South Africa's Growth Path in the Decade Ahead

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The democratic government's assessment of progress in *Towards a Ten Year Review* showed that despite considerable achievement the government had not made rapid progress in rolling back unemployment and poverty and that it had to confront these challenges. The Policy Coordination And Advisory Services unit was asked to address two questions for the first cabinet lekgotla after the elections. First, why is our economy not growing quickly enough? Despite doing everything we were supposed to do we did not achieve the target of 6% per cent growth by the end of the decade set in GEAR. Second, what do we do about the persistence of poverty and unemployment amongst a significant portion of the population? The answer to the second question is not necessarily embodied in the answer to the first. It would be possible for the economy to grow a lot faster without benefiting a large section of the population except in an indirect way. This shortened presentation covers the core economic arguments and does not go into the wide range of policy issues dealt with in the lekgotla presentation.

The ANC's election manifesto states that:

> Guided by the Reconstruction and Development Programme (RDP) our vision is to build a society that is truly united, non-racial, non-sexist and democratic. Central to this is a single and integrated economy that benefits all.

The most important targets for this discussion are to
- Reduce the rate of unemployment by half by 2014, from around 30% to around 15%
- Reduce poverty by half by 2014. Data from 1999 indicates that around 3.5 million households, comprising 35-40% of the population, live below the poverty line.

Additional targets are to
- Provide the skills required by the economy
- Ensure that all South Africans are able fully to exercise their constitutional rights and enjoy the full dignity of freedom
- Provide compassionate government services to people
- Improve services to achieve a better national health profile and reduction of preventable causes of death, including violent crime and road accidents

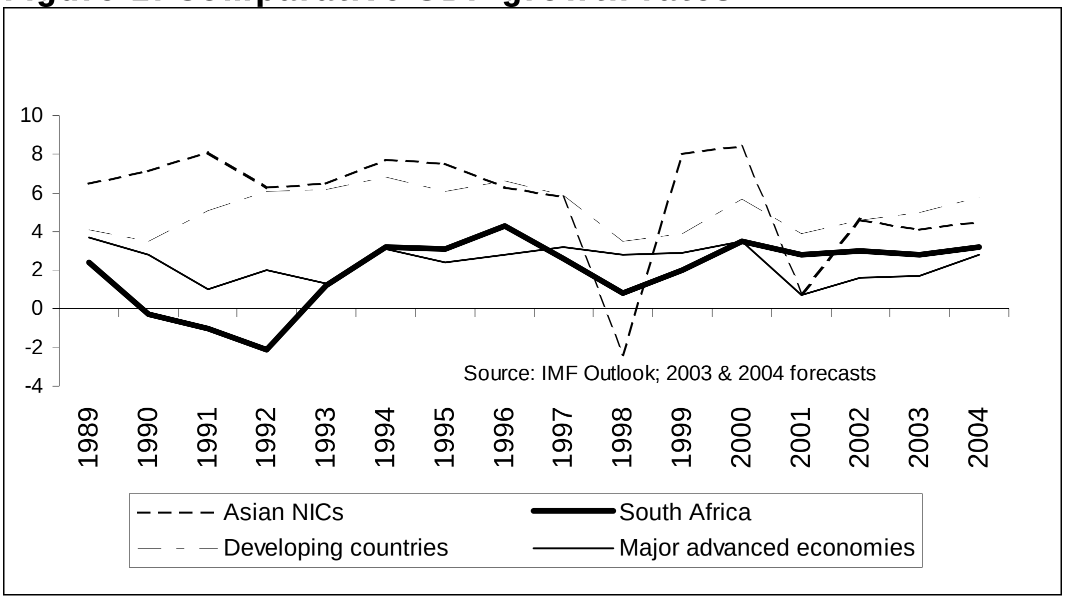
- Significantly reduce the number of serious and priority crimes and cases awaiting trial
- Position South Africa strategically as an effective force in global relations.

Over the last ten years the RDP was the basis of the government's broad socio-economic policy. It had five essential components. They were: building the economy; meeting basic needs; democratising the state and society; developing human resources; and nation building. This was to be built on a sustainable macro-economic policy.

