Appendix 2

ECONOMIC POLICY CONTESTATION IN GOVERNMENT

Are the Polokwane Economic Policy Resolutions being implemented by government?

AN AUDIT[1]

CONTENTS

[1] This is a summarised and updated version of a document tabled at the COSATU/ANC bilateral in April 2010

1. Overview

Trends –

- A process of engagement has been initiated in Government on key policy questions, to align policy with the directions set in Polokwane. But most of these processes are still in an early phase, & haven't yet been translated into concrete programmes. Also, processes remain largely *internal* to government
- IPAP 2 is the first important shift to reach a fairly advanced stage, but remains relatively underresourced, and constrained by an unfavourable economic policy environment
- Key elements of economic policy which are out of kilter with Polokwane, remain in place, and are being entrenched by centres of power in state which remain committed to pre Polokwane perspectives, particularly by Treasury.
- Policy fluidity is also being used by conservative elements in the state, to introduce problematic policy interventions, appropriating the language of Polokwane, in an attempt to sieze the initiative.
- Given the scale of the economic crisis, and the space which has opened up internationally to deal with it, the extent of our response has been too cautious and limited, and we risk losing the opportunity to act decisively.

Nearly three years after Polokwane, progress in implementing its economic resolutions is too slow. How is it that inappropriate policies counter to Polokwane continue to be entrenched? Where economic policy questions remain contested, we need to identify which are the key issues which require political resolution, and how this will be managed.

2. New Growth Path

Despite relatively high growth for most of the last decade, the structural fault lines of the apartheid political economy continue to be reproduced. It is now recognised that the main problem is not the *level* of growth, but rather the *type* of growth, ie our growth path continues to reproduce the structural economic distortions of our apartheid colonial legacy. In short, we need a new growth path.

ANC policy positions

The **2009 Elections Manifesto** states that "the benefits of economic growth have not been broadly and equitably shared…" and undertakes to "use various measures to build and accelerate a sustainable, equitable and inclusive economic growth path".

The **Polokwane Resolutions** calls for "an effective strategy of redistribution that builds a new and more equitable growth path".

The final ***Manifesto framework*** states: "The ANC is committed to building a more equitable, sustainable and inclusive economic growth path, centred on the creation of decent work opportunities and sustainable livelihoods. We need to ensure that the majority of our people benefit meaningfully from economic growth."

Government policy positions

Arising out of these ANC political perspectives, government has resolved on the need to formulate proposals for a 'New Growth Path'.

1. **Medium Term Strategic Framework:** Following the May 2009 Cabinet Lekgotla, the MTSF for 2009-2014 states: "the ***main focus*** in the current period is to minimise the impact of the economic downturn on the country's productive capacity as well as jobs and poverty-reduction measures, to identify opportunities for new areas of growth and economic participation, and **progressively to set the country on a new growth and development path**…(our emphasis[2])

2. **Programme of Action**: The 2009 Programme of Action of the Economic and Employment Cluster commits the cluster to "Develop proposals on **various developmental path options** available to SA to maximise impact on employment creation and poverty alleviation". This POA item is led by EDD, in collaboration with the Presidency, dti, Treasury, DST, DPE, and RDLR.

3. **Industrial Policy Action Plan:** The Industrial Policy Action Plan 2 **(**Ipap 2), published on 18 February 2010, states that : "industrial policy and the IPAP form part of a larger set of inter-related policies and strategies with respect to generating a **New Growth Path** that is relatively more labour-intensive and value-adding. There is therefore a need for …a stronger articulation and integration, *inter alia* of a fuller range of polices to ensure coherence across them:

- Macro-economic policy.
- Policies to raise levels of production and decent work in Agriculture, Mining and Construction.
- Policies to develop the Green Economy
- The National Industrial Policy Framework and Industrial Policy Action Plan.
- The Ten Year Innovation Plan towards a Knowledge Based Economy
- Skills
- Rural development.
- Energy.
- Infrastructure.
- Expanded Public Works Programme."

4. **Budget:** The 2010/11 Budget of 17 February 2010 makes an extensive statement on the need for a new growth path[3]. However the emphasis in the speech, and

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[2] From this point, the emphases in sections quoted from various documents, is always ours, unless otherwise indicated, by a statement saying 'emphasis in original'.

[3] The initial statement of the Budget speech seems to be in line with the other statements of government **: "**Our economy needs to be transformed to meet the needs of all of our people. We also agree that growth on its own is insufficient to solve our unemployment problem. We need to expand the capacity of the economy to grow sustainably and we need growth that is more labour absorbing…" However it then states- "This budget outlines several aspects of a new growth path for our country:

- A concerted *effort to reduce joblessness among young people [note: through wage subsidy proposal]*
- Support for labour-intensive industries through industrial policy interventions,skills development, public employment programmes and a rural development strategy.
- Sustaining high levels of public and private investment and raising our savings level.

Treasury's supporting documents, is significantly different from that contained in statements of the Economic Cluster, on the question of the growth path. Specific proposals arising from the budget, relating to the Growth Path, appear to take us back to pre-Polokwane positions, in relation to issues such as monetary policy, labour market policy etc.

5. **Economic and Employment Cluster:** Following the January 2010 Cabinet Lekgotla, the Economic and Employment Cluster issued an important statement focusing on the New Growth Path, on 2 March 2010:

"We recognise that there are **structural constraints** which have skewed the development trajectory of the country. These include:

* Persistent high levels of unemployment, inequality and poverty
* Insufficient finance for investment in productive sectors and job creation
* Low investment in research and development (R&D) and limited contribution of technology-based or knowledge sectors
* Uncompetitive and volatile exchange rate
* Low savings rate
* Long-term decline in agricultural and mining employment
* Lack of economic diversification, by sector and by location
* Limited progress in broadening participation
* Abuse of dominance and uncompetitive behaviour in key input industries
* Bottlenecks in logistics and energy infrastructure with often high and rising costs
* Skills shortages to support growth."

"…Our response forms the basis of what we call a **new growth path which we are still working to further refine**. We have, as a beginning, identified areas where we believe there is real potential. ..They are the following:

1. Implementation of Phase II of the Framework Response to the International Economic crisis targeted at accelerating the recovery of jobs and of economic growth. ..

