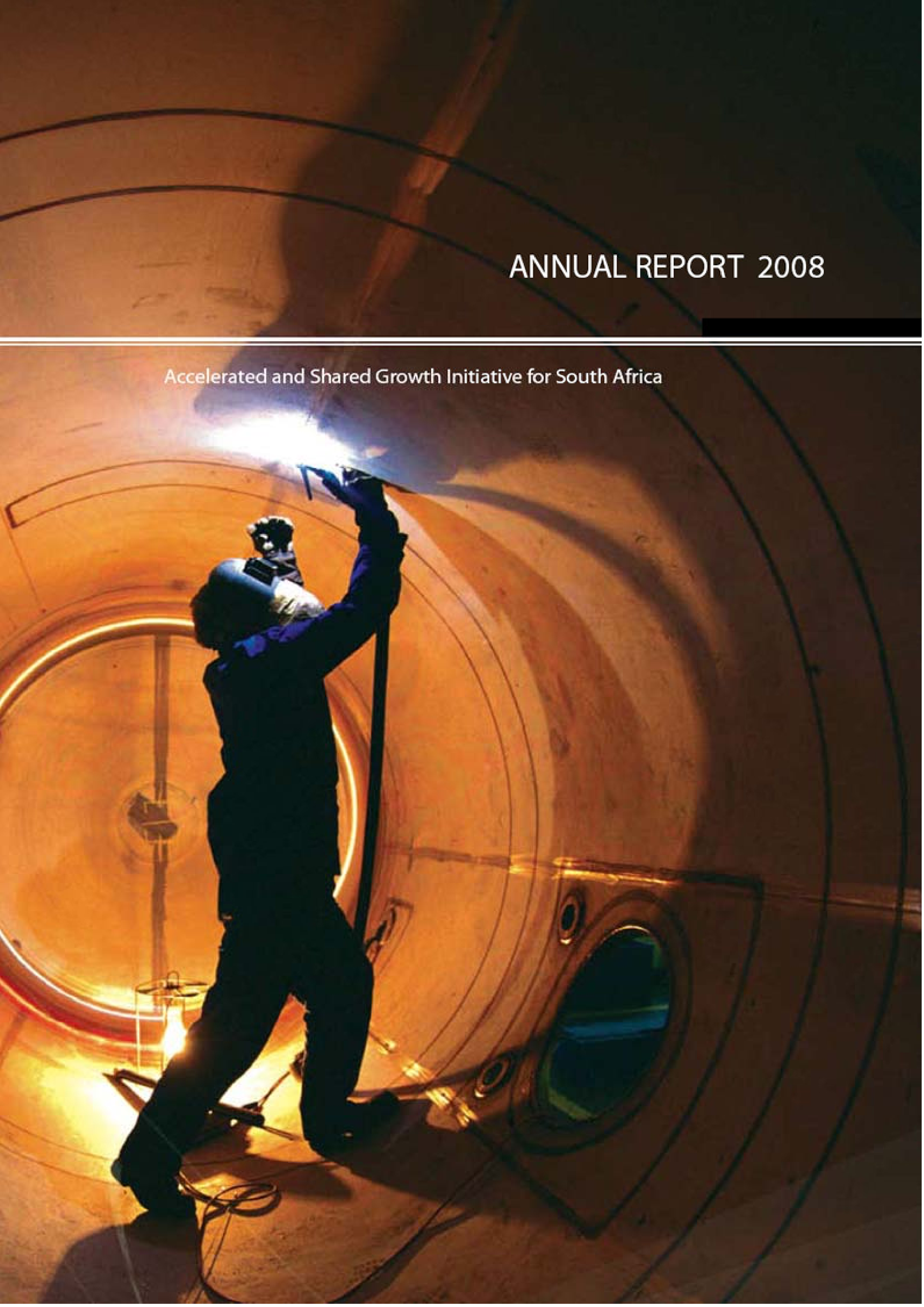
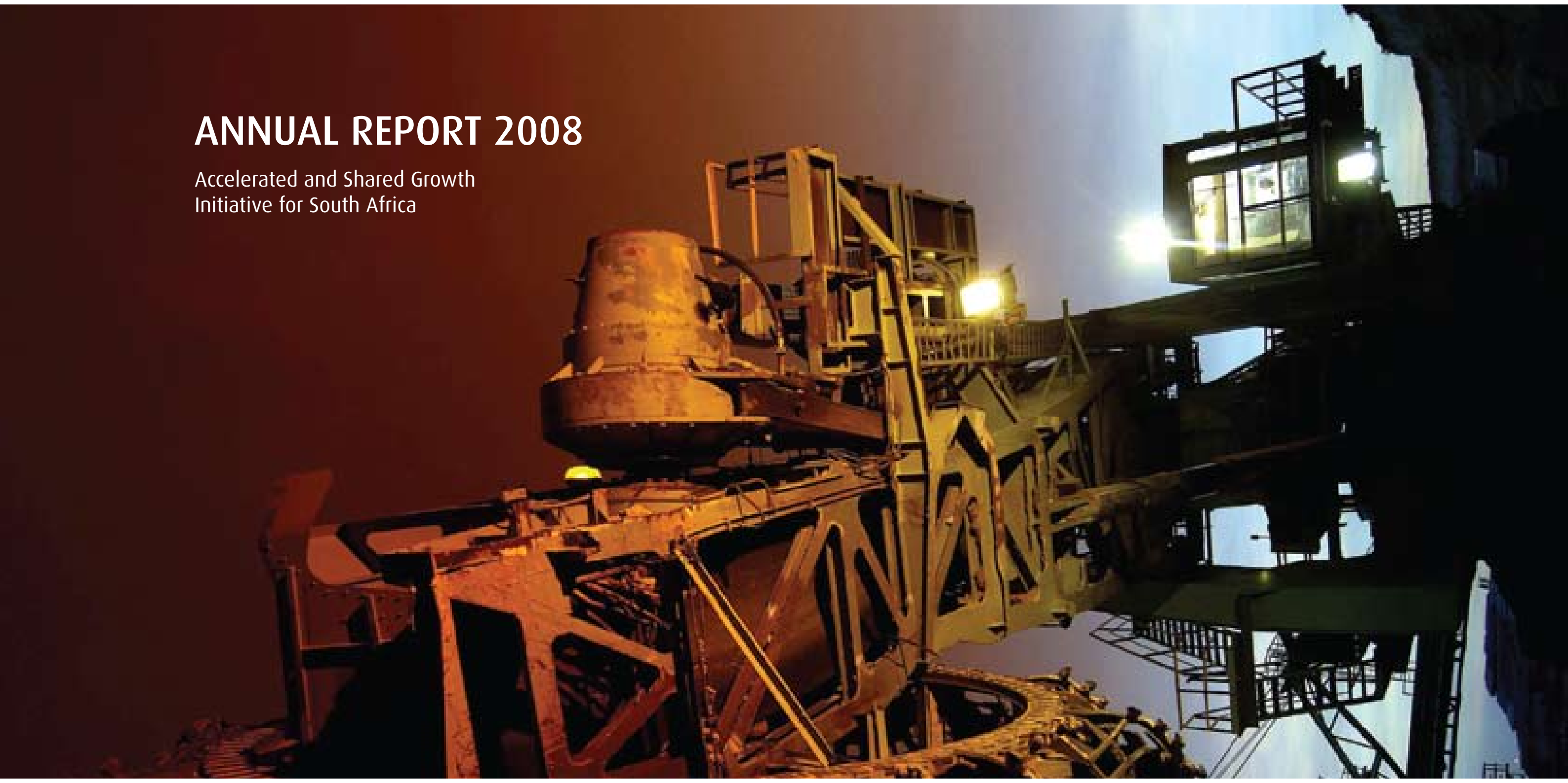
ANNUAL REPORT 2008

Accelerated and Shared Growth Initiative for South Africa





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THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA

Preface

We are pleased to present our third annual report of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). The reporting period coincides with a global economic meltdown of potentially historic proportion, and some of the AsgiSA programmes have been critical to South Africa's relative resilience on a global scale.

AsgiSA's mandate is to reduce unemployment and poverty, while increasing the country's gross domestic product growth rate to a sustainable level of 6% by 2010, through marshalling government and private resources to "eliminating" constraints identified as:

- infrastructure backlogs
- shortage of skills and cost impact on low-skilled labour of the apartheid spatial system
- poor international competitiveness of much of our manufacturing and tradable services sectors
- the relative volatility of the currency
- the regulatory environment for small and medium-sized business and the weakness of the Second Economy
- the inadequate capacity of government organs to support economic development.

Programmes put in place to "eliminate" these constraints include:

- infrastructure investment
- second-economy initiatives
- skills and education (Joint Initiative for Priority Skills Acquisition)
- industrial policies and sector strategies
- macroeconomic policy
- governance interventions

And all have been severely jeopardised by the ensuing global events.

Infrastructure, which is one of AsgiSA's six priorities for intervention, has produced encouraging results, with meaningful growth in gross fixed capital formation, driven particularly by the public sector. There could be better alignment between the budgeting process and projects committed in all governmental departments. National Teasury has implemented an

Infrastructure Development Improvement Programme to make this process more efficient. The massive infrastructure programme being implemented and planned is opportune and now forms one of the main pillars of South Africa's response to the global economic crises, and indeed as the Minister of Finance said in his 2009 Budget speech, "we are fortunate in that the infrastructure programme is shovel ready".

Of the six priority areas, the Second Economy and small, medium and micro-enterprise development, were highlighted in the previous *AsgiSA Annual Report* as a focus area for the current year. It can be said that this is not without foresight as the current economic crisis has the potential to impact severely on the "economically marginalised" population. During the reporting period, the Second-Economy Strategy Project was initiated. Phase One, which was to assess the performance of and challenges facing government departments in this regard, is completed. Phase Two, which is featured strongly in this report, puts together foundation pillars for an expanded strategy to support the Second Economy, without duplicating the efforts of already active programmes.

The Second-Economy Strategy has an extremely important role in the current environment, not only in the context of not losing the momentum gained in reducing unemployment over the last three years, but also providing creative employment-generating solutions. Examples include the ongoing efforts of the Expanded Public Works Programme, particularly at local government level, and the primary sectors, particularly agriculture. There is much still to be done, but there is a massive amount to gain from these initiatives.

AsgiSA is a "shared" initiative, and is intrinsically dependent on the contribution of all the country's stakeholders. "Working together, we can do more". An immense amount has been achieved during the last three years, and this success must continue, albeit swimming against a stronger economic current.

Deputy President Baleka Mbete
April 2009

1. Introduction

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) was prepared during 2005 and launched in February 2006. Its objectives were to introduce policies, programmes and interventions that would allow the South African economy to grow enough to halve poverty and unemployment between 2004 and 2014.

The global economy has entered a difficult period with many major economies in recession and many developing economies growing much more slowly than in recent times. This recessionary period may continue for longer than previously expected and may get still deeper – it is still hard to predict the direction and timing of future developments in the world economy.

The result is that the original AsgiSA target of growing at an average rate of 6% between 2010 and 2014 now may appear implausible. In turn, the target of reducing poverty by half to 14% or less in 2010 may appear to be endangered, and possibly also the target of halving poverty between 2004 and 2014. What are the implications of the current crisis for AsgiSA?

When AsgiSA was launched in February 2006, the "binding constraints" on growth and employment creation were identified as:

- deficiencies in government 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").

Strategies or interventions tailored to address these six areas were developed and implemented. Some of these strategies are widely credited to have had a significant impact. The overall result was that unemployment was reduced quite dramatically from a peak of over 31% in 2003 to around 22% by late 2008. Similarly, poverty fell quite considerably in this period, due to the expansion of social grants and higher levels of employment. Had we continued to grow at a similar rate to the 5% or more of 2004 to 2007, the targets looked achievable.

Now the targets look more difficult. Because of the unpredictability of the economic future at this time, the targets to 2014 have not been revised. However, even though conditions have changed, we do not think that the AsgiSA targets are any less relevant than they were when they were introduced. The six areas of work remain crucial for our successful economic future.

Indeed, the fact that we have a R787-billion AsgiSA infrastructure development programme in place means that we had a countercyclical government investment programme lined up before the world slowdown appeared on the horizon. The other interventions are equally no less relevant today than they were in 2005.

Skills remain in relatively short supply, even though our performance in developing skills has begun to improve. The level of the currency is still relevant, even though the current level and stability of the currency is a welcome and effective response to the current challenges. Government capacity is still below desirable levels, even though the performance of some agencies, such as the Department of Home Affairs, has begun to improve. Industrial development still requires interventions to support stronger development, though the current concern is sustainability and survival during the crisis.

The severe inequality of the South African economy, encapsulated in the term "two economies", remains a searing human issue and a cause for concern about our economic sustainability. The "Second-Economy Project", reported in some detail in the next chapter, has a number of important proposals for reducing economic inequalities, including ways of growing the Expanded Public Works Programme (EPWP) and improving the market opportunities for the poor and the unemployed. These strategies will form a significant component of an Anti-Poverty Strategy, which is currently being finalised.

In short, while the ultimate targets of AsgiSA look more difficult to achieve than they did a year or two ago, the specific interventions included in AsgiSA remain as pertinent as they ever were. For this reason, this report examines the implementation of the AsgiSA initiatives, and makes a number of suggestions for improved performance in the future.

2. Macroeconomic overview

To achieve the objective of halving poverty and unemployment by 2014, AsgiSA estimated that the economy would need to grow on average by 4,5% per annum between 2004 and 2009, and reach an average growth of 6% for the period 2010 to 2014. To achieve this accelerated growth, it was estimated that gross fixed capital formation (GFCF as physical investment spending) will need to grow by about 10% a year, with investment as a percentage of gross domestic product (GDP) rising from 16% to 25% by 2014.

In respect of macroeconomic policy, AsgiSA argued that inflation targeting should remain a government policy to lower inflation and interest rate volatility; thereby not only reducing exchange rate volatility but also positively contributing to lowering international risk premiums. AsgiSA also argued for retaining the policy of a floating exchange rate regarding the value of currency and currency volatility, and that the fiscal and monetary authorities must explore possibilities and opportunities to reduce the currency's volatility and ensure, as far as possible, that the level and stability of the currency supports balanced growth. This should include committing resources to support accumulation of foreign exchange reserves.

Economic growth averaged 3% for the period 1994 to 2003 and averaged growth of over 5% from 2004 to 2007 – the AsgiSA period. This robust growth was backed by progressively entrenched macroeconomic stability accompanied by sound and transparent fiscal and monetary policies. This resulted in, among other things, a relatively lower inflation and interest rate environment, the closing of the forward book by the South African Reserve Bank (SARB) and a build-up of foreign exchange reserves. It is possible to question whether a more vigorous reserve accumulation strategy and a more cautious fiscal policy should have been followed, as a relatively overvalued exchange rate and rapidly expanding demand contributed to a rising balance of payments deficit, which eventually undermined our performance.

Real annual GDP at market prices increased by 3,1% in 2008, following an increase of 5,1% in 2007. The slowdown in growth for 2008 is mainly as a result of the electricity emergency in the first quarter of 2008 when growth of only 1,7% was recorded and a decline of growth of 1,8% in the fourth quarter as the global economic crisis started impacting on the South African economy. While the growth target was hit for the first four years of AsgiSA, the next period will be a greater challenge.

Inflation accelerated way beyond the upper limit of the inflation target range of 3% to 6% during 2008 with CPIX inflation peaking at 13,6% in August 2008, mainly as a result of higher global commodity prices, in particular energy prices and a weaker exchange value of the Rand. Since then, inflation has decelerated and is expected to be back within the inflation target range by the third quarter of 2009 as global economic growth slows down as a result of the financial market turmoil and the sharp decrease in commodity prices. In November and December 2008, inflation declined to 12,1% and 10,3%, respectively. The official inflation rate (i.e. the percentage change in the CPI for all urban areas at January 2009 compared with that at January 2008) was 8,1% at January 2009. It should be noted that in October 2008, the Minister of Finance announced that the new headline consumer price index (CPI) for all urban areas would become the new inflation target measure replacing the CPIX.

The global economic crisis started to impact on the economy in 2008, resulting in declining economic growth recorded in the last quarter. The global crisis was preceded by a sharp tightening in domestic interest rates to counteract rising inflation, resulting in a double blow to growth.

Despite the monetary tightening, the rate of investment rose sharply with real fixed investment growing at an annual rate of 10% in the third quarter of 2008 and investment reaching 24% of GDP. The AsgiSA investment rate target was virtually achieved five years early. While private-sector investment continues to grow but at a much slower pace, the growth in investment spending is mainly due to increased capital expenditure by public corporations and general government.

The deficit of the current account on the balance of payments remains the Achilles' heel of the South African economy. By 2004, when the economy's growth rate exceeded 4% per annum, the current account moved into deficit. Largely as a result of the low interest rate environment since 2003, the rapid growth in government expenditure and an overvalued exchange rate, the surge in demand resulted in growing demand for imported goods and imported capital goods as firms expanded their production capacity and government accelerated its investment in necessary infrastructure. While exports as a percentage of GDP grew from 21% in 1994 to over 30% in 2006, growth in imports outstripped the growth in exports.