In essence the ten year review showed that we did quite well in building macro-economic stability and introduced some important micro-economic reforms. We have introduced what is probably the most ambitious human resource development programme that any country has ever attempted. There have been significant increases in expenditure on both social services and social transfers, from 44% of government expenditure in 1993 to 57% in 2002/3. We now have the lowest interest rate in over 20 years and the lowest inflation rate since 1959. Public sector debt including public enterprises and all government institutions has fallen from around 65% of Gross Domestic Product (GDP) to below 50%. South Africa has had the longest period of sustained growth since GDP figures were first recorded.

Despite this we have not achieved many of our key objectives. With hindsight we can see that the rate of investment over the last ten years has been too low. This led to low rates of economic growth and job creation. Jobs have been created in the formal and informal sectors since 1994 but the rate of increase in jobs was below the rate of increase in the labour force. The result was that the rate of unemployment in the economically active population grew from about 16% to over 30%. Recently it has declined slightly to around 27-8%, still much higher than it was in 1994.

Figure 1: Comparative GDP growth rates



Although South Africa has experienced sustained economic growth over the decade the rate of growth, at around 2.7% a year, has been significantly below the average rate of growth of other developing economies. It is even below the average growth rate for Africa, which is particularly high at present because of high commodity prices.

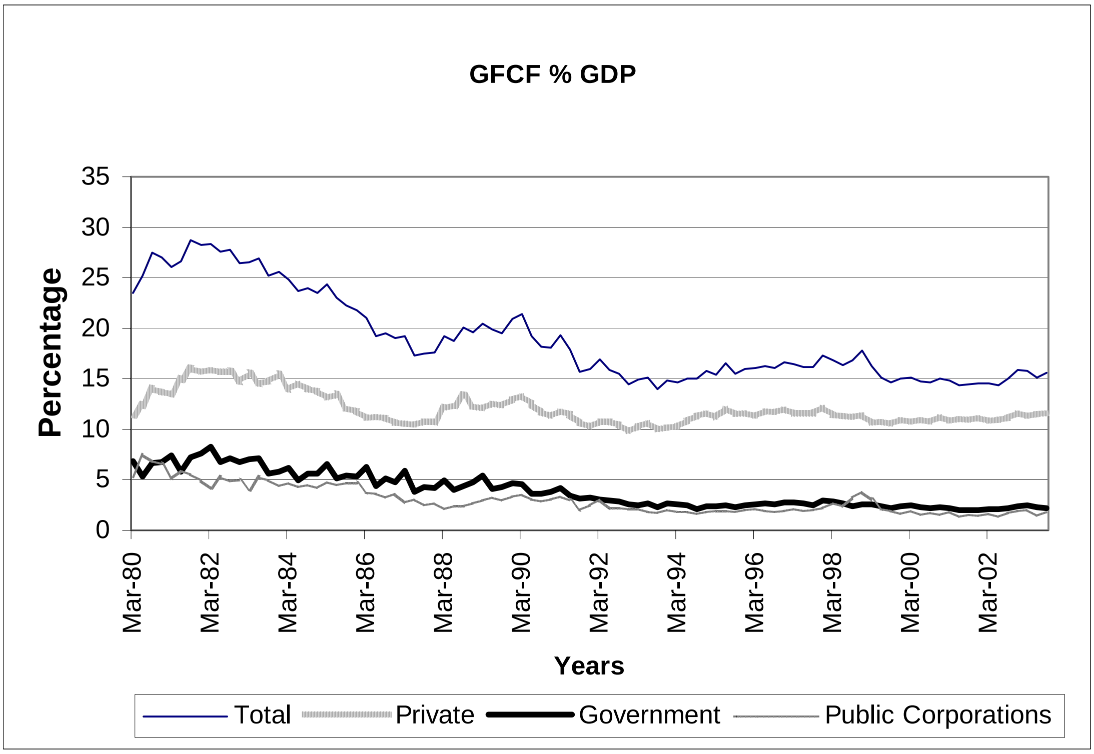
Investment

The main cause of this discrepancy is the decline in the rate of investment. There were significant periods in the 1960s and 1970s when gross fixed capital formation in South Africa was above 25%. During those periods the growth rate was also much higher. In the early 1980s it was around 5-6 %. During the 1980s the collapse of the gold price, political crisis in South Africa, and loss of investor confidence led to a dramatic decline in the rate of investment, which stabilised at around 15% in the early 1990s where it has remained. The economic growth rate did rise after 1994 but this was mainly due to economic restructuring, including some liberalisation, which improved the efficiency of investment, rather than to an increase in the rate of investment.

