



## Readings on the Second Economy

The second economy has become an important element in the South African government's development of policy and plans to combat poverty. SARPN has compiled these readings to provide a guide to government's thinking and how this is being translated into action. Some of the elements covered include:

The first economy is:

- Modern,
- Integrated with the global economy, and
- Produces the bulk of the country's wealth

The second economy is:

- Underdeveloped,
- Isolated from the first and global economies,
- Contains a large percentage of people including the urban and rural poor, and
- Contributes little to the country's wealth

The two economies need different strategies but:

- Transforming the second economy requires transfers from the first economy
- The first economy is unsustainable without the integration of the second economy

Growth and development strategies for the second economy include:

- Rural development and urban renewal
- Development of small and medium enterprises and co-operatives
- Black economic empowerment
- Expansion of micro-credit
- An expanded public works programme
- Learnerships and internships for the unemployed
- Improvement of the education system to provide useful skills
- Training and deployment of community development workers

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28 August 2003

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## ANC Today, Letter from the President

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The Growth and Development Summit earlier this year emphasised the commitment shared by all our people, government, labour, business and civil society to work together to bring about the higher rates of growth and development that our country needs. The Summit demonstrated the determination of many of our people to join in the people's contract to push back the frontiers of poverty and underdevelopment.

All the matters we are discussing have the most direct bearing on what has been described as our "first world economy". This is the modern industrial, mining, agricultural, financial, and services sector of our economy that, everyday, become ever more integrated in the global economy. Many of the major interventions made by our government over the years have sought to address this **"first world economy"**, to ensure that it develops in the right direction, at the right pace.

It is clear that this sector of our economy has responded and continues to respond very well to all these interventions. This is very important because it is this sector of our economy that produces the wealth we need to address the many challenges we face as a country.

Central among these, as we all known, is the urgent challenge of poverty that continues to afflict millions of our people. A stronger "first world economy" also gives us the possibility the better to confront the task of reducing the racial and gender inequalities in standards of living and the quality of life, that continue to characterise our country.

After the July Cabinet Lekgotla we also said that the successes we have scored with regard to the "first world economy" also give us the possibility to attend to the problems posed by the **"third world economy"**, which exists side by side with the modern "first world economy".

Here I am referring, for instance, to those areas the government identified earlier as the nodes for Urban Renewal and Integrated and Sustainable Rural Development. These and similar areas contain the largest numbers of poor people in our country. But this is not the only issue that characterises and sets them apart.

Of central and strategic importance is the fact that they are structurally disconnected from our country's "first world economy". Accordingly, the interventions we make with regard to this latter economy do not necessarily impact on these areas, the "third world economy", in a beneficial manner.

This structural disjuncture is manifested in a variety of ways. One of these is that many of the unemployed in these areas have either no skills or very low skills levels. As the economy of our country has developed, it has tended to require people with higher levels of appropriate education and training.

This renders many of the unskilled both unemployable and incapable of starting any small business that requires one skill or another.

Because of these realities and the fact of poverty, these sections of our population also have no access to the services offered by the modern financial sector that is part of the "first world economy". Accordingly, even where people within the "third world economy" seek micro-credit to finance the development of small business, they do not get such credit. Rather, they fall victim to unscrupulous moneylenders, omashonisa, who lend money, at exorbitant rates, to people who borrow for purposes of consumption.

It is sometimes argued that higher rates of economic growth, of 6 percent and above, would, on their own, lead to the reduction of the levels of unemployment in our country. This is part of a proposition about an

automatic so-called trickle-down effect that would allegedly impact on the “third world economy” as a result of a stronger “first world economy”.

None of this is true. The reality is that those who would be affected positively, as projected by these theories, would be those who, essentially because of their skills, can be defined as already belonging to the “first world economy”.

The task we face therefore is to devise and implement a strategy to intervene in the “third world economy” and not assume that the interventions we make with regard to the “first world economy” are necessarily relevant to the former.

The purpose of our actions to impact on the “third world economy” must be so to transform this economy so that we end its underdevelopment and marginalisation. Thus we will be able to attend to the challenge of poverty eradication in a sustainable manner, while developing the “third world economy” so that it becomes part of the “first world economy”.

This means that those who benefit from the growth and development of the “first world economy” will benefit even more from its expansion, resulting from the development of the “third world economy” to the point that it loses its “third world” character and become part of the “first world economy”.

To get to this point will require sustained government intervention. This is because, given the structural disjuncture that separates the “first world” and “third world” economies, we cannot and should not expect that there would be any mechanism inherent within the “first world” economy that would result in the latter transferring the required resources to the former, to enable it to outgrow its “third world” nature.

We mention resource transfers because this is exactly what the “third world economy” requires to enable it to break out of its underdevelopment. These resources include education and training, capital for business development and the construction of the necessary social and economic infrastructure, marketing information and appropriate technology, and the ways and means to ensure higher levels of safety and security for both persons and property.

The decisions taken by our government with regard to the Urban Renewal, the Integrated and Sustainable Rural Development, and the Expanded Public Works Programmes relate exactly to the achievement of these objectives. However, for them to succeed will require that we devote more resources to these programmes than has been the case up to now.

This brings us back to the broader message communicated by the recent reduction in interest rates. This action is both a consequence of the health of our economy, and a contribution to its further growth. It emphasises the fact that now, more than in the past, our “first world economy” has greater capacity to produce the resources we need to make an impact on the “third world economy”.

The nature and scale of the challenge we face requires that we approach this matter boldly, vigorously, and in a sustained manner. The progress we have made with regard to the “first world economy”, has given us some, but, of course, not all the means we need to tackle the “third world economy”. This puts us on a strong footing to make visible progress to free our country of the burdens imposed on millions of our people through their entrapment in a marginalised and underdeveloped “third world economy”.

The global economy is characterised by its division into two worlds, the “first world”, and the “third world”, the North and the South, one rich and developed, and the other poor and underdeveloped. Our country contains this global phenomenon within its boundaries, resulting in the coexistence of two nations side by side, one rich and developed, and the other poor and underdeveloped.

We have it in our power to use our own intellectual and material resources to end this division. This we will achieve through a protracted process of engagement together with the poor, in a people's contract to push back the frontiers of poverty and eradicate underdevelopment.

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## **Address by President Thabo Mbeki to the National Council of Provinces**

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At its Lekgotla in July, the Cabinet once more focused on the critically important issue of the struggle against poverty. In this context, it observed that our country is characterised by two parallel economies, the First and the Second. The First Economy is modern, produces the bulk of our country's wealth, and is integrated within the global economy.

The **Second Economy** (or the Marginalized Economy) is characterised by underdevelopment, contributes little to the GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the First and the global economy, and is incapable of self-generated growth and development.

To respond to the challenge of this **Second Economy**, we have examined the system of "Structural Funds" instituted by the European Union (EU) in respect of its regional policy, which is based on financial solidarity of transferring a portion of the EU's budget to the less prosperous regions and social groups within the EU.

The EU programme is premised on the reality that "the market cannot be relied upon to meet the development needs of the 'less favoured regions' within the EU, guarantee the achievement of the centrally important objective of social cohesion, and provide the means for the implementation of 'strategies for catching up'".

In the same spirit, the Cabinet has resolved that the development of the Marginalized Economy requires the infusion of capital and other resources by the democratic state to ensure the integration of this economy within the developed sector.

The Cabinet's decisions will necessarily involve active partnership with provincial and local governments and other social partners. Among the key strategies to meet the growth and development challenges of the **Second Economy**, include:

- \* the Integrated and Sustainable Rural Development Programme (ISRDP)
- \* the Urban Renewal Programme (URP)
- \* the Expanded Public Works Programme (EPWP)
- \* a major boost to infrastructure spending, with an emphasis on improved underdeveloped regions and communities
- \* further support to local government's preparation and implementation of Integrated Development Plans (IDPs)
- \* the development of SMMEs and cooperatives, in both urban and rural areas
- \* black economic empowerment and special programmes for women's economic development
- \* the expansion of micro-credit to enable the poorest to engage in productive economic activity
- \* the incorporation of the unemployed within the Skills Development Programme, especially as implemented by the SETAs
- \* the continued restructuring of our system of education so that it gives our youth the necessary skills to engage in economic activities of benefit to them;
- \* agrarian reform, including a Farmers Support Programme and forestry development in the interests of communities
- \* the creation of the echelon of community development workers to help build social cohesion in the **Second Economy**, and to help to develop strategies and forge links that can transform the **Second Economy**.

The Cabinet made the determination that the advances we have made with regard to the First Economy, during our first nine years of our liberation, have put us in a position to meet the objective fundamental to our strategic outlook, to reduce the numbers of those dependant on social grants, by enabling them to pull themselves out of poverty by engaging in gainful economic activity and exercising their right to human dignity ...

In the State of the Nation address in February, I promised that we would launch an EPWP to promote economic growth and create sustainable development.

I am pleased to report that the Department of Public Works together with other Departments, including the Departments of Environment Affairs and Tourism, Agriculture, Education, Health, Social Development and Trade and Industry, provincial and local governments and civil society formations have come up with a comprehensive business plan, approved by Cabinet on 4 November 2003, which will now be implemented in phases.

The EPWP is a nation-wide programme that will draw significant numbers of the unemployed into productive employment, so that workers gain skills while they are gainfully employed, and increase their capacity to earn an income once they leave the programme. The EPWP is targeting one million unemployed people in the first five years.

The centre-piece of the EPWP is a large-scale programme of using labour-intensive methods to upgrade rural and municipal roads, municipal pipelines, storm water drains and paving as well as fencing of roads, community water supply and sanitation, maintenance of government buildings, housing, schools and clinics, rail and port infrastructure, electrification infrastructure, and so on.

Some of the approved environmental and cultural programmes that will also contribute to the EPWP are the Department of Agriculture's Land Care Programme, the Department of Environmental Affairs and Tourism's Faranani - Pushing Back the Frontiers of Poverty Programme, People and Parks, Coastal Care, Sustainable Land-based livelihoods, Cleaning up South Africa, Growing A Tourism Economy Programmes, the Department of Water Affairs and Forestry's Working for Water, Wetlands and Fire Programmes, and the Department of Arts and Culture Poverty Relief Programmes.

The critically important area of health also forms an important part of the EPWP and includes the Department of Health's home-based care workers, the Department of Social Development's community-based care and support workers and the Department of Education's early childhood development workers.

The economic sector EPWP initiatives include the Department of Agriculture's community production centres and the Departments of Labour and Trade and Industry's micro-enterprise development and venture learnership programmes.

The success of the EPWP will depend on how well all our spheres of government will work together as partners to achieve practical results. I would like to share with you a concrete example of an existing provincial EPWP project, which is helping to give hope to desperately poor rural communities. There are plans to replicate this programme in other provinces.

I refer here to the Zibambele programme that was initiated in 2000 by the KwaZulu-Natal Department of Transport. Its objectives are to maintain the province's rural road network and to provide poor rural households, which have no other source of income with a regular income.

The programme is based on the 'length person' contract system, which has been used extensively in Europe and Southern Africa. In 2002/3 there were approximately 10,000 Zibambele contractors maintaining approximately one-third of the KwaZulu-Natal rural road network.

In return for eight days of work a month maintaining a length of road to agreed standard, households received a transfer of R334 per month.

The part-time nature of the work, which may be carried out flexibly within the month, is designed to accommodate engagement in household tasks and other wage or subsistence opportunities should they arise.

The work is allocated on a household basis, so that if the participating household member becomes unavailable, another household member may take up the activity, and thus retain the monthly income. Households are selected for participation at a district level by representatives of the local community and by

the elected Rural Road Transport Fora using criteria of poverty, unemployment and female or child-headed households.

The scheme was initially reliant on support from external consultants, but in-house management and implementation capacity has been developed and the use of external consultants has been reduced. The department planned to extend the number of contractors to 14,000 by the end of the 2002/3 financial year and, ultimately, to a maximum of 40,000 poor households. The budget for Zibambele in 2002/3 was R55.7 million.

A recent study has concluded that the programme is cost-effective in terms of transferring resources from the state to recipients, the proportion of programme costs spent on labour and the cost of the creation of a day's work. (Anna McCord, Public Works as a Response to Labour Market Failure in South Africa, Centre for Social Science Research, SALDRU, November 2002, Working Paper No 19, pp. 80-81).