2. Industrial policy that puts manufacturing, services and other productive sectors as the engine of sustainable growth…

3. Science and innovation are critical for South Africa's long-term competitiveness in a knowledge-intensive global economy…

4. Increasing concerns in relation to carbon emissions and climate change will have a profound impact on the number of green jobs in a South African "green economy"…

- Improving the performance and effectiveness of the state, especially the
- provision of quality education and training at all levels.
- *Reforms to increase inclusion and participation in the labour market*,alongside efforts to improve competition in product markets. [*note: through proposals on dual labour market*]
- Keeping inflation low, striving for a stable and competitive exchange rate, and providing a buffer against global volatility.
- Raising productivity and competitiveness, opening up the economy to investment and trade opportunities that can boost exports. We need to produce the goods and services that other people desire to have; that we can export to the rest of the world."

An analysis of the concrete approach proposed on a number of these issues in the speech & budget review, reveals approaches inconsistent with the Polokwane mandate.

5. Rural development including agriculture and agro-processing that is integrated and supports mainstream economic activities. ..

6. Leverage public sector for employment and creation of employment opportunities…

7. Enterprise development - SMMEs play a critical role in the creation of jobs and innovation and support for their development will continue to be a focus of the Cluster…

8. Tourism sector- The tourism sector is an essential contributor to gross domestic product (GDP) growth, creation of decent work and job opportunities…"

…The current economic context and growth trajectory necessitate that we expand our interventions to deal with the structural constraints which have inhibited the economy from producing the employment and poverty reduction outcomes that we expect. The key priority for the Cluster is therefore **to restructure the economy and set it on an employment and growth generating path**. We are going to examine other opportunities which we believe are in the economic sectors for positive employment outcomes these includes, mining, mineral beneficiation support for agriculture."

6. **Economic Development Department Strategic Plan:** The Economic Development Department (EDD) has made the elaboration of a new Growth Path, a central element of its 3 year strategic plan, and dedicates a whole sub-programme of the Department to focusing on the "Growth Path and Decent Work". In the Minister's budget speech on 23 March 2010 he stated "Faced with …the challenges of very high inequality and deep levels of poverty, we are working on ways to improve the employment performance of the economy and create many more decent work opportunities and better social outcomes. We call this the **development of a new growth path**."

"The central ideas in the developmental growth path are to enhance the labour-absorbing capacity of the economy, to build a lower carbon-emission economy and to find ways to connect knowledge and innovation to the challenge of jobs and growth. Through this work, we have identified a number of areas with the potential for new jobs. They are infrastructure development; the green economy; the manufacturing sector; knowledge economy activities; the rural, agriculture and agro-processing sector; tourism and business process services; the social economy which includes cooperatives; public sector growth; and the continental and regional economy."

"We are now working on how to realise new jobs in each of these areas. It means looking at economic opportunities, mechanisms to maximise the number of jobs that can be created and the policy support required to realise this potential."

Although there are some questions as to whether all of government is moving in the same direction, these six policy documents and statements of government (the MTSF, POA, IPAP2, Budget, Cluster Statement, and EDD Stratplan) show that no-one is able to openly defend pre-Polokwane perspectives on economic policy, and everyone, on the face of it, accepts the need to move towards a new growth path. Questions relate in the main to the pace, content and process of finalizing this new growth path.

Recent Developments

Initial signs of progress are now in serious jeopardy. According to reports, proposals on the New Growth Path which were developed between the January and July Cabinet Lekgotla, couldn't be discussed at the July Lekgotla, and were referred to a special Cabinet meeting, at a date still to be disclosed. Signs are that a deadlock has arisen because of resistance to the proposed New Growth Path by old centres of power, particularly Treasury.

A real concern is that, given all the resistance to policy change, by the time the New Growth Path emerges from this process, it may be so weakened and watered down, that it will have little impact.

However there are certain concerns, which need to be urgently addressed, if this initiative is to be meaningful:

- At this stage, government is still talking in terms of broad-brush strokes. Much greater detail is needed. [*There is the danger that existing work of departments are just being repackaged into a 'new growth path', and that the transformatory logic may get lost]*
- Greater urgency and more rapid progress is needed.
- Government is not yet speaking in one voice on the issues. A degree of debate is healthy, but this should not be used as a cover to block progress.
- Key macro economic policy questions need to be settled. Without this, the new growth path has no hope of succeeding
- The longer a policy vacuum exists, more conservative elements in the state will use this to assert pre-Polokwane agenda.
- There is a question as to whether the necessary resources are being dedicated to finalizing the New Growth Path, and full political leadership and support given to this enterprise.
- There has been virtually no meaningful involvement by the Alliance and ANC, or civil society, in engaging with this critical initiative. Virtually all discussions have been internal to government[4].

Flowing from the above, **we therefore recommend**:

1. That government prioritise finalisation of detailed proposals for the New Growth Path as a matter of utmost urgency, and that all the necessary support and political leadership be mobilized to overcome obstacles to its finalization.

2. A process must be agreed in the Alliance and in government to settle key debates on economic policy, in line with Polokwane directives. All, particularly in government departments, must be bound to actively promote that consensus.

3. A detailed programme of engagement is elaborated, in the Alliance, and with civil society, to ensure maximum participation in the development of the New Growth Path.

[4] With the exception of a presentation by the Minister of Economic Development to the ANC ETC.

4. As soon as possible, government publish a Green Paper on the proposed New Growth Path, for tabling in Parliament and Nedlac, so that all the necessary policy questions are finalized well before the end of this year.

3. Industrial Policy

ANC policy positions

The **Polokwane Resolution** on **industrial policy** calls for the structures of production and ownership to be transformed, including through: "Active and well-resourced industrial and trade policy aimed at creating decent work through expansion of labour absorbing sectors, diversifying our industrial and services base, pursuing an active beneficiation strategy, building sustainable export industries, and expanding production for domestic and regional consumption. In general, industrial policy should lead our overall approach to sector development, whilst trade policy should play a supporting role and be sensitive to employment outcomes."

The **2009 Elections Manifesto** commits the ANC government to a number or issues relating to industrial policy, including:

- "Ensure that state-led industrial policy leads to the transformation of the economy. Adequate resources will be provided to strengthen the state-led industrial policy programme, which directs public and private investment to support decent work outcomes, including employment creation and broad economic transformation. The programme will target labour-intensive production sectors and encourage activities that have high employment effects. It will include systematic support for co-operatives by way of a dedicated support institution and small business development; supporting investment in productive sectors; and working together with our partners in Southern Africa to invest in our regional economy.
- Implement special sector programmes embracing industrial, trade and other measures backed by adequate resources This will include the strengthening of the manufacturing mining and other vulnerable sectors, and tide them through the period of the global economic crisis, saving and growing jobs in the clothing and textile sector, strengthening the automobile and components sector, expanding the food industry and other sectors.
- Ensure that a comprehensive package of measures is introduced to promote beneficiation programmes, to ensure that the natural wealth of the country is shared, and developed locally, and accelerates the creation of decent work opportunities in manufacturing and services.
- Engage the private financial sector in order to facilitate its transformation and diversification including the development of the co-operative financial institutions as well as ensuring that the sector contributes to investment and developmental priorities of the country.
- Develop programmes to promote the important role of mining and agriculture in employment, meeting basic needs and community development, and commit to continued transformation of these sectors to achieve national goals...
- Tourism and other services will be supported to expand work for our people.
- Develop and invest in a programme to create large numbers of 'green jobs', namely employment in industries and facilities that are designed to mitigate the effects of climate change...
- Lead a massive public investment programme for growth and employment creation. In the period ahead, government will accelerate and expand its investment in public infrastructure. This will include expanding and improving the rail networks, public transport, and port operations, dams, housing construction, information and communications technology and energy generation capacity as well as education and health infrastructure, and in the process create additional decent work opportunities whilst meeting the basic needs of the society. ..