The deficit on the current account of the payments balance, however, was comfortably financed as long as foreign investors were attracted to South Africa – with a substantial increase of foreign capital entering South Africa up to 2008. Most of the foreign investment has, however, been in the form of portfolio investments, mainly on the JSE Securities Exchange and in South African government bonds. Given current global economic conditions and turmoil in global financial markets, financing of the deficit is of concern and could negatively impact growth going forward.

What has been learnt in the recent period is that a pro-cyclical fiscal policy along with an overvalued currency was a recipe for overheating – the South African economy would have been forced to cut back in the current period even without the global slowdown. In the next round of growth, government might prefer to try to balance the macroeconomic variables more carefully to avoid premature overheating and a stop-start growth pattern.

3. Second-Economy Initiatives

3.1. Background

The *AsgiSA Annual Report*, presented in February 2007, identified a need for more focus on "the Second Economy"', and on mechanisms to ensure shared growth reaches the margins of the economy. It was in this context that the Second-Economy Strategy Project was initiated. It reports to the AsgiSA High Level Task Team in The Presidency.

Phase One was to review the performance of existing government programmes targeting the Second Economy. This process was completed in early 2008 and the outcomes are available at *www.tips.org.za*. The aim of Phase Two was to develop an expanded strategy for the Second Economy, building on existing programmes where possible and innovating where necessary.

Research and policy proposals from the process were presented to a "Work in Progress" workshop in May 2008 and to a conference entitled "Second-Economy Strategy: Addressing Inequality and Economic Marginalisation", held from 29 September to 1 October 2008. A framework and a set of "headline strategies"' resulting from these processes are summarised here. These have been presented and approved for infusing/mainstreaming into government policy, strategies and programmes by the January Lekgotla.

As well as this research, there were projects that were implemented within the Second Economy ambit, and these include Jobs for Growth, youth programmes and Mzansi stores, all of which will be reported on below.

3.2 The Second-Economy Research Project

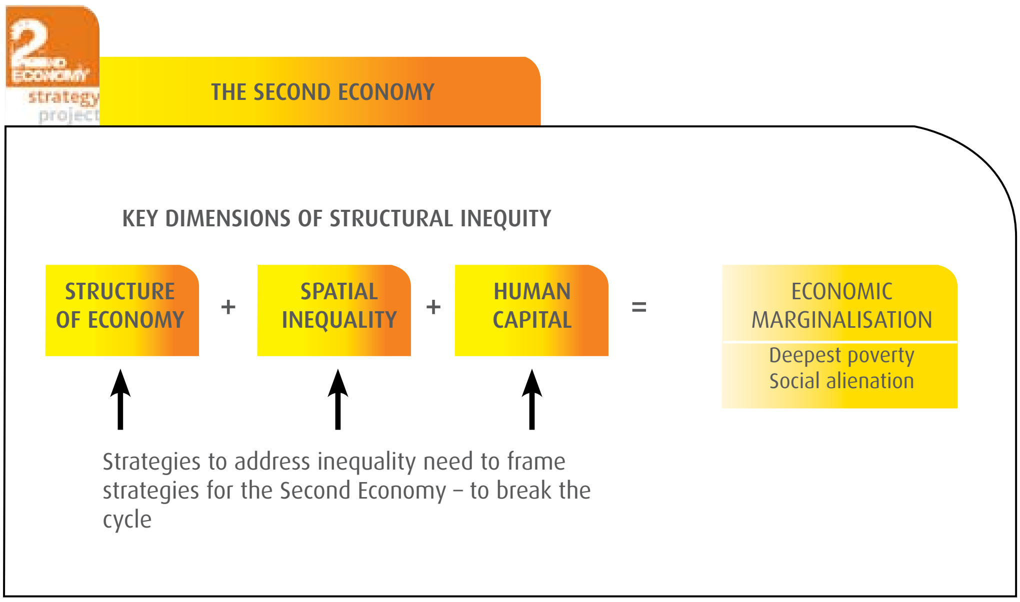
3.2.1 What is the "Second Economy"?

South Africa has a highly unequal economy in which people with access to wealth experience the country as a developed modern economy, while the poorest still struggle to access even the most basic services. The differences in conditions between the two are so stark they appear to be worlds apart – giving the notion of "two economies" resonance. Yet, these realities are in fact connected and interdependent in a range of complex ways, with certain common processes producing or reinforcing these extremes in access and opportunity. Analysing these processes has been a long-standing source of debate in South Africa – this debate necessarily also informs the development of a strategy for the Second Economy.

The approach taken in the Second-Economy strategy process has been to use the terms "first" and "second" economy to describe the conditions at the two different ends of this spectrum: with wealth and resources concentrated at one end – and poverty and disadvantage at the other; with a strong focus on how certain key legacies of apartheid make this inequality deeply structural, in particular the:

- centralised monopoly structure of South Africa's core economy, including the labour market legacies of pass laws and a historical reliance on unskilled cheap labour
- spatial legacy of bantustans and apartheid cities
- the highly skewed distribution of assets (including land, capital and also human capital).

Despite the many changes in South African society since 1994, these forms of structural inequality continue to hamper the best efforts of development policy, reinforcing old forms of economic marginalisation at the same time as facilitating new ones. The concept of the "Second Economy" is used to describe this economic marginalisation, and the poverty and social alienation that characterise it – in order to focus policy attention on the need to change it.



3.2.2 The purpose of a "second-economy strategy"

A strategy for the Second Economy is intended to contribute to the following goals:

- to create employment – widely recognised as South Africa's single biggest priority for addressing poverty, inequality and economic marginalisation
- to improve the terms on which people participate in the economy – whether they are working for themselves or someone else – so that such participation lifts them out of poverty
- to increase poor people's ability to gain and secure assets
- to ensure basic needs are accessible and affordable
- to improve the distribution of returns from economic activity more equitably across society.

The strategy targets people who are willing and able to earn a living, but are either unemployed, or earn too little to exit from poverty. These include the unemployed, discouraged work-seekers, the working poor, many in the informal sector as well as subsistence or poor farmers. These come to about 11,6 million people, almost all of whom are black, with women and youth most affected, particularly in rural areas – especially in former bantustan areas.

The Second-Economy Strategy is focused on the economic dimensions of the Anti-Poverty Strategy and is aligned with its key proposals and targets. Social policy and basic service-delivery issues were excluded from the terms of reference but their crucial contribution to the livelihoods of poor people is recognised throughout.

3.2.3 Outcomes of the review of existing second-economy programmes

The review of existing government programmes targeting the Second Economy was completed in January 2008 and is available at *www.tips.org.za*. Certain cross-cutting issues are highlighted here because of their implications for future strategies and programme design.

3.2.4 Challenges of achieving impacts at scale

Most national programmes explicitly targeting the Second Economy are not designed to impact at the scale required to make a difference at a societal level – many have targets of below 50 000 people, with few actually reaching this level.

Instead, such programmes often focus on implementation at project level, targeting a limited number of direct beneficiaries and leaving systems and structures unchanged. They are also often very management-intensive for government or its agents, limiting their scope to achieve the scale required.

Achieving impacts at scale cannot therefore rely simply on scaling-up existing approaches, but has to look at how to design and deliver programmes differently – in ways that achieve a more systemic, societal-level impact.

3.2.5 Weak impacts on market outcomes

Many second-economy programmes are designed to achieve impacts that are measured as market-based outcomes – by creating more jobs, better jobs, more micro-enterprises or better returns to entrepreneurs as an example.

While government plays a crucial role in shaping markets, its ability to impact on market outcomes is nevertheless largely indirect – far more indirect, for example, than in relation to public goods or the social programmes, where the delivery of social grants or classrooms is primarily a function of government's own budget processes and delivery capacity.

The review highlighted that so far, government has not had great success where outcomes depend on a market response, particularly in marginal economic contexts. This was attributed to two main factors:

- Insufficient account taken of the limits imposed by the structure of the economy and other forms of structural inequality (see below).
- Lack of clarity on how best to identify and wield the diverse instruments available to the State to achieve the market outcomes intended. Programmes that aim to impact on market outcomes too often miss the mark; they sometimes even cause unintended negative consequences that deepen market failures rather than supporting the kind of market development or market change processes intended.

3.2.6 Unwieldy budget and governance structures

The review also highlighted that many second-economy programmes have to secure budgets from within other existing allocations, and most require co-ordination between departments as well as between spheres of government – all notoriously difficult to achieve.

3.2.7 Lack of voice and advocacy from below

Finally, the lack of organisation or advocacy able to represent the interests of marginalised constituencies constrains government's effectiveness in targeting their needs.

3.3 Second-Economy Strategy: addressing inequality and economic marginalisation

The Second-Economy Strategy Project commissioned a range of research and engaged with practitioners and policy-makers inside and outside government. The framework proposed is based on the following core arguments arising from this process:

3.3.1 While the main target is to end poverty, inequality matters as an issue for the following key reasons:

- In South Africa, structural inequality plays a key role in sustaining diverse forms of economic marginalisation and limits the potential for growth and employment creation.
- Evidence suggests that highly unequal societies tend to grow more slowly, and that the effects of such growth tend not to be pro-poor. *(World Development Report, 2006)*. Addressing inequality is therefore a necessary part of a strategy to achieve shared growth.
- In South Africa, the levels of growth required to impact significantly on poverty within current patterns of distribution are probably unattainable; shifts in the patterns of distribution are therefore a necessary part of an anti-poverty strategy.
- High levels of inequality can cause social conflict. This is undesirable on its own terms, but it has economic as well as social costs.

3.3.2 The structure of the South African economy constrains employment creation in the core economy as well as in more marginal contexts

In the core economy: The South African economy is highly centralised, capital-intensive and dominated by a set of monopoly industries. Capital-intensive industries tend to exclude small and medium-sized enterprise (SME) participation and make employment creation expensive. While the focus of policy has been to try to address this within the core economy, through the introduction of effective competition policy, for example, such policies should also be seen as part of the Second-Economy Strategy – because of the ways in which the structure of the economy also impacts on the scope for enterprise development and employment creation in more marginal contexts.

On the margins: In many developing countries, the informal sector provides easy access to livelihood opportunities for those unable to find formal employment. South Africa's relatively small SME sector is often attributed to factors such as lack of skills and entrepreneurship or access to credit. Important as these are, this tends to overlook the way the structure of the economy constrains the scope for growth in this sector, for the following reasons:

- The scope for small manufacturing enterprises targeting poor consumers is small because most manufactured consumer goods bought by poor people are already mass-produced in the core economy and are available even in remote areas.
- Access to opportunities beyond the local economy, in higher volume and/or higher-value markets tends to require greater levels of formality. While this is where the most scope for SME development and job creation exists, there are higher barriers to entry in these markets.
- While there is some scope in relation to fresh produce and services, these also tend to be relatively small in scale, unless they're part of more formal value chains.
- The scope for small artisan-based enterprises is limited by the skills challenge and the high demand for such skills in the formal sector.

As a result, South Africa's informal and/or micro-enterprise sector is unusually dominated by retail activity, often in a dependent relationship to the core economy. There are limits to the scope for this sector to expand, or for street traders or spazas to climb a "ladder" into more formal enterprise: that space is taken, with "big retail" also increasingly encroaching into markets currently served by this sector.

3.3.3 The small farming sector and subsistence agriculture perform a very limited employment and/or safety net function in South Africa

In many developing countries, such as India, China and Tanzania, the small farming sector is a dynamic part of food production and of rural local economies, and subsistence agriculture provides a form of safety net when employment opportunities fail. In South Africa, this role is severely constrained.

The coercive processes that forced black South Africans off the land and the men into labour markets in the early part of the last century destroyed the small farming sector and led to the "de-agrarianisation" of former bantustan areas.

These processes stand in contrast to the active policies of support to white farmers over the same period. There have been decades of investment – including substantial subsidies – into the development of a "big farm" model and the institutions required to support it: including access to land, water, input, credit, business services, infrastructure, and market access as well as opportunities to share in the development of an increasingly vertically-integrated agro-processing sector.

In the former bantustans, however, these processes were mirrored by their opposites: those attempting to engage in agricultural production on increasingly small plots of land were not supported by the development of any of the institutions required to make a small-farm model viable. These two agricultural development paths still co-exist in an uneasy relationship, further complicated by different tenure arrangements – posing a challenge for the development of a unified agricultural strategy.

3.3.4 The former bantustans face a chronic development deficit

This skewed investment in agriculture was mirrored by skewed investment in human capital, economic infrastructure, and access to basic services within the bantustans. This was coupled with coercive and patronage-based governance structures, including customary systems in which women's economic initiative was constrained – even though men were often absent. The former bantustans still have far to go to remedy these defects: they are also still home to the poorest people in South Africa, and the poorest women in particular.

3.3.5 Poor people are unusually dependant on wages and/or grants in South Africa; these in turn depend heavily on the performance of the core urban economy

The constraints on the micro-enterprise sector described above, coupled with the limited role played by smallholder or subsistence agriculture, mean that poor people in South Africa are unusually dependent on wage income and/or grant income, relative to other developing economies. Both of these depend heavily on the performance of the core economy. Effective implementation of strategies to address the "binding constraints" that limit economic dynamism at this level – the AsgiSA agenda – remains vital. In addition, the fact that the "core economy" is mainly an urban economy also has implications for strategy.

3.3.6 Urban inefficiencies constrain growth and place a cost burden on workers and the poor

The high level of dependence on the core urban economy casts the spotlight on the capacity of urban areas to support employment creation, access and opportunities at the scale required. However, urban areas face a set of problems of their own.

Urban infrastructure is locked into the inefficient patterns created by apartheid – compounded since then by implementation choices and land market logics that continue to house poor people far away from economic opportunities, in poorly-planned, low-density housing settlements that have high service costs, lack social-service infrastructure and do not facilitate local economic activity. For example, the decision to supply only two-phase electricity for lighting in many housing developments constrains the use of fridges, freezers, welding or other equipment used by home-based enterprises, in a context in which in Gauteng, for example, 69% of SMEs are home-based *(Finscope Small Business Survey Report, 2006).*

These new housing developments have not, however, managed to keep up with the influx to urban areas, where ongoing growth in informal settlements and backyard shacks provide the most visible manifestation of the "Second Economy" in urban areas – and where the lack of basic services and tenure security further constrains the scope for local economic dynamism.

3.3.7 Reliance on the wage mechanism to cover what are in fact wider social and economic costs raises the costs of labour and disincentivises labour intensity

Many of the social and economic costs of the poor urban planning described above are carried directly and indirectly by the poor, and impact on the costs of labour – through the high cost of transport, as an example.

In addition, in the absence of forms of social protection targeting the unemployed (apart from those eligible – for a limited period – to the Unemployment Insurance Fund), households with unemployed members rely to a large extent on the wage income of those who are employed; as well as on the contribution of social grants actually intended to target other needs. This in turn dilutes the impact of these grants on the needs they are intended to address – such as child support.

This level of reliance on the wage mechanism to cover wider social and economic costs – rather than using the social wage to do so – strengthens wage pressures and impacts on labour costs and the costs of production in general – strengthening existing biases against labour-intensive production.

3.3.8 High costs of living and high dependency ratios mean low-wage jobs do not lift people out of poverty

These factors also mean that low-wage employment currently has limited impact on poverty. While growth since 2004 has become increasingly labour-absorptive, most new jobs have been in the retail and construction sectors: poorly paid and highly insecure. Casualisation has affected labour standards in other sectors also. These workers, as well as many who are self-employed, form part of the "working poor" with income earned insufficient to lift them or their households out of poverty.

3.3.9 Youth, women and rural dwellers carry the highest burden of unemployment

While unemployment is a structural problem, additional factors skew its distribution, with unemployment levels for black youth, women and rural dwellers disproportionately high. A combination of factors informs this: poor work-search information systems, lack of access to employment networks, the poor correlation of certification with competencies and the high costs of search for work. All of these factors are compounded for work-seekers from rural areas.

3.4 A Strategic Framework for the Second-Economy Strategy

The analysis above has a range of implications, which inform the Framework for Second-Economy Strategy, outlined below:

3.4.1 A wider focus on inequality is needed and should be taken forward as a more formal part of the Accelerated and Shared Growth Initiative for South Africa's focus on shared growth

While this agenda should address each of the key areas of structural inequality identified, two clear cross-cutting priorities can be highlighted, based on international experience and our own:

- Human-capital development: Within the wider framework of existing policy in this area, particular attention needs to be given to the "points of no return" – childhood nutrition and early childhood development. Where these fail, policies are forced to focus on mitigation for another generation.
- The social wage: Of all existing policies, it is the contribution to the social wage – including grants and access to basic services – that has had the greatest impact on poverty and inequality. Strategies need to build on this strength, with a focus on gaps in coverage, such as access to basic services in rural areas and informal settlements, and access to affordable public transport.

3.4.2 Employment creation on decent terms is the single biggest priority for addressing poverty, economic marginalisation and inequality

Employment policy needs to be an overriding policy priority, at the heart of all economic policy, with particular attention paid to the ways in which the current structure of the economy constrains these outcomes.

3.4.3 Employment creation "from below" – through micro-enterprise or self-employment – faces significant constraints and is a poverty trap for many

- The structure of the economy constrains the scope for significant or sustainable expansion in this sector. However, the scope that does exist must be supported.
- Evidence shows that those least likely to get a job are unfortunately also least likely to succeed in becoming self-employed.
- Employment strategy cannot therefore rely on the poorest and most economically marginalised people in the economy "self-employing" their way out of poverty.