There is a close correlation between the rate of savings and the investment rate – with cause and effect a subject for debate. The government would like to increase the rate of domestic savings, but it is possible to increase foreign direct investment without this. The rate of savings is not an absolute constraint on growth in the short term, though it would be in the long term.

Disaggregating investment we can see that private sector investment fell from around 16-17% of GDP to around 12%, but public sector investment fell even more, from about 7-8% of GDP to around 2%. Total government investment fell from around 16% of GDP in the late 1970s (probably too high) to around 4% at present, which is much too low. It is probably not possible, or desirable, to get back to the 16% level, but there is considerable scope to increase public sector investment.

Figure 2: Gross fixed capital formation as a percentage of GDP



Why the fall in private and public sector investment? Up to the mid 1990s the reason for the fall in public sector investment is quite clear. The state was losing its capacity to invest and it had other priorities. From 1994 there was a lot of transformation and restructuring taking place, and perhaps a lack of confidence in the ability of the government to make the right investment decisions and carry them out. It is also true that the ANC government feared that if it made mistakes at an early stage of our democracy and significant investments of public money did not work out we would find ourselves in debt to international institutions that would gain increasing control over our economic policy. One of the intentions of GEAR was to increase the rate of public sector investment. This did happen in the case of some parastatals, for example Eskom and Telkom made quite big investments in the late 1990s. But overall the fiscal tightening that accompanied GEAR probably contributed to a lack of ability on the part of the state to make public sector investments.

In the 1980s South Africa, Korea and Australia were all investing at around 25-30% of GDP. Australia has stayed above 20% of GDP, Korea went as high as 40% of GDP for some periods in the early 1990s but has generally stayed at around 25-30%, while South Africa has fallen to around 15%.

We have looked at some of the reasons for the fall in public sector investment but why did private sector investment fall? It is difficult to get high levels of private sector investment if the growth rate is low. This is particularly the case if you are looking for foreign investors to establish businesses. They look for a relatively strong market and would not have seen South Africa in this light before this year, which seems to have witnessed a dramatic change in perceptions. The cost of capital was quite high, real interest rates were high and risk premiums were high. The exchange rate was extremely volatile, appearing too high at times, and inflation was also volatile. Government investment was low.

Apart from these objective factors there were a number of perceptions that influenced both local and foreign long-term investment. Did government have the will and the ability to deal with the challenge of poverty and inequality, or would it lead to growing confrontation? Was social cohesion under threat? What was the truth about crime? Could South Africa have done more about Zimbabwe and did the situation there point to the future for South Africa? Was South Africa reluctant to liberalise the labour market? Was the relatively sophisticated labour market system a constraint on labour intensive investment? Was black economic empowerment going to lead to a social crisis and the emigration of whites? This was an issue because whites still control much of the wealth and skills in the country.

Finally there are more intangible issues of gut feeling – basically Afro-pessimism. Why should South Africa be different from many other African countries that were not able to manage themselves well for a significant period after independence? This perception is a problem, both locally and internationally, partly because of the gulf between the economic and political elites, which come from different backgrounds and do not have a shared history. This is a challenge that needs to be overcome. This is why institutions like Nedlac and the presidential working groups are important for building the trust that you need in a market economy where private people make most of the investment decisions.

Macro- and micro-economic policy

We have invested a lot in inflation targeting and we are now where we want to be. As a result both real and nominal interest rates have fallen. We do not want to change this policy but we do feel that the currency is overvalued and we need to adopt policies that will help to soften the currency and make it more stable. Stability is the most important characteristic for the currency and has been our biggest problem at times.

There are commitments to radically increase public sector investment and there will probably be an announcement later this month on the public enterprises plan. The number we came up with earlier this year for government and public enterprise investment for a three year period was R267 billion. This will probably go up a bit. Clearly we have to win over direct investors, domestic and foreign, and we have a range of strategies around that. The minister of finance has talked about reaching a target of 25% for gross capital formation as % of GDP by 2014. This has effectively become government's target although if things go well it may be possible to reach that target before 2014.