- Create an environment for more labour-intensive production methods, procurement policies that support local jobs and building public-private partnerships.
- Vigorously implement broad-based economic empowerment and affirmative action policies and adjust them to ensure that they benefit more broad sections of our people, especially the workers, youth, women and people with disabilities. Policies will, in addition, actively promote skills development and equity at the workplace."

Government policy positions- IPAP 2

On 18 February 2010, government released its second Industrial Policy Action Plan (Ipap 2). While announced by the Minister of Trade & Industry, it was extensively discussed in the Economic Sectors and Employment Cluster, and actually published in the name of the Cluster. This is significant, as it is unusual that such a key policy document has been issued in the name of a Government Cluster, and owned by the collective. In announcing the Ipap 2 in Parliament, the Minister of Trade & Industry summarised its main features as follows:

> "The 2010/11 – 2012/13 Industrial Policy Action Plan rests on four cornerstones…
> First, government intends to develop proposals to enhance access to concessional industrial financing for investment in IPAP priorities, and other productive sectors on terms comparable to those of our major trading partners. Increased investment in these sectors will generate a mix of import replacement and exports which will help to lower the current account deficit and reduce balance of payments risks. Increased supply in productive sectors will help lower price pressures and hence will assist in moderating inflation. It will also contribute to the medium-long term objective of diversifying the structure of our economy.
> Second, government will revise procurement legislation, regulations and practices to enable the designation of large, strategic and repeat or 'fleet' procurements in a range of sectors. This will aim to sequentially increase competitive local procurement and supplier development opportunities, minimise 'leakages' from the domestic economy, and support meaningful Broad Based Black Economic Empowerment (B-BBEE) in all 3 spheres of government and in SOE's.
> Third, government will deploy its trade policies more strategically. This includes intensifying the campaign led by SARS against practices such as customs fraud, under invoicing, smuggling and illegal imports - all of which profoundly undermine productive capacity and employment in the economy. Trade policy instruments such as tariffs will be deployed on a strategic basis underpinned by the imperatives of our sector strategies. Standards, Quality Assurance and Metrology (SQAM) institutions and practices – otherwise known as Technical Infrastructure – will be strengthened to support the development, accreditation and enforcement of standards and bolster other measures to create, scale up and resuscitate certain industries.
> Fourth, anti-competitive practices will be targeted, particularly where these concern intermediate inputs to downstream labour absorbing production as well as consumer goods to low income households. This applies especially to products such as carbon and stainless steel, chemical polymers, fertilisers and aluminium, amongst others and will build on the very positive achievements of the Competition authorities in the recent past.
>
> These cross-cutting interventions will underpin focussed and significant interventions in three clusters of sectors. First, sectors including metals fabrication, capital and transport equipment, green and energy saving industries and agro-processing, will be qualitatively new areas of focus of industrial policy. Second, we will build on and broaden interventions in sectors which were identified in the first Industrial Policy Action Plan, namely, automotives and components, medium and heavy vehicles; plastics, pharmaceuticals and chemicals; clothing, textiles, footwear and leather; bio-fuels; forestry, paper, pulp and furniture; cultural industries and tourism and Business Process

> Services (or Call Centres.) The third cluster focuses on sectors in which we have the potential to develop long-term advanced capabilities: nuclear, advanced materials and aerospace. In each of these sectors a careful and strategic combination of policy instruments is set out in some detail in the IPAP2."

Key issues needing attention

Both the labour movement, and other sectors of society, while strongly welcoming IPAP 2, have stressed that certain crosscutting issues need to be addressed, in order to ensure the success of our new industrial strategy. These include:

1. **Key macro-economic interventions to promote productive investment:** IPAP2 itself identifies at least 2 macro economic interventions which are required if industrial policy is to be a success, namely measures to deal with the *overvalued and volatile currency*; and measures to address the *high cost of capital*, including high interest rates. There is a strong view, increasingly being expressed in the manufacturing sector, that IPAP2 will not be able to succeed unless these matters are urgently addressed.
2. **The need for an economy-wide industrial strategy:** while the IPAP2 gives detailed attention to certain sectors, it is silent or inadequate on key areas, such as agriculture and rural economy, construction, services, mining etc. While this may be partially attributed to the fact that dti is 'not responsible' for some of these sectors, the collaborative approach taken by the Cluster on IPAP2, should mean that old silo approaches are superceded. All key sectors need to have coherent strategies, linked into an overall industrial strategy vision.
3. **The need to strengthen and broaden policy instruments:** the view has been expressed, which COSATU shares, that stronger and more varied policy instruments are needed to achieve the objectives set out in IPAP2. Including on questions such as directing investment into the productive sector; transforming the practices of the financial sector etc.
4. **Employment impact:** while it is welcome that Ipap2 focuses on promoting labour intensity and decent work, there is a concern that the job targets (under 2,5 million jobs in the next 10 years) will not be sufficient to significantly reduce the current levels of unemployment. Therefore discussion is needed on how to scale up our interventions, to ensure a jobs impact on a larger scale.
5. **The need for adequate financing:** There is a common view, expressed also by business at the hearings on IPAP2, that insufficient resources have been allocated in the budget, to enable IPAP2 to have the desired impact. This needs to be urgently corrected.