3.4.4 Increasing the contribution from micro-enterprises and self-employment requires "patient support" and improved conditions

- Support to this sector needs to be designed within a more realistic set of expectations of its scope for growth. This means more focus on the "patient support" required to turn "start-ups" into "stay-ups", and more caution in promoting self-employment as a solution for all.
- This needs to go hand in hand with providing greater recognition and legitimacy to the sector, to improve conditions and returns in these often marginal economic activities. For street traders (the largest sub-component of the sector), this includes clear "rules of the game" to reduce their risks and vulnerability to abuse; access to storage and ablution facilities, as well as services such as electricity supply where feasible; and support to forms of co-operation and organisation to reduce their costs and increase their "voice".
- The current skills development framework does not enable access by this sector, and relies on supply-driven approaches that are often inappropriate. This needs to be addressed in the skills strategy.
- New technology creates opportunities to fast-track increased access to financial services for the sector, including savings products, cash transfers, and access to micro-credit and to incremental housing finance to enable home-based enterprise activity. In a sector financed mainly by family and friends, tax credits for "angel finance" (currently under design) need special adaptation to ensure access by more marginal enterprises.

3.4.5 New and decent work is likely to come mainly from growth in the more developed, formal core economy, including the more formal end of the small and medium-sized enterprise sector

- The employment focus in industrial policy needs to address issues of market access and the spread of power and benefits in value chains, to enable greater SME participation and employment creation.
- This means transformation cannot focus on changes in ownership alone, but needs to also address issues of power and distribution in value chains.
- Achieving this also requires stronger advocacy capacity and "voice" from small producers and new entrants within sectors.
- In certain contexts (e.g. agro-processing), access to wider markets may require co-ordination and co-operation between small producers to create economies of scale, or to reach the necessary volume and quality requirements. This creates opportunities for forms of business association and co-operative development.

- There is often a wide gulf in expectations between small producers who are currently excluded from wider markets, and the practices and expectations in existing value chains. Intermediary entities are often needed to bridge the gap or facilitate access. Such intermediation can take a range of forms, but needs to be supported as a critical part of strategies for the sector.

3.4.6 New market-based employment is likely to be largely urban, where "urban" includes small towns and dense settlements

This requires the following:

- efficient and inclusive cities and towns
- alignment of social, economic, infrastructure and land use planning to increase efficiency, "crowd in" economic opportunities and promote dynamism, including within residential neighbourhoods
- upgrading and transforming informal settlements is vital to social and economic inclusion in urban areas
- the release of well-located land and planned development to ensure access to services is necessary to "get ahead" of the ongoing influx into urban areas and facilitate such entry.

3.4.7 Creating rural employment will require a stronger catalytic role from the State to achieve results, as part of a wider strategy for rural development and agrarian reform

- Strategies to develop a smallholder sector and strengthen subsistence agriculture face many challenges and start off a low base; but their potential impact on poverty and on rural employment makes this investment – and the associated risk – imperative.

  - Success in this area requires a strong focus on institutional support that creates economies of scale, and access to business services and markets.
  - Redistributive land reform needs to promote greater access for smallholders, and opportunities for successful black farmers to expand beyond former bantustans, where they have not yet managed to do so.
  - Increases in the use of arable land in former bantustan areas will be assisted by support to rental markets for land while longer-term tenure issues are resolved.
  - A new generation of water harvesting and irrigation support is needed.
  - Incentivise co-ordination, co-operation and facilitation of access to value chains and markets e.g. through commodity associations and other forms of economic co-operation is needed.

- Employment in the existing commercial agricultural sector also matters. Land claims that affect whole value chains – including jobs across the chain – need to be urgently resolved, and advantage taken of the scope to take transformation of ownership and access beyond land alone in this process.
- Human-capital development and the provision of basic services in rural areas need to form a key part of a rural employment strategy.
- In a context of increasing constraints on natural resources, these take on new value. This in turn introduces potentially significant new opportunities for rural employment, from the implementation of payment systems for environmental services. This wide heading includes strategies related to water, waste, energy and the scope to earn carbon credits from action in these areas; realising this potential depends strongly on government playing a catalytic role – or the role of a developmental state.

- All of the above link to and can support increased household food production and small-holder activity. The critical constraints facing such integrated approaches are institutional.
- The health of rural economies depends on the dynamism of the small towns that service them and these linkages need stronger focus.

3.4.8 The significant expansion of public employment is required, with an "employment safety net" – providing a minimum level of secure employment – to target the most marginalised

All of the above contributions to employment strategy will take time to have an impact. Meanwhile, there is a need to address a key social protection gap in South Africa – working-age people who are willing and able to work, but unable to find opportunities to do so.

While employment solutions are clearly the priority, there is a need to provide a form of employment safety net until such solutions are able to deliver – to strengthen people's capacity to work, and to provide access not only to income, but also to work experience and the enhanced dignity and social inclusion that come with it.

Public employment is an area of significant and continued innovation in this country, as reflected in the design of EPWP 2, which is fully supported. To achieve the impacts required, however, it will have to scale up even further than currently projected. Within that process, it is proposed that the concept of a minimum employment guarantee be adapted to South Africa, to target the most marginalised, in ways that ensure that those least able to find other forms of employment have access to a minimum level of regular work, building on the approach demonstrated in the Community Work Programme – an approach enabled as part of the EPWP Phase Two.

This approach uses public employment as a catalyst for community development. "Useful work" is prioritised at local level, through structures such as ward committees and local development forums. This helps energise such structures, and deepens the mechanisms for local participation in setting development priorities.

3.4.9 Prioritise approaches that target the most marginalised directly

Many of the actions required by government are intended to achieve market-based outcomes, and will achieve these in ways that take time and are indirect. Crucial as it is to do this and to get it right, the outcomes of these processes will tend to reach the most marginalised last. For this reason, strategies that target the most marginalised first need to be prioritised in a second-economy strategy. These need to be designed to impact at scale, build on government's strengths and facilitate economic participation for those affected.

The argument is therefore for a "first level" of intervention that aims to strengthen the incomes and assets of poor people in ways that do not depend on markets to achieve their intended impacts (although they will certainly have market effects).

While it will take time to overcome the structural factors, there is no time to lose in building people's sense of economic agency – of their capacity to change their material conditions through their own actions and to be productive members of their household, their community and their society. This requires that we find ways to facilitate their economic participation and scope to impact on their economic conditions even where markets do not do so.

It is in this context that the following programmes are motivated:

- the significant expansion of public employment, as motivated above
- investment in the transformation of informal settlements into sustainable, serviced neighbourhoods (where safe and practically feasible) and to adapt current funding mechanisms to unlock greater scale and scope for self-build options
- a focus on reducing hunger through incentives for home-based food production, integrated where possible with programmes targeting basic services in off-grid areas: water harvesting, energy, sanitation and waste management.

These strategies do not depend on markets to deliver the outcomes, but they will have market effects and should be designed to do so.

- They have the potential to stimulate local demand and scope for local enterprise activity: i.e. helping to "thicken" local markets.
- They engage people in economic activity that builds assets and/or incomes, and access to services, networks and social capital.
- They need to be designed to strengthen rather than undermine local market development, to help enable the next level of strategies required – and that does entail a greater level of participation in markets.

3.4.10 And last but not least – there's just no alternative but to address the challenge of restructuring the economy as a whole – and not just "fixing" the Second Economy

3.5 Translation into headline strategies and programmes

The challenge is to translate this framework into a limited number of headline strategies and programmes, rather than providing a long "to-do list" for government. These are the proposed headlines areas; programme development is at different stages, working in partnership with departments to take design and implementation processes into the next stage in 2009.

3.5.1 An agenda to address structural inequality

Develop an agenda to address the key areas of structural inequality as identified, as part of AsgiSA.

3.5.2 A social compact to place employment at the heart of economic policy

a. In sector strategies, focus on employment, market access, and the spread of power and benefits in value chains.
b. Promote forms of intermediation to facilitate access by those SMEs that have the potential to enter into wider value chains and markets.
c. Provide the "patient support" required to turn "start-ups" into "stay-ups".
d. Develop strategies for rural employment (see below).
e. Improve job placement and labour-market information systems, with a focus on labour-market entry for youth.

3.5.3 Strengthen livelihoods and improve conditions for the working poor – employed or self-employed

a. For micro-enterprises, address conditions that would make the most impact on reducing poverty, with a special focus on street traders.
b. Adapt the skills development framework to reach the sector more effectively.
c. Improve access to a spectrum of financial services.
d. Strengthen access to decent working conditions, rights at work and social protection for the most vulnerable workers.

3.5.4 Address the development deficit in rural areas

As part of a wider rural development strategy, prioritise support to rural employment and livelihoods:
a. Develop a smallholder support strategy, with a focus on subsistence agriculture.
b. Prioritise land claims affecting whole value chains in ways that give priority to job retention and expanded employment, as part of a wider focus on these goals in the agriculture sector.
c. Implement payment systems for environmental services; create the institutions necessary to convert environmental and climate-change challenges into opportunities for development.
d. Use human-capital development and the delivery of basic services as part of a rural employment strategy.
e. Develop the service capacity of small towns.

3.5.5 Build efficient and inclusive cities and towns

a. Secure, service and release land close to economic opportunities for poor people to live in cities and towns.
b. Make sure that in any planned housing developments, social, economic and recreational services and spaces are integrated.
c. Prioritise affordable public transport.
d. Plan for continued urbanisation.

3.5.6 Target the most marginalised directly

a. Massively expand public employment, including the introduction of a form of minimum employment guarantee.
b. Upgrade informal settlements and release serviced land.
c. Incentivise household food production in both rural and urban areas to reduce hunger.

3.6 Progress on other second-economy projects

3.6.1 Mzansi collection stores

The Mzansi Collection Store concept is a market-access programme for rural and peri-urban enterprises and is an extension of the Jobs for Growth Programme headed by the Deputy President. The project was launched by the Deputy President on 28 November 2008.

Project objectives

- The overall goal of this programme is to create an effective enabling environment, which ensures products reach markets and that market information reaches producers; and especially to bridge the gap, both social and geographic, between rural producers and national and international markets.
- To adopt the principle of MMW4P (Making Markets Work for the Poor) as a means of achieving growth and large-scale poverty reduction.
- To ensure that state support is aligned to co-ordinate activities, identify opportunities and provide the kind of effective regulation that allows markets to work.
- To ensure a holistic approach to development by delivering simultaneously economic, social and environmental benefits (the triple bottom line).

- To establish permanent retail outlets for the Mzansi collection stores in the form of a franchising concept as an extension to the Jobs for Growth Initiative.
- To establish the Umbrella Brand "Mzansi Collection". The brand should be positioned in a high-end niche market.

Project deliverables

- To establish brand values for the Mzansi Collection.
- To establish sub-brands for the targeted sectors, which include: clothing and textiles, craft, furniture and agricultural products.
- To establish the systems supporting the Mzansi Collection; these systems should include both demand- and supply-side interventions.
- To pilot the concept in Gauteng.
- The approach will be incremental, firstly through a showcase in the form of an exhibition, secondly through an in-store promotion and finally through permanent retail space, both nationally and internationally.

Project partners

This project is championed by The Presidency with the dti leading the implementation and supported by the following project partners:
Independent Development Trust/Jobs For Growth, Department of Arts and Culture, Department of Water Affairs and Forestry, Department of Agriculture, Provincial Government of Gauteng and the City of Joburg.

3.6.2 Progress on Mzansi concept stores

The Mzansi showcase was launched at the Sandton Library from 28 November to 16 December 2008 and extended until 15 March 2009. The permanent store is schedule to open in the same space on 6 April 2009.

The participating companies were selected across a number of sectors with a special emphasis on co-operatives and emerging enterprises. The sectors included craft, fine jewellery, cosmetics, processed food, music and books.

The companies were provided with market feedback, product advice, packaging support and guidance in terms of the principles of costing and pricing.

Sales for the showcase phase totalled R175 000:

The concept is now being expanded into a more permanent retail and wholesale programme linked to supply-side support systems. The supply-side support is being modelled on the blueprint that has been established for the craft sector.
The permanent space is in Sandton Square with the airports targeted for the expansion phase.

3.6.3 Preferential procurement for small and medium-sized enterprises

Consultation workshops on the 10 products to be procured from SMEs were conducted with five provincial treasuries. This awareness drive was then moved to an implementation stage focusing on the completion of the practice notes and follow-up activities related to the launch of these products.

Some departments such as public works have started implementing the project. However, implementation is slow. Issuing practice notes takes time.

3.6.4 Khula small and medium-sized loans reached R746 million in 2007

Approvals to Khula channel partners totalled R607 million in 2007/08 (2007: R757 million). For the second time, loans approved to Retail Financial Intermediaries (RFIs) exceeded those of the Credit Indemnity Guarantee Scheme used mainly by commercial banks.

3.6.5 Jobs for growth

The Co-operative Development Unit has facilitated the process of assisting co-operatives to be part of Msanzi collection stores in contributing to jobs for growth. A number of co-operatives had opportunity to exhibit their products in the store since the launch of the stores. Those that didn't make first intake will be given first priority for the second intake after 31 March 2009. A number of co-operatives have been registered under jobs for growth.

3.6.6 Young people

The National Youth Service Programme (NYSP) is a second-economy government initiative led by the National Youth Commission (NYC), The Presidency (Youth Desk) and the Umsobomvu Youth Fund (UYF). It was initiated in October 2003 as a special Presidential Programme to address high levels of youth unemployment by creating opportunities for voluntary service and skills development for young people. The programme supports community and national development while simultaneously providing an opportunity for young people to access opportunities for skills development, employment and income generation.

In 2008/09, the NYS experienced growth in terms of reach and scale. To date, the figures indicate that 36 019 unemployed and unskilled young people have participated in NYS Category One projects (youth employment); 3 760 volunteers from 15 Higher Education and Training institutions (HETs) have been mobilised to serve in Category Two volunteer projects (higher education [HE] and FET students); and 7 968 volunteers registered and participated in Category Three (all cohorts of youth and adults) projects.

Youth enterprise development and youth advisory centres (YACs)

Since 2008, remarkable progress has been made. More than 413 340 young people were served by 121 YACs, which include YAC points, full service, mobiles and kiosks; while 55 747 new cardholders accessed information services through the South African Youth Card Programme; and 51 199 in-school youth have started entrepreneurship training. There are 3 345 out-of-school youth who are undergoing entrepreneurship development training and 82 young and female entrepreneurs benefited from the BOSS Programme.

The UYF's JOBS Programme continues to be one of the critical programmes that assist unemployed young people. The programme is aimed at linking unemployed youth to employment and related opportunities such as internships, learnerships and temporary or short-term employment. While other entities focus on international placements of candidates, the JOBS Programme sources local opportunities through searching for candidates with required skills and qualifications and subsequently facilitates their placement.

- Number of candidates who have registered their CVs on the JOBS database = 75 501
- Number of requests/opportunities sourced from various opportunity-providers = 30 997
- Number of CVs that were dispatched to opportunity-providers = 30 527
- 3 102 placements were made by the UYF and 2 476 were indirect placements; bringing the total number of placements to 5 578 since inception
- Number of candidates who have accessed job preparedness workshops = 7 584.

Progress in each target area

The key priorities for 2008/09 included the following:

- linking up 10 000 unemployed graduates with economic opportunities
- intensifying the NYSP by engaging at least 70 000 youth, including starting a graduated increase of the intake in the Military Skills Development Programme of the South African National Defence Force (SANDF) from the current 4 000 to 10 000
- expanding the reach of enterprise development initiatives such as business support and microfinance services, resulting in sustainable economic opportunities for about 65 000 youth
- strengthening the capacity of 121 YACs so that they can deliver information on careers, business support, employment, microfinance, healthy living and personal development to over one million youth
- employing 5 000 young people as part of the EPWP in the maintenance of government buildings.

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

4.1 Background

Against the background of an increasingly volatile global economic environment and the deep-rooted and systemic nature of the national skills challenge, South Africa's ability to sustain the gains made with regard to the country's skills base assumes critical proportions. Indeed, the extent to which Jipsa is able to ensure that the rapid acquisition of priority skills is pursued consistently over the longer term, will impact on South Africa's ability to weather a recession and be prepared once a recession has subsided.

Jipsa has been in existence for three years, established by Cabinet in March 2006 to support AsgiSA. Initially, Cabinet approved an 18-month plan for Jipsa. At the end of this period, following a Joint Task Team Bosberaad in November 2007, Jipsa's lifespan was extended for another 18 months.

Jipsa continues to enjoy the support and co-operation of government, business, organised labour, professional bodies and specialist organisations. In its three-year lifespan, it has learnt important lessons at systemic and project level, and these have informed the input into the proposed National Human-Resource Development Strategy (HRD-SA).

Jipsa's role and value lie in bringing the skills challenge to national attention, and in creating a unique forum for dialogue between the key social actors and role-players and facilitating their practical engagement with the skills priorities. Its success is reliant on the importance of leadership and ownership of the skills challenge by the different role-players.