We have not done as well in micro-economic policy reform. There are a number of areas of organisation of the economy that can be considerably improved. At the beginning of 2002 cabinet identified sectors with potential for growth and employment creation, and possibly, but not necessarily, for export promotion. They are:

- Clothing and textiles
- Information and communication technology (ICT)
- Parts of the services sector
- Agriculture

These are basically the same sectors identified at the Growth and Development Summit (GDS). Government and the GDS agree that we need to develop strategies for these sectors in the same way as we developed strategies for tourism and the automobile sector. There are opportunities for improving relationships between investors, government and workers in those industries and improving performance considerably.

Then there are some important input sectors, namely

- Transport and logistics
- Energy
- Water
- Telecommunications

These are important for the competitiveness of the economy and its ability to grow. In addition there are a number of cross cutting elements like human resource development, research and development (R&D) and technology development, and infrastructure investment.

These are all elements in the programme of action published on the government website. This programme is broken down into a series of tasks, which are the responsibility of identifiable task teams, usually led by one national government department. They are at different stages of completion with some like tourism and water pretty well thought out, although there are still issues that need discussion.

In the cross cutting areas we have done reasonably well in human resource development and improving the rate of research and development, which is starting to rise after falling to a low point in the late 1990s. We have also done quite well in implementing BEE strategies, although this obviously raises many new issues, and in enterprise restructuring. We have made considerable progress in dealing with the international market, although the results, apart from tourism, have still to prove themselves.

Areas where we have not done that well yet are local government economic management, small business development, and governance issues around state owned enterprises. We seem to be making progress in telecommunications with an important reform announced in September. Transport and logistics is still a serious problem area requiring a lot of investment in the railways and ports, and in other areas of public and freight transport.

One important philosophical change that is worth pointing to is in government's view of the state owned enterprises (SOEs) and their role in the economy. In the past the most important issue was seen to be the revenue they generated, how much tax they paid, what value would be put on their shares and so on. Restructuring has slowed down now although there will still be some concessioning of the ports, a number of rail lines will probably become public private partnerships and there are a number of opportunities for reducing the cost of government debt burdens through restructuring. But the main focus now is on the cost and quality of the services they deliver for both poor people and for businesses trying to compete in the rest of the world. Costs need to be reduced to the lowest possible level. An example is the recent reform in the telecommunications sector, which shows that we are no longer so concerned about the value of Telkom shares, but much more concerned about using telecommunications for investment.