This study has also pointed out that if Zibambele were expanded nationally and focused just on the maintenance of the 38% of the provincial road network estimated to be in poor condition, approximately 134 500 jobs could be created on the basis of employing one worker per kilometre, at a cost of R691 million per annum. Zibambele is a clear example of best practice, which can be drawn on in the expanded public works programme.

The Limpopo Province has also taken the initiative to implementing the EPWP in its road infrastructure projects, under the banner of its Gundo Lashu programme, which is isiVhenda for "Our Victory".

This is resulting in six times more local employment creation than if conventional machine-intensive construction methods were used, without any significant overall increase in costs, and without sacrificing the quality of the roads being built.

The workers on the projects are also provided with training, with the aim of increasing their potential to earn an income once the projects are completed. By the end of next financial year, the contractors will have completed 500 km of rural roads, and created 500 000 person days of local employment.

A recent review by the British Department for International Development concluded that "the demonstration of the viability of labour-based methods is likely to be completely achieved" in the Gundo Lashu programme (Taylor, G. A. Bester and P. Delius. 2003. 'Limpopo Province Labour-Intensive Rural Roads Programme (Gundo Lashu), Output to Purpose Review'. DFID).

Working for Water, with a budget of about R30 million, has over 300 projects around the country, operating in all provinces, and currently is providing work and training opportunities to some 21,000 people. There is a strong focus on those living in poverty, with concomitant support for black economic empowerment, women, youth, disabled and single-parent households, among others.

Growing out of the Working for Water programme have been several aligned programmes. The Working on Fire programme is providing training and work opportunities to a similar targeted group of people, to help prevent and fight fires. Through the heroic action of a Working on Fire team, 22 people in KwaZulu-Natal were recently rescued from certain death.

Similarly, this programme was praised by the forestry industry for playing a significant role in containing devastating fires in Mpumalanga and elsewhere in August, which cost the country about R3-billion.

Working on Fire is piloting its work in seven provinces at present, with the hope of becoming a national programme to address fire in a comprehensive and co-ordinated manner. It has a R20 million per annum budget from Working for Water, supplemented by significant support from the private sector.

The Working for Wetlands programme is similarly providing training and work opportunities in the rehabilitation of wetlands. It is a fine example of co-operative governance, working across three national departments (Department of Environmental Affairs and Tourism, Department of Water Affairs and Forestry and Department of Agriculture), provincial capacities, local government and the private sector.

These are a few examples of how Government has been taking progressive steps with our social partners to address significant threats to our social, economic and ecological well being. Indeed, we are implementing our programmes in a pro-poor, transformation-orientated manner.

The youth of our country are significant stakeholders in our reconstruction and development plans. They are part of our population many of whom fall in the category of the "economically-active".

Across all levels of government, we are striving to ensure that the youth are given the opportunity to create wealth and income for themselves and for our country.

A lot of energy has gone into infusing a youth development approach in the public delivery system though the results are still uneven. Through the National Youth Commission and the Umsobomvu Youth Fund it has been possible to provide guidance to departments and interact with senior managers to ensure that youth development is supported internally.

Youth Development must become an integral part of what we do in the provinces and municipalities. Youth development and participation must form part of our development of Integrated Development Plans.

The partnership between the National Youth Commission, the Umsobomvu Youth Fund and the South African Youth Council has developed a strong impetus for the decisions we took in terms of establishing and implementing a National Youth Service. In the coming months, we must scale the National Youth Service (NYS) upwards, from pilot service projects administered through these three partners into a coherent national effort involving key national and provincial departments.

Other innovative interventions that can and must be made to address the challenges of the **Second Economy** are also exemplified by the Public-Private Partnership ICT initiative between Limpopo Province, Mogalakwena District Municipality and Hewlett Packard. This exciting programme is using modern communication and information technology to bring all-round development to the Mogalakwena rural area. We must work to expand this kind of programme to other rural areas.

The March 2003 Labour Force Survey of Stats SA showed that two million new jobs were created in the previous seven and a half years, bringing the total of those employed to 11.6 million. This represents an employment growth rate of over 2.5% per year.

However, as indicated in the Ten-Year Review, the numbers of those joining the labour market has grown at a faster rate. Demographic changes, such as more women entering the labour market, have also intensified the need for our economy and society to create more jobs.

Our macro-economic policies and micro-economic interventions have helped to place our public finances and the First Economy on a radically better footing than they were in 1994. These improvements have helped to generate the resources we need to address the challenge of the **Second Economy**. This also means that we must persist in our work to ensure the further growth and development and modernisation of the First Economy, including its capacity to absorb larger numbers of work-seekers.

This also relates to the important issue of black economic empowerment, which remains one of the priorities of our government, both to end the racial disparities in our economy and society and to address the challenge of poverty and underdevelopment. Government has also made significant sums of money available for this empowerment. The state corporations are also important partners in this regard.

The adoption of the Black Economic Empowerment Bill will also help to expedite the process of this empowerment. Government and black business have already held a two-day indaba to follow up on this development.

The fact of this indaba emphasised the need for our government to continue to interact with a broad cross-section of our people further to strengthen the people's contract to build the kind of people-centred society we all want. Once again, the Ten-Year Review emphasised the need for us to strengthen this people's



contract, pointing to challenges we face to ensure that our social partners perform to capacity and consistent with the agreements they enter into.

The successful Growth and Development Summit held last June, served as a positive signal of the ability of South Africans to work together to meet our economic goals.

The Presidential Working Groups create the possibility for an on-going dialogue between government and representatives of civil society formations, non-governmental organisations, business and trade unions. As the Council knows, they include the Big Business Working Group, the Black Business Working Group, Commercial Agriculture Working Group, the Trade Union Working Group, the Religious Leaders Working Group, the Higher Education Working Group, and the Youth Working Group.

I am pleased to report to the National Council that our dialogue with the various Working Groups has been highly successful. We are considering the publication of a Report to the Nation covering the areas covered by these Working Groups as a practical example of how much our people are giving practical expression to the need for all our people to come together in the people's contract of which we have spoken, to confront the challenges we face as a country.

On 6 May, we established the Higher Education Working Group to create a shared understanding of the challenges of transformation that confront our universities and technikons. It is critically important that these institutions produce the relevantly qualified and skilled people we require to build our society and economy, and sustain our drive to advance ours as a winning nation.

Recently we also launched the Youth Working Group directly to engage this important sector of our society. We also hope to engage in the near future with another very significant constituency - women, who represent the majority of our population. Consultations are proceeding to establish this Women's Working Group.

Since April 2001, the Presidency has engaged with the masses of our people across South Africa in the form of the iimbizo. This year, we have gone to the provinces of the North West and the Western Cape. We still have to visit KwaZulu-Natal, the Northern Cape and Mpumalanga.

The iimbizo have given all of us a unique and personal insight into the lives of the masses of our people who have elected us into office. Our top priority is to ascertain what the actual needs of our people are; how efficient the delivery of services at all levels of government is, and to address problems; and whether governments' policies have had a positive and regenerative impact on our communities.

In all provinces, we heard compelling personal stories of genuine concerns and yet we also encountered real progress and partnerships between the rich and the poor, the young and the old, men and women – indeed, it is inspiring to witness at first hand the spirit of vuk'unzenzele.

This Second Decade of Liberation will be decisive for our country because it will determine whether we succeed to meet the challenges posed by the existence of the **Second Economy** in our country. I am certain that we will meet our goals in this regard.

But equally, I am certain that we will not achieve this historic victory unless we join hands in a truly meaningful manner, in a real people's contract that unites the majority of our people in action to eradicate the legacy of colonialism and apartheid.

Hopefully, in the debate, which follows in the House, we will have the opportunity to address areas of mutual concern to ensure that we formulate and implement policies and programmes in which the people in all nine provinces and all our municipalities have an active and significant role.

We must move forward together in unity to push back the frontiers of poverty, to expand access to a better life for all, to extricate millions of our people from the **Second Economy** which condemns them to poverty, underdevelopment, marginalisation and loss of human dignity.

## **Budget speech by Minister of Finance, Trevor Manuel, to the National Assembly**

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We are progressively realising the social and economic rights of our people, we are building the foundations for stronger growth and employment creation, we have a policy framework in place to bridge the divide between the first and the **second economies** that is still such a pervasive feature of our society, as President Mbeki reminded us yesterday. ...

The Medium Term Budget Policy Statement (MTBPS) outlines our strategy for reinforcing investment and broadening participation in the South African economy. Building on the agreements reached between government, business, labour and community constituencies at the Growth and Development Summit in June this year, we have a shared vision for improving the performance of our economy.

Key initiatives include:

- \* Enhancing public infrastructure capacity, including critical transport and communication linkages;
- \* An expanded public works programme, extending job creation initiatives across a broad developmental front;
- \* Improving the regulatory environment and resolving obstacles that stand in the way of the expansion of small businesses;
- \* Expanding education and training and accelerating enrolment in learnerships to underpin long-term job creation;
- \* Deepening social security programmes to provide income support to the most vulnerable;
- \* A broad-based black economic empowerment strategy; and
- \* Strengthening sectoral partnerships and local development initiatives.

This development agenda rests on the foundations of the macroeconomic consolidation we have achieved – a moderate budget deficit, a healthy balance of payments and lower inflation ...

Drawing on the findings of the Ten Year Review and the 2003 Growth and Development Summit Agreement, spending plans for the next three years will include an Expanded Public Works Programme to contribute to job creation, reinforcement of infrastructure investment and maintenance, provision for higher education transformation and skills development, and further investment in municipal infrastructure and services. These policies were reaffirmed through the GDS process in which Government, business, labour and community representatives committed to work together to foster people-centred development.

Significantly, employment creation and skills development emerged as the focus of social partners and is indeed at the centre of Government's development strategy for the next decade. As outlined by His Excellency, President Mbeki, in the NCOP yesterday, the Expanded Public Works Programme will be central to meeting this goal and is one of the key agreements arising from the Growth and Development Summit. A growing proportion of current infrastructure allocations will be directed towards labour based construction methods, resulting in more jobs for low-skilled individuals and valuable training to serve them in future years. Infrastructure grants to provinces and municipalities rise by R3,2 billion over baseline and will be the main source of funding for this programme with technical support from a dedicated unit in the national Department of Public Works.

The proposed division of revenue sees a gradual shift of resources in favour of provinces and municipalities. The majority of social services are, in fact, delivered by provinces where health, education and welfare spending are prioritised. Programmes in this sector embody Government's core commitment to human capital and social development. This forms the bedrock of our strategy to reduce poverty and support vulnerable groups, including the aged, children and the disabled. That is why social development budgets will continue to grow strongly to meet our constitutional commitments of providing for the needs of these groups, amongst others.

Notably, phasing in the extension of the child support grant to children up to the age of 14 accounts for continued rapid growth in social security expenditure. Including sharp increases in the numbers of recipients of disability grants over the past year, we are now paying monthly grants to over seven million people – up from under 3 million six years ago. Starting from about 2 per cent of GDP, the social security system now takes up 4 per cent of GDP. A recent research project focused on the child support grant has again confirmed that our social grants programmes are well targeted, contribute on a large scale to reducing income poverty, and that the new grant is making significant progress in meeting the needs of vulnerable children.

Local government receives the biggest percentage increase in the proposed framework due to its vital role in delivering basic services to poor communities. Government is committed to investing in low-income neighbourhoods and under-served communities, in part through the free basic services programme which provides a minimum package of municipal services including electricity, water, refuse removal and sanitation. This is a big challenge for municipalities and will remain a priority for the medium term. As part of the process to create sustainable neighbourhoods, local government is stepping up infrastructure delivery through a consolidated Municipal Infrastructure Grant. Through this new mechanism, Government will target the removal of backlogs in water, sanitation and electricity, thus promoting the social and economic rights of citizens over time.

There are several other priorities in the social services. The years ahead will also see about R3 billion spent on the transformation and recapitalisation of higher education institutions, and rapid growth in the number of workers and learners benefiting from skills programmes overseen by sector education and training authorities (SETAs).

Education continues to dominate social services. Funding of learner support materials and other supplies for schools will be strengthened and the primary school nutrition programme will shift from health to education departments. These targeted interventions seek to improve the quality of learning for students, particularly those in poor areas. Over time, the substantial and growing investments in school education together with ongoing reforms in higher education will create a deeper pool of skills to support economic growth. It is notable that the National Student Financial Aid Scheme (NSFAS) is producing solid financial results while continuing to increase the number of awards to academically deserving and financially needy students.