The Jipsa strategy involves broadening the training pipeline, retaining people in skilled employment and training them more effectively and to higher standards. It is equally important to address the system blockages and inefficiencies and problems of quality that impede the acquisition of relevant, high-quality skills to sustain growth over the medium to longer terms.

Five high-profile priority skills areas were identified for immediate attention:

a. high-level, world-class engineering and planning skills for the "network industries" – transport, communications, water, energy
b. city, urban and regional planning and engineering skills
c. artisanal and technical skills, with priority attention to infrastructure development, housing and energy, and in other areas identified as being in strong demand in the labour market
d. management and planning skills in education and health
e. Mathematics, Science and Language Competence in public schooling.

In addition, key "project owners" and role-players were engaged regarding the skills required to underpin AsgiSA projects and increase labour absorption. This led to concrete proposals for priority skills initiatives in the fields of tourism, information and communications technology (ICT), business process outsourcing (BPO) and biofuels. It must be noted, however, that stakeholders have subsequently agreed that Jipsa should focus attention on the agricultural sector in general and not limit itself to the biofuels sector narrowly.

A mid-term review of Jipsa commissioned in late 2007 and produced in May 2008, found that Jipsa was set up to address the critical challenge of insufficient skills in key areas of the economy and society, and had to consider solutions that would overcome the legacies of apartheid and the impact of globalisation on labour markets worldwide. Working within an institutional landscape dominated by government departments with their respective responsibilities, it adopted a methodology of constructive engagement and dialogue within a multi-stakeholder partnership framework. It prioritised research and evidence-based analysis as diagnostic tools essential to charting new programmes of action and strengthened peer accountability through the authority of the President's office. In the process, Jipsa succeeded in establishing a new type of partnership between government (public) and business (private) through the involvement of academics, research consultants, civil society and labour.

Progress on the various areas of work is presented below:

4.2 Work in progress

4.2.1 Engineering

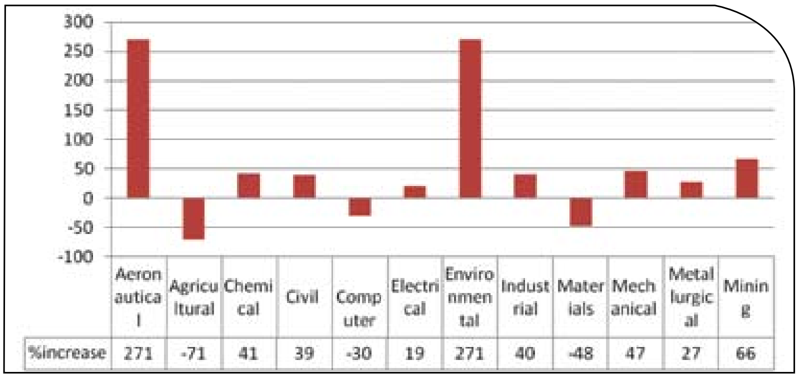
South Africa has been producing 1 500 engineering graduates a year, but only half of these register with the Engineering Council of South Africa. Through Jipsa, it was determined that in order to meet projected demand, the annual output of engineers must increase to 2 500 graduates per year, starting in 2007.

The Department of Education (DoE) forecasts that by 2010, the number of engineers graduating from universities will have risen to 2 000 per year. This represents a positive step forward, but means that additional interventions are required to address the shortfall (such as importing engineers and bringing retirees back into the workplace).

4.2.1.1 Increasing the number of engineering graduates

The DoE has taken significant steps to increase the number of graduates from universities. In 2007, the department committed R439 million over the period 2007 to 2009, largely for improved teaching and learning infrastructure for engineering. This is in addition to an amount of R48 million provided in 2006 to improve university engineering pass and graduation rates.

Figure 1: Percentage graduation increase per engineering discipline



	Aeronautical	Agricultural	Chemical	Civil	Computer	Electrical	Environmental	Industrial	Materials	Mechanical	Metallurgical	Mining
%increase	271	-71	41	39	-30	19	271	40	-48	47	27	66

Source: Lawless, A and Kirsten, L (2008) *Draft Report to Jipsa on Engineering Education and Registration Figures*

The data indicates that most engineering disciplines' graduations increased substantially except for agricultural, computer and material engineering where graduations decreased.

The Minister of Education recently announced that she intends allocating a further R3 162 million to the HE sector for the financial years 2010/11 and 2011/12. It is anticipated that HE institutions will add private funds of at least R1 138 million to projects that the minister will approve. This represents a total investment over two years of R4 300 million, of which 10% is to be allocated to an engineering undergraduate programme. The aim is to increase capacity and improve throughput and success rates. In addition, a further 17% of the R4 300 million will be allocated to a national diploma and BTech engineering programmes.

Of the 6 431 engineers who have registered as professionals since 2006, 3 595 (56%) are previously disadvantaged individuals. This represents a major step forward in the transformation of the profession. It is also interesting to note that among professional engineering technicians, the majority of those registered (55,8%) are practitioners from previously disadvantaged backgrounds. This is also the case with candidate engineering technicians, where the majority (80,6%) of those registered are practitioners from previously disadvantaged backgrounds.
Factors that have emerged as constraints on improving engineering graduate output include poor graduate throughput rates, staff shortages in HE institutions as well as the educational expertise of staff. It is suggested that improving these capabilities could lead to significant increase in graduate output without a simple pro rata growth in resources.

4.2.1.2 Bringing retirees back into the workplace

Since 2006, the Siyenza Manje programme, run by the Development Bank of Southern Africa (DBSA), has deployed 190 civil engineers to 154 municipalities. The Siyenza Manje initiative has reported that the deployment of these engineering professionals to underperforming municipalities is accomplishing its objective of building capacity at municipal level. The initiative aims to improve the disbursement of municipal infrastructure grants to ensure that allocation translates into delivery. This mobilisation of experts to provide professional support for project and programme implementation is assisting in unlocking service-delivery bottlenecks. The Siyenza Manje programme is thus contributing significantly to Jipsa's overall strategy of bringing required skills back into the system.

4.3 Artisans

Jipsa has set a target of training 50 000 artisans by 2010 in 16 identified trades. Together with project owners, significant progress has been made in respect of the artisan training pipeline, tax allowances, training trainers and the Technical Skills Business Partnership.

4.3.1 Artisan training pipeline

According to the Department of Labour (DoL), by March 2008, a total of 18 879 people were registered for artisan training through the 2007 – 2008 service level agreements (SLAs) with sector education and training authorities (Setas). Taking apprenticeships into account and working on an average of three years for training to artisan status, we can expect around 12 000 of these artisan trainees to undertake the trade test by 2010, with the remainder undertaking the trade test in 2011.

The current 2008 – 2009 SLAs with Setas project that an additional 20 000 artisans will be registered for training. Using similar ratios, we can expect around 13 000 to undertake the trade test in 2011 and the remainder to undertake the trade test in 2012. These figures are based on the current pass rates and could improve if the level of training gets better.

The National Skills Fund (NSF) has already allocated an amount of R300 million to Setas to train a further 7 350 unemployed learners as artisans. The promulgation of the amendments to the Skills Development Act, 1998 (Act 97 of 1998), will also make it possible for the thousands of learners who have completed trade-related learnerships at National Qualifications Framework (NQF) levels 3 and 4 to be eligible for a trade test. This will require more assessors in the system. Importantly, employers need to be confident that people who attained their artisan status through this route, including those who successfully pass the Manpower Training Act Section 28 trade test, are qualified artisans and should be accorded equal status in the labour market with those who have completed a Section 13 apprenticeship.

4.3.2 Tax allowance

In 2002, government introduced the learnership tax allowance to encourage on-the-job training. In 2006, National Treasury extended the allowance to October 2011 as support for the extension of the National Skills Development Strategy.

The DoL approached National Treasury to review the Income Tax Act, 1962 to establishing parity in the training of artisans through apprenticeships and learnerships. It also requested alignment of the tax allowance incentive scheme with the provisions of the Skills Development Amendment legislation and the four routes to artisan status.

The DoL has received confirmation from National Treasury that amendments to the Tax Amendment Act, 2008 (Act 306 2008) have established parity in tax allowances between learnerships and apprenticeships.

4.3.3 Systemic responses to meeting the targets for artisan development

In the light of the massive enrolments reported above, JIipsa has initiated various processes and studies to determine how priority skills can be produced. Two issues were identified for attention: the role of the private sector in supporting the development of priority skills and amplifying the trainer and assessor capacity required to meet the additional demand for training.

4.4 Technicians and technologists

The year 2008 saw the conclusion of a study commissioned by Jipsa to better understand the supply and demand for technicians and technologists with respect to:
- the scale of demand and use of these skills by employers
- the career pathways available to these professionals should they wish to become engineers
- issues relating to student recruitment, enrolments, throughput and graduation.

Among other findings, the study recommends that attention is paid to learner selection, academic and other forms of support and development, lecturer-student ratio, and access to practical and workplace experience. It further suggests that measures are put in place to support and take to scale those workplace experience schemes that actively allow individuals to apply their skills and develop the required competencies. It cautions that while there is a clear statement on the role of technicians and technologists as outlined in the Identification of Works, there continues to be uncertainty about how best to use these skills in the workplace.

The study notes that the issue of progression remains a critical concern both in light of a large number of black technician and technologist graduates making this a pathway that could contribute to greater equity, and because improved progression would mean that these individuals would form an important pool of students that could progress from technicians to technologists and from technologists to engineers.
Jipsa has been seeking ways to support recommendations arising from the study, such as work-integrat-

ed learning, in order to achieve common objectives which fall within its mandate. Jipsa has held consultative discussions with Higher Education South Africa (HESA) and the Southern African Society for Co-operative Education (SASCE) to support and strengthen existing initiatives. It is also exploring ways to strengthen linkages between HE institutions and business.

Arising from these meetings, the Jipsa Secretariat has committed its support to provide technical and/or financial assistance to SASCE in some of the identified areas such as establishing a national initiative to explore best practice benchmarks towards a funding framework and formula for work-integrated learning programmes at education institutions and workplaces. This work will be undertaken in 2009.

Table 1: Increases in registered engineers, technicians and technologists (2006 to 2008)

Registration category	2006	2007	2008
Professional engineers	14 848	14 811	14 849
Professional engineering technologists	2 884	2 981	3 226
Professional certificated engineers	904	979	1 028
Professional engineering technicians, registered technicians, master technicians	3 046	3 171	3 329
Candidate engineers	3 722	3 871	4 429
Candidate engineering technologists	877	1 071	1 348
Candidate certificated engineers	133	163	192
Candidate engineering technicians	1 216	1 478	1 825

Source: Engineering Council of South Africa (ECSA)

Graduate and advanced skills placement programme

In 2008, a Cabinet committee discussion identified the establishment of a national placement agency as one mechanism to facilitate graduate placement. The Office of the Deputy President requested that the Jipsa Secretariat develops a proposal for the establishment of a national placement agency.

There are currently numerous placement initiatives of various kinds already in existence, quite apart from the current Jipsa initiative. It is thus important to avoid duplication, but equally important to give critical consideration to where a national placement agency might be able to add value, and how it might best contribute, at the level of a strategic national initiative, to the development and utilisation of scarce human resources.

A well co-ordinated and dedicated placement agency has the potential to play a key role both in brokering new partnerships between further and HE institutions and employers, to ensure that all qualifying students can fulfil the experiential learning requirements of their qualifications, and help establish a more appropriate framework for work-integrated learning over the longer term.

A strategic framework setting out national objectives and identifying partners and resources for work placements in critical fields could build on current programmes and help ensure that, at a systems and country level, South Africa is able to build and expand its high-level skills base, all along the skills pipeline. A key consideration is how this initiative would relate to a national human-resource development strategy.

With this in mind, Jipsa developed a concept paper which raised strategic questions to be considered when establishing such an agency. The concept paper was discussed at a workshop hosted by The Presidency and attended by key role-players. The Secretariat was tasked with setting up a reference group that would provide strategic advice on establishing a placement agency.

4.5 City, urban and regional planning

There are a number of legislative and institutional constraints impacting on the work of planners and their professional status. These include the separate mandates of the departments of land affairs (DLA) and provincial and local government (DPLG); out-of-date legislation and planning regulations; an under-resourced South African Council for Planning (SACPLAN), which impacts negatively on the accreditation of service-providers; programmes and qualifications; and the professional registration of planners.

Jipsa has established a working group to find solutions to the constraints. It has prioritised a review of the competencies for town planners. In support of this development, the Local Government SETA (LGSETA) has ring-fenced R5 million for fast-tracking the development of town planning competencies, providing bursaries for town planning students and developing programmes for the ongoing professional development of municipal officials.

To take this process forward, Jipsa has held consultative discussions with SACPLAN and the DLA. It has been agreed that SACPLAN should play a leading role in driving the process forward and that Jipsa and the DLA should lend support to SACPLAN as necessary.

Nominations have been submitted to Jipsa for the possible members of the South African Qualifications Authority (SAQA) Standards Generating Body (SGB) Task Team made up of town planning subject matter experts. The SGB process was expected to commence in March 2009. SAQA has agreed to assist Jipsa and SACPLAN in fast-tracking the development of the planning competencies for registration on the NQF.

4.6 Education management and planning

Jipsa is providing support to the DoE in two areas: the revision of the HRD-SA and a study on education planning, which focuses on policy analysts, monitoring and evaluation personnel and statisticians/quantitative analysts.

4.6.1 Support for the revision of the National Human-Resource Development Strategy

At the request of the DoE, Jipsa is providing technical support to the revision of the HRD-SA. It is working to ensure that the lessons learnt from the Jipsa experience are effectively incorporated into the HRD-SA. The reviews of the revised strategy document have culminated in the publication of a booklet, *Practitioner Guide to HRD: A Common Approach to Key Terminology.*
Cabinet has approved the revised strategy and has also approved the establishment of key support structures for the implementation of the HRD-SA.

In consultation with the DoE, Jipsa also commissioned a study on comparative international human-resource development practices to enhance South Africa's understanding of international best practice and inform the approach to human-resources development.

Jipsa, the DoE and The Presidency have established the Human-Resource Development Alignment Committee to oversee the transitional arrangements from Jipsa into the HRD-SA. The HRD Alignment Committee will oversee and monitor the transition from Jipsa to the HRD-SA, ensuring that the Jipsa experience is incorporated into the human-resource development strategy.

4.6.2 Education planning study on policy analysts, monitoring and evaluation personnel and statisticians/quantitative analysts

The DoE has identified weaknesses in the national education planning system, which impede the effective implementation of plans. It is seeking to develop a robust national education planning system as well as ensuring an adequate supply of planning professionals.

Jipsa, in consultation with the DoE, has commissioned a study to determine the appropriateness and effectiveness of statisticians within education planning departments and the robustness of the planning function across education system levels, and how to improve the supply and capacity of education planners. The fieldwork for the study is underway and a report is expected at the end of March 2009. Jipsa and the DoE will monitor the data collection, analysis and interpretation and oversee the compilation of the final report.

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Jipsa is providing support to the DoE in two areas: the revision of the HRD-SA and a study on education planning, which focuses on policy analysts, monitoring and evaluation personnel and statisticians/quantitative analysts.

4.6.1 Support for the revision of the National Human-Resource Development Strategy

At the request of the DoE, Jipsa is providing technical support to the revision of the HRD-SA. It is working to ensure that the lessons learnt from the Jipsa experience are effectively incorporated into the HRD-SA. The reviews of the revised strategy document have culminated in the publication of a booklet, *Practitioner Guide to HRD: A Common Approach to Key Terminology.*

Cabinet has approved the revised strategy and has also approved the establishment of key support structures for the implementation of the HRD-SA.

In consultation with the DoE, Jipsa also commissioned a study on comparative international human-resource development practices to enhance South Africa's understanding of international best practice and inform the approach to human-resources development.

Jipsa, the DoE and The Presidency have established the Human-Resource Development Alignment Committee to oversee the transitional arrangements from Jipsa into the HRD-SA. The HRD Alignment Committee will oversee and monitor the transition from Jipsa to the HRD-SA, ensuring that the Jipsa experience is incorporated into the human-resource development strategy.

4.6.2 Education planning study on policy analysts, monitoring and evaluation personnel and statisticians/quantitative analysts

The DoE has identified weaknesses in the national education planning system, which impede the effective implementation of plans. It is seeking to develop a robust national education planning system as well as ensuring an adequate supply of planning professionals.

Jipsa, in consultation with the DoE, has commissioned a study to determine the appropriateness and effectiveness of statisticians within education planning departments and the robustness of the planning function across education system levels, and how to improve the supply and capacity of education planners. The fieldwork for the study is underway and a report is expected at the end of March 2009. Jipsa and the DoE will monitor the data collection, analysis and interpretation and oversee the compilation of the final report.

4.7 Mathematics, Science and Language Competence in public schooling

There are insufficient learners matriculating with Mathematics, Science and Language Competency from public schools. This has been identified as one of the constraints to achieving the economic growth required by South Africa and thus calls for urgent attention.

The DoE and Jipsa are discussing ways in which to increase the pool and improve the quality of Mathematics, Science and Language Competency in public schools. The department has identified the Dinaledi Schools initiative as a key intervention to improve the situation.

Jipsa hosted round-table discussions with key role-players to explore ways to improve the quality of Mathematics, Science and Language Competency in public schools. Representatives from the DoE, HE, organised labour, business, research organisations and experts in the field participated.