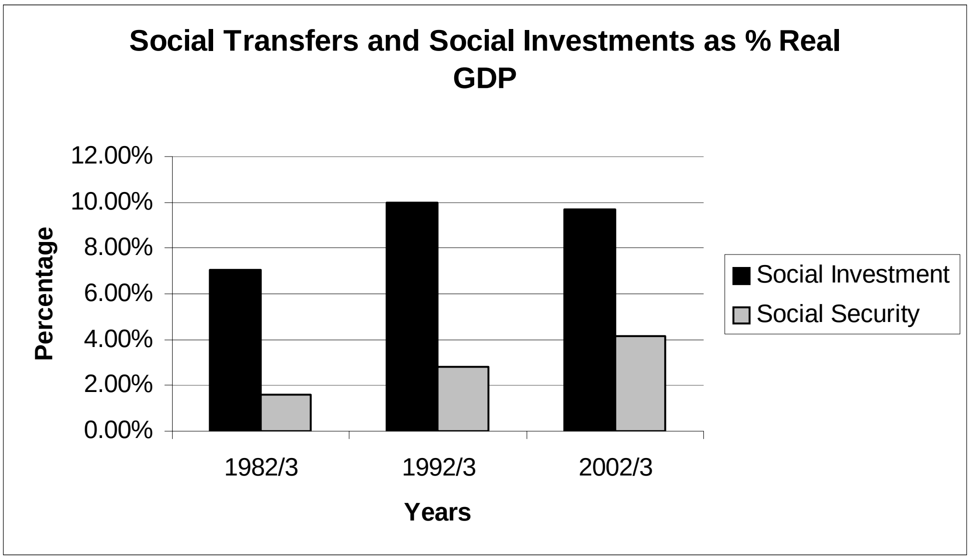
The second economy

The second economy is a shorthand term. There are not two separate economies existing side by side in the society. It is a metaphor for a condition where some people live in a modern industrial economy and other people live outside that society because they do not have a decent job, whether it is in the formal or the informal sector, and they do not have any economic assets that they can use to survive. Therefore they are dependent on help from others, either in the community or from government. About a third of households in South Africa are in this situation. It is not really a class definition. There are working class people who are very much part of the first economy and there are people in working class communities who are excluded and marginalised. It is not a formal and informal sector division, there are people in the informal sector who are making a lot more money than many people in the formal sector, and there are many people in the informal sector making a sustainable living. It is not a distinctive place. The second economy is in the inner cities, and in the peripheries of the cities and towns, and it is in the deep rural areas, and in the former bantustans.

The situation requires state intervention. If we continue with this dual economy it will lead to increasing reliance on social hand outs and social services from people who are unable to contribute to the fiscus. Ultimately this is unsustainable. There is also the potential for social conflict, and having a third of households outside the formal economic system is not the best way to use our economic resources.

Social investment, essentially health and education, grew rapidly in the early 1990s and then stabilised at around 10% of GDP. Social transfers, which are essentially pensions, child support grants, disability payments and other related transfers have increased rapidly since the early 1980s, and particularly in the late 1990s. They are exerting growing pressure on budget allocations. The roll out of the child support grant and claims for disability grants are having really significant effects.

Figure 3: Social transfers and investments as % of GDP



First of all we want our second economy strategy to create conditions for sustainable livelihoods. There are many people who are caught in a vicious cycle of poverty because parents are uneducated and poor, and children therefore remain relatively uneducated and will probably be poor. We have to intervene and break that cycle. Part of that is creating conditions for sustainable livelihoods that will enable communities and households to plan more effectively, especially for their children. We have to reduce dependency on social grants and eliminate extreme poverty. The research we did for the ten year review showed that, once they are fully implemented, the current grants will go a long way towards eliminating extreme poverty, although there will still be poor people. Finally we want to ensure some sort of mobility to the first economy.

The second economy strategy has a number of key elements. One is to create temporary work opportunities through public works programmes. The programme has several legs:

- A labour intensive construction leg where the municipal infrastructure grant is the main source of funding
- A conservation leg driven by provincial and more especially national government expenditure on the environment and forestry
- Another leg, which does not exist yet, but which we have planned for although it has been more difficult than expected to implement is in the social sector where NGOs and non-profit organisations can provide home and community based health care services and early childhood development services. This can provide slightly longer-term employment and perhaps feed into an expanded health and education system.

- The final leg is in the economic sector where the main element is access to capital. The DTI is working on a strategy that is different from previous government programmes in that it is not aimed at small businesses but at poor communities and households, and micro businesses. The government will act as a wholesale lending institution to the kind of institutions, such as NGOs, that are already in the field. At the moment these institutions are relying on other forms of finance including donor finance to lend to poor people and micro businesses.

The second general area is that of skills development where we can and are making significant interventions in adult basic education and training (ABET). ABET is important for poor communities not only to help people get work but also to help them manage their communities and households effectively. It will help to support children and grand children who need the kind of support that parents with basic education can give more effectively. Further education and training and general education are also important.

The final point is around two-way communication. People in the second economy are cut off from many sources of communication that those in the first economy have access to. Government is finding a range of ways including multipurpose community centres (MPCCs), toll free numbers, the Batho Pele gateway – which is Internet based but is accessible through the MPCCs – and a range of new ways to increase the information flow from government to marginalised people.

But we also recognise that we do not have good enough information about the marginalised third of the population. The most striking thing about the information presented at a recent SARPN seminar with Francie Lund was how, through an anthropological type of survey rather than a purely quantitative survey, she was able to add so much to our understanding of how poor people live and the way they make decisions. We realise that we need to do more of that kind of work as well as improve the quality of existing quantitative work.

Discussion

In introducing the discussion chairperson Stephen Gelb said that he was struck by the openness with which government was analysing its own policies and record. In addition to the change in philosophy on the role of state owned enterprises alluded to in the presentation this openness indicated that there had been a change in philosophy on public debate of issues. He suggested three areas for discussion.