The fastest growing category of spending at present is our portfolio of social grants programmes, and in particular, income support for children under the age of 14. This is as it should be - for our children are our future, and while we have such inequality, and such a gap between employment opportunities and the number of work seekers, as we have, we must give priority to this basic contribution to household food security and mitigating income vulnerability.

But over the longer term, over the decade ahead, we must also be mindful of the great responsibility we have to invest in building productive capacity, developing a learning society and creating work opportunities. This is, after all, our investment in the livelihoods of our children beyond the age of 14, and in their capacity to nurture and support our children's children, and beyond. And so we also have to contain the extension of our social security system within reasonable and affordable limits, and channel a growing share of resources to education, to skills development, to housing, water and sanitation, to building roads and modernising our transport networks and to our particular place at some of the frontiers of research, technology and scientific achievement ...

South Africa is a great place to be. Not just because we have a sound economy, beautiful beaches and game parks, cultivate wonderful wine or produce brilliant kwaito music. But because, as a nation, we are building a future. We are confronting our past. We are addressing our challenge, our growth and development performance and the gap between the modern economy and marginalized communities. We are dealing with these issues. We have a sound economy, a responsible budget framework, a plan to raise the level of investment in the economy, firm proposals to tackle unemployment, strong growth in social transfers and a concerted drive to lower the levels of crime.

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27 November 2003

## **Address by Minister in the Presidency, Essop Pahad to the Enterprise Development Forum**

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... BEE should be viewed as the engine of our economic future and the factor that, more than any other, will link our two, disparate economies. In much the same way that NEPAD offers an attractive partnership to the wealthy nations in the development of Africa through sound investment, BEE offers the traditional business world of South Africa the chance to team up with previously excluded players so that all may prosper.

And we have little time to transform the lot of those who struggle on in the **Second Economy**, which the President referred to in his recent National Council of Provinces address as the Marginalized Economy.

As things stand, and as The Presidency has stressed in its ten-year review, we are all acutely aware that South African poor households face fundamental constraints with regard to borrowing and saving. On the one hand, in 2001 an estimated 17.6 million South Africans were unbanked, including a large number of employed people. 57% of the unbanked are women, and 72% of Africans are unbanked. On the other hand, the micro-finance regime has resulted in some over-indebtedness amongst poorer salaried South Africans (in London recently at the solidarity with South African conference I noted that it came as a surprise to many delegates to hear that interest on micro-loans arranged by reputable NGOs could be as high as 40%). Although there has been some financial deepening in South Africa (access to savings and credit facilities), poor households still have difficulty in coping with external shocks. As a consequence, these households cannot save or consume, which is a severe form of disempowerment, and impacts negatively on the entire economic performance of South Africa.

BEE is, without any doubt, a knight in shining armour in this situation of despair and neglect. We must rededicate our efforts to make it work, to work quickly, and to work in the interests not only of the few but of all our people. That will be the seal of success that we shall be able to place on our nation as we enter our second decade of freedom ...

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10 December 2003

## **The Presidency: Reviewing Ten Years of Freedom**

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As South Africa ends its first decade of freedom, government's attention is turning to the challenges the country will face in the next ten years.

As part of the process, The Presidency undertook a study to review the impact of government policies and programmes since 1994. The result, 'Towards a Ten-Year Review', was made public on 16 October 2003 and is available on the government website ([www.10years.gov.za/review/documents.htm](http://www.10years.gov.za/review/documents.htm)). The study identified the major achievements in the first decade of freedom and also indicated that there are still some major challenges in the next decade.

### Scenario Planning

At the same time, government embarked on a scenario planning exercise to understand a range of possible futures for the Second Decade of Freedom. The scenario storylines would act as a possible backdrop against which current and future policies will be carried out ...

The four scenarios developed are the product of eighteen months of consultation and research involving experts in both the public and private sectors. The development of these scenarios involved a number of steps.

Through research and discussion, "key driving forces" (KDFs) were identified as the factors most likely to affect South Africa over the next ten years ...

Also examined, for example, are diverse factors like long-term weather conditions and global political and economic developments. Health issues, the impact of generational changes, levels of technological development worldwide and locally, are also amongst the KDFs considered.

Through this process two main axes were identified: global political and economic trends; and social cohesion in South Africa. These two factors formed the matrix that was then used to define the scenarios and develop storylines describing four different possible scenarios for South Africa in the medium-term.

#### The Four Scenarios

The four scenarios are defined in terms of the possible combinations of the two principal driving forces - global environment and social cohesion.

\* 'S'gudi S'nais' is based on assumptions of South Africa existing in a more accommodating and accepting world, but failing to take advantage of this positive environment.

\* 'Dulisanang' ponders what our future might look like in a much more hostile, unilateralist world, unfriendly to developing countries, where we, as South Africans, none-the-less manage to create a more inclusive society.

\* 'Skedonk' combines assumptions about the emergence of both a very unfriendly outside world with an internally divided and dispirited society.

\* 'Shosholozza' assumes an accommodating world and an inclusive society here in South Africa.

#### "Storylines" - Filling in the Possible Futures

What are the main features of each of the four scenarios?

'S'gudi S'nais' is characterised by conflicts between those who have-a-lot versus those who have-a-little. Although the world has taken heed of 'the fire next time' warnings from the developing world, and multilateralism now prevails, South Africa loses its place in the jostle for investment and access to international trade. Growth is initially high but perversely so, surging to 6-8%, but later dropping to an average of less than 1% per annum by the decade's end as the impact of social fragmentation takes effect. This is a result in the main of situation in which the rich elect to ignore social inequalities and concentrate on selfish and often unethical amassing of wealth, and the state is indecisive in containing this.

'Dulisanang' describes a much more considerate and inclusive society. South Africa has responded to heightened global insecurity and endemic economic crisis by turning inwards to its own resources. Although growth is low, participation in the economy is high and compassionate values emerge strongly. And, despite limited resources, the state delivers on its social obligations but is unable to sustain such social delivery in the long-term due to low growth.

'Skedonk' is characterised by deep social divisions. Unilateralism in global relations is the order of the day, and the globe is beset with conflicts. Growth in South Africa is confined to areas like tourism and is stubbornly low all decade. The poor get poorer, AIDS has had devastating effects on the population, and, by decade's end, there is high unemployment and general social dislocation within South Africa. In this instance, the political and economic leadership would have responded to the unfavourable global climate by 'waiting for Goddot' - through inaction.

'Shosholozza' envisages South Africa, by the end of the Second Decade of Freedom, as a diverse and tolerant society whose local economy is surging ahead like a sleek express train. The global economy is also booming, and multilateral institutions have brought stability to the world's most intractable political conflicts. High economic growth has brought millions of jobs and much greater participation in the robust economy. South Africa is well poised for a third decade of freedom, and opportunity and prosperity ...

On its part, government has requested departments and clusters to assess policy priorities for the Second Decade of Freedom against the dynamics described in the four scenarios. In particular, they are addressing the challenge of how to encourage positive tendencies and counteract negative ones.

It is the belief of government that, in broad terms, the proposals outlined in Towards a Ten-Year Review address the main challenges in these scenarios, so we can fashion a future approximating that described by 'Shosholozza'. The proposals include: a social compact, bridging the divide between the “first” and “**second economies**”, improvement in the state's performance, and encouraging democracy and high levels of growth and development in Southern Africa (refer [www.10years.gov.za/review/documents.htm](http://www.10years.gov.za/review/documents.htm)) ...

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26 January 2004

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## **Budget Speech by MEC J Mabena: Mpumalanga Provincial Government**

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... Honourable Speaker, to sustain our total onslaught on poverty thereby improving the lives of our people, we need to ensure that we grow our economy robustly. As alluded to earlier, over the past ten years, together, we have managed to build a strong economic foundation from which we could expand further and be able to add impetus towards addressing the challenges of unemployment, poverty and inequalities.

According to Global Insight research institution, the average annual growth for Mpumalanga in 2001-2002 was 2,8% as compared to 2,6% in 2000-2001.

If the challenges of the **Second Economy** are to be confronted head on, we need to pull all our resources aimed at stimulating economic growth together and talk of a common resource base for economic growth. This is important if we are to see the potential of our Province to become a food basket of South Africa being realised. This is possible as it is a fact that we have some of the best soil in the country.

As the Honourable Premier pointed out in his state of the Province address two weeks ago, that we need greater co-ordination among our parastatals - the MEEC, MADC, MPB, MTA, MII, MGB, MHFC and the MRTT, and other economic stakeholders in Mpumalanga to build the common resource base for economic growth and development.

Therefore, it is required from us, inter alia, to subject more young people to learnership programmes for skills development; encourage labour intensive methods in sectors of the economy; spend more to facilitate the Broad-Based Economic Empowerment Act; intensify youth support through Umsobomvu Youth Fund, build community infrastructure and ensure access to local opportunities.

Yes, strategies directed towards investment promotion, entrepreneurship development, tourism promotion, industrial promotion and infrastructure development need to be revved up.

The process of integrated approach to economic growth and development will have to be enhanced by all stakeholders.

The Cabinet Cluster on Economy, Investment and Employment will have to accelerate all programmes geared towards growing the economy and job creation. We need to fire from all cylinders with greater co-operation with national departments like the Labour Department, especially on skills development.

We believe that the R292 million, R462,5 million and the R910,9 million allocated to the Departments of Finance and Economic Affairs; Agriculture, Conservation & Environment; and Public Works, Roads & Transport respectively will place the Cluster in a better position to fast-track the programmes aimed at dealing with those challenges reflected above.

Our clear understanding that the level of success of our land reform process must not and cannot be measured only by how many hectares of land have been restored to the people, but more so by how has the restoration improved the people's lives has led us to introduce a new national conditional grant called

Comprehensive Agricultural Support Programme (CASP), aimed mainly at the provision of support to emerging farmers, including those benefiting from the Land Redistribution for Agriculture Development (LRAD).

The provincial Department of Agriculture, Conservation and Environment (DACE) will receive a total of R18,9 million, R23,6 million and R28,4 million over the MTEF period to drive these programmes.

They will further receive R15,3 million, R17,132 million and R19 million over the MTEF period from the conditional grant called Provincial Infrastructure Grant (PIG) to further promote the agricultural sector in the Province. With all these additional resources to DACE and improved co-ordination and interaction between all stakeholders in this sector, coupled with the fact that we have some of the best soil in the country, it is very possible for our Province to become a food basket of South Africa.

Over R500 million of the total 2004/05 budget of Public Works, Roads and Transport will be directed towards the continued efficient provision and adequate maintenance of the 6 252 km surface and 9 090 km gravel road network in the Province.

There are plans to regravell, reseal and rehabilitate approximately 398 km of the road network during the upcoming financial year at a cost of over R102 million. This programme will take place in different Municipalities located in all the three District Municipalities of the Province.

This programme will form a major part of the Expanded Public Works Programme. There are also plans to spend over R171 million on the reconstruction of existing roads in the three Districts ...

Honourable Speaker, looking at this Budget, it goes without saying that this government cares for its people, especially those who are trapped in the **second economy**, characterised by poverty, inadequate shelter, uncertain incomes and the despair of joblessness.

Our goal in the next ten years is to create a single and integrated economy that benefits all. We intend, among other things, reducing unemployment and poverty by half within the same period targets that we believe are within reach as long as we work in partnership.

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6 February 2004

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## **State of the Nation Address by President Thabo Mbeki to the Houses of Parliament**

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We have already identified the challenges posed by the **Second Economy**, which economy constitutes the structural manifestation of poverty, underdevelopment and marginalisation in our country. We must therefore move vigorously to implement all the programmes on which we have agreed to ensure that we extricate all our people from the social conditions that spell loss of human dignity.

These include the urban renewal and rural development programmes, the expanded public works programme, the expansion of micro-credit and small enterprises, the provision of adult basic education and modern skills, and the development of the social and economic infrastructure.

This will also help us enormously to achieve the goals of non-racism, non-sexism, balanced urban-rural development and social cohesion.

At the same time, we must continue to focus on the growth, development and modernisation of the First Economy, to generate the resources without which it will not be possible to confront the challenges of the **Second Economy**. This is going to require further and significant infrastructure investments, skills development, scientific and technological research, development and expansion of the knowledge economy, growth and modernisation of the manufacturing and service sectors, deeper penetration of the global markets by our products, increasing our savings levels, black economic empowerment and the further expansion of small and medium enterprises.