COSATU detailed Response on Ipap 2

COSATU has submitted detailed comments, including some criticisms of Ipap 2, in a submission to Parliament on 3 March 2010. However, the view of the Federation is overwhelmingly positive to the extent that Ipap2 takes forward the Polokwane Resolution, and advances the agenda of a state-led industrial strategy aimed at ensuring broad based industrialisation and decent work- see detailed submission

Recommendations on Industrial Policy

The Alliance needs to set up a detailed engagement with the relevant Ministers, State institutions, and Departments to address the issues raised in its inputs, to ensure that the Ipap2 makes a major impact. Key questions, which need to be addressed in these engagements, include:

- Ensuring that the necessary macroeconomic policy interventions are made, which are required for the success of our industrial strategy
- Broadening of IPAP2 to include strategic sectors currently outside the strategy. A comprehensive strategy should be incorporated into the New Growth Path.
- Identifying additional policy instruments to increase the impact of the strategy
- Fast-tracking instruments directly under the control of the state, such as preferential procurement, which have the potential to make a significant impact
- Ways to ramp up and massify the employment impact of IPAP2.
- Releasing the necessary resources required to ensure the success of IPAP2.

A special session should be convened of the Alliance, together with the relevant government actors, in which this comprehensive strategy is presented. A discussion should be convened at NEDLAC to devise a strategy to support and monitor the implementation of commitments made in IPAP2.

4. Macro Economic Policy

ANC policy positions

Polokwane calls for **'Macro-economic policies that support and sustain growth, job creation and poverty eradication on a sustainable basis' (2.14).**

The 2009 Elections Manifesto states "The ANC government will ensure that macro-economic policy is informed by the priorities that have been set out in this Manifesto. **Fiscal and monetary policy mandates, including management of interest rates and exchange rates, need to actively promote creation of decent employment, economic growth, broad-based industrialisation, reduced income inequality and other developmental imperatives**...."

The Alliance Economic Summit decided that an Alliance task team would be set up to resolve outstanding debates on economic policy, as well as look at responses to the economic crisis. This was not done. Therefore an elaboration of these economic mandates remains outstanding.

The November 2009 Summit's commission on socio-economic policy agreed that we are in a serious crisis and need to act with appropriate urgency and decisiveness in implementing the response and restructuring the economy. The commission raised concerns about the overvalued currency and resolved, among others, that:

- There is a need to link our short-term cyclical response with our long term objectives of transforming the structure of the economy and moving to a different growth path.

- We must ensure greater coordination between macro and micro economic policy to ensure that they help the developmental state agenda of building the economy and create decent jobs.
- The Alliance Task Team on macro-economic policy must remain seized with the issue of broadening the mandate of the Reserve Bank and promoting a more competitive exchange rate and to report to Alliance structures by April 2010.
- Inflation targeting be scrapped as it is an inappropriate policy instrument.
- We must use the crisis to transform the economy and change patterns of ownership in the economy, consider measures to restore wealth to the majority of the people through the use of nationalization as articulated in the historic and policy perspectives of the movement.
- The commission called for the strengthening of capital exchange controls to ensure that capital is not allowed to take money out of the country to invest in financial speculation but redirected to invest in the productive sectors of the economy.

Important elements of this broad agreement have not been taken forward by the government.

Current Government macro economic policy positions

A key question is whether macro economic policies have been realigned to reflect the commitment of Polokwane and the Manifesto i.e. have "Fiscal and monetary policy mandates, including management of interest rates and exchange rates", been amended to "actively promote creation of decent employment, economic growth, broad-based industrialisation, reduced income inequality and other developmental imperatives."?

The evidence suggests that, by and large, it has been business as usual on this front. Two main institutions continue to articulate and fashion macro-economic policy, namely Treasury, and the Reserve Bank. In both cases, pre May 2009 policies and, indeed, pre Polokwane policies continue undisturbed.

This is particularly surprising in view of the major shift in international economic thinking, and the huge policy space created by the economic crisis. Treasury and the Bank for example stick to the old dogma of inflation targeting, even while the IMF's reflections on the economic crisis, has led them to question the correctness of inflation targeting & other macro economic policies they have been pursuing over the years.[5]

A central problem of the post May 2009 period is that the locus of economic policy in general, and macro economic policy in particular, has not been clear, and the status of various economic policy pronouncements has been uncertain. Initial announcements by President Zuma clearly suggested that the role of developing and

[5] See "Rethinking Macro Economic Policy", an IMF staff position note, 12 February 2010, by Olivier Blanchard, Giovanni Dell'Ariccia, and Paolo Mauro

co-coordinating economic policy would be allocated to the Economic Development Department.

In motivating the new Cabinet structure, President Zuma stated on 10 May that "Cabinet… has been reorganised to achieve better alignment between the structure, our electoral mandate… and the developmental challenges that need to receive immediate attention from government" and announced that "A new department of Economic Development has been established to focus on economic policy making".

During the Presidency Vote on 24 June, the President stated "…The Economic Development portfolio will …address, amongst others, matters of macro and micro-economic development planning. We say this very much aware that in terms of legislation, the National Treasury co-ordinates macro-economic policy. The affected Ministries are working together to align work and detailed responsibilities."

The expectation following this statement was that legislation would be amended to reflect the new mandate, if this was necessary, and responsibilities would be explicitly and clearly defined . However this hasn't happened, and over a year later there is still considerable confusion on this matter.

The issue is not about personalities, who the Ministers are, or who they represent. The issue is that, post-Polokwane, the ANC had decided on a realignment of economic policies, and the President had decided that a reconfiguration of government departments was necessary to pursue this mandate. It is no secret that Treasury is populated by a conservative bureaucracy, focused primarily on the needs of the financial sector, and they have been highly resistant to the policy direction decided at Polokwane. Therefore it is critical for there to be clarity on the locus of responsibility for economic policy co-ordination, and for government departments, state bodies, and society more broadly, to know who they should be relating to in this regard.

Ministers responsible for EDD, Treasury, the NPC in the Presidency, and Ministers co-coordinating the Economic Cluster, among others, have all made statements, which suggest conflicting views as to where the locus of responsibility rests in terms of economic policy co-ordination and planning. Statements e.g. were made within days of each other, by the Minister of Trade & Industry, the co-coordinating Ministers of the Economic cluster, and the Minister of Economic Development, advancing one perspective on the Growth Path, while another was advanced by the Minister of Finance, sending conflicting signals as to where responsibility lay for co-coordinating and developing the Growth Path. This is a recipe for confusion.

A particularly disturbing development was a report that Treasury was in the process of formulating a new Macro Economic policy, and that they presented initial drafts of a document in February this year. This is reminiscent of the Gear approach, where technocrats drafted a macro economic policy without a mandate from the movement. This suggests a parallel and unmandated initiative by Treasury, since the Economic Cluster was mandated to formulate a comprehensive growth path, which aims to align macro and micro policies, led by EDD. It creates the clear impression of active defiance by Treasury of an agreed process in government. Recently, there have been further reports of Treasury pursuing this initiative.