The issue of confidence relates to the low growth that is linked with low investment. Four different groups of factors were identified as having contributed to keeping investment low. One was the objective environment while the other three relate to the more intangible issues of investor confidence. They are perceptions, viewpoints and gut feel.

On the objective environment, essentially the macro-economic environment, there is an important shift in government thinking, which now sees problems in the macro-economic environment. Government talks about macro-economic stability having been achieved but at the same time acknowledges that exchange rates and the balance of payments have been extremely volatile. While we all recognise the problem it is not clear what is being done about it and what can be done about it. A suggestion would be to look at what is happening with the international institutional and policy framework for stabilising trade and investment, an area that was not really looked at in this presentation. Government is doing a lot but we need to hear more about it.

On the other three areas relating to confidence we need to know what is and can be done about investor confidence. In particular I would like to raise the issue of the importance of the black middle class as leaders of the property and retail boom. There is a lot of confidence around consumption. As consumers people are more willing to make longer-term financial commitments than they were a few years ago. This indicates greater confidence in the future. But it also raises the question of whether a consumption led boom is sustainable and what is the feed back from consumption led growth to fixed investment that can contribute to job creation for those excluded from the consumption led boom.

Related to this is the question of black economic empowerment, which was mentioned but would be useful to explore further. We all recognise its importance but the issue in terms of today's discussion is what is its impact on growth, on fixed investment and on the risk environment. That, in turn, is connected to the question of small and medium enterprise policy, which has received limited attention from government over the last decade. If we are going to build bridges between the first and second economies it will have to be on the basis of jobs created in small and medium enterprises.

The last point is that the two economies metaphor has value and power as a description of the extreme dualism and inequality in our economy. But it does not help us to think about the linkages between economic growth in the first economy and the need to redistribute resources to the second economy. If we can build a sustainable growth-distribution link this will allow us to break free of the advanced industrial countries low growth path that we seem to be tethered to and move up to the higher developing economies growth path. This will not happen unless we get the linkages between growth and distribution right. That question is not really addressed in the way that government is presenting its policies.

Questions from participants and responses from Alan Hirsch

Theme: Poverty, inequality and the second economy

- I agree that we need to build bridges but are we not putting too much emphasis on building bridges and not looking enough at the walls that exist between the two economies. This includes the regulatory framework, which creates many impediments for small and medium sized businesses that try to get licensed, and there are also aspects of the labour market regulation.

It is a bit of both. Even if all the walls are taken down, there will still be lots of people who cannot take advantage of the opportunity. Government is looking at the proliferation of regulations that small businesses in particular have to deal with. There are probably quite a few unnecessary ones and we need to agree on how to extend exemptions. Perhaps we also need to look again at the definition of the maximum size for a small business. There are also labour market issues relating to small businesses. An issue related to centralised bargaining is the extension of agreements to non-parties. The minister of labour raised this in an interesting way when he asked whether he should agree when both labour and business came to him and asked him to extend agreements to non-parties. We need to find a systematic way to approach the question of regulatory systems.

- What impact does macro-economic policy have on the second economy and what tools are there for working with it?

Tools for the second economy include public works, credit related issues, the extension of the banking system, a range of skills development measures, a range of ways of providing access to information are very important. The point about removing some unnecessary walls is also part of our approach.

- Where does government see itself intervening around the issue of inequality, which seems to be getting worse? The first economy second economy debate does not help in understanding government intentions in this area?

Some of the inequality data is hard to deal with. It is unlikely that inequality has increased for society as a whole. There is increasing inequality in the black population because there are many more wealthy black people. We do not want inequality to increase and that is why we have this range of social security and social transfers as a short-term measure. In the ten year review we tried to look at the Gini coefficient before social services and transfers and after, What we found is that the effect of social services and transfers on reducing inequalities has been considerable over the last ten years. We feel that many of the policies have had an impact on reducing income inequalities. Obviously there are wealth inequality issues that have to be addressed. Here we have to look at land programmes and BEE programmes. We need to speed up these programmes. This is difficult with the land programme but at least we could look at transferring the title to the house or land that people occupy. Because of the problems facing land reform we have to look at other ways to transfer wealth. Empowerment is part of that but it also has problems that we need to look at.

- There is shift of economic activity from the primary to the tertiary sector. What measures are there to deal with the impact of this on the second economy?