We will have to focus on the implementation of the measures we have identified to ensure that we achieve better value for the money spent on social delivery. Among other things, our successes with regard to both the First and **Second Economies** must create the conditions for us to reduce the numbers of our people dependent on social grants.

This will increase the resources available for social expenditures focused on investing in our people further to empower them to become better activists for reconstruction and development, away from trapping large numbers within the paradigm of poverty alleviation ...

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8 February 2004

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## **Interview with President Thabo Mbeki on SABC2 by Redi Direko and John Perlman**

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... John Perlman: ... In your speech on Friday, you spoke of economic progress, inflation down to 4%, lots of money now available, perhaps with the net open forward position looking healthy, our longest ever period of consistent growth. And yet, young men and women, four years out of school, still looking for work, must sometimes wonder when all those benefits are going to touch their lives.

President Mbeki: Well John that is why we have raised the matter of our need to recognise that we have, in reality, two economies in South Africa. We have, in truth, during the last ten years, attended to what has been called the first economy, developed, modern, internationally competitive and so on. And this has behaved in the way you have just indicated.

But there are many people who get left out, partly because they do not have the skills that the modern, first economy wants. It creates jobs, but it wants people with particular skills. And if you do not have the skills, it does not become easy for you to get employed. And you get people without any education whatsoever. It has been a phenomenon of the South African economy for some time already that it has become less and less dependent on unskilled labour.

And so we have said it is important that we should then respond, regarding that **second economy**, in specific ways. You cannot say that policies that would work with regard to the first economy will necessarily have an impact on the second. It requires its own different interventions.

Redi Direko: What sort of interventions are those, Mr President?

President Mbeki: Well, for instance, matters that we have raised about the expanded public works programme. That should not just be a matter of public works. People go there and work on building a rural road, or something, but, while they are working, they should also receive training. And not training just in building rural roads, but training in the construction industry, so that they are then able to work in the construction industry or even be able to set themselves up as independent small business people.

So, it is a matter of really attending very, very seriously to the matter of skills, and that includes young people who come out of the schools. Because you might come out with a matric and pass well, but in reality it gives you good literacy and maybe good numeracy, but it does not necessarily qualify you to do the things that an employer wants. I did an Imbizo here in the Western Cape and a very good suggestion came from young people who were there, who said: "Well President, why don't we, those of us who are in our final year at high school, get courses in driving?" Driving motor vehicles. This is because you come out and you are looking for a job, and lots of employers ask: "Can you drive?" And you cannot, because there is no subject "motor car driving" in matric. I thought it was a very good idea. I immediately agreed with them.

It is those sorts of interventions that aim at ensuring that we make conscious interventions to provide people with the skills that are required by the economy, as well as skills that would enable them to set small and medium business, and micro business. In many instances, people need the various skills to be able to set up businesses like that.



Redi Direko: But what about those young people - and I come across a lot of those people when you visit universities. People who will say: "I have got an honours degree, I have done some internship, but still, there is not that opportunity for me to crack the job market." It seems as though we have two extremes. Those who do not have the skills, those who do, but the labour force is not absorbing them. What unique interventions can be made?

President Mbeki: That depends also, even with university graduates, on what it is that they have studied. If you qualify and come out of teacher training, for instance, with Biblical Studies you are not going to get very many jobs for that. Or you might come out with a sociology degree. There are all sorts of degrees like this that people might come out of university with which are not readily marketable except in teaching.

You will see the way that we have approached the matter of the transformation of our educational system has sought to address this matter - all these issues raised about further education and training, for instance, the revamping of the technical colleges, the upgrading of the technikons so that they continue to focus on degrees involving more skills, professional skills. It is a response to make sure that we are able to raise those levels.

John Perlman: But we have training interventions, the sector education and training authorities (SETAs) are very prominent, a very major part of government policy, and yet, they take R6 billion out of the economy and over the last two years they have managed to spend just half of that. It feeds into a bigger criticism of government policy that there is too much regulation. They are trying to do too much. It is costing time and money and ultimately costing jobs.

President Mbeki: You are quite correct to refer to the matter of the SETAs and, indeed, government has been quite unhappy about the way they function, because in many instances, not in all, there has been a very slow uptake in terms of the funds that are available. It is partly a historical traditional issue. For instance, if you talk to the German-South Africa Chamber of Commerce, they have been saying that there is a tradition in Germany of training, of raising of skills ...

President Mbeki: First of all, with reference to what I have referred to as the **second economy**, there is a false impression created that what we have had in South Africa over the last ten years is jobless growth. It is not true. That first economy has indeed created jobs. The problem has been that the numbers of people entering the labour market has been larger than the number of people that have been absorbed into jobs. So that economy will continue to grow, I am convinced. It will continue to create jobs.

But we need to address this matter of other people who get marginalized, despite all those rates of growth, because of the absence of skills, and so on. I am quite certain that if we do make the interventions that had been decided on, then we shall do it. I do not see why it should be so difficult for us to overcome this problem.

You see the advertisements in the newspapers, for jobs, jobs, jobs. You see that every week and the reason they do not get filled is because the skilled people are not there. One of the major companies here was telling me, not very long ago, that they were doing some expansion of their production capacity and they ran out of welders. There are no welders and they had to import welders from Malaysia. And when they looked into it they discovered that many South Africa welders have gone to work in the Middle East because they are better paid and others have come off the formal market into the informal market. But there is demand for that kind of skill.

If we work as we say we should, I do not see why, over time, we should not solve this problem.

John Perlman: Mr President, black economic empowerment (BEE) is part of the mix in any economic strategy in the country. Is it just a numbers game? Or, do you hold the view that a company, run and owned by black people, should be a different kind of company in its relationship to the community, in the way it treats its workers, in its attitude, for instance, to job creation?

President Mbeki: Well, I am not sure. We are talking about broad based black economic empowerment and

that means a number of things. Sure, it means companies, small, medium, large companies. And not necessarily what has happened, certainly in a good part of these ten years, when people went and borrowed money to buy large stakes of large companies, losing in many instances because the finances did not work out properly. But, starting from micro enterprises, as part of this process of black economic empowerment, issues of skills training, issues of changing the composition of management - that is all part of this process.

What we would then say is that all business people ought to have a sense that it is better for them, as business people, to have a stable society. And therefore they should see it as in their interest that they also need to make their own contribution to the solution of the social problems that affect the country. Because you can run a successful business, but if tomorrow the country burns because of social problems that have not been solved, your company, your successful company, is not going to be saved ...

President Mbeki: Well, the assessment that black economic empowerment was only benefiting a few was wrong in the first instance.

Redi Direko: Was it?

President Mbeki: Yes, of course it was. It has always been wrong. It is because on the British Broadcasting Corporation and South African Broadcasting Corporation and the newspapers people see the big names and the big figures. But just look at any of the parastatal organisations, whether it is Eskom or Telkom, and look at what they do with their procurement budgets; what they access from small business people. They are never reported about, lots of little contracts like this. The government generally does that. So, it is not true that it has benefited just a few.

And I must say that none of the big names that are cited as a few has actually ever depended on government interventions to do whatever they have done. They have all done it by themselves and gone to the banks, and negotiated their own deals. It was not government intervention that got them where they are.

It is the smaller people who have benefited from what the government has done, in all sorts of ways. Look at company registrations: You will have an interview one day with the Minister of Trade and Industry whose people deal with company registrations. They will show you the figures. There has been a very, very sharp increase over the years of small black registered companies, which are not reported upon. And a lot of those would be people who would have become involved in business because the government said: well, if you have to buy ten reams of paper, you have got to buy them from somebody; why do not we open the space for somebody else who is small to go and supply those ten reams of paper. That is not your big people who are dealing with billions.

So, I am quite certain that what has happened in terms of government intervention has had a much wider impact than perhaps is recognised.

John Perlman: Mr President, government intervenes, and is involved in all sorts of areas of the economy where business is concerned. Questions are asked why it does not intervene more in areas of concern like the very poor. And I am thinking, in particular, about food prices.

President Mbeki: In matters of intervention in the economy, I think we must accept that it is not straightforward, but complicated. We did intervene with that matter of food prices, as you know, when food prices went up at the time that the currency was depreciating very rapidly. One of the things that was done was to set up a committee, a kind of watchdog committee that reports to government so that we can see what to do. But you have got to recognise at the same time that we are dealing with essentially a market economy. And therefore ...

John Perlman: Even, even in essential goods like that. Does it have to be that way?

President Mbeki: Even in essential goods. I can cite you instances where there have been interventions to regulate prices in a particular way and to finance losses in consumer goods being sold below cost, and the difference being made up from the state budget. I know instances in other parts of the world where this has resulted in big crises, countries that have run budget deficits of over 10%, because of subsidies to make food

and other services and products available at affordable prices. Those countries are today bankrupt.

You cannot handle the matter as though you are a little god, as though you can do as you wish. You cannot do as you wish. There are certain constraints within which you must intervene. And you can intervene. The interventions that government has made, which include the larger interventions, have not just focussed on this or that particular item but concern the state of the economy in general. How do you deal with the economy so that it does not create the circumstances where you have this sharp increase in prices for basic goods? ...

Redi Direko: Mr President, another huge issue, an issue of concern: service delivery. On Friday, you spoke about continuing with the vigorous implementation of existing policies. But a lot of people, ordinary people, will tell you: We hear that the services are there, we hear that government is making these intentions, but the bureaucracy is preventing them from accessing the services. How do you respond?

President Mbeki: I would think that in many instances - in perhaps not all, it would be a problem of a weak bureaucracy. The government has been raising this question of the need for us to do more to strengthen the system of local government because this is where delivery takes place. I am quite certain that we have to do more about that.

When we have gone on campaigns, for instance to familiarise people with social grants that are available, whether it is child support or disability and so on, you still have very grown-up people who do not have identity documents (IDs) and do not know where to get them. And therefore they cannot access these grants. So you need a system to be able to help people.

That is part of the reason we said that we need to establish an echelon of community development workers. They are people who are not going to be sitting in an office but must go out among the communities, and, indeed, go house to house and ask: "Have you people got IDs?" And if they do not, to assist them to get IDs. "What is the situation in your family?" Here is a single parent, a family with the mother not working and so many children: "This is what you do."

I am talking about the weakness in the administration rather than over-bureaucracy. That is why I was raising this matter of the need for us to strengthen local government. We have to do that. There are other problems, with local government financing, for instance.

Redi Direko: Unspent money? When we talk about service delivery, Mr President, I cannot count the instances where one reads that in this department there is money that has not been spent. And, in this context ...

President Mbeki: Again, you would find that that it is the same problem. For sure, you get money not being spent. You find in many instances it is the structures lower down that would actually spend the money that are too weak and would actually not be able to spend this money and account for it properly. So you do not simply, because you say you have got to do something, throw money at this. If you do so then the Auditor-General is going to be on your neck tomorrow and say: but what was the money used for? And you cannot account for it because those structures do not have the capacity. A lot of the time that is the problem.

Redi Direko: So what do you do about it? It sounds absolutely tiring.

President Mbeki: It is a matter of strengthening the public service machinery, and injecting into that public service machinery the sense of service to the people of South Africa. So I am talking about Batho Pele all the time. And, I am afraid there is no short cut. That is the route you have got to go.

John Perlman: Your own Ten-Year Review is not very optimistic about it. If I can quote: "Research commissioned for the Review suggests that the needs of local government are most critical, with the majority of municipalities not having the capacity". And this seems to be the key part: "Or likely to gain the capacity to perform their delivery functions in the future".

President Mbeki: Well, they would have made that determination on the basis of the existing system, for instance with regard to the distribution of funds through the equitable share. The basic philosophy around financing of local government in this country and many other countries is that essentially local government taxes its own population, raises its money, and then gets a smaller sum of money from the national budget.

You have the big municipalities, the metros, which can cope because they have got a relatively large tax base. But you have many, many municipalities, district municipalities, rural areas that do not have. And we have to look at this matter. So when you say "equitable share", it is equitable in terms of whatever formula you use in terms of numbers, and this, and that, and the other. It is equitable, but in terms of levels of development, you are disadvantaging areas that are already disadvantaged.

So to that extent, yes, indeed, the Ten-Year Review would make that observation, but I am saying maybe it should have said: If we continue as we have been; therefore this is the consequence. ...