The meeting identified three areas of focus and established a working group to explore further how these could be addressed:
- teacher training and development focusing on pre- and in-service teacher education
- support for the Dinaledi Schools
- improved co-ordination and measuring the impact of Mathematics, Science and Language Competency interventions.

The DoE has committed to take into consideration the strategies that will be formulated by the working group around the above three issues when formulating policy for schooling.

The business community is responding positively to a campaign launched by the DoE to adopt schools. The campaign seeks to promote and mobilise resources for Dinaledi Schools to support effective teaching and learning.

4.8 Business process outsourcing

The Department of Trade and Industry (the dti) is driving the Monyetla Project forward in partnership with the DoL. The target is to train 30 000 unemployed learners in BPO. The DoL approved a roll-out of a first pilot of 1 000 learners at a cost of R15 000 per learner. To this end, the DoL made funding available for this project, through the NSF. Going forward, the DoL has requested that the dti submits a new proposal on the further roll-out of the Monyetla Project.

The Monyetla Project has seen many successes as evident in the figures below:

- 963 learners started in the first roll-out
- 85 are still completing the process
- 878 have completed the training
- 753 of the 878 have been successful and have completed the training (85,8%)
- 679 of the 753 successful learners have been employed (90,2%)
- 679 of the total of the 878 learners who began the training, have been successful and are employed (77,3%)
- 202 supervisors have been trained (against a required 146, so this target has been exceeded by 38%).

Jipsa will continue to provide a watching brief and report on progress through regular updates from the dti.

4.9 Agriculture

Jipsa has given agriculture the highest level of priority. A concept document, commissioned by Jipsa and tested with key stakeholders, highlighted the fact that the agricultural sector has not performed as well as it should and yet it has great potential to contribute towards halving poverty, reducing unemployment and improving the lives of rural communities. It is thus important to review existing policies and ensure that new policies are put in place that will put the sector on a higher growth trajectory.

While agriculture is Jipsa's newest area of work, significant progress was made in 2008 in analysing the skills constraints in the agricultural sector. The concept paper highlighted eight areas for intervention:
- improving the effectiveness and efficiency of government agricultural extension services
- improving the access of emerging farmers to professional mentoring services
- rolling out adult basic education and training and HIV and AIDS awareness programmes to farm workers
- transforming agricultural colleges into centres of excellence
- increasing the supply of high-level technical skills to the sector
- developing linkages between FET colleges and the broader agricultural sector
- improving the AgriSeta funding model
- promoting the agricultural sector as a career opportunity to the youth.

The various intervention opportunities were interrogated and refined through a stakeholder consultation process convened by the Jipsa Secretariat. This process revealed that some of the issues were in the process of being addressed by the national Department of Agriculture and other role-players. Jipsa will obtain formal clarity on the status and scope of these various initiatives, especially with respect to the Department of Agriculture's Extension Recovery Plan and the implementation of the Agricultural Education and Training Strategy for Agriculture and Rural Development in South Africa.

Following from this, Jipsa will investigate how it can strengthen and support these ongoing initiatives rather than embarking on a parallel support process. Many of the intervention opportunities discussed above can be addressed within existing structures and programmes, and the most appropriate short-term role for Jipsa is likely to be around assisting sector stakeholders to identify priorities, accelerate project implementation and promote accountability.

4.10 Information and communications technology

Jipsa completed an environmental scan of the ICT sector to inform the development of an intervention strategy to address ICT priority skills. This report was handed over to the Department of Communications in 2007. Strategies to increase the supply of skills in the ICT sector are being driven forward by the e-Skills Institute, which was inaugurated in March 2008 and is tasked with the responsibility of providing strategic input to e-skills development in South Africa. The Minister of Communications is the chairperson of the e-Skills Council.

4.11 Tourism

The tourism sector is still characterised by fragmentation and a lack of co-ordination. In addition, much of the training offered is not sufficiently aligned to industry and market needs. Consequently, young people are unable to obtain jobs because they lack the necessary work experience. These are some of the key blockages and constraints to skills development in the sector.

The Department of Environmental Affairs and Tourism (DEAT) has developed the Tourism Human-Resources Development Strategy with a supporting implementation plan. The strategy provides a framework for the co-ordination of skills development initiatives in the sector and will ensure that future training is linked to the strategic imperatives of the sector. The strategy and implementation plan were launched in Durban, KwaZulu-Natal, in October 2008.

Jipsa and DEAT have had an initial exploratory meeting to discuss a possible role for Jipsa in strengthening the relationship between employers and training-providers. It was agreed that Jipsa should develop a proposal that works towards developing a framework for upgrading the skills and knowledge of tourism and hospitality educators/lecturers in the public sector by exposing them to the world of work. The idea is that educators and lecturers would be given the opportunity to observe, network with and interact with industry personnel as well as participate in the world of work.

Towards the creation of a national education and skills database

In the first 18 months of Jipsa's work, it became clear that the need for an effective, high-quality information base on education and training issues in South Africa is not only critical, but urgent. South Africa must have consolidated, accessible and dependable data to be able to make reliable projections on its labour-market requirements and meet its training needs.

To this end, Jipsa commissioned a study on the review of the National Learner Records Database (NLRD), housed at the SAQA, to determine the possibility and suitability of it becoming a national skills and education database.

The study found that the current system of the NLRD was robust and had credible mechanisms to ensure the integrity of data within the system. A number of areas were highlighted that may need to be addressed and in some cases strengthened.

Based on the detailed findings emerging from the study, two scenarios came to light with regard to the future role of the NLRD:
- that the NLRD is expanded to include additional fields and integrate the different databases from the Department of Home Affairs and Statistics South Africa (Stats SA)
- that the NLRD focuses primarily on data relating to its original mandate.

Jipsa is forming a task team of all key stakeholders (South African Revenue Service, Department of Home Affairs, DoE, Stats SA, SAQA, Council on Higher Education, DoL, Human Science Research Council and others) to look at the two scenarios and make a decision on which one would best provide the data required in the most effective and efficient way. The scenarios would have to be considered within the context of the country's human-resource development needs. SAQA has made a commitment to strengthen the NLRD as recommended by the report, and measures will be put in place to ensure the integrity of the data on the database.

4.12 The way forward in 2009

In August 2008, the Employment and Investment Cabinet Committee meeting approved the extension of Jipsa up to 31 December 2010. The committee decided that Jipsa would evolve into the HRD-SA and that the Jipsa Secretariat would act as a resource to the HRD-SA to ensure alignment between Jipsa and the HRD-SA. The committee also highlighted the need to ensure that the lessons learnt from the Jipsa experience are incorporated into the national human-resource development strategy. While the JIPSA Secretariat will serve as a resource to the HRD-SA, it will also continue to deliver on its mandate as approved by the Joint Task Team.

To oversee the transition, The Presidency has set up an alignment committee comprising representatives from the DoE and the Jipsa Secretariat. The current institutional arrangement for Jipsa remains in place with the Secretariat located at the National Business Initiative (NBI) and reporting to The Presidency.

The funding received from the Business Trust and the Employment Promotion Programme will enable the Secretariat to continue to drive forward the work that has been initiated in each of the identified priority areas. It will also support the DoE in taking forward the HRDS-SA with the full support and commitment of all role-players. This will be done through engagement and consultation and will ensure that cognisance is taken of issues and concerns raised by role-players.

4.13 Concluding assessment

It is clear from the above report that South Africa is beginning to see a positive systemic response to the development and acquisition of skills. The number of learners registering for artisan development and engineering programmes is increasing. It is evident, however, that South Africa cannot afford to be complacent and must continue to drive forward the skills agenda, invest in our human capital and ensure that all social partners remain committed to playing a leading role in the development and acquisition of skills.

The recent downturn in the world economy has resulted in massive job losses with most companies being forced to cut costs. Unfortunately, in many cases, training budgets may be the first to be slashed in times of economic recession, as companies seek to guard against job losses. While South Africa has not been affected as adversely as other global economies, a cautionary mood prevails in the country and we can expect to see a decline in training and development in the immediate future. It is, however, important to make the argument that if we do not continue to invest in our human capital, when the economy recovers, companies will once again be unable to recruit suitably skilled people. Jipsa therefore has an important role to play in the development and acquisition of skills in the immediate term and in ensuring that all social partners remain committed to driving forward the skills agenda and investing in our human capital.

Jipsa's success can be attributed to a number of factors: the central importance of leadership from the Deputy President and ownership of the skills challenge by the different role-players. It is evident that for Jipsa to meet its objectives, leadership and ownership by all sectors would need to be strengthened. Jipsa will continue to engage project owners with a view to strengthening the relationships and partnerships that have been formed since Jipsa's inception and ensuring that project owners have the necessary support and capacity to jointly find solutions to the skills challenge.

[1]SARB (2008)

5. Infrastructure investment

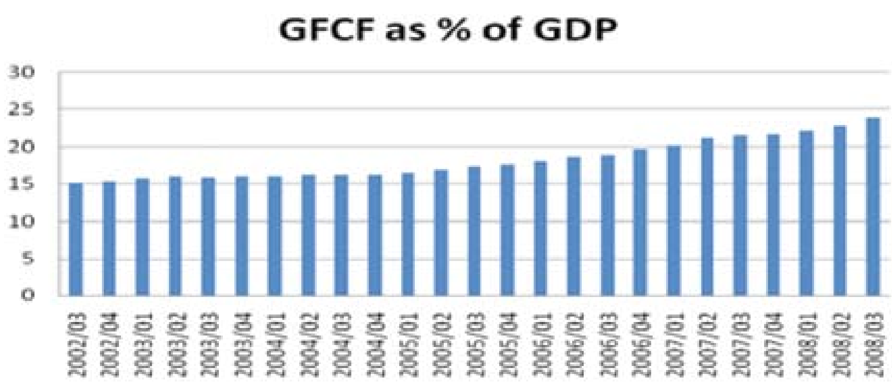
5.1 Background

The AsgiSA programme relating to infrastructure has been effective since 2006 and aims to accelerate the achievement of national targets for the eradication of the remaining backlogs in sanitation (bucket system in formal settlements) by 2008, access to potable water by 2014, access to sanitation by 2011, universal access to electricity by 2013 and all other backlogs in basic service delivery, including housing, by 2014.

The approach taken by The Presidency to achieve this, has been to draw attention to specific infrastructure deficiencies, and provide support for priority infrastructure initiatives by the respective infrastructure line departments and other spheres of government. AsgiSA infrastructure interventions have been both specific and cross-cutting and supportive of existing mainstream government programmes.

The ratio of gross fixed capital formation (GFCF) to GDP rose from 17,5% at the start of 2006 to 21,5% in the first quarter of 2008[1] , reflecting a steady and relentless approach towards government's target of 25%.

Figure 1: Gross fixed capital formation



Source: SARB

Even though some two thirds of total fixed investment is made by private corporations, private-sector investment growth has lagged the growth in public-sector investment. From 2006, the growth rates of investment by public corporations accelerated, outstripping private-sector fixed capital formation growth rates.

An expansionary R787-billion infrastructure expenditure plan (9,7% of GDP) between 2009 and 2012 is recorded in the *2009 Budget Review*. This significant expansion of economic and social infrastructure is set to continue into the next decade, as reflected in government's Medium Term Expenditure Framework (MTEF) and, in the context of the current global downturn, is likely to provide our economy with an important buffer against recession.

2009 Revised MTEF infrastructure estimates

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
R million			**Rev.est**	**Medium-term estimate**		
National departments [1,2]	4 631	5 712	7 157	8 024	8 641	12 867
Provincial departments [2] (All sectors)	27 112	29 395	34 664	39 899	46 517	52 439
Of which provincial departments (Education, Health, Roads) [2b]	16 146	19 178	21 810	24 881	27 184	29 902
Municipalities	21 084	30 736	46 093	49 496	53 738	59 074
Of which direct & indirect grants[2c]	8 390	16 612	18 625	19 608	21 845	26 043
Public-private partnerships[3] of which:	1 343	3 857	7 633	13 897	11 692	11 727
SANRAL[7]	2 292	3 392	4 073	5 525	6 665	
Extra-budgetary public entities	3 699	3 726	4 895	6 971	7 509	8 112
Non-financial public enterprises of which:	25 736	56 765	90 192	119 585	131 335	145 842
Eskom [4]		23 803	46 876	80 735	79 735	70 289
Transnet [5]		16 935	20 531	24 301	20 071	12 570
Infraco[6]	627	-	377	210	140	
SARCC rolling stock, signalling						
Buildings, perways, public transport						
Infrastructure and systems grant (PTIS)[7]		4 135	5 347	6 608	7 723	
Acsa				4 983	1 174	967
Total	**83 605**	**130 191**	**190 634**	**237 873**	**259 433**	**290 061**
Percentage of GDP	4,6%	6,3%	8,3%	9,6%	9,7%	9,8%
GDP	1 810 664	2 067 884	2 304 111	2 474 214	2 686 254	2 952 989

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
R million			**Rev.est**	**Medium-term estimate**		
Transnet Capex[5]						
Transnet Freight Rail		7 878	9 710	9 825	8 248	6 580
Transnet NPA		3 949	3 377	4 905	4 159	3 056
Transnet Port Terminals		3 136	2 613	2 321	1 464	713
Pipelines		900	3 252	4 912	3 251	303
Rail Engineering		699	585	487	439	390
Specialised business units		373	518	383	392	378
Capitalised borrowing costs		566	1 176	1 261	405	335
Total		**16 935**	**20 531**	**24 301**	**20 071**	**12 570**
Eskom Capex (2008)[4]						
Generation		15 837	34 354	60 346	55 112	49 828
Transmission		3 739	5 054	10 509	12 183	9 636
Distribution		3 797	6 078	6 617	7 446	7 939
Corporate		430	1 390	3 263	4 994	2 886
New Business						
Total funded by Eskom		**23 803**	**46 876**	**80 735**	**79 735**	**70 289**

Source : National Treasury (2008) – MTBPS, National Treasury (2009) – *Budget Review*

1. Transfers between spheres have been netted out. This figure largely reflects buildings and capital equipment expenditure.
2. Includes maintenance of infrastructure assets.
2a National Treasury (2009), consolidated infrastructure budgets and expenditure trends: 2nd quarter of 2008/09 financial year, IGR unit, internal report, October.
2b. National Treasury spreadsheet.
2c. *Budget Review* (2009), p.124.
3. Infrastructure expenditure on PPPs overseen by the Treasury PPP Unit, South African National Roads Agency, Department of Public Works and at municipal level.
4. Eskom, data sourced from *2008 National Budget Review.*
5. Transnet data sourced from Transnet (2008) *Annual Report*, p.83.
6. DPE (2008) 2007/08 Strategic Plan, Presentation to Public Enterprises Committee, 28 February 2008.
7. Department of Transport (2008) Strategic Plan 2008-2011 presentation, 7 May 2008.

Since 2006, South Africa has recorded significant improvements on aggregate in the capacity of national, provincial and local governments to spend capital budgets effectively and sustainably. However, the picture is mixed in the detail.

National department expenditure during 2007/08 on buildings and fixed structures was 76,5% of budget, mainly due to underexpenditure by the departments of correctional services and public works. This is lower than the 2006/07 figures of 86,7%. By December 2008 (Quarter 3 of 2008/09), 68,7% of budget had been spent, projecting a likely improvement by year end.

Provincial infrastructure responsibilities of roads, transport, education and health showed more than 91% expenditure of budget, reflecting a deterioration in all cases from the 2006/07 period. In 2007/08, about 58% of the total provincial infrastructure budget was spent through conditional grant programmes and this will rise to 60% in 2008/09. By December 2008 (Quarter 3 of 2008/09), 72,9% of budget had been spent.

Table 2: Provincial infrastructure expenditure 2007/08

Provincial infrastructure expenditure	Roads & Transport 2007/08		Education 2007/8		Health 2007/8	
	Budget Rm	% spent	Budget Rm	% spent	Budget Rm	% spent
Eastern Cape	1,885.0	100.0	552.3	76.2	849.9	92.5
Free State	932.6	78.9	251.7	99.7	206.9	128.5
Gauteng	823.7	89.1	771.1	103.2	1,156.4	97.3
KwaZulu-Natal	2,461.7	100.0	974.0	105.1	1,278.4	85.4
Limpopo	1,466.4	81.8	388.8	102.3	482.4	89.1
Mpumalanga	892.4	85.8	445.9	44.7	198.9	73.4
Northern Cape	385.8	98.4	78.3	93.0	287.7	68.2
North West	533.9	99.8	236.8	86.5	400.2	95.5
Western Cape	1,298.7	104.6	240.3	100.0	372.6	99.4
Total	**10,680.3**	**94.1**	**3,939.4**	**91.6**	**5,233.2**	**91.6**
2006/07	8,340	100.2	3,845	99.3	4,108	99.1

Source: National Treasury: Consolidated Provincial Infrastructure Budgets & Expenditure Trends: 4th Quarter 2007/08, 3 June 2008

In addition, based on analysis of their project database by the National Treasury Inter-Governmental Relations (IGR) Unit, there are concerns that a) provincial infrastructure plans and projects embarked on or committed to are not aligned with budgets. This is particularly the case with the DoE, which has committed to projects during the MTEF period, which are in excess of budget by R1,6 billion and b) that too many projects are at retention stage (particularly in the DoE). Among the measures to address this, National Treasury has implemented the Infrastructure Development Improvement Programme (IDIP) and, in 2009, introduced the Financial Management Grant and the Municipal Systems Improvement Grant to modernise local government budgeting and financial management systems, and to improve compliance with the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), committing R1,7 billion over the next three years to these programmes.