Have fiscal and monetary policies been realigned to reflect Polokwane priorities and perspectives, as further articulated in the Manifesto and the Alliance Summits? On fiscal policies, detailed examination of the 2009 budget, suggested that Treasury largely ignored the priorities identified at Polokwane- see COSATU'S detailed 2009 Audit which reflected that the budget largely failed to address Polokwane priorities.

In relation to monetary policy, the picture is particularly discouraging. Treasury has consistently maintained the correctness of its inflation targeting stance, and refused to adjust monetary policy mandates.

The 2009 Alliance Summit agreed: to establish a team to look at the issue of broadening the mandate of the Reserve Bank and promoting a more competitive exchange rate, and report to Alliance structures by April 2010; and proposed that inflation targeting be scrapped as it is an inappropriate policy instrument.

Despite the new ANC mandate & these resolutions of the alliance, Treasury unilaterally decided to formally reiterate the inflation-targeting mandate in the 2010 budget. The letter sent by the Minister of Finance to the Governor of the SARB, essentially restated the old mandate, with slightly different packaging. It restates the policy of inflation targeting, reasserts the highly controversial 3-6% target range, and reiterates the previous policy position that temporary deviations were allowed from the target, as a result of external shocks, subject to a process of explanation by the Bank. It does not reflect the ANC position that "monetary policy mandates, including management of interest rates and exchange rates", should "actively promote creation of decent employment, economic growth, broad-based industrialisation, reduced income inequality and other developmental imperatives."

Recommendations on macro economic policy

1. The Alliance needs to engage the President to urgently resolve the question of responsibility for economic policy, and if necessary introduce legislative amendments, to bring certainty, and end the current confusion
2. Clarify whether Treasury intends to introduce a new Macro Economic Policy, and ensure that their inputs should rather contribute to discussions on the comprehensive growth path, which needs to align macro and micro policies. Agree on an approach to deal with the obstructionist and unaccountable behaviour of key treasury officials.
3. Since it has not been possible to convene dedicated Alliance Economic Task Teams, to take forward Summit Resolutions, the Alliance Secretariat, with appropriate technical support, needs to directly and urgently address the outstanding issues around Macro Economic Policy, and take the necessary steps to process them with government.
4. Having resolved an approach on outstanding economic policy matters, to convene an engagement with relevant government departments and the SARB, to convey the viewpoints of the ANC and Alliance on issues, which need to be addressed.

5. Developmental State

ANC policy positions

The **Polokwan**e resolutions include the following cross-cutting features:

- Clearer elaboration of the notion of a *progressive developmental state*, which has a bias towards the working class, a less neutral relationship to capital- and a more democratic and less top-down character;
- A *partial* move away from the emphasis on the market and competitiveness, and greater emphasis *on the role of the state* in driving the economy, a state led industrial strategy, an expanded role for state ownership, and a more interventionist approach to use of mineral resources

A range of proposals in the Resolutions are consistent with these overarching themes. A number of these have been outlined above. Additional areas relevant to these themes are aspects of the Resolutions which:

- Recognise that decisive action has to be taken to act against current patterns of **ownership and production.** The Resolution calls for action to address the 'monopoly domination of our economy';
- assert the need for co-ordinated **government wide economic planning** to align policies and achieve the objectives set out in the resolution;
- Commit to building the human capacity of the state, including by 'ensuring **adequate numbers of personnel** to ensure delivery…';
- **call for intervention by the state** in key sectors of the economy, to transform the structure of the economy, and ensuring that national resources, including land, minerals, and water are exploited to maximize growth, development and employment, and 'not purely for profit maximisation';
- demand a stronger **role for SOE's**, and requiring that state entities respond to 'a clearly defined public mandate and act in terms of our overarching industrial policy and economic transformation objectives'"

On the question of the **state's economic role, and co-ordination of that role,** the **Manifesto** is clear:

"The developmental state will play a central and strategic role in the economy. We will ensure a more effective government; improve the coordination and planning efforts of the developmental state by means of a planning entity to ensure faster change. A review of the structure of government will be undertaken, to ensure effective service delivery."

And the Manifesto framework states: "The developmental state will play a central and strategic role in the economy, by directly investing in under-developed areas, directing and promoting public and private sector investment to support a sustainable and labour-intensive growth path."

This vision of an interventionist state is reinforced by a range of proposals including the need for: a comprehensive state-led industrial strategy; intervention to ensure large-scale beneficiation; intervention to direct the financial sector, and channel private and public investment; the expansion of a large scale public infrastructure investment programme; massive public works; use of procurement and budgets to leverage desired economic objectives; focusing of the mandates of DFI's to ensure developmental goals etc.

Current Government Policy Positions on the Developmental State

In important respects, realization of these policy positions of the movement on the developmental state, depend on the trajectory of key initiatives which are currently unfolding in government: the New Growth Path; the proposed Vision 2025 to be crafted by the National Planning Commission; the IPAP 2; the Rural Development Strategy; the Presidential Review of State Owned Enterprises etc. At one level, most of these processes are in their earlier phase of conception, and it is therefore difficult to tell to what extent they will be true to the vision set out at Polokwane and in the Manifesto, until these strategies are formulated, and begin to be implemented.

However, initial indications suggest a mixed picture, and raise concerns that the existing dominant market-driven logic in the state could continue to retard realization of this vision. Even progressive elements of the new administration's agenda, such as IPAP 2, still remain relatively timid when it comes to questions such as direct state intervention in the economy, state economic ownership, action against monopolies etc. The current situation in South Africa and internationally, calls for more boldness than is currently evident in government's policy pronouncements. Without willingness to act decisively to advance the developmental state vision, discussions of this matter will remain at the level of empty rhetoric.

Assessment of progress in implementing ANC policy positions on the developmental state can be categorized into 3 broad, but interrelated, areas:

- Building the developmental state's capacity, co-ordination and planning;
- State economic intervention; and
- State ownership.

A brief assessment in these 3 areas suggests that while some progress is being made on these 3 fronts, it is inadequate, and that there is lack of clarity on government's policy approach in a number of respects.

Building the developmental state's capacity, co-ordination and planning

A key undertaking of Polokwane was to build institutional mechanisms for government wide economic planning. There are concerns both about the coherence of the approach, which has emerged in government to economic planning, as well as the philosophical perspective informing this planning. There is confusion on the locus of economic planning in government, and co-ordination with other institutions of state. While the mandate appears to have been given to EDD to drive economic policy co-ordination and planning, the necessary power and resources have not been transferred to it, and there is no clarity as to how this relates to the process of long term planning via the NPC, and the *de facto* role Treasury has assumed of economic policy co-ordination. These relationships have to be urgently resolved if the state is to improve on what happened previously. Another, related, area which needs urgent attention, is co-ordination of the mandates and planning of the DFI's, SOE's and other state institutions involved in the economy. This task needs to be centralized in one locus of economic planning, if it is to be effectively pursued.