President Mbeki: No. I think one of the things that all of us have got to realise is this, regarding your ordinary poor persons. What have they seen over the last ten years? A person might be living in a shack, but the person knows that in the area next door, they were in shacks, but they are no longer in shacks; that the housing development is coming to me. That is what gives the people hope. It is not anything mysterious. The village next door did not have water, I do not have water, but the village next door now has water. The construction people are on their way to my village. That is what gives people hope and confidence in the future. If that was not happening, of course all sorts of things would go wrong.

There is not any sense of complacency in government. But the task - that all of us, not just government, but that South Africa has had over the last ten years to create a new society - is very big.

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13 February 2004

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### **Address by Premier IW Direko at the opening of the Free State Legislature**

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... Honourable members, we are at a stage where we have to do everything in repositioning the Free State province. It is time for the Free State to re-invent itself. I reiterate my call to the captains of industry in our province to share with us their business strategies and see to what extent they support our policies and plans as government. That some, if not all, multi nationals and mining houses that operate in the Free State have their head quarters in other provinces should not be the reason to short change us.

Outlining economic challenges and the struggle against poverty in this country, President Mbeki once said:

"In this context, it is observed that our country is characterised by two parallel economies, the First and the Second. The first economy is modern, produces the bulk of our country's wealth and it is integrated within the global economy.

"The **Second Economy** (or the Marginalized Economy) is characterised by underdevelopment, contributes little to the GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from the First and the global economy and is incapable of self-generated growth and development."

Thousands of men and women who eke a living by selling their wares at street corners, bus stops and taxi ranks in this province are the embodiment of the **Second Economy**. These are men and women who have chosen to put their shoulders to the wheel. We have to turn these people into thoroughbred entrepreneurs.

Our chance to do so is through opportunities presented by government tenders. To succeed however we should deal with the unacceptable practice of others who get government contracts and sell them to unscrupulous business people. This practice should be stamped out because it amounts to misrepresentation

and frustrates efforts aimed at Black Economic Empowerment.

Gambling with government contracts is a dangerous practice. A system of tracking and evaluating every tender and tenderer is being developed and soon we will catch all those who engage in fronting and other illegal activities.

Last year November the Free State Government held the Growth and Development Summit. This was in our pursuit to find answers to problems encountered by our economy. Through this summit, the social partners, viz. the Free State Government, Organised labour, Business, Youth and the Community, sought to address the following important issues:

- \* More jobs, better jobs and decent work for all
- \* Addressing the provincial investment challenge
- \* Advancing equity, developing skills, creating economic opportunities and extending services for all

To this, end we have established a monitoring and evaluation system, structured as follows:

- \* A steering committee comprising of labour, business, community, youth and the government
- \* Four sectoral committees with the following thrusts
- \* Tourism
- \* Petro-chemicals down-streaming, Research & Development of Pharmaceuticals
- \* Agro-industry and
- \* Gold jewellery manufacturing

Driving this process is the effective use of sector strategies based on sector co-ordination and partnerships in identified sectors that are needed to transform the provincial economy towards equitable employment creating growth.

It is, among others, for this reason that the Free State Provincial Government established the Free State Provincial Development Fund. The objectives of this fund are:

- \* To enhance the development, rehabilitation and utilization of the Provincial infrastructure in order to afford domestic and foreign investors comparative and competitive advantages
- \* To encourage private sector specialized skills training and resource building in the Free State Provincial economy.
- \* To ensure technological progress and assimilation in value added-processing, manufacturing and assembling
- \* To maximize job creation opportunities in the formal sector of the Free State Provincial economy through diversifying and growing the manufacturing base of the province. ...

The Free State Provincial Government prides itself that it is pro-active and the forerunner as far as the development and implementation of good government practices are concerned.

One of the many examples is the procurement system, which was established in the Free State Provincial Government soon after the Tender Board was made redundant by the Public Finance Management Act. Apart from the fact that it fully complies with the principles contained in the Constitution, the Public Finance Management Act, Treasury Regulations and the Preferential Procurement Policy Framework Act, it gives effect to the government policies of black economic empowerment and the speedy delivery of services to those we serve. In terms of our procurement system, preference is given to historically disadvantaged individuals, SMEs, the locally manufactured products, local content of what is supposed to be delivered and economic development with specific emphasis on the promotion of the Free State Development Plan.

Many upcoming entrepreneurs in the Free State have benefited from the awarded tenders. We have to guard against making the rich richer. We will do everything to ensure that our aim of promoting and empowering historically disadvantaged individuals, small business and the Free State economy, is not compromised.

I have full confidence in the integrity of the procurement system and apart from the fact that it fully complies with the principles of transparency and fair decision taking, the number of court cases in which the adjudication of tenders are disputed, decreased dramatically.

Government remains the biggest single procurer of construction work and products in this country. It is therefore important to leverage this important resource through preferential procurement to empower our people. During 1994 an amount of R140 million was spent on infrastructure construction. No work was allocated to BEE companies that year. During the past 10 years R1.3 billion has been spent on infrastructure construction. R562 million of this money, representing 43% of the total expenditure was paid to BEE companies.

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18 February 2004

## **Budget speech by Minister of Finance, Trevor Manuel, in the House of Assembly**

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... But as we look forward to the second decade of democracy, we know that we still have far to walk. Too many South Africans are trapped in the “**second economy**”, characterised by poverty, inadequate shelter, uncertain incomes and the despair of joblessness. And many of those whose circumstances are most vulnerable are young and marginalized.

A recent study of household dynamics in KwaZulu-Natal illustrates starkly how vulnerability is experienced in impoverished villages. Income security can be overturned in many unpredictable ways - loss of a job by a breadwinner, loss of livestock or crops through disease or theft, drought or flood, the impact of disease on family members, the reality of conflict and crime. Circumstances can change rapidly over time, and vary greatly between one community or neighbourhood and another. These kinds of vulnerability hurt families and especially children not just once but in recurring ways, not just through distress or hunger, but in wounded minds and fractured communities.

And so when we talk of development, and building capabilities, and empowering our people, these are the lives, these are the experiences, that we seek to change. These are the reasons why the Growth and Development Summit last year set a target of halving the unemployment rate by 2014. These are the reasons why President Mbeki has challenged us to increase the number of people in society who depend for their livelihood, not on social grants, but on normal participation in the economy. But these are also the reasons why we are progressively extending the social security system, with a focus particularly on the needs of children, who cannot be expected to provide for themselves.

In reflecting on the challenges that lie ahead, Cabinet has had to confront difficult choices.

Our task is, simply put, to accelerate the pace of growth and job creation and extend the scope of development and empowerment. Our approach has four key priorities for the decade ahead.

\* We aim to increase the share of investment and saving out of national income, to provide the infrastructure and industrial capital formation required for sustained output growth. Our policies must aim to raise the level of investment in the economy from its present 16 per cent to 25 per cent, and to halve the unemployment rate by 2014.

\* We will improve the quality of education and access to training opportunities, to ensure that skills development and productivity enhancement contribute to expanding participation in social and economic development.

\* We will reduce poverty by creating work opportunities and building sustainable communities, alongside consolidation of the social security system. Over time, we will diminish the inequality and economic divisions that characterise our society through broad-based empowerment.

\* And we must continue to build sound institutions - competitive markets, support for emerging entrepreneurs, better governance and regulation, rigorous monitoring and measurement of public service delivery.

Ten years from now, when we look back on what we have achieved in our second decade of freedom, what will we celebrate? What are the values that future investigations of our society will see etched in our social and economic history, and documented in the records of our programmes and policy implementation?

We will want to say that we have built a caring society.

We will want to say that we have reduced pain and extended joy.

We will want to say we have rewarded creativity and invested in capabilities.

We will want to say that compassion and industry have overcome greed and despair.

We will want to say that those among us who enjoy the privilege of power or riches have ploughed and not plundered our lands.

The shape and trajectory of the public finances will impact in important ways on this journey. The 2004 Budget signals a clear direction. In the years ahead:

\* We will continue to expand housing, water and community services - the fastest growing categories of expenditure over the past decade - because these are the investments that contribute most to the health, safety and comfort of our children and our children's children.

\* We will continue to extend and improve spending on health services, which has grown in real terms by 4,3 per cent a year since 1992/93.

\* We will continue to broaden the tax base, in the interests of both fairness and efficiency, and because a broad, well administered tax structure is an important bulwark against unproductive or opportunistic forms of self-enrichment.

\* We will continue to manage the public finances in a responsible manner that ensures that debt service costs decline as a share of expenditure and of GDP, releasing resources for productive service delivery.

But there are other areas in which we will need to seek a changed trajectory, a more agile state, more vigilant institutions. One of our central achievements over the past years has been the reinforcement of the social security net. In the period ahead we will complete the phasing in of the child support grant and we will see continued growth in provision for those who qualify for old age and disability payments. We propose to consolidate the grants delivery system in a new national Social Security Agency. Improved food security and partnerships with non-governmental organisations are also ongoing priorities. Including adjustments for inflation, welfare and social security spending is projected to grow by 13,6 per cent a year over the MTEF period.

Given the challenges we face, we have made these choices. But in the longer term, it seems clear that we will need to seek a better balance between growth in welfare spending and our investments in education and infrastructure development. In this Budget, we take several steps in this direction - an expanded public works programme through increased allocations for provincial and municipal infrastructure, a renewed focus on learner support materials and facilities at disadvantaged schools, further allocations for the restructuring of higher education institutions.

These are orderly and well-considered shifts, over time, in the structure of our public finances. But they rest on the same fundamental vision and values that underpinned the first Presidential lead projects announced just under 10 years ago.

And in all of this, we must seek not just improvements in the quality of public service delivery, but also firmer partnerships with the business sector and civil society, drawing on the energy and capacity of all our people. ...

When looking at the spending of all three spheres of Government, several trends are evident:

- \* A larger proportion of the budget is now spent at provincial and local government level and in government agencies and entities, signalling significant progress in decentralising budgeting and accountability.
- \* The share of the budget that is now directly transferred to households increases by 7,3 per cent a year in real terms, strengthening the redistributive stance of the budget.
- \* Government expenditure on capital and infrastructure is rising as a share of spending, contributing towards increased access to services and facilitating economic development. ...

In spite of our successes over the last ten years, there is further room for improvement. We need to seek an improved balance between the expansion of social services and reinforcement of investment in infrastructure and economic development. More work needs to be done to improve the quality of spending, especially in the areas of housing, health services and school education. Although improvements have been achieved in financial management, capacity needs to be strengthened to realise better value for money.

Local government challenges include improving service delivery capacity, maintaining and extending infrastructure, collecting revenue, reducing the share of personnel expenditure, and improving accountability through the timely submission of financial statements for audit.

Over the past decade, Government has made concerted efforts to redress poverty and inequality through a substantial redirection of public spending towards key social and economic programmes. Spending on social services has grown from 44,4 per cent of general government expenditure in 1982/83 to 56,7 per cent in 2002/03. Spending on social security, health and housing and water services has consistently increased over the period. Education, at 23 per cent of non-interest expenditure, continues to make up the largest component of the budget. Most of our spending, particularly in social services, is targeted towards poor and vulnerable groups as a basis for broadening economic prosperity through building human capabilities.

Next year, R195, 4 billion of nationally-raised revenue will be transferred to provincial and local governments for the delivery of improved public services to all South Africans. This is about 62 per cent of national revenue after debt-servicing, and represents about 97 per cent of all provincial revenue and 14 per cent of local government revenue.

Provinces and local government are the primary delivery channels for basic services and will receive R30,2 billion of the total R44,5 billion allocated over and above the 2003 budget forward estimates. This will see national transfers to provinces growing by 4,8 per cent in real terms over the MTEF while local government allocations will grow by 5,8 per cent in real terms.

#### Provinces

In the provincial sphere, the equitable share grows by an additional R19, 7 billion over the next three years. This increase will reinforce pro-poor social services spending on school education, health and social security grants. Existing commitments in the social services and other provincial functions including housing, roads, transport and other infrastructure will also be funded from this source.

Over the medium term, provinces and municipalities will prioritise labour-based infrastructure projects as part of Government's Expanded Public Works Programme. Over the next five years, R15 billion will be channelled to this intervention in part through the provincial infrastructure and municipal infrastructure grants. Together, these grants receive additional allocations of R3, 2 billion over the MTEF, which will be partially earmarked for labour-based public works. Work opportunities will also be created in environmental programmes and in social development initiatives.