With the decline in agricultural and mining employment many people without other skills became unemployed. This is part of the legacy that formed the second economy. What we are doing about it is essentially what I was talking about earlier. A lot of the difference between working in the primary sector and working in the tertiary sector is about education and skills, numeracy and literacy are clearly important areas of intervention.

Theme: Economic policy and trade

- Business confidence is at a 16 yr high and there has been a substantial rise in private sector fixed investment. One concern is the consumption boom. There has been a 600 basis points cut in interest rates and domestic demand is booming with retail sales up by about 11% on a year ago. Perhaps we are doing too much on the demand side and need to do more on the side of exchange control regulation rather than trying to get the exchange rate down by cutting interest rates further which could cause major problems down the line.

The interest rate is a blunt instrument and is probably not the best way to soften the rand. Real interest rates are still quite high by international standards but they are low relative to past interest rates and this has had a big impact on consumer behaviour. Government needs to look at the issue of exchange control and at how much we are prepared to spend on reserve accumulation. If Barclays does invest in ABSA and there is no attempt by the Reserve Bank to mop up that influx of foreign exchange it will probably push the rand up more, making more businesses uncompetitive. It is also a signalling issue and the bank needs to indicate that it is concerned about the issue.

- How does the presentation link to trade policy? If we have consumption led growth is it consumption of our own products or are the trade agreements facilitating a greater flow of imports, specifically in those sectors that can contribute to labour intensive growth.

On the issue of consumption and its effect, the growth of domestic demand and the balance of trade are both looking ill at the moment. We have a peculiar sit where the prices of major exports like gold, platinum and coal are unusually high and we have a trade deficit at the same time. This is the result of a really badly priced currency. We need to address this in the macro policy area rather than the trade policy area. It is worrying that in midst of a consumption boom the rand is so strong and retailers are sourcing products from outside the country because they are cheaper.

- GEAR looks similar to structural adjustment programmes that have failed elsewhere. The World Bank and International Monetary Fund were applauding Argentina for its policies immediately before its economy collapsed. Are there contingency plans in case things go wrong or is the government just advocating more trade liberalisation? We know that the private sector has not invested in social sector development so why is the state not using the power that it has through the Public Investment Commission (PIC) to secure more private sector investment.

I do not understand these two questions. The role of GEAR was dealt with in the presentation. The PIC manages government pension funds and other government funds and is being used for investment but it does not have the power to influence other private sector investment.

- No one will have the confidence to invest in our economy if we are not investing in it ourselves. In the RDP days there was a nation-building project that contributed to national confidence. What has happened to that project and how do we locate national confidence in it? Recently the Department of Foreign Affairs hosted an Algerian delegation. They have a ministry to small industry and a ministry of employing. We should follow this example and call things after the problems they are meant to address.

What are we doing about confidence? The idea is that the international marketing council is working with the Department of Foreign Affairs and with Tourism and the other agencies designed to market South Africa internationally. We would have to assess whether or not they are doing that effectively and then decide on further action.

The international marketing council has been trying to build domestic confidence through TV campaigns and other campaigns. Whether it is effective or not is another matter but Nation building is still very clearly on our agenda.

As for the Algerians it would be interesting to know if their ministries are more effective than ours because of their names.

- Talk of lifting capital controls is very disturbing because the problem in South Africa is not just regulatory controls. It is also political because the wealthy in South Africa do not just want clean, reliable, efficient government. Behind the government they see a large poverty stricken, angry and potentially seriously volatile population and they want to get their money out of the country.

I am not sure that this is true. The current provisions the Reserve Bank has to allow businesses and individuals to move money out of country are very under utilised. The amount of liberalisation that is already in place that has not been used by private individuals and corporations is very considerable. It seems unlikely that people are just waiting to take their money out of the country. We do have to have controls to prevent people taking advantage of the situation. Although there are still confidence issues they are not that bad.

Theme: The role of the state and partnerships

- The perception is that government feels it has to do most of this itself. To what extent does it see itself creating an environment where the private sector can do more?