The philosophical underpinnings of planning- the state as 'enabler' for the private sector vs. the developmental, interventionist state- is also cause for some concern. While the words ('developmental state') are used, no coherent vision is evident in the Green Paper on the National Planning Commission, suggesting that the Polokwane perspective of a strong developmental state will underpin the long-term plan. Rather, it tends to suggest a weak enabling or regulatory state, which relies heavily on the market.

Similarly the *outcomes based approach* spearheaded by the Monitoring and Evaluation unit in the Presidency promotes a top down managerialist philosophy used in other parts of the world, which rests on quite conservative premises (see Appendix 1). The framework used to develop the outcomes for the economic indicators, is deeply conservative and was drafted by the private sector *Monitor consultancy,* but has apparently been amended after engagement in government. The Presidency consulted with academics on this framework, but not with the democratic movement, underlying the technocratic character of the approach being adopted by both the NPC, and M&E units in the Presidency.

According to the Presidency, the Monitoring and Evaluation unit has driven a process which has three phases:

- Outcomes were identified and agreed at the January 2010 Cabinet Lekgotla
- Performance Agreements were signed by the President with 34 Ministers at the end of April 2010, and
- Delivery Agreements were being developed with stakeholders for finalisation at the July Lekgotla (later postponed to September).

The process of developing the Outcomes framework over the last year, and consequent agreements, has taken place largely without the participation of organised labour, or to the best of our knowledge, broader civil society. Key documents which have emerged from the three processes outlined above, have not been made publicly available. There is only sketchy information available on the Presidency website, mainly in the form of a summary of 10 of the 12 Outcomes, and a Guide to the Outcomes Approach. It seems like no agreement has been reached on the economic outcome, or it is too controversial for publication.

There are numerous other issues around building the capacity of the state which government is currently grappling with, including approaches to combat corruption, capacity building at the local government level, development of priority skills etc. Coupled with this, is the commitment made at Polokwane to properly staff the state, so that it is able to deliver key services, by 'ensuring adequate numbers of personnel'. It is widely recognized that in important areas of service delivery, the state is drastically understaffed. Following the cutbacks of the Gear years, there has more recently been an expansion in the public service. However a proper audit is needed to clarify how many additional staff have been employed, and what the shortfall is at this point. The current drive for cutback in expenditure by Treasury, in the wake of the financial crisis, threatens to turn a temporary response into a longer-term trend, and reverse the gains, which were beginning to be made on this front. Such a trend would be unfortunate, and threaten to cut off the arms and legs of the developmental state.

The developmental state and economic intervention

The idea of a developmental state which “plays a central and strategic role in the economy” hinges on the ability of the state to deploy its instruments and institutions, both as an economic player in its own right, and to intervene to channel the operations of the private sector into a developmental agenda. Polokwane and the Manifesto envisage economic intervention by the developmental state on both these fronts.

Firstly, in terms of *intervening to transform the private sector*, and channel it for developmental purposes, ANC policy proposes a number of key interventions, including: transforming the structures of ownership, and acting against monopolisation of the economy; measures to transform the financial sector; interventions to compel beneficiation of mineral resources; state-led industrial strategy to promote and direct labour intensive investment; channeling retirement funds and other financial resources into the productive sector; promotion of co-ops and the social sector; etc.

In terms of direct intervention to shape the activities of the private sector, excessive energy and resources have been pumped into a BEE programme, which although claiming to be broad-based, has been both narrow and shallow in terms of its developmental impact. The shift in emphasis towards a state-led industrial strategy. Reflected in IPAP 2, is therefore welcome.

However, as indicated above, taken as a whole, the scale of government intervention to transform the private sector is still very limited, despite this industrial policy intervention. There is no clear policy or strategy to transform the financial sector for developmental ends; no coherent beneficiation strategy; anti-monopolisation measures are limited to competition policy; there is lack of real intervention in the activities of retirement funds; and no serious drive to create a large co-operative and social sector. Ipap2 itself fails to deal with a number of these areas, some of which are beyond its reach. There is therefore the need for serious consideration of what tools government needs to give effect to these elements of ANC policy.

This needs to be combined with consideration of a different type of strategy to engage capital. A developmental, interventionist state implies the need for a more confident and assertive stance, rather than the stance adopted until now, which suggested that progress could only be made if ‘capital-friendly’ measures were adopted, which would in turn encourage capital to invest, and transform itself. No developmental state has succeeded by adopting such a posture. Ironically sections of capital, particularly in the manufacturing sector, are now looking to the state to play a more activist role.

The exaggerated fear of alienating capital has meant that government has adopted the posture of 'enabler', and at best 'regulator', to provide the space for capital to operate. Because this posture prevents the state from transforming the environment, this results in capital reproducing essentially the same relations of exploitation and domination inherited from the apartheid era; where these relations have shifted, they have obviously endeavoured to reproduce them on favourable terms under the new conditions. A process of economic liberalization, and a pro-capital economic framework, has led to high profitability, but has failed to transform the structure of the economy, or promote productive investment. This model has led to international diversification, and disinvestment by SA corporations, combined with a process of financialisation of the South African economy, the shifting of economic activities to the non-manufacturing sectors, and therefore a process of deindustrialization.

Influential elements in government, particularly among Presidency and Treasury officials, are even reluctant to accept the state's role as a regulator. There is a strong push that all laws and regulations, before being introduced by government departments, would have to undergo a 'Regulatory Impact Assessment' (RIA), aimed particularly at ensuring that they didn't 'raise the costs of doing business'. Only after being vetted by Treasury, and given an RIA clearance, would Departments be able to submit legislation to Cabinet. This approach suggests that the main barrier, for example, to greater investment, is that regulations make the cost of investing too high. The RIA would not only see the state's direct economic role being limited, but would remove its ability to intervene in areas such as food, where rampant private sector abuse has made many basic foods unaffordable for the majority. The RIA approach, if adopted, would destroy any prospect of building a developmental state.

Secondly, economic levers available to the state to *advance its developmental agenda as a powerful economic actor include*: an active procurement strategy; channeling of infrastructure and other public investment; co-ordination of the economic activities of SOE's and DFI's; public investment in under-developed areas; use of the tools of monetary and fiscal policy; channeling of the assets available for public investment through the Government Employee Pension Fund etc.