Provinces are expected to spend R65 billion on education, R41 billion on health and R48 billion on social grants and welfare services in 2004/05. Much of the additional R26,3 billion allocated over the 2003 forward estimates will go to the comprehensive response to HIV and Aids, further extension of social assistance to the poor and procurement of complementary inputs such as textbooks and other materials in school education.

Provincial social development spending will rise by R6 billion in 2004/05, reaching a total of R47,8 billion



in 2004/05 and R62,4 billion in 2006/07. These amounts include R19,8 billion to fund the extension of the child support grant. In addition, provincial budgets provide for increases in April of R40 in the pension and disability grant values to a maximum of R740, and the child support grant increases to R170 a month.

A further priority is to provide comprehensive agricultural support to developing farmers, including those benefiting from the Land Redistribution for Agricultural Development (LRAD) programme. Through a new grant, R750 million will be transferred over the MTEF to provincial Agricultural departments for this purpose.

#### Local government

Over the next three years, municipalities will receive an additional R3, 9 billion, taking total transfers to local government to R47, 3 billion. Through the local government equitable share, which receives an additional R2, 2 billion, Government reaffirms its commitment to the extension of basic household services. Increased local government allocations are intended to accelerate the delivery of municipal services, especially water and electricity, to poor households. The local government equitable share rises by 12,1 per cent a year with a total budget of R28, 5 billion over the next three years.

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26 February 2004

### **Eastern Cape budget speech by the MEC for Finance, Economic Affairs, Environment and Tourism, Enoch Godongwana**

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... Historically, the main role of the Eastern Cape in South Africa's industrial development under apartheid was a labour reserve for mining. This locked the Eastern Cape economy, and particularly the former bantustan economies, in a dependent status with income inflows from remittances. The decline in mining has meant falling incomes and rising unemployment.

Our high levels of poverty and unemployment are a direct result of this legacy. The consequence is a Provincial economy characterised by a sophisticated manufacturing base located in our two urban centres, sitting alongside an extremely underdeveloped and impoverished rural hinterland (what the President refers to as the **"second economy"**). By way of example, the per capita income in Alfred Nzo District Municipality is 12% that of the Nelson Mandela Metro.

Key initiatives that we have taken to address this uneven development include the packaging and delivery of strategic economic infrastructure in the rural economy, aimed at enhancing linkages between our manufacturing base and the agrarian economy. Key here has been the rapid delivery of road and agricultural infrastructure, as well as the Kei Rail Project, of which I will later speak more.

Our intention, over the next ten years, is to increase the scale of delivery of economic infrastructure in the agrarian economy as a catalyst to building productive capability in agriculture and agro-processing. We will be looking to our district municipalities to partner with us in identifying and delivering such projects. In all of these infrastructure programmes we intend using the principles of the Expanded Public Works Programme in order to optimise job creation and Black Economic Empowerment.

With respect to BEE, we have intensified our strategy of unbundling tender contracts to provide economic opportunities to emerging contractors and black owned businesses. ...

One of the key measures that we will be taking to alleviate the burden of poverty faced by those households who find themselves outside the mainstream economy, is to ensure a more comprehensive and targeted coverage of social security benefits for the most poor and vulnerable.

In the past year we made R20 million available for the Rapid Registration Campaign. This has enabled us to double the number of social security beneficiaries since 1996 (up from 596 327 in 1996 to 1,3 million in

2003, including more than half a million child support grant beneficiaries). This amounts to 20% of our total population.

To this end we have earmarked more than R24 billion for social security over the next three years. This amounts to half the non-personnel expenditure of Provincial Government over this period. Anyone who argues that this is not a pro-poor budget, I would advise to think again. More than 87% of this budget (excluding conditional grants) goes to social sector departments charged with delivering social grants, education and health services, primarily to the poor. ...

As the President often reminds us, safety nets alone will not reduce levels of poverty at the scale and pace we would like to see. What we require are active measures to move poor households out of dependency on state grants into productive and sustainable economic activity. Despite the resource constraints we face, we will be taking innovative measures to expand the asset and skills base of the poor to allow them to take advantage of economic opportunities. In addition we will launch agricultural and agro-processing initiatives to create jobs and raise rural incomes, as well as accelerate the delivery of economic infrastructure in support of manufacturing, agriculture, and tourism. These will be elaborated below.

Further to this, we will be looking at optimising economic and job creation opportunities in the social and infrastructure spend - in the houses we build, in the food we procure for our hospitals, in the schools, roads, and other public facilities we build and maintain.

One key initiative in line with this thinking is the Expanded Public Works Programme. This programme offers an integrated development package - the delivery of infrastructure, the creation of jobs, and skills development, and will build on the success of our Vukuzakhe Programme. The EPWP will be financed from our Equitable Share, the Provincial Investment Grant and the Municipal Infrastructure Grant. ...

Our manufacturing sector, and particularly the export-oriented industries within the sector, continues to yield growth. We have focused our attention on taking full advantage of our coastal location and established manufacturing base built around the auto sector to leverage domestic and international investment in support of labour-intensive industries such as metal products, textiles and plastics, and agro-processing.

To this end we are establishing world-class infrastructure and logistics capability at Coega and the East London IDZ. ...

Key to making these IDZs work for the Province is to ensure linkages to our impoverished rural economy. Here we have initiated the Kei Rail Project, at a cost of R663 million over the next three years, to ensure integration of the former Transkei economy with the IDZs. The project will also serve to stimulate the agricultural, agro-forestry and furniture industry in the area, including the development of a chipping plant at Langeni. In particular, the upgrading of the Ugie-Langeni Road, will open up forestry development in the area, having a major impact on employment creation.

Recognising the importance of transport and logistics infrastructure in stimulating economic growth, we will also be scaling up our investment in road infrastructure, and once again I will provide the investment figure at the end of this speech. Many of these roads will be constructed in the rural areas of the Province in order to enhance the economic competitiveness of emerging industries and businesses in the region.

Over and above delivering enabling infrastructure to stimulate economic growth, we have also established institutional capability to leverage investment and promote BEE and SMME development in identified growth sectors. The transformation of ECDC is complete, and we will be allocating R283 million to this agency over the next three years for investment promotion and SMME support. This will allow us to identify opportunities in the value chain, particularly in the automotive, textile and clothing, food, and wood products sub-sectors, with a view to package projects for investment.

In line with our policy goal of building a more integrated and equitable Provincial economy, a key activity of

ECDC over the short to medium term will be to identify sources of local demand, and orient our industry towards producing for these markets (for example food products, housing materials, infrastructure inputs, clothing, consumer durables etc). State sector markets will be key here. It is estimated that Provincial Government will procure R17,5 billion of goods and services over the next three years. This presents a substantial opportunity for Eastern Cape SMMEs to access sustainable markets. Improved synergies between ECDC and Uvimba could be beneficial in this and other respects.

Another initiative that warrants mention is the five-year EU-funded Local Economic Development Programme for the Province, valued at 30 million Euros (approximately R300 million). This programme is particularly exciting because it will introduce to the Province some new developmental methodologies that have been applied successfully elsewhere in the world.

#### Increasing food security, agricultural output and employment

The agricultural sector is key to stimulating our rural economy. We import far too much of the food we consume in the Province. Our PGDP suggests we need to be food self sufficient by 2014. We also recognise and have long spoken about the under-utilised agricultural potential of the Province, and particularly regions such as OR Tambo. We are now taking decisive action to increase food production.

Last year we launched the Massive Food Production Programme as part of our Rapid Impact Programme, and we are pleased to hear from the lead department Agriculture that the programme is netting good returns. Some 12 500 ha in the former Transkei and Ciskei have been put under cultivation, which is expected to yield 40 000 tons of maize. This will nearly double grain production in the Province, and will raise an income of R130 million.

In addition, as one of the PGDP Flagship Programmes, we are launching an Agricultural Infrastructure Package. This will comprise dipping tanks, fencing and small-scale irrigation infrastructure in support of the economic production of livestock and the development of sustainable agricultural enterprises.

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26 February 2004

### **Limpopo Province Budget speech by the MEC for Finance and Economic Development, Thaba Mufamadi**

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... At the same time, cognisance should be made of the fact that there exists a large size of a **second economy** in the province due to decades of deliberate under-development. It is therefore instructive to accelerate the implementation of the Provincial Growth and Development Strategy so that overtime, the dual economy that is characteristic of development in our society should ultimately cease to exist.

In our discussions with members of civil society a strong suggestion emerged that government may in future consider convening a provincial employment conference in order to advance the goals of the Growth and Development Summit. Such a conference will consider among others, the question on how to advance the co-operative movement in the province, expanded Public Works programme, Broad Based Black Economic Empowerment and skills development.

In the meantime, budget proposals that we are tabling today, Mr Speaker, an additional R50 million is allocated to Limdev to enable access to finance by SMMEs. This intervention will no doubt increase job opportunities. This together with the procurement forum established with the growing mining sector in the province will also improve opportunities for small business to grow. Furthermore, additional R30 million is provided to advance co-operatives making total expenditure on this job creating initiative to R60 million in two years. The Limpopo Province drew up an infrastructure plan that will unlock economic growth in the targeted sectors that have greater potential for job creation. ...

In 1994 there were 171 irrigation schemes covering 51 000 hectares of land, worth R4 billion and unutilised. 10 000 hectares were under sisal plantation which faced declining market and accumulating losses. The

Agricultural Development Corporation of the then homelands depended on government subsidy for survival. The industry was not integrated.

A total of 5 500 hectares of irrigation schemes have been revitalised benefiting 3 500 emerging farmers. In the next five to ten years additional 14 500 hectares is in the process of being revitalised and this will benefit additional 10 000 emerging farmers.

The 10 000 hectares of sisal is being cleared to provide for more value crop farming that will benefit minimum of 23 communities.

The assets of the development corporations which have been absorbed by the Agricultural Rural Development Corporation are being commercialised in partnership with the successful commercial farmers. Some successes have already been recorded in this regard. Zebediela is now fully exporting as well as Gilenberg.

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3 March 2004

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### **Speech by the Minister of Public Works, Stella Sigcau, to the National Council of Provinces**

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One of the most aggressive poverty alleviation programmes ever undertaken by the post-apartheid government, the EPWP will utilise no less than R15 billion in its first five years of operation to create more than 1 million jobs including learnerships and internships through selected infrastructure development and other labour-intensive government funded projects.

Among other things, this programme will build 37,000km of roads, 31,000km of pipelines, 1500km of storm water drains and 150km of urban sidewalks.

The focus of the EPWP is to address underdevelopment in the **second economy** by building infrastructure. The ultimate goal of economic policy is to develop a single integrated economy.

The second element is skilling of our people, so that they move from being unemployable to being employable. The target groups will be school leavers, graduates, retrenched workers and other categories of the unskilled jobless. Once they complete training they are better positioned to be absorbed into the mainstream economy.

In addition to this, the SOCIAL Sector will focus on community based care and early childhood development. The social sector, as you know, is highly labour- intensive and has low overheads. This sector will have a budget of R600 million from National Treasury, which we estimate will create at least 20000 jobs.

The ECONOMIC Sector will provide unemployed people with learnerships relevant to that sector. This will target 15000 employees over five years.

General Expenditure by government on goods will be used to provide practical working experience to learners.

Sector learnerships, work-based experience and training will significantly increase chances of entering the job market for the first time and re-employment after retrenchment or end of contract. ...

The Infrastructure, Environmental and Social sectors of EPWP will complete detailed sector plans by the end of February, detailing how each sector will contribute to the creation of job opportunities in their respective sectors.

In the infrastructure sector, a Labour-Intensive Contractor Learnership programme has been established. This programme is a joint initiative of DPW and the Construction Education and Training Authority (CETA) and will be implemented with partnering provinces and municipalities. DPW will put in place NQF unit standards, qualifications and accredited training programmes for contractors and engineers for labour-intensive construction.

The Construction Education and Training Authority together with the Department of Labour will play a crucial role in ensuring these standards are implemented.

At least 500 individuals across the country will enter into learnerships for contractors and construction site supervisors in order to execute EPWP projects.

Consultants and contractors who participate in EPWP will have to complete these courses, to ensure that they have skills to execute work efficiently. ...

Our matriculants and graduates are not being absorbed by our economy at acceptable rates because of what Andre Kraak of the Human Sciences Research Council in an article in the latest Financial Mail calls the "institutional impasse". This is a situation in which one institution (school) is not able to articulate effectively with another (tertiary or the world of work).