Table 3: Expenditure performance: provincial & municipal infrastructure grants 2007/08

	Budget 2007/08 Rm	2007/08 % spent	2006/07 % spent
National departments	5 712	76.5	86.7
Provincial departments (excl housing & transfers)	29 395		98.0
Infrastructure Grant to Provinces (formerly PIG)	6 274.3	94.8	+-100.0
Integrated Housing & Human Settlement Development Grant	8 575.8	91.8	96.0
Health - Hospital Revitalisation Grant	2 176.7	87.4	92.0
Health - Forensic Pathology Services Grant			
Further Education & Training (FET) college recapitalisation Grant			89.0
Transport-Gautrain rapid rail link grant	3 029.4	100	
Municipalities – of which	30 736		
Transfers made directly to municipalities			
Municipal Infrastructure Grant	8 261.8	95.6	97.0
National Electrification Programme (via municipalities)	467.8	80.0	
Public Transport Infrastructure and Systems Grant (PTIS)	1174	38.1	
Neighbourhood Development Partnership Grant			100.0
2010 World Cup Stadiums Development Grant	4605	83.4	
Indirect transfers (in-kind transfers)			
Water & sanitation operating subsidy			
National Electrification Programme (via Eskom)			100.0
Water services bulk infrastructure	300	98.7	
Backlogs in water & sanitation at schools & clinics	105	99.7	
Backlogs in the electrification of clinics and schools			60.8
Bucket eradication programme (MIG funded)			100.0

Source: National Treasury

At municipal level, the budget and expenditure picture is less positive. Some 32% of the 2007/08 municipal infrastructure budget was made up of conditional grants, a figure projected to rise to 36% in 2008/09.

It is increasingly apparent that, compared to a host of other factors detailed below, the availability of finance is less of a constraint to accelerated infrastructure provision. In the face of global recession, South Africa's sound fiscal position has allowed the pursuit of counter-cyclical policy to maintain infrastructure investment programmes. Thus, for example, during 2008/09, National Treasury provided a R60-billion loan and debt guarantees totalling R176 billion to support Eskom's electricity infrastructure investment programme and to overcome construction cost escalations and deteriorating credit market conditions.

5.2 Progress in each target area – achievements against targets/lessons learnt/ challenges

The significant expansions in social and economic infrastructure are outlined below, with some comments on critical areas requiring attention.

5.2.1 Bulk water storage (dams), supply and irrigation programmes

These are the responsibility of the Department of Water and Forestry (DWAF), which budgets directly for such projects or raises financing through dedicated agencies such as the Trans Caledon Tunnel Authority (TCTA). The latter was created to house and manage South Africa's bulk water assets associated with the Lesotho Highlands Water Scheme.

In 2008/09, DWAF's total revised budget was R6 467 million, of which R2 465 million was allocated to the Water Resource Management Programme (mainly De Hoop Dam, Berg Water Project Supplement Scheme, Hluhluwe Regional Water Scheme Treatment Plant, Vhembe District Water Treatment Plant, the rehabilitation of four dams, the reconstruction of access roads to dams) and R1 866 million to the Water Services Programme (mainly for water supply and sanitation to clinics and households, and water services to schools, bucket eradication – formal settlements, and technical support to local government support through deployment of technical experts)[2].

In 2008, DWAF's National Water Resources Strategy (NWRS) proposed various supply- and demand-side measures to manage anticipated future supply constraints, including:

- Effective execution of projects:
    - the projects associated with Cabinet's 2008 decision to proceed with the Lesotho Highlands Water Scheme need cost-effective execution
    - the 165 dams and water-transfer facilities earmarked for upgrading in DWAF's R1,4-billion MTEF allocation
- institutional realignment as outlined in the NWRS (2008):
    - creating and capacitating a national network of catchment management agencies and water user associations
    - creating and capacitating the National Water Resources Infrastructure Agency and integrating it with parts of DWAF and the TCTA
    - reviewing raw water pricing and allocation regime and implementing a medium-term strategy whereby water supply infrastructure ultimately becomes self-financing.

5.2.2 Water and sanitation services

Water and sanitation services are the responsibility of local government. While considerable progress has been made in reducing historic backlogs, the thrust has been in improving conditions in formal settlements.

Specific, targeted programme results in 2008 included the eradication of the backlog of schools and clinics with no access to sanitation. Eradication of the water backlog in schools is expected by 2010. During 2009, the special initiative to eradicate the bucket system in formal settlements will be completed.

[2] DWAF (2008), http://www.pmg.org.za/report/20081021-department-water-affairs-forestry-annual-reportsbriefing-implementati

Table 4: Water and sanitation infrastructure delivery, 2004 to 2008

Service	Backlog in 2004/05	Achieved				Total added since 2004
		2004/05	2005/06	2006/07	2007/08	
Water	10,6 m people	1,51 m people	1 m people	1,25 m people	1,27 m people	5,03 m people
Sanitation	17,3 m people	1,3 m people	800 000 people	940 000 people	1,2 m people	4,24 m people
Bucket Eradication	252 254 units	0	62 206 units	71 747 units	95 218 units	228 991 units
Free Basic Water	14,8 m people	300 000 people	2,46 m people	490 000 people	4,95 m people	8,2 m people

DWAF (2008), Service Delivery: A Five-Year Rreview 2004 to Date, presentation to Parliamentary Committee on Water and Forestry Affairs by Director-General Ms Pam Yako, 21 October 2008.
http://www.pmg.org.za/files/docs/081021dwaf.ppt

The financing of such services has largely been through the Municipal Infrastructure Grant (MIG) and three important policy concerns have emerged recently around planning, financing and operational efficiency of water and sanitation infrastructure.

Municipalities plan for such services through their integrated development plans (IDPs). The IDPs are often not in alignment with the plans of other spheres, including those related to overall water supply, housing, roads and transport[3]. The increasing dependence on grant financing, coupled with an apparent lack of sustainability of the way such services are financed is also of concern. This problem is interlinked with the general poor state of efficiency of operation and maintenance of water and sanitation systems and associated financial management systems[4]. In fairness to municipalities, the sheer scale of infrastructure required to eradicate water and sanitation backlogs have led to a focus on extending service coverage with a corresponding neglect of sound maintenance of both new and existing schemes, thereby eroding their asset base and compromising revenue generation. Measures being taken to address this include:

[3] This problem has been highlighted through various perspectives including the NSDP (2008), strategic plans of departments responsible for other infrastructure components, the Budget and various National Treasury reviews
[4] DWAF (2008), Local government budget and expenditure review presentation, 11 November.

- from 2008, National Treasury intended to adopt a differentiated approach towards different sized municipalities, increasingly targeting smaller and weaker municipalities, with greater infrastructure backlogs and lower capacities through a differentiated MIG programme
- expanding capacity-support measures such as the DBSA's Siyenza Manje, which deploys expert teams into municipalities requiring technical support, together with initiatives to increase the capacity of municipalities to sustain the short-term gains made during the Siyenza Manje initiative
- the National Integrated Maintenance Strategy (NIMS) is being implemented by the Department of Public Works (DPW)
- implementing recommendations emerging from the National Spatial Development Perspective, particularly in defining the district level as the base planning unit
- implementing the Water Services Regulation Strategy, aimed at providing a uniform framework across diversely capacitated municipalities
- significantly increasing MIG funding (the bulk of which has been allocated to water and sanitation projects in recent years).

Municipal capability issues impeding water and sanitation infrastructure service delivery apply equally to other infrastructure types, and the mitigating measures listed above are aimed at removing such impediments from all infrastructure sectors that are the responsibility of local government.

The next MTEF phase will require water and sanitation services to be delivered as part of a more co-ordinated and integrated effort around the built environment, particularly targeting the informal settlement process.

Over the MTEF period, water and sanitation service provision in informal settlements will become intertwined and integrated with the national housing programme, with the objective of providing a basic water supply and functioning basic sanitation by 2014. Informal settlement bucket systems (largely eradicated in formal settlements) will be addressed through the housing process.

Notwithstanding the significant gains made, the policy approach of targeting infrastructure "backlogs" is changing, given that the backlogs are a moving target, particularly in view of rapid urbanisation and decreasing average size of family units. Water policy-makers are increasingly focusing on the sustainability and efficiency of new water and sanitation infrastructure addition and the capacity to sustain

DWAF (2008), Service Delivery: A Five-Year Rreview 2004 to Date, presentation to Parliamentary Committee on Water and Forestry Affairs by Director-General Ms Pam Yako, 21 October 2008.
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- the National Integrated Maintenance Strategy (NIMS) is being implemented by the Department of Public Works (DPW)
- implementing recommendations emerging from the National Spatial Development Per-

[5] WRC (2006), From Crisis to Compliance, Water Research Commission
[6] DBSA (2008), Infrastructure Barometer 2008.
[7] DBSA (2008), Infrastructure Barometer 2008.
[8] See, for example, the recommendations made by the Fiscal and Finance Commission in National Treasury (2009), Budget Review. p.209.

spective, particularly in defining the district level as the base planning unit
- implementing the Water Services Regulation Strategy, aimed at providing a uniform framework across diversely capacitated municipalities
- significantly increasing MIG funding (the bulk of which has been allocated to water and sanitation projects in recent years).

Municipal capability issues impeding water and sanitation infrastructure service delivery apply equally to other infrastructure types, and the mitigating measures listed above are aimed at removing such impediments from all infrastructure sectors that are the responsibility of local government.

The next MTEF phase will require water and sanitation services to be delivered as part of a more co-ordinated and integrated effort around the built environment, particularly targeting the informal settlement process.

Over the MTEF period, water and sanitation service provision in informal settlements will become intertwined and integrated with the national housing programme, with the objective of providing a basic water supply and functioning basic sanitation by 2014. Informal settlement bucket systems (largely eradicated in formal settlements) will be addressed through the housing process.

Notwithstanding the significant gains made, the policy approach of targeting infrastructure "backlogs" is changing, given that the backlogs are a moving target, particularly in view of rapid urbanisation and decreasing average size of family units. Water policy-makers are increasingly focusing on the sustainability and efficiency of new water and sanitation infrastructure addition and the capacity to sustain the operation and maintenance of such infrastructure. This particularly applies to the state of wastewater treatment plants, a municipal competence, where a 2006 DWAF-commissioned study found that 35% of surveyed plants needed urgent capital upgrades, 56% of plants were adequately maintained, an absence of important data and information at 66% of all plants, and only 5% complying to licence requirements[5]. The DBSA (2008) also observed that there had been a general "overinvestment" in water-service provision and an underinvestment in treatment plants[6].

[9] Department of Health (2009), Select Committee on Finance: Public hearings on the division of revenue bill, 24 February 2009

DWAF (2008), Service Delivery: A Five-Year Rreview 2004 to Date, presentation to Parliamentary Committee on Water and Forestry Affairs by Director-General Ms Pam Yako, 21 October 2008.
http://www.pmg.org.za/files/docs/081021dwaf.ppt

The financing of such services has largely been through the Municipal Infrastructure Grant (MIG) and three important policy concerns have emerged recently around planning, financing and operational efficiency of water and sanitation infrastructure.

Municipalities plan for such services through their integrated development plans (IDPs). The IDPs are often not in alignment with the plans of other spheres, including those related to overall water supply, housing, roads and transport[3]. The increasing dependence on grant financing, coupled with an apparent lack of sustainability of the way such services are financed is also of concern. This problem is interlinked with the general poor state of efficiency of operation and maintenance of water and sanitation systems and associated financial management systems[4]. In fairness to municipalities, the sheer scale of infrastructure required to eradicate water and sanitation backlogs have led to a focus on extending service coverage with a corresponding neglect of sound maintenance of both new and existing schemes, thereby eroding their asset base and compromising revenue generation. Measures being taken to address this include:

- from 2008, National Treasury intended to adopt a differentiated approach towards different sized municipalities, increasingly targeting smaller and weaker municipalities, with greater infrastructure backlogs and lower capacities through a differentiated MIG programme
- expanding capacity-support measures such as the DBSA's Siyenza Manje, which deploys expert teams into municipalities requiring technical support, together with initiatives to increase the capacity of municipalities to sustain the short-term gains made during the Siyenza Manje initiative
- the National Integrated Maintenance Strategy (NIMS) is being implemented by the Department of Public Works (DPW)
- implementing recommendations emerging from the National Spatial Development Perspective, particularly in defining the district level as the base planning unit
- implementing the Water Services Regulation Strategy, aimed at providing a uniform framework across diversely capacitated municipalities
- significantly increasing MIG funding (the bulk of which has been allocated to water and sanitation projects in recent years).

Municipal capability issues impeding water and sanitation infrastructure service delivery apply equally to other infrastructure types, and the mitigating measures listed above are aimed at removing such impediments from all infrastructure sectors that are the responsibility of local government.

[10] DME INEP presentation to Financial Select Committee, 9 October 2007

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5.2.3 Housing

Since 1994, some 2,7 million housing opportunities have been created through the national housing subsidy, which has absorbed over R49 billion. Despite this, rapid urbanisation has led to growing informal settlements in which an estimated 1,8 million families live[7]. The policy objective of eradicating informal settlements by 2014 is to be achieved through a number of initiatives, including:

- Increased budget for the Integrated Housing and Human Settlement Development (IHHSD) Grant, rising from R12 billion in 2009/10 to R17 billion in 2011/12. The grant is allocated by the Department of Housing to provincial housing departments responsible for housing project delivery.
- Improve the co-ordination and integration between provinces (which administer the housing grant) and municipalities (which provide bulk infrastructure). This issue has led to calls for the accreditation of capable municipalities to carry out the housing function and to channel the IHHSD Grant directly to those municipalities that have the capacity to effectively administer such grants[8].
- The creation of a dedicated institution (Housing Development Agency) to acquire, develop and release state, communal and privately owned land for residential use.

It should be noted that house construction is an activity, which has significant backward economic multiplier linkages and, depending on the construction method choice, offers the potential to achieve poverty reduction through more labour-intensive methods.

[11] Transnet (2009), Transnet presses ahead with Capex amid global downturn, Press Release, 18 February 2009.

5.2.4 Health infrastructure

The Hospital Revitalisation Grant Programme was started in 2002. This involves a grant to provincial health departments for the physical upgrading or replacement of entire hospitals with sub-components for medical equipment, hospital management and quality improvement. In 2007/08, 87,4% of the R2 177-million budget was spent. Underspending was due to delayed tenders and, in some cases, lack of capacity[9].

5.2.5 Education infrastructure

The FET Recapitalisation Grant, which previously supported the upgrading of 50 colleges, will be phased into the equitable share funding component for provinces during 2009/10. Some R280 million has been allocated to the 2009-12 MTEF budget for the Technical Secondary Schools Recapitalisation Grant, to provide for the refurbishment of such schools.

5.2.6 Electricity infrastructure (National electrification)

Some 4,8 million households have been provided with access to electricity since 2002, through the Integrated National Electricity Programme (INEP). The *2007 Community Survey* recorded that by 2008, 80% of all households had been connected to the national grid. Over the next three years, the INEP will allocate R8,1 billion for electrification infrastructure (R3 billion by municipalities directly and R5,1 billion by Eskom) to improve access to electricity. Schools and clinics will be electrified through a separate targeted programme with a budget of R150 million in 2009/10.

The key constraints to reaching the target of universal electricity access by 2014 relates to a combination of the lack of bulk infrastructure to support household connections (particularly in less densely populated parts of Mpumalanga, Eastern Cape and KwaZulu-Natal), poor integration of housing and electrification planning by municipalities, fragmented systems for managing electricity distribution infrastructure and maintenance and deficiencies in the capacity of municipalities to execute bulk infrastructure projects[10]. During 2007/08, Eskom spent 100% of its R1 108-million INEP budget, while municipalities spent 80% of their R468-million INEP budget. Reasons cited for the underexpenditure centre on the lack of bulk infrastructure to support electrification and that, in some cases, INEP funds have been allocated to bulk infrastructure, thereby reducing the budget's capacity to connect the targeted number of households for that period.

5.2.7 Electricity infrastructure (generation)

Eskom's expansion programme between 2009 and 2012 totals R356 billion and is underpinned by government loans and guarantees. The key challenge over the next period will be to sustainably finance the projects and to ensure that the construction programmes are completed on budget and on time.

5.2.8 Electricity infrastructure (distribution)

Recent reviews and audits of electricity distribution infrastructure (EDI) reveal a historic pattern of neglect by distribution licence holders in maintaining old infrastructure and in planning for expanded distribution services to cater for the rapidly urbanising population. A number of 2008 blackouts were caused as much by distribution failure as by generation capacity shortages. Government policy commitment to consolidate the fragmented distribution industry aims to merge the distribution assets of Eskom and individual municipalities into six wall-to-wall self-financing regional distributors of critical scale and capacity. The merger process is based on a number of principles aimed at ensuring that none of the transacting parties lose value. Central to the process is the need to first ring-fence and record all distribution assets. In many cases, existing asset registers are inadequate. The voluntary nature of EDI restructuring has proved ineffective – the backlogs in distribution infrastructure continue to grow, while maintenance budgets continue to be squeezed, to the detriment of decent service to consumers. It is therefore expected that a constitutional amendment will be moved in 2009/10 to make participation in the EDI restructuring mandatory.