Here too, inadequate progress is being made. Unlike the more complex task of transforming the private sector, these economic levers are directly under the control of our democratic state, and simply require the political will to implement. For example, a programme of systematic state procurement of locally produced goods and services by all levels of government and state entities constitutes a major instrument available to our democratic state. Leverage of local procurement for the more than R800 billion infrastructure programme has the potential to build new strategic economic sectors, and massively increase the employment impact of this public investment, as identified in IPAP 2. The Framework agreement on the Response to the Economic Crisis, signed over a year ago, also commits government to use procurement as a systematic lever. So why isn't it happening on any significant scale?

Similar questions arise in relation to other levers available to the state, including co-ordination of the economic activities of state entities, DFI's and SOE's. General political agreement at the level of the Alliance, and presumably at the level of Cabinet, that this needs to be done, is not being translated into a concrete programme. Resistance by certain sections of the bureaucracy in both these mentioned areas (within government Departments, as well as other state entities) may be part of the explanation for this. For example, while dti is attempting to fast-track local procurement, this is being resisted by the Treasury on the grounds that it is anti-competitive. Government Departments have equally not agreed an approach to co-coordinating state entities. The entities continue to be driven by a commercial logic, rather than a clear developmental mandate. There is not not yet meaningful agreement within government, as to what is meant by building a developmental state, nor the political will to drive changes agreed upon in terms of the political mandate.

The developmental state and economic ownership

While there was a broad indication of political support at Polokwane for a greater state role in terms of direct economic ownership, this is an issue which was fudged, and requires greater clarity. Our assessment of the Polokwane resolutions was that while it proposed "an expanded role for state ownership, and a more interventionist approach to use of mineral resources…"there is some silence in the Resolutions… on the question of *State ownership*. In the Policy Conference … a number of decisions were 'parked' for 'further discussion', but were not addressed at Polokwane. These included the following important areas: Commissions proposed 'the establishment of a State Bank to fast track development and … a bank to provide start-up capital to small and micro enterprises and co-operatives; to retain and expand state ownership of strategic assets in sectors of the economy that are critical for the success of our economic transformation agenda, such as mining, steel, energy, ICT and land; the state establish a mining company to exploit our mineral resources and direct the proceeds towards social needs'..."[6]

These waters are being further muddied by:

- Mishandling of the debate around nationalisation. We need a clear engagement on the strategic objectives of nationalisation, and avoidance both of populist demagoguery on the issue, or a refusal to engage on the merits of various approaches to nationalisation. A structured and rational debate is required.
- Events being used by the right to delegitimise the importance of state economic ownership to advance a developmental agenda. In particular, controversies around the management of SOE's, must constitute a platform to reassert the centrality of *properly managed and led state corporations* in addressing our societal challenges. The review of SOE's being set up by the President should address this.[7]

[6] "Policy positions of the ANC and Government: Audit of the ANC Elections Manifesto, State of the Nation speech, and Budget against the Polokwane Conference Resolutions." February 2009, p12

[7] However the pro-business composition of the review panel doesn't instil confidence

- Re-emergence of a strong commercialisation and privatisation agenda in response to some of the problems being experienced by state enterprises eg at Eskom; and the promotion of the role of the private sector in the provision of public services eg proposals around PPP's in the health sector, at a time when we are supposed to be moving decisively towards the NHI, and building a strong public sector.
- Confusion around the issue of private ownership of the SA Reserve Bank. As part of the discussion of state ownership in key strategic sectors, a comprehensive discussion is needed of the state's role in the financial sector, and other strategic sectors identified by the Alliance partners as requiring further engagement.

Recommendations on the Developmental State

The Alliance needs to agree on a proposed approach on the following issues:

1. An overall approach to co-ordination and planning in the developmental state, including but not limited to questions of institutional responsibility for the various elements of planning identified above, the role of key Departments in the Presidency, EDD, Treasury, etc and the relationship of economic planning to the long- term plan

2. A discussion on key areas of concern, including:

    - proposals for a Regulatory Impact Assessment (RIA) on all proposed policy and legislation
    - the ideological posture informing the outcomes framework, particularly on economic matters

3. A strategy to advance the role of state economic ownership, a developmental agenda for State Owned Enterprises (including an approach to the Presidential review of SOE's), DFI's and other state economic entities

4. A strategy to build and capacitate the developmental state, including the question of determining the personnel and resource requirements needed to address the priorities identified at Polokwane.

5. A more proactive and assertive approach to engaging with capital, and intervening to transform and channel the activities of the private sector, to promote our developmental agenda.

6. A strategy to increase the impact, and fast-track the use, of key economic levers available to the state, particularly procurement, infrastructure development, channelling of public sector retirement funds, fiscal and monetary policy levers etc.; and bind all government departments to implement commitments made in this regard including in the Framework Agreement on the Economic Crisis.

Appendix : Presidency Economic Outcomes

Outcome 4 dealing with “decent employment through inclusive economic growth” has not yet been published so it is not possible to comment on it. However we track comments below on Outcome 6 on Infrastructure, and Outcome 7 on Rural Development. The remaining outcomes can be accessed on the Presidency website at: http://www.thepresidency.gov.za/main.asp?include=dpme/outcomes.htm

These are initial comments, because the published outcomes are so brief, and summarised, that it is difficult to comment properly until more detailed engagements have taken place with government

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OUTCOME 6: AN EFFICIENT, COMPETITIVE AND RESPONSIVE ECONOMIC INFRASTRUCTURE NETWORK

Output 1: Improving Competition and Regulation
Output 2: Ensure reliable generation, distribution and transmission of electricity
Output 3: To ensure the maintenance and strategic expansion of our road and rail network, and the operational efficiency, capacity and competitiveness of our sea ports.
Output 4: Maintenance and supply availability of our bulk water infrastructure
Output 5: Communication and Information technology
Output 6: Develop a set of operational indicators for each segment

Output 1: Improving competition and regulation
Our economic infrastructure segment has single monopoly suppliers (rail, ports and electricity) with weak, captured or non-existent regulators. This has contributed to a costly and unresponsive economic infrastructure. The current industry structure should be reviewed to ensure we consistently drive the principle that we separate policy from regulation from operations. A report on how best to encourage competition and improve regulation to ensure transparency and efficiency in each segment should be finalised by August 2010. The report must end with an agreed list of interventions that could be introduced within the next few years.

Among the proposals must be included proposals that have been made and agreed in the past and specific reference to amongst others:

The establishment of an independent systems operator from Eskom, and the finalisation of the framework that allows of independent power producers.