Is there too much emphasis on government doing things? The whole strategy is about what government can do with the resources that it has. Government does not make most of the investment decisions. In the presentation I mentioned that we would like to see private sector investment increase from 12 to 16-17% of GDP and government investment from 4 to around 7-8%. Government cannot force the private and in the discussion on the financial sector in the GDS there was an agreement not to revert to the previous system of things like prescribed assets to force private investment. So the focus is on the environment, on improving our competitiveness, the quality of our labour force, logistics and infrastructure, the regulatory environment. In the social sector the private sector and NGOs can play a bigger role than it does now, for example in health care and education.

- COSATU supports a developmental state. There are three specific areas. Increased consultation, which is happening through things like the Growth and Development Summit, improved social security, which government is addressing and thirdly COSATU would like to see the state driving economic growth. In this respect it would like to see a rethink of the role of the state owned enterprises.

When we speak to business and to fund managers here and abroad about the need to increase the rate of public investment, the need to address the second economy issues and to extend the social security system they were not worried about it. They probably thought that we should have done it before. So we are not concerned that the state playing a fairly strong role will frighten the private sector as long as we explain what we are doing and make it fairly transparent.

Other issues

R&D

- The government has indicated that it wants to increase spending on research and development but social development spending has pre-empted this and left no money left for R&D. Typically investment is in new products or services and if we continue to increase social expenditure and ignore longer term investment in things like R&D we will find ourselves unable to attract investment.

There is a lot of evidence that the social returns to investment in R&D are very high and it is a good way to support growth and employment creation. The current rate of investment in R&D is higher than it was in the late 1990s but many of us would like it to be higher. Currently it is around 0.75%, which is very low. In very innovative countries it is as high as 2-3% of GDP. So the answer is that it has not been ignored. There was a very big cut in the early 1990s because of cuts in expenditure on defence where a lot of R&D money was coming from. At the moment there are a lot of pressures. While the social security system is being rolled out it will have a big impact on the budget.

Labour market

- We cannot start talking about reforming the labour market when there are already significant levels of poverty in the first economy. The minimum wage in the clothing and textile sector in KwaZulu-Natal is R600 but only 50% of companies are paying that rate while the rest are paying less.

It would be a mistake to deal with the issue of the minimum wage and what regulations can or can't be changed at a general level. We need to be specific about what can and can't be changed. COSATU has been keen to join government in looking at unintended consequences for businesses of some areas of regulation and it seems that there are areas where we will reach agreement. I only talked about wage agreements in the context of extension to non-parties and that is something that will have to be discussed.

HIV/AIDS

- It is surprising that HIV/AIDS was not mentioned in the presentation on South Africa's growth path. Does the government not see it playing a role?

At the start of the presentation there is a reference to health issues and clearly that is a concern. The fuller presentation deals in more detail with AIDS and other health issues. Clearly they have an effect on human resource development. The human resource development system is already under strain because of the huge backlog and AIDS just adds to that. Hopefully it will become less of an issue with the full implementation of the AIDs prevention and treatment programme that will become less of an issue. The programme itself shows clearly that government is trying to do much more in this area than it was doing before.

Urban/rural focus

- Most interventions seem geared to urban issues. What interventions are there to deal with rural issues?

A lot the second economy issues are not specific to urban or rural areas. We hope that public works, micro credit and skills development along with other initiatives will be effective in dealing with urban and rural situations. There are a number of distinct challenges in rural areas but this would probably affect the way that programmes are implemented.

Social grants and skills development

- Can government use its power to ensure that social grants get to the kids they are intended to benefit and that fathers meet their responsibilities?
- Is skills development really contributing to the development of skills that are needed by the economy?
- Can government make greater use of the potential of NGOs and civil society to contribute to these areas and ensure that they can access funds for training through the skills levy?

The government is concerned about creating attitudes of entitlement and dependency relations. Perhaps part of the answer is to build some sort of obligations into the grant system so that, for example, people getting child support grants should have to show school reports and health reports. This happens in some of the Brazilian states where they have a similar system. As for fathers that is an issue of the legal system. We do have laws that should compel fathers to take responsibility but perhaps they are not enforced.

If a community organisation or NGO develops a training programme that is accredited in terms of the skills programme there is no reason why it should not be able to access funds from the skills levy. Improved coordination between the education department and the labour department it may be possible to use more of the skills money for other kinds of education such as the capitalisation of the further education and training system, which both labour and education are interested in doing.