5.2.9 Expansion of transport infrastructure

Despite the global downturn, Transnet has committed to maintain its planned five-year 2008/09 to 2012/13 capital projects totalling R81 billion[11]. As with Eskom, future challenges will be to sustainably finance such projects while ensuring they are completed on time and on budget. In addition, Transnet's efforts to shift significant quantities of freight from road to rail is an important target, which will favourably impact on road infrastructure requirements.

Priority needs to be given to improving the relatively low benchmarked efficiencies of rail and port infrastructure, an important key performance indicator that the Department of Public Enterprises monitors. Ensuring the timeous completion of the National Multi-Products Pipeline (NMPP) will be important. The existing pipeline's limited capacity is already resulting in a significant proportion of inland fuel being hauled by road, contributing to congestion.

During 2008, an interdepartmental initiative was launched to address deterioration of Mpumalanga's roads, caused by Eskom's coal-supply and export coal-haulage trucks. This resulted in a R620-million rehabilitation programme over the next three years, funded through the Infrastructure Grant to provinces. The programme will also cover the development of the R33 road network to Medupi Power Station in Limpopo to support plant and construction machinery movement.

Investment in modern urban transport systems continues, highlighted by the R25,6-billion Gautrain link between Johannesburg's OR Tambo International Airport and Tshwane (completion end 2010); the Gauteng Freeway Improvement Project; the national Taxi Recapitalisation Programme; a number of major metropolitan bus rapid transit networks; and the completion of the project to consolidate passenger rail service institutions into the South African Rail Commuter Corporation (completion 2008/09).

5.2.10 The Public Transport Infrastructure and Systems (PTIS) Grant

This Grant to municipalities and host cities is administered by the Department of Transport and is allocated to accelerate planning; and to establish, construct and improve new and existing public transport infrastructure and systems, including commuter bus and rail transport. During 2007/08, only 38,1% of budget was spent, due to the early stage of projects and because municipal plans were not aligned with the National Public Transport Strategy[12]. By the end of the second quarter of 2008/09, only 7% of the budget had been spent. Although it is expected that expenditure will accelerate, close monitoring of this programme will be necessary.

5.2.11 Telecommunications infrastructure expansion (Infraco)

The policy intention is to use state-owned infrastructure to induce competition in the telecommunications sector and to support the creation of the square kilometre array (SKA). During 2008, Broadband Infraco was created and has wholesaled/leased the fibre-optic network previously owned by Transnet and Eskom to Neotel for the next five years, thereby supporting a second fixed-line operator to compete with Telkom. Infraco is also participating in the African West Coast Fibre Optic Undersea Cable Project, which will increase the band width available to South African users. Implementation of national telecommunications policy and the efforts of the regulator (Icasa) have resulted in a more competitive environment in which a number of cable and other national and local-level infrastructure projects are being implemented.

5.2.12 Expanded Public Works Programme (EPWP)

Phase One of the EPWP commenced in 2004, with the objective of assisting national, provincial and municipal government to adopt more labour-intensive methods of project delivery, particularly on the maintenance of low-volume roads, storm-water drains and sidewalks. The programme provides people with income-earning opportunities such as acquiring skills that will improve their chances of getting employment in the future. The EPWP is monitored and supported by a unit within the Department of Public Works.

[12] DoT (2008), Briefing to the Joint Budget Committee on the 2008 Medium Term Budget Policy Statement (MTBPS), 28 October 2008

Budgets for implementing projects using labour-intensive EPWP methods remain the responsibility of provincial departments responsible for those particular projects – in this sense, the EPWP does not have a direct project budget.

Phase One, which was implemented between 2004 and 2009, achieved its target of creating more than one million part-time employment opportunities. Table Five reflects full-time equivalent employment opportunities.

Table 5: Estimated full-time equivalent employment on public works programmes, 2004/05 – 2007/08

	2004/05	2005/06	2006/07	2007/08
Economic	286	222	1 222	1 553
Environment and culture	15 944	23 882	26 658	23 075
Infrastructure	52 891	28 188	34 738	77 816
Social services	1 965	10 838	23 083	43 916
Total	**71 086**	**63 130**	**85 701**	**146 360**

Source: National Treasury (2008), MTBPS

From 2009 to 2012, R4.2 billion has been allocated to Phase Two of the EPWP. This will include a new EPWP grant incentive for municipalities aimed at providing them with incentives to increase the number of employment opportunities on infrastructure projects. During EPWP Phase One, municipalities did not significantly adopt labour-intensive approaches to infrastructure implementation.

The extension of this programme targets 400 000 full-time equivalent longer-term jobs in the social and municipal services sectors, home-based and community care, as well as project-based employment in infrastructure and environmental protection, in adult literacy initiatives and in programmes delivered through non-governmental organisations. A new modality for delivery will be the Community Work Programme in which unemployed poor people will be employed for two days a week on communal projects developed and agreed to by poor communities.

Phase Two of the EPWP lends support to the DBSA (2008) Infrastructure Barometer analysis which, in modelling the macroeconomic impact of national infrastructure expenditure, concluded that:

a) infrastructure was important for growth and poverty
b) the quantum of financial resources allocated to infrastructure was not proportional to its benefits for growth and poverty
c) poverty was impacted on more significantly by increasing the employment levels associated with such infrastructure delivery.

5.3 2009/10 Accelerated and Shared Growth Initiative for South Africa infrastructure priorities

2009/10 infrastructure priorities should centre around four thematic areas: planning and co-ordination, improving operational efficiencies of existing infrastructure, ensuring infrastructure projects are completed on time and within budget and leveraging infrastructure investment to maximise backward economic linkages and the employment potential of the projects.

5.3.1 Infrastructure planning and co-ordination

In 2007, Cabinet tasked the Economic Cluster to consult entities across government and to extract an integrated infrastructure plan (IIP) and investment framework. The departments of transport and of water affairs and forestry were tasked with this and, over the past 18 months, came to the following conclusions:

- institutional structures to support integrated planning do not yet exist
- communication and information sharing in its broadest sense has been found to be the single biggest impediment to government achieving integration in planning
- the lack of spatial platforms and data-sets to complement sector plans has proven to be a continuing shortcoming in the execution of the integrated planning process
- concerns regarding the commercial sensitivity of infrastructure plans, particularly for state-owned enterprises (SOEs) has led to difficulties in sourcing vital information for the IIP.

Although there has been steady improvement in the systems by which infrastructure provision and operation is monitored, the absence of an appropriately located planning capability in government has constrained more effective integration of infrastructure provision. In this regard, The Presidency-led Programme of Action initiative on planning function options for government could provide a solution to this impediment.

The review of constitutional powers and functions that is being conducted by government (DPLG process) will have a significant impact on infrastructure delivery. As outlined above (particularly in the areas of electricity distribution, water and housing), the capacity and willingness of the respective constitutionally designated authorities to allocate adequate resources to deliver the respective infrastructure service is often a constraint to accelerated infrastructure delivery.

National Treasury's recent and pragmatic adoption of a differentiated approach towards the provision of grants to municipalities, which exhibit different capabilities and capacities, may point to the need for more flexibility and pragmatism in dealing with infrastructure backlogs and challenges. Depending on the outcome of the DPLG's review of the role of provinces, the different tiers of government may unite to defend what they regard as their constitutional rights – but with regard to infrastructure, it is clear that the rationale on which 1994's constitutional decisions were taken, were done on a basis that does not reflect the realities and challenges of policy implementation in 2009.

5.3.2 Improving operational efficiencies

The problems of maintenance and professional and efficient operation and maintenance of existing infrastructure have been alluded to across the spectrum of infrastructure. Such inefficiencies are not only confined to social infrastructure at local government level but extend to some of the country's largest SOEs. Indeed, improvement in SOE infrastructure efficiencies are core components of the key performance measures listed in the shareholder compacts and should be given greater prominence.

While progress has been recorded, further improving the competitiveness, efficiency and capacity of the national logistics system is a key national infrastructure objective. In this regard, the pricing of infrastructure services has emerged as an important issue to address. Price regulation, based on the principle of institutionalised independent regulators, is the policy choice adopted by government. The principle of independent regulation is well entrenched and while good progress has been made in developing the institutional capacity to implement this policy choice in some areas (energy infrastructure and telecommunications), rapid improvement will be needed to further develop independent regulation of port, rail and airport services. The Presidency-led initiative to develop a framework for regulators should be accelerated during 2009.

5.3.3 Timeous completion of infrastructure capital projects

Because of the visibility, delays and cost overruns of many of the larger infrastructure projects like stadiums, pipelines, power stations and railway lines, they receive public and policy-maker attention. However, this is not the case with many of the smaller and medium-sized infrastructure projects across government. Financial data at the national, provincial and local government levels – what was budgeted and whether it was spent or not – is drawn from the national budgeting and reporting system, managed by National Treasury. In previous AsgiSA reports, more detail on infrastructure expenditure at project level was gleaned from National Treasury's National Project Register. Since the beginning of 2008, National Treasury has ceased to maintain the register (although its IGR Unit does maintain a smaller register of projects), but is able to track infrastructure expenditure at a macro level using the reporting mechanisms built into the MTEF process. In 2009, it will be important to weigh up the costs and benefits of resourcing and maintaining a national project registry and tracking system, which provides regular information on the status of each of the estimated 24 000 government capital projects.

The 2010 project experience shows how massive cost escalation can result from poor project planning, and contracting and management procedures, particularly when working against non-negotiable FIFA deadlines. The global downturn has shifted attention away from similarly critical economic infrastructure projects such as power generation, distribution and the

NMPP. This false respite should be used to ensure that such projects do not slip from their original time-lines so that economic infrastructure is not a constraint in future periods of rapid growth.

5.3.4 Maximise infrastructure project backward economic linkages and employment potential

In a useful review of infrastructure progress, the DBSA's Infrastructure Barometer, in applying a macroeconomic model to infrastructure expenditure, concludes that the quantum of finance applied to infrastructure does impact on growth but that the way in which the finance is spent can have an even greater impact on poverty. Consequently, much closer attention should be paid to infrastructure initiatives that maximise direct and indirect labour-intensive potential. This includes ensuring that Phase Two of the EPWP is more integrated into infrastructure project practice than in the past across all spheres of government. Also, efforts around industrial-sector development programmes and those already underway to encourage greater backward economic linkages associated with infrastructure projects (such as the Competitive Supplier Development Programme) should be redoubled.

6. Industrial policies

6.1 Background

AsgiSA proposed that the State adopted a more active industrial policy to move the economy towards increasingly inclusive growth. Industrial policy refers to measures targeted at ensuring a more efficient economy. A particular aim is to address the constraints to growth in sectors that can diversify the economy and provide sustainable employment on a large scale. Industrial policy in this sense relates not to manufacturing industry alone, but to the economy as a whole, including agriculture, mining and services.

In South Africa, industrial policy has to take on two core challenges. On the one hand, products of the mining value chain, including refined metals and coal-based chemicals, account for substantially over half of all exports. This situation leaves the economy dependent on world commodity prices. That was highly beneficial during the commodity boom between 2002 and 2007. However, it proved less desirable when, as in the past year, commodity prices declined. Furthermore, the minerals value chain is mostly capital-intensive and unable to create employment on a large scale.

On the other hand, South Africa has very low employment by world standards. Less than half of all working-age adults have some kind of gainful employment, compared to an international average of around two thirds. But new economic activities that could generate more opportunities for lower-skilled and relatively inexperienced people require government support. In particular, the State must often provide appropriate infrastructure and assist with access to input, credit, technology, marketing systems and training.

AsgiSA pointed to cross-cutting strategies needed to improve the efficiency and equity of the economy, including reductions in the cost and improvements in the quality of economic infrastructure; reduced regulatory burdens and delays; a stronger competition policy to address excessive concentration of ownership in upstream and some wage-goods industries, where monopoly-pricing can inflate costs across the economy; and incentives for research and development. In addition, it emphasised Broad-Based Black Economic Empowerment (BBBEE) to encourage transformation of industries beyond the transfer of equity.

AsgiSA also said government should do more to support labour-intensive sectors with the potential for rapid growth, suited to South African circumstances, and open to opportunities for BBBEE and small business development. Specifically, it suggested tourism, BPO and biofuels as high priorities. Additional priority sectors include agriculture and agro-processing; chemicals; metals fabrication; the creative industries; clothing and textiles; consumer equipment; and forestry, wood and paper.

6.2 Summary of progress

A major step toward a stronger industrial policy occurred with the adoption of the National Industrial Policy Framework and the Industrial Policy Action Plan (IPAP) in 2007. IPAP reflected the AsgiSA priorities of encouraging new industries while improving overall efficiency through cross-cutting measures.

During 2008, the Competition Commission adopted a more strategic approach to the economy, focusing on sectors where the lack of competition had a particularly negative impact.

In the three top priority sectors in AsgiSA – tourism, BPO and biofuels – progress was made in developing policy frameworks as well as providing limited and targeted subsidies. In addition, progress was made in supporting other sectors, notably the forestry, pharmaceutical and auto industries.

The electricity shortfall at the start of 2008 and the steep economic downturn toward its end posed major challenges. The electricity emergency pointed to the need both for better alignment of infrastructure provision with economic imperatives, and for more sensitive management of the mining value chain. The worldwide economic downturn in the second half of the year alleviated the electricity crisis, thanks largely to a fall in demand from mining and refineries. However, it posed new and pressing problems, especially for export industries.

More generally, it has become increasingly obvious that an effective industrial policy able to achieve inclusive and sustained growth requires much stronger alignment of government policies and functions, including infrastructure provision and skills development. That, in turn, demands a stronger central co-ordination function, increased funding and greater consensus among all stakeholders about the best path to achieve economic development over the longer run.

6.3 Details of progress made

In tourism, the review of the grading system was completed. The tourism HRD strategy was presented to the Tourism Career Expo, which had 17 000 participants. The Tourism Charter was drafted. The sector grew rapidly in the first half of 2008, but the latter half saw increasing difficulties due to the international economic downturn, which led to a marked slowdown in foreign visits to South Africa.

Implementation plans for afforestation in the Eastern Cape were completed and the process of developing plans for KwaZulu-Natal got underway. A sector skills plan was submitted to the DoL, and a draft policy on funding small growers was completed.
An obstacle to growth in this sector remained the special difficulties around water licensing. More broadly, the industry seemed likely to suffer significantly from the economic downturn. On the one hand, foreign demand for wood chips and paper shrank; on the other, a slowdown in housing and mining construction affected the market for building timber.

Given the global economic crisis, BPO has a continuing potential to grow and create jobs for unemployed young people in South Africa. It has shown growth in the order of 30% per annum over the last five years. This growth is, however, likely to decline but remains in a healthy 10% to 15% range. The sector has a potential to build an enabling environment for job opportunities.

This is shown by encouraging results to date, which include the roll-out of the Government Support and Assistance Programme for BPO, which attracted nine international investors, with investments of over R900 million and the creation of at least 9 000 jobs. Three call centres were established in the semi-urban areas designated for special support under the programme. The first phase of the proposed training programme was completed and an innovative employer-led and government-funded training programme for unemployed young people was developed and piloted. The dti has begun to engage with the DoL on further skills development programmes.

To capitalise on these opportunities, the Government Support and Assistance Programme and its components should be aligned and a special-purpose vehicle must be created to drive investment attraction and skills development.

In biofuels, the Department of Minerals and Energy published licensing criteria for producers. Two solid biofuel plants were established, producing wood granules as coal replacements for the export market. In addition, planning was completed for a R2-billion plant in the Eastern Cape, which would process local canola into bio-diesel for export to Europe. The plant formed part of a much larger agrarian reform project in the Eastern Cape, which if successful, would improve livelihoods for half a million smallholders in the former Transkei and Ciskei.

Early in 2009, Cabinet approved a beneficiation strategy for minerals. The strategy identifies the scope of minerals refining and manufacture, increasing local value added and technical capacity as well as creating more employment. The next steps require more in-depth analysis of possible projects in mining's priority subsectors. At the same time, the mining industry as a whole, but particularly platinum, diamonds and steel, faced a fall in world prices from mid-2008, leading to extensive layoffs and declining returns.

In addition to the beneficiation strategy, the National Foundry Technology Network became fully operational in 2008. Some 17 companies were benchmarked and technology upgrading commenced. The National Tooling Initiative also began upgrading programmes. A jewellery incubator was established at Gold Zone in Germiston, Gauteng, to address training and SMME development. Finally, the department engaged extensively with National Treasury on the desirability and practicality of measures to incentivise the retention of scrap metals in South Africa for local beneficiation.

The revised support programme for the auto industry was announced, with an investment allowance to be introduced from October 2009. As of March 2009, the dti was exploring the possibility of fast-tracking and/or modifying some incentives to provide support for the auto components industry. The sector faced unusually severe difficulties as the global downturn led to a sharp drop in both domestic and foreign demand for cars.