The Department of Public Works is currently exploring linkages and possible co-operation with the Ministry of Defence to join forces in combating poverty and developing a resource pool to address the developmental imperatives in South Africa and through NEPAD's peace-keeping initiatives in Africa.

So, to conclude, EPWP is about training. The EPWP is about skilling of our people through learnerships across all sectors of our economy.

The EPWP is ultimately, about bridging the gap in this country between what President Thabo Mbeki calls the First Economy and **Second Economy**, and about ensuring that the majority is absorbed, integrated and are therefore able to benefit in the growing economy of South Africa.

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18 May 2004

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### **Address by President Thabo Mbeki at the Launch of the Expanded Public Works Programmes in Limpopo Province**

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I am delighted to launch the Expanded Public Works Programme in Limpopo Province, the ancient African land of centuries-old baobab trees, and the equally old kingdoms of Mapungubwe and Thulamela.

But we have met here today not to celebrate our heritage but to launch an important programme intended to address some of the most negative consequences of our colonial and apartheid past.

The colonial and apartheid economy and society were based on the land dispossession of the African majority, the use of the landless as cheap and unskilled labour, and the confinement of those described as "surplus people" in the desperately poor and depressed 13% of our country once described as "native reserves".

This has changed over time. Our economy no longer needs cheap and unskilled workers. What our society and economy now need are educated and skilled workers. In addition, today these workers have to compete with workers in other countries.

They have to ensure that the goods and services they produce compete successfully both at home and international markets in terms of price, quality and timely availability. This makes the issue of labour

productivity very critical to our success in building a modern economy that can generate wealth we need to meet the needs of all our people.

Accordingly, all of us, government, business, labour and the rest of our society have to work together to ensure that our people get the necessary education and skills so that they play their role in the process of reconstruction and development of our country into one that is as modern as any other in the world.

The central challenge we face is that the colonial and apartheid society and economy left us with large numbers of our people with very little or no education, with no skills, and without sufficient land even to maintain a viable system of subsistence agriculture.

The social and economic changes that have taken place over time have resulted in these large numbers, who were required as cheap and unskilled workers, becoming a much larger pool of "surplus people" than was the case when the colonial and apartheid society and economy still required cheap and unskilled workers.

We have made the firm commitment to confront the challenges of poverty and joblessness. We have made the solemn pledge that we will do everything possible to achieve the goal of a better life for all our people. In our elections a month ago, you and the rest of our people gave our government a firm mandate to pursue this objective.

The realisation of this goal demands that we address the colonial and apartheid legacy of the large numbers of the uneducated and unskilled, to end the unacceptable situation that many of our people remain "surplus people", even within our democracy whose 10th anniversary we celebrated three weeks ago.

That is why we have gathered here today at Sekhunyani Village to launch the Expanded Public Works Programme. ...

The Expanded Public Works Programme is a nation-wide programme that aims to draw significant numbers of the unemployed into productive employment. Through this programme, we want workers to gain skills while they are employed, and increase their capacity to continue working elsewhere once they leave the programme.

The Programme aims to focus on workers and the unemployed, particularly those who are marginalized from the mainstream of our economy.

An important element of this programme is a large-scale expansion of the use of labour-intensive construction methods to build, upgrade and maintain the social and economic infrastructure in all the underdeveloped rural and urban areas of our country that do not have such infrastructure.

As we do this work, we will employ local people and ensure that, at the same time, they acquire basic training and skills. Although this is a national programme, it will largely be implemented by the provinces and municipalities. Its success therefore depends on a high level of cooperative governance and hard work from the Premier, MECs and Members of the Provincial Parliament, Mayor, the councillors and the public servants from both the province and local municipalities.

Today we would like to say to all these people who are going to be at the centre of the implementation of this programme that we will not accept any failures. We want to say to everybody, including those who will be coming from private sector that we will deal harshly with any form of corruption that may surface as we implement this programme. All of us should agree that we will not see any amount of wastage of public funds either because there is negligence or maladministration.

We should also agree that the implementation of this programme must be within the given time frames and the quality of work must be of high standard.

Several years ago, the Limpopo provincial government took the initiative to implement a labour intensive provincial roads programme called Gundo Lashu (which is isiVhenda for "Our Victory"). Under the EPWP,

the provincial government has now teamed up with all the municipalities in the province to expand the programme to the municipal infrastructure sector.

We have therefore decided to launch the EPWP here at Sekhunyani village at Giyani in Limpopo, because you have successfully established a programme, which exemplifies this kind of cooperative governance.

I learn that to date, the Gundo Lashu programme has involved training of 24 local emerging contractors in labour-intensive road and bridge construction and maintenance.

These emerging contractors in turn hire local labour to carry out infrastructure improvement projects. Similarly, across the country, we plan to have 250 learner contractors.

I would like to take this opportunity to thank the British Department for International Development and the International Labour Organisation for the contribution that they have made to the Gundo Lashu programme.

Assisted by one of the Sector Education and Training Authorities and the Department of Labour, the national Department of Public Works will be hiring qualified people to provide learner contractors with mentorship. Private banks have also joined us as partners in providing learner contractors with credit and other support.

These learner contractors will form an important cadre of entrepreneurs skilled in labour intensive construction methods, able to take advantage of the public resources that will be dedicated to the improvement of infrastructure in the poor and disadvantaged areas of our country.

The contractors are trained to carry out these projects using highly labour-intensive methods, to the required standards, and within the required time and allocated budget.

Recently, I received a letter from a woman learner contractor who has benefited from the Gundo Lashu programme. She writes: "My name is Mokgadi Raganya, I am a Managing Director of Rola Consultants cc., one of the 24 emerging contracting companies afforded the opportunity to be trained on Gundo Lashu programme in Labour Intensive Road Construction.

"I had no experience in road construction before undergoing training. However, due to the effectiveness of the training received, my company has been able to successfully complete its trial contract of 4.4km gravelled road and construction of a 24m long low-level bridge at a cost of R1.523 million, with some guidance and mentoring from the Gundo Lashu Project Team.

"The company employed daily an average of 120 labourers for the contract duration. My company has now been awarded an annual Contract of R 7.5 million by Roads Agency Limpopo (RAL) through a tender process to rehabilitate and seal a 14.1km road using labour intensive methods including the construction of 6 bridges and works have been on-going since November 2003."

Indeed, through this programme, we should produce more people like Mokgadi Raganya who will help create work for our people and be part of a brigade that pushes back the frontiers of poverty.

I have cited the example of the Gundo Lashu Programme because it provides us with the background for this launch. However, there are also other well-established and thriving projects under the banner of EPWP, such as the Zibambele, Vuk'uzenzele and Zivuseni Road Projects in KwaZulu-Natal, Eastern Cape, and Gauteng.

The EPWP also involves expanding successful programmes aimed at creating work opportunities with training through environmental, cultural and social projects. There are some examples of such tourism projects here in Giyani such as the Bolobedu and the Hatsama Dam cultural villages, which, I am told, has provided employment and training for over 600 people.

There are further planned investments on environmental programmes in this province, which will undoubtedly create more jobs and help to fight poverty. ...

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21 May 2004

## **Address by President Thabo Mbeki to the first joint sitting of the Third Democratic Parliament**

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... With regard to the First Economy, we will implement the following programme of action:

We will work to raise the rate of investment in the first economy.

To this end, we will engage our social partners to implement the decision taken at the Growth and Development Summit that 5% of the funds held by the institutional investors will be invested in the real economy. This discussion should be completed before the end of the current calendar year.

At the beginning of September, we will announce the detailed and enhanced investment plans of the state-owned enterprises, including the financial development institutions.

At the same time, we will announce plans for the better utilisation of the Isibaya Fund of the PIC, which was established by law.

We will undertake road shows to present to potential domestic and foreign investors each of the sectors identified within our Microeconomic Reform Strategy, among other things explaining the incentives available to attract investment into these sectors, including the advantages offered by the Industrial Development Zones.

We will also finalise the Enterprise Development Bill to provide a framework for the development, adjudication and streamlined extension of incentives to all enterprises in a transparent manner.

We will continue to work to reduce the cost of doing business in our country.

In this regard, we will implement the plans we announced in the past concerning our national logistics system organised in Transnet. Accordingly:

We will seek to work with Parliament to expedite the process of the restructuring of our ports to bring in new investment and lower the costs of moving imports and exports.

The Coega Industrial Development Zone is already open and the first ship will be able to dock at the new Coega/Ngqura port by September next year.

Spoornet will increase its freight capacity by 30% over the next five years, while the Rail Commuter Corporation is investing R220 million this financial year to improve commuter transport and safety.

National Treasury is in the final stages of registering the King Shaka International Airport and freight terminal as a Public-Private Partnership. Construction will start after agreement has been reached with the Airports Company over land usage in the ongoing negotiations.

Further, with regard to energy:

The first Regional Electricity Distributors will be ready to operate by June 2005 and the whole process of the establishment of these structures will be completed by January 2007.

A tender for the provision of new generating capacity to provide for the growing energy needs from 2008, will be issued publicly in December and should be awarded during the first half of 2005.

The final decisions on the Second National Telecommunications Operator will be taken without undue delay to ensure more development and competition in this sector.



The government will also lead the process of ensuring that administered prices do not unnecessarily add to the general costs of production and the inflationary pressures in our economy. Our policies in this regard will be announced by October this year.

We will pay particular attention to the further growth of the small and medium business sector. In this regard:

We will carry out a comprehensive review of the regulatory framework that impacts on this sector, to facilitate its further growth and development. This will be completed by September, and will be followed by such changes as may be necessary.

We will merge Ntsika and the National Manufacturing Advisory Centres before the end of this year, to create a unified enterprise development agency that will provide non-financial support to small and medium enterprises.

This year's budget for the unified agency will be R120 million.

We will work with the financial institutions to implement the provisions in the Financial Charter relevant to the development of small and medium enterprises.

We will re-establish the Agricultural Credit Scheme (ACS) in the Department of Agriculture to provide capital for this sector, leaving the Land Bank to deal with the established commercial sector. R1 billion is immediately available to start the ACS.

We will submit to Parliament a Bill on Cooperatives before the end of the present calendar year.

We will speed up the process of skills development, focusing on the shortfalls that we have already identified.

In the period since the holding of the Growth and Development Summit, we have reached the figure of 64 000 with regard to learnerships. We have already studied our experience in this regard. Arising from this, we will engage all the Sector Education and Training Authorities, the SETAs, to increase the uptake of learners and improve the focus on the skills that are in short supply. This process of engagement will be completed by the end of the year.

We will work to ensure adequate funding of the technical colleges and proper alignment of the courses they offer with the requirements of the economy.

By the end of the year, we will compile a register of all graduates so as to link them up with Umsobomvu, learnerships, and other schemes and institutions that would help them to start their own businesses or get jobs.

Within the next three months, the Cabinet will finalise its work on the Immigration Regulations, among other things to ensure that we access such scarce skills from the rest of the world as may be required for our accelerated development.

We will do more to improve our export performance, focusing on services and manufactured goods.

Accordingly, we will engage the export sectors to assist them to take full advantage of the possibilities we have to expand access to the EU and the US markets, as a result, respectively, of the SA-EU Trade and Development Agreement and AGOA.

We will pay the necessary attention to the earliest possible conclusion of trade agreements with Mercosur, EFTA, the US, India and China.

We will also focus on our further interaction with the African continent, especially within the context of

SADC and NEPAD.

In the coming financial year, we will increase spending on scientific research and development. This year we will implement the new governance system for the science councils, while we continue to work on the diffusion of new technologies across the economy.

In this context we must mention that the construction at Sutherland, the Northern Cape, of the largest optical, infrared telescope in the southern hemisphere will be completed in December. A formal bid has been submitted for us to host the largest radio telescope ever built, the so-called Square Kilometre Array Radio Telescope. Namibia is host to the most powerful gamma ray (HESS) telescope in the world, which has now been commissioned. I mention all these to indicate the development of our region as a Global Hub for Astronomy and Space Science and Technology. This underlines the need for us to devote more resources to the development of science and technology.

Similarly, we will implement a detailed programme to respond to the challenges of the **second economy**. In this regard:

We will ensure that we launch the Expanded Public Works Programme in all provinces by the beginning of September, concentrating on the 21 urban and rural nodes already identified in terms of our Urban Renewal and Integrated and Sustainable Rural Development Programmes. As we have said before, the EPWP integrates, among others, the objectives of the development of the social and economic infrastructure, human resource development, enterprise development, and poverty alleviation.