In pharmaceuticals, a major R3,6-billion two-year tender for the supply of antiretrovirals was awarded in mid-2008, with 84% allocated to domestic manufacturers. The small preference provided for local producers was considerably lower than the subsidies that foreign governments granted competing foreign firms. In addition, the dti commissioned studies into the potential for the domestic manufacture of active ingredients and anti-TB medicine.

The Government also set up an interdepartmental forum to work closely with private investors on a very large plant to expand the production of liquid fuels from coal.

Craft hubs were operational in the Western Cape, KwaZulu-Natal and the Eastern Cape, and were being established in Gauteng. The "Mzansi Collection" concept store was launched to provide an outlet for South African crafts and design.

In terms of cross-cutting issues, in 2008, the Competition Commission again had a significant impact on pricing policies and concentration. Over the past two years, the commission has taken a notably strategic approach to managing concentration, with investigations into food, banking, steel and other industries that have an immense impact on efficiency and welfare across the economy.

A framework for interim measures to align the BBBEE Codes and public procurement policies was agreed on. National Treasury was expected to issue revised procurement regulations by the end of March 2009. On 10 core products for procurement from SMEs, National Treasury and the dti began to develop practice notes, aiming at roll-out from April 2009. Government also established a call centre to monitor the payment by departments of SMEs within 30 days. The much longer periods that often obtained in the past imposed a major burden on smaller suppliers.

Cabinet approved the phasing in of direct lending to SMEs by Khula. This approval was subject to the finalisation of a detailed implementation plan. In addition, the dti finalised a framework for integrating support to small enterprises across the three spheres of government. The framework focuses on:
- co-ordinating SMME programmes, including provincial networks
- SMME support infrastructure
- annual joint reporting by all spheres of government.

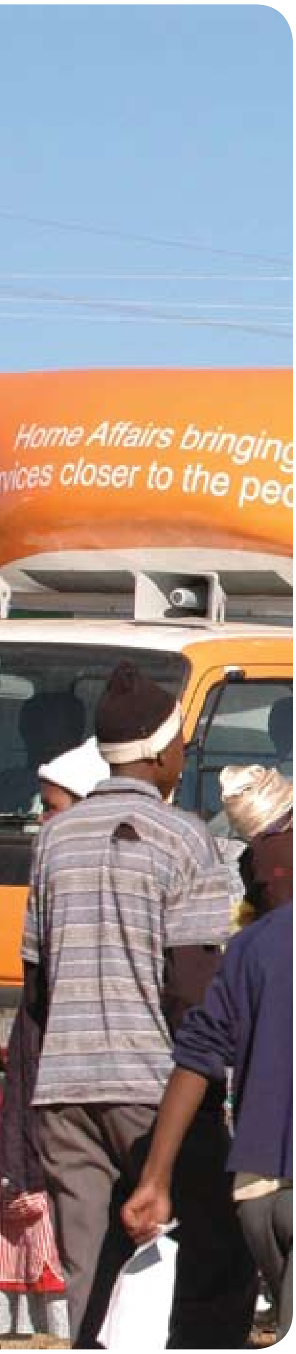
6.4 Priorities for 2009

The main priority for 2009 will be to ensure a robust response to the international downturn. From the standpoint of industrial policy, three core tasks stand out:

- Maximising the multiplier effect of public investment by enhancing local procurement. That, in turn, requires a review of practices in both the Government and SOEs. A central challenge is to support local production to meet quality requirements at an affordable price, for instance by providing sufficient notice, as well as securing adequate financing and technical assistance to gear up for new products.
- Identifying sources of bridging finance for companies that, although severely affected by the downturn in the short run, have the potential to contribute to economic growth in the longer run. This process requires both clear criteria and the capacity to assess enterprises on a case-by-case basis. A related challenge is to ensure that the banks do not cut back unduly on credit to viable companies.
- Reviewing sector strategies together with stakeholders to ensure they respond adequately to the new challenges (and opportunities) arising out of the downturn, most of which relate to a – hopefully fairly short – fall in international and domestic demand.

At the same time, it has become increasingly clear that industrial policy interventions require a stronger system for planning government actions.

From this standpoint, as AsgiSA notes, the biggest weakness has proven to be around the provision of infrastructure to support more inclusive development and sustained economic expansion. Specifically, infrastructure has to be provided in ways that meet the needs of economic actors, particularly in industries that can create employment opportunities on a large scale or that play a central role in economic growth. A major obstacle to this process is the fragmentation of infrastructure provision between different spheres of government under the Constitution, combined with a plethora of independent regulators. Particularly serious shortcomings have arisen around the provision of infrastructure for agriculture and mining, especially freight transport and electricity.



In addition, SOEs now confront the difficult task of balancing the need to fund major new investments with concern about above-inflation increases in tariffs, particularly during the economic downturn.

Addressing these challenges requires:

- broader agreement between the main stakeholders inside and outside government on financing models for new infrastructure investment to minimise the overall economic costs and avoid policy instability
- the establishment of systems to monitor the cost of infrastructure against realistic targets.

Skills development is a second area requiring greater co-ordination across government. The State must do more to ensure that national skills funds are allocated in line with economic needs, and specifically with sectoral policies. An important step to this end would be to ensure that the Setas foresight sectoral skills are more regularly determined, in line with their core mandate.

Finally, government must also ensure greater coherence across regulatory frameworks to minimise the burden on the economy and on individual businesses. A specific challenge is to ensure that new, transformative standards, notably around BEE, the environment, and electricity efficiency, are, when taken all together, both affordable and as efficient as possible.

The year under review saw a lively discussion on how to bring about greater co-ordination in economic policy, focusing mostly on how to enhance government's planning procedures and institutions. From this standpoint, the initiation of the IPAP represented an important step towards aligning economic policy around key priorities. The challenge is to strengthen the IPAP, in particular by:

(a) Extending its scope, particularly to integrate policies on mining, agriculture and the tertiary sector, which remain critical for exports, food security and employment. A major step towards including these critical sectors would be the development of a common methodology for designing and implementing sectoral strategies across the State.
(b) Institutionalising the IPAP as a rolling three-year plan, as proposed in the National Industrial Policy Framework. To date, the proposed review and re-publication of the IPAP, which is crucial to ensure responsiveness to new conditions, has experienced serious delays.

(c) Ensuring that the measures and programmes proposed for industrial policy, when taken together, are sufficient to achieve the AsgiSA targets for growth, employment and poverty alleviation. The current list of proposals and achievements, while impressive, appears to fall short of this standard. Here, the main challenge will be to increase the resourcing available to back up industrial policy, particularly through targeted provision of infrastructure and credit.

From a sectoral standpoint, more consistent and powerful government engagement is needed around:

- agrarian reform
- infrastructural and regulatory support for the mining value chain, as the critical export sector
- securing sustainable growth in the tertiary sector, which remains central to employment creation
- engagement with the southern African region, as a major market for manufactures and services
- defining the role of knowledge-based and green industries, which are key for long-term, dynamic growth, but which cannot create much employment in the foreseeable future.

7. Governance and institutional issues

AsgiSA 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 *2007 Annual Report*. These included:

- implementing recommendations from the capacity assessment in relation to the Public Transport Strategy, micro-finance initiatives and issuing minerals and petroleum licences
- implementing recommendations of the Vulindlela exercises to enhance the human resources function, job retention and recruitment and organisational structure within the departments of trade and industry and of minerals and energy, and provincial agriculture and economic departments
- implementing the mainstreaming of the Project Consolidate approach to all 283 municipalities into the five-year Local Government Strategic Agenda – 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 the promotion of South Africa.

The Capacity Assessment Programme in the Governance and Administration Cluster was instated in an attempt to answer the question of the President as to whether the Public Service had the skills required to implement the developmental state. The aim of the programme is to identify the areas that negatively influence the Public Service's ability to deliver on its set goals and then make recommendations towards the improvement of these influences. This process is not necessarily focusing on departments that are performing badly but it is rather focused on where effectiveness and efficiency within the Public Service can be improved.

To this end, the assessment of departments' capacity to support the implementation of AsgiSA was conducted in the area of ICT. This area was chosen as it is one of the scare skills that have been identified in ASgiSA. This assessment noted that the Government employed the services of the State Information Technology Agency (Sita) to perform most of its ICT requirements, hence departments outsource this functions to Sita. The analysis looked at the employment profile of the ICT skills within the Public Service and found that there had been a steady growth within this sector. For instance, while in 2003, government employed 1 016 ICT practitioners, this number increased to 1 702 in 2007. There seems to be a very high vacancy turnover in this sector. Due to this high turnover rate, the ICT sector is largely made up of young professionals who are still fairly new in the job with one to five years' experience.

Vulindlela analyses were also conducted in the departments of minerals and energy and of agriculture and in provincial economic departments. Overall, the retention of key personnel (including ICT practitioners) 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 in the Five-Year Local Government Strategic Agenda (2006 to 2011). Since then, a particular focus has remained on the targeted Project Consolidate municipalities. By the end of 2008, a total of 1 283 experts were deployed to 105 Project Consolidate municipalities since the launch in October 2004. A number of key partners, such as the Siyenza Manje initiative of the 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 with 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 co-ordination 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.

A significant amount of work has been done in building the foundations for RIA in South Africa. These include scoping RIAs and capacity-building required to accelerate progress in the implementation of RIA over the short to medium term.

Capacity-building initiatives include training workshops for senior and mid-level government officials that took place in September 2008. The training aimed at providing tools to facilitate the implementation of an effective, efficient, integrated and equitable regulatory framework in South Africa while addressing the negative social, economic and environmental consequences associated with poor legislation. The insights gained will be incorporated to the framework that is being developed to guide the implementation of the RIA in South Africa.

Notwithstanding the scale of work that has been achieved to date, progress in conducting pilots has been slow, largely due to capacity constraints in departments. This has affected both the quantity and the quality of the RIA pilots or assessments conducted to date.

The staff recruitment drive was initiated to bring the RIA unit to full compliment. As a result, some of the posts have been filled in The Presidency and National Treasury. Some of the RIA posts have also been filled at the departments of trade and industry and of communications.

The review of DFIs was completed in 2008. The exercise was 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 covered 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 the DBSA. Among other findings, the review found that the mandates of DFIs are overly broad and lack focus. This allowed executive management to engage in interventions beyond those originally envisioned by government and legislation. To this end, the review recommended that mandates of all the DFIs need to be focused on extending financial services access to well defined target groups; absorbing and sharing the risks involved in extending such access; and consistently encouraging the private sector to participate in these target markets.

The Land Use Management Bill was presented to Parliament this year but was returned to the Department of Land Affairs for further amendment. The "one-stop investor" call centre is one of government's priority projects and is expected to be operationalised during the year.

7. Conclusion and high-level priorities

Asgisa was formed in 2006, aiming to tackle directly constraints to inclusive growth. AsgiSA builds on the foundations of the Reconstruction and Development Programme goals of building a united, democratic, non-sexist and non-racial society, and a single integrated economy. AsgiSA also builds on the achievements of the decade of democracy of a stabilised macroeconomic environment, growth rates of 3% per annum and the lowest inflation and interest rates in decades.
This third *AsgiSA Annual Report* outlines progress made in dealing with the constraints identified. Indeed, if AsgiSA's achievements are measured against what AsgiSA is – a set of concrete economic proposals and not an overarching economic strategy – a lot has been achieved. For example:

- GFCF averaged 22% of GDP by 2008.
- Economic growth averaged over 5% from 2004 to 2007, only to be curtailed first by the electricity emergency and then by global economic meltdown.
- Competition Ccommission capacity has been strengthened and more and more cartels and other anti-competitive behaviour unearthed; a programme to curtail red tape in municipalities is also gathering momentum.
- Jipsa has been declared in all quarters as one of the most successful skills interventions in South Africa.
- The lives of many young people have been transformed though initiatives such as the NYS. Programmes flowing from the Second Economy work, such as the community work programmes show promise by providing guaranteed income while at the same time enabling the poor to beautify their surroundings and build community cohesion. In communities that had community work programmes, there was no xenophobic unrest even though there was a high percentage of people of foreign origin.

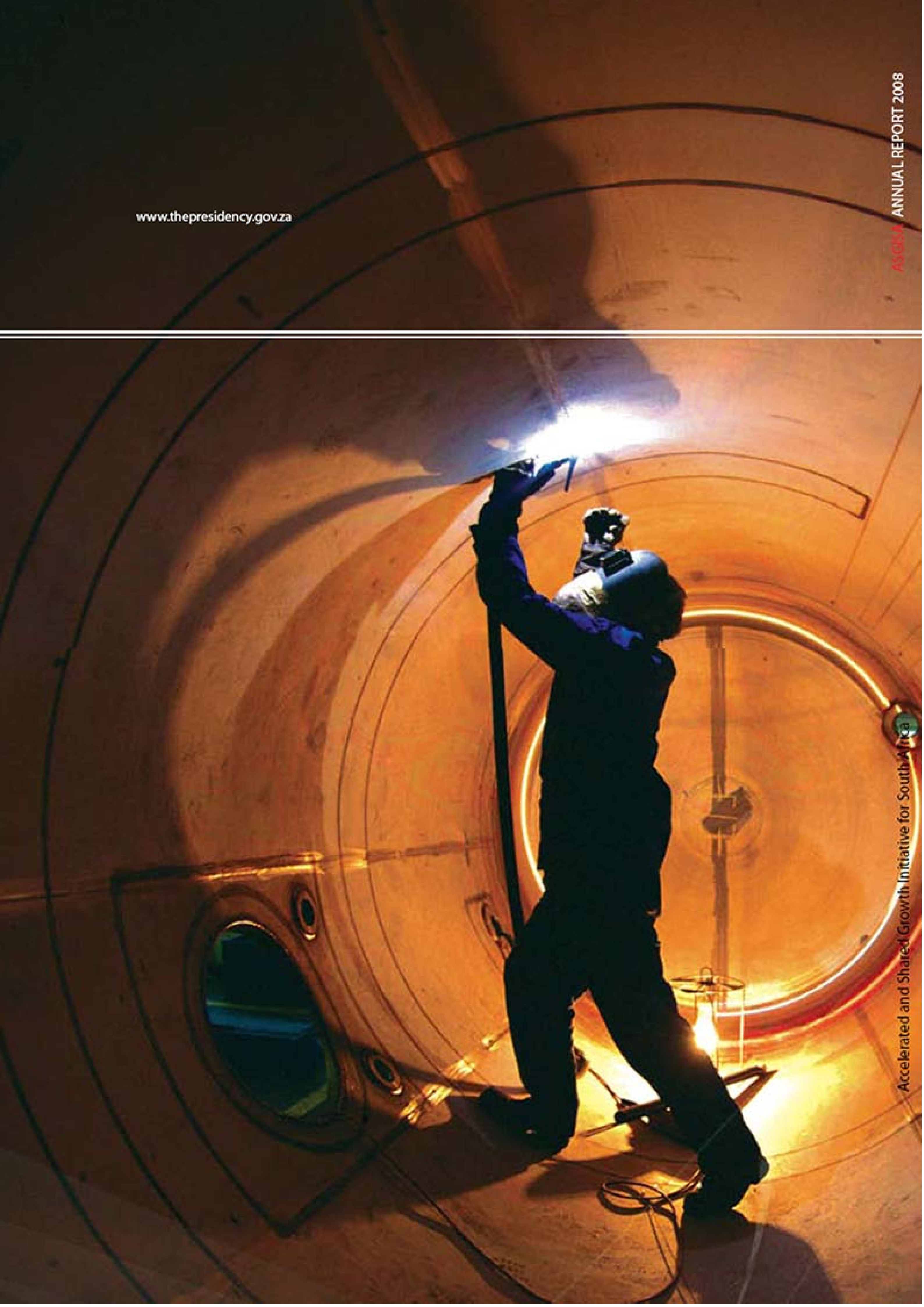
Going forward, the greatest challenge for inclusive growth is the global economic slowdown and inequality. The research undertaken by The Presidency on the Second Economy will indeed assist in the crafting of effective strategies that are targeted. There already exists a tripartite response to the global economic meltdown anchored on principles such as protection of the poor and vulnerable and growing the economy to create decent jobs. Interventions that form part of the response package include:

- maintaining as far as possible infrastructure spend, thus providing a stimulus to the economy and reducing constraints to growth
- enhanced skills development, making it possible for the economy to have a skilled labour force ready for after the crisis
- social security interventions, such as smoothing access to social relief of distress for destitute families and the UIF, linked to skills development.

Beyond the crises interventions, focus should be on implementing an industrial strategy aiming at labour-intensive sectors such as agricultural, mining, tourism, other services (health, education, finance, and cultural industries), construction and electrical and electronic consumer equipment sectors.

Another key intervention for the immediate future would be driving aggressively rural and agrarian reform. This means accelerated land and water access rights reform, linking farmers to markets, sorting out agro-logistics, upgrading, resuscitating and building new irrigation schemes and universalising access to basic services, and extension services.

Ensuring co-ordination, prioritisation and monitoring of these interventions will be the responsibility of the increased national planning capacity planned to be located in The Presidency. The AsgiSA programme has provided the opportunity for The Presidency to learn to drive cross-cutting programmes and has helped to shape the design of the future executive of government.



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