A Financing Protocol relating to the Urban Renewal and Rural Development Programmes will be finalised within two months, to improve the effective and coordinated financing of these Programmes by the three spheres of government and the different departments.

By the end of the year, the Apex Fund, dedicated to the extension of micro-credit, will be operational.

The Department of Agriculture will increase its support to agricultural activities in the communal land areas as well as other small-scale agriculture, drawing on resources within the Agriculture Credit Scheme, ensuring the implementation of the Land Reform for Agricultural Development process and the Comprehensive Agricultural Support Programme. Once approved, the Communal Land Rights Bill will improve the possibilities for better economic utilisation of communal land. The Department of Agriculture will, by July, publish its AgriBEE framework for public comment.

During the current financial year, we will finalise our strategy for the development and extension of financial and non-financial support to cooperative enterprises, as well as submit draft legislation on cooperatives to Parliament.

The Department of Education will expand the reach of the Adult Basic Education and Training programme, ABET, aligning it with the training objectives of the EPWP.

Working with the provincial and local governments, the Department of Public Service and Administration will take the necessary action to ensure that Community Development Workers are deployed by the end of this calendar year in the 21 identified urban and rural nodes.

The Departments of Public Service and Administration, Provincial and Local Government, and Communications will work to ensure that modern information and communication technologies (ICT) are introduced in these development nodes as quickly as possible, to assist in all their developmental and governance efforts.

Broad based black economic empowerment remains a pivotal element of government policy. Accordingly:

We will proceed to establish the Black Economic Advisory Council visualised in the black empowerment legislation as a matter of urgency. One of its first tasks will be to consider the steps we need to take to achieve the speedy and effective implementation of this empowerment legislation. It will also reflect on the

ways and means we must adopt to take advantage of the existing Black Economic Empowerment Charters.

The National Empowerment Fund will announce new financial and non-financial empowerment products within the next three months. In this context, we must bear in mind that government has provided R1 billion for black economic empowerment during the current fiscal year, with R10 billion provided for over the next five years.

As with all our other development programmes, the Black Economic Empowerment process will also focus on the challenge of the empowerment of women, people with disabilities, and the youth.

As we have already indicated, we will continue to build a social security net to meet the objective of poverty alleviation. Accordingly:

- \* Again, in improving the quality of life of all our people, work will continue to ensure that social grants reach all the 7,7 million beneficiaries. The new social security agency will become operational in 2005, improving the integrity and efficiency of the system;

- \* We will, within two years, add about 3,2 million children who will be eligible for child support grants as the upper age-limit is raised to children turning 14.

- \* R166 billion will be allocated over three years for social security;

- \* We will continue to implement other social security initiatives such as the school nutrition programme and the provision of free basic services.

However, a society in which large sections depend on social welfare cannot sustain its development. Our comprehensive programme to grow the economy, including the interventions in both the **First and Second Economies**, improving sustainable livelihoods and create work is meant precisely to ensure that, over time, a smaller proportion of society, in particular the most vulnerable, subsists solely on social grants.

We also need to achieve further and visible advances with regard to the improvement of the quality of life of all our people. To achieve this, the following will be done:

- \* We will ensure that within the next five years, all households would have easy access to clean running water;

- \* By December this year, through our programmes, we will provide clean and potable water to the 10th million South African since 1994;

- \* During the current year more than 300 000 households will be provided with basic sanitation;

- \* Through our integrated system of government, with a strengthened local government working with our state enterprise, ESKOM, we will, within the next eight years, ensure that each household has access to electricity;

Further, we will continue to do what is necessary to improve the programmes that promote a better health profile of the nation as a whole. In this regard:

- \* Our programme of ensuring easy access to clean water for all the households within five years would help us in the fight against cholera and other waterborne diseases.

- \* Through our intensified programme against malaria we will reduce malaria cases by 10% each year.

- \* We have already started with the implementation of our Comprehensive Plan on HIV and AIDS. 113 health facilities will be fully operational by March 2005 and 53 000 people will be on treatment by that time. At the same time, more impetus will be given to the Khomanani social mobilisation campaign as we intensify home-based care.

- \* The regulations on the pricing of medicines are now in effect. We anticipate that by the end of this year the consumer will pay less for the medicines at the retail outlets.

Clearly, the health programme straddles aspects such as the promotion of healthy life styles, encouraging changes in risky behaviour especially among the youth and reduction of non-communicable causes of death such as diabetes, asthma and hypertension.

We will build on the experiences of the past ten years to intensify the housing programme. The following

will be done:

- \* A comprehensive programme dealing with human settlement and social infrastructure, including rental-housing stock for the poor will be presented to Cabinet within three months.
- \* In the next three years we will spend R14,2 billion to help our people to have access to basic shelter.
- \* From this financial year we will also address the trend in some provinces where there has been a slow-down in housing delivery as well as addressing the broader question of spatial settlement patterns and implications of this in our efforts to build a non-racial society.

The opening of the doors of learning and culture is critical to the improvement of the quality of life of all our people. In this regard, the following additional measures will be implemented:

- \* We will, during the course of this financial year, recapitalise all the technical colleges and intermediate training institutions, ensuring that they have the necessary infrastructure, capacity and programmes relevant to the needs of our economy;
- \* During this calendar year, we will consolidate the merger process of institutions of higher learning ensuring that they do, in reality, become single institutions with a unified institutional culture;
- \* By the end of this financial year we shall ensure that there is no learner and student learning under a tree, mud-school or any dangerous conditions that expose learners and teachers to the elements;
- \* By the end of the current financial year we expect all schools to have access to clean water and sanitation.

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## **Economic and Employment Cluster Parliamentary Media Briefing by Minister of Trade and Industry, MP Mpahlwa**

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... The President set out the challenge confronting us: encouraging the growth and development of the 'first economy', increasing job creation potential, and implementing a programme to address the challenges of the 'second economy'. The Economic and Employment Cluster has organised its work in response to these challenges into four broad areas:

- Maintaining a stable macroeconomic environment and increasing the level of investment in the economy
- Accelerating the implementation of the microeconomic reform strategy
- Targeting interventions in the second economy
- Implementing a governance strategy to strengthen the institutional capacity for implementation, sequencing and monitoring and evaluation

### **Targeted Interventions at the Second Economy**

South Africa's economy is fractured, and the concept of 'two economies' is a short-hand for a dominant 'first' economy that is competitive, globally integrated with an advanced capacity to export high value-added exports and services, and a marginalised 'second' economy that consists of large numbers of the unemployed and 'unemployable' that is not able to participate productively in the first economy. Targeted interventions are required in the 'second' economy to overcome poverty and unemployment and to create economic opportunities from which all economic citizens can benefit thus building a single economy.

The Economic, Employment and Investment Cluster will focus on the following issues in respect of the second economy:

- Human resource development with special focus on artisan and entrepreneurial training
- Improving labour and market opportunities intelligence
- The Expanded Public Works Programme (EPWP)
- Acceleration of land and agricultural reforms ...

**Enterprise development** support and **broad-based black economic empowerment**, including accelerating farmer support and the tourism enterprise programme to increase the participation of black people in these sectors is also a key task, the dti has set aside over R1 billion to support small and medium enterprises this year. New financial support measures are going to be launched by the National Empowerment Fund to promote BEE initiatives. R1bn has been allocated in this financial year for this purpose. There are several charters that are being concluded in specific sectors, which are aimed at enhancing broad-based black economic empowerment ...

**Small enterprise development** will remain at the forefront of the cluster's work programme. The work already underway to reduce the compliance burden on small enterprises will be accelerated and recommendations on any necessary changes to regulations will be forwarded to Cabinet by September 2004. The Development Financing Institutions are being brought together to work more closely with the aim of streamlining services offered to the economic citizen. By the end of this year, we would have **integrated Namac and Ntsika** to accelerate service delivery to enterprises. Financial and technical support to **cooperatives** will be made available later this year.

29 October 2004

**Closing Remarks By Dr Jean Benjamin, Deputy Minister of Social Development at The Conference On Overcoming Underdevelopment In South Africa`s Second Economy, Pretoria**

Chairperson, Distinguished participants.

I would first like to convey Minister Skweyiya`s apology at not being able to be here in person to deliver these closing remarks at this conference on Overcoming underdevelopment in South Africa`s second economy. He is leading a delegation on a study tour to explore options on the social security agency and integrated social welfare system, in the Netherlands and he was not able to arrange an early return.

A stated premise of this conference is that while increased social assistance provision is necessary, it can never overcome the scale and depth of poverty and underdevelopment found in rural areas and urban townships. We concur with this premise.

Further, as made explicit by the progressive mandates that government has sought from our people in the three democratic elections we have so far held in our country, government is unflinching in its committed to addressing the structural manifestations of poverty, underdevelopment and marginalization in our country.

We have therefore always welcomed open and constructive debates on these issues as they contribute to building a social consensus around and commitment to our long-term objectives among all social partners.

I think it was on the basis of this tradition and in this spirit that various interested parties participated in this conference. The fact that your deliberations have been informed by the comparative experiences of India and Brazil is particularly appreciated.

As concluded in the South African Government`s Ten Year Review Discussion Document, the ability of the State and markets to impact the dynamics of economic and social inclusion are influenced to a substantial degree by the content and character of on-going engagements with civil society organizations on these matters. Government`s commitment to these engagements is detailed in Programme of Action for the 2004 and 2005 period, and implicit in Vision 2014.

With respect to the opportunities available to poor people in our economy, government is also committed to reversing the relative paucity of policy-oriented poverty analysis in our country. In collaboration with its academic partners, the Department of Social Development is undertaking a five-year research and capacity building programme that sharpens the focus and enhances the use of indicators of poverty and social exclusion in policy development and monitoring.

In the area of social protection, it will examine the links between social grants, poverty and unemployment. It will also review the targeting of social grants and thus contribute to addressing any inefficiencies and unintended consequences of social protection. The programme will augment the work being done to refine poverty measures and indicators being led by Stats SA and The Presidency.

Chairperson, the fact that the amount of research on poverty and social exclusion in our country is increasing and the fact that the pool of local social policy analysts doing this work is also expanding -- are welcome developments. The empirical basis for vigorous policy interrogation, informed public policy development, and poverty reducing social investment continues to grow.

For example the School of Development Studies at the University of KwaZulu-Natal has been conducting interesting research on the role of social assistance in enterprise creation. In a similar vein, the Department of Social Development is currently reviewing a report on research conducted by the Economic Policy Research Institute on the Social and Economic Impact of South Africa`s Social Security System. In addition to looking at the impact of social assistance on poverty and household well being, the report examines their impact on

the labour market.

The preliminary empirical results are consistent with the hypothesis that:

1. Social grants provide potential labour market participants with the resources and economic security necessary to invest in high-risk/high-reward job search, and
2. Living in a household receiving social grants is correlated with a higher success rate in finding employment.

The research also confirms that social grants in South Africa play a critical role in reducing poverty and promoting social development. In this research it is concluded that social grants reduce the poverty headcount measure by 4.3%, if it is measured against the Committee on A Comprehensive Social Security expenditure poverty line (with no scales). It (the research) further concludes that current social security system reduces by 45% the total Rand destitution gap, translating to fewer numbers of ultra poor South Africans.

In addition to this research information, the integrated findings and overall assessments coming out of this conference about the ability of government programmes to enhance the productive capacities and increase the participation of marginalised people are very useful. I am confident that the findings and assessments of this conference on how to address the challenges of the second economy will be taken further. There are no reasons to think that this will not be the case. There are ways to overcome underdevelopment in South Africa's second economy without destabilising macroeconomic balances.

In line with the government's request that all sectors of our society should conduct their own assessments of our First Decade of Democracy, next week the National Institute for Economic Policy, supported by the National Treasury, is hosting a conference on the South African Economy under Democracy. The objectives of the conference also aim to contribute to the ongoing discourse on the trajectory and impact of social and economic policies.

I would like to conclude my remarks on this conference on Overcoming Underdevelopment in South Africa's Second Economy by expressing my thanks to everyone who has supported this event. In particular, to the organizers for mobilizing the resources and providing the platform for this debate, to the presenters and panellists, for informing and focusing the debates, and to the participants and discussants, for enriching the discussions and recommendations. A special word of thanks to the sponsors - the UNDP, the HSRC and the DBSA - who in their different ways are interested parties, and who have made this conference possible.