The full implementation of the Ports Act and the introduction of competition within ports.

The completion of the Rail Act which establishes the framework for economic and safety regulation within the rail sector as well as competitors.

Output 2: Ensure reliable generation, distribution and transmission of electricity

To ensure reliable generation, distribution and transmission of electricity the following is expected:

The establishment of the independent system operator separate from Eskom Holdings by 2011.

Regulatory and institutional structures for the introduction of viable Independent Power Producers (IPP) be created and start the process for participation by IPPs during 2010.

Develop a funding and implementation plan to reduce the distribution infrastructure maintenance backlogs of R27.4bn to R15bn by 2014.

Household access to electricity should be 92% by 2014.

Funding model for Eskom build programme

Output 3: To ensure the maintenance and strategic expansion of our road and rail network, and the operational efficiency, capacity and competitiveness of our sea ports

To ensure the maintenance and strategic expansion of our road network the following is required:

Increase the market share of total freight to rail to an annualised 250 million tons from the current 177 million per annum by 2014.

Benchmarking cost of building and maintenance of roads to assess our efficiency and developing an appropriate funding model to ensure adequacy of supply and maintenance. An agreed methodology for assessing adequacy of supply is crucial to this output.

Implementation of the Road Infrastructure Strategic framework for South Africa (RIFSA).

Implementation of the approved Rural Transport Strategy for South Africa.

Road accident fatalities to come down from 14 600 by 2014 (a 5% per annum reduction) adjusted for total vehicle kilometres travelled.

For rail reliability, competitive pricing and better integration with sea ports the following is expected:

Completion of the Rail Policy and Rail Act.

Implementation of the National Freight Logistics Strategy.

Increases in rail freight tariffs currently differ for each commodity. This need to be standardised and linked to inflation by 2012. [what is the logic of current arrangement?]

Introduce private operation at branch level (secondary rail network). [danger that this will privatise the most vulnerable lines. What is impact on eg rural lines- given that Transnet has already closed a no. because they are 'unviable'?

Introduce private sector investment in rail.

Establishment of a Rail Economic Regulator.

To improve the operational efficiency, capacity and competitiveness of our sea ports thefollowing is expected:

Implement the National Ports Act and create transparent cross-subsidies between port and rail infrastructure. [which way? Logic?]

Introduce competition for the management of container terminals.

Output 4: Maintenance and supply availability of our bulk water infrastructure

To ensure the maintenance and supply availability of our bulk water infrastructure the following is expected:

To reduce backlog on rehabilitation/refurbishment of the national water resources infrastructure from 15% of asset value to 10% of asset value by 2014 and the implementation of 7 proposed water augmentation schemes. Baseline report on this challenge with detailed data to be submitted by July 2010.

Revising of raw water pricing strategy and funding model to take into account irrigation water needs linked to food production. [meaning? Reduction of cost of water to farmers?]

Reduce unaccounted for water from approximately 30% of supply to 18%.

Remove backlog in issuing of water licences to mining, agriculture and industrial sectors.

The establishment of the water economic regulator.

- Water supply to underserviced communities?

Output 5: Communication and Information technology:

To reduce cost of communication, increase our broadband penetration and to reduce the digital divide in both urban and rural contexts, the following is expected:

Issuing of a policy directive for the unbundling of the local loop (which is now several years overdue).

That the cost of voice calls that is mobile wholesale (interconnection Mobile Termination Rates) and fixed-public access be reduced by 30% by 2014

Broadband:

o speed to improve from 128 kbit/s to 256kbit/s, through broadband policy intervention by March 2011

o increase penetration from 2% to 5% by 2014

o cost of line rental for ADSL to be reduced by 10% by March 2010 through policy intervention

Implementation of 2010 ICT guarantees as per FIFA requirements for Telecoms by March 2011

Implementation of 2010 ICT guarantees as per FIFA requirements for satellite back-up by March 2011

Implementation of 2010 ICT guarantees as per FIFA requirements for the IBC by March2011

Implementation of 2010 ICT Legacy Plans by March 2011.

In addition, there is a need to facilitate the growth and sustainability of ICT SMMEs. The manufacturing of set-top boxes will stimulate the local electronic industry resulting in the creation of employment and other ecomomic opportunities for participants in the value chain and create 23 500 jobs by 2014.

Output 6: Develop a set of operational indicators for each segment.

This should be based on international benchmarks and include operational, safety and tariff components.

To enhance the quality of regulation across the infrastructure network, a study of the possibility of a Single Regulatory Coordinator under the Competition Commission should be conducted and brought to Cabinet for finalisation. Outstanding research should be done to establish the necessary benchmarks to establish output indicators for the sector.

OUTCOME 7: VIBRANT, EQUITABLE AND SUSTAINABLE RURAL COMMUNITIES AND FOOD SECURITY FOR ALL

Output 1: Sustainable agrarian reform,
Output 2: Improved access to affordable and diverse food
Output 3: Rural services and sustainable livelihoods
Output 4: Rural job creation linked to skills training and promoting economic livelihoods
Output 5: Enabling institutional environment for sustainable and inclusive growth

Output 1: Sustainable agrarian reform (joint output with DAFF)
There is a need to accelerate the land reform programme in order to ensure sustained productivity by new landowners, contribute to their income, food security and local economic development. Opportunities exist for using about 3m ha of under-utilised high-potential agricultural land in the former homelands. The focus should initially be on districts that have relatively high concentrations of black farmers and land reform beneficiaries. Seven out of 46 district municipalities, especially 4 districts i.e. Vhembe in Limpopo, Umkhanyakude in Kwazulu Natal, Alfred Nzo and OR Tambo in E Cape, account for about 44% of all blacks involved in agriculture around the country. To this end the following should be achieved by 2014:

As a result of the continued success of commercial farming, the number of employees on commercial farms should rise from 780 000 to 800 000. [Only 20000 jobs over 4 years? Can we not achieve more in agriculture with a deliberate strategy of promoting labour intensity? What is strategy envisaged?]

The number of smallholder farmers should rise from 200 000 to 250 000 and those producing for sale should rise from 4% to10%.

In order to reduce water demand from irrigation, agriculture's use of water should be reduced from 85% to 75%.[of total?]

Acquire and redistribute 283592 ha of strategically located land and acquire and warehouse 152653 repossessed properties from financial institutions.

Recapitalising and developing 1307 farms in distress acquired since 1994 and facilitated the provision of agricultural infrastructure on identified farms order to improve production.

Output 2: Improved access to affordable and diverse food
South Africa has recently experienced a food shock, and the prices of food increased dramatically. In 2007 12-52% of the population was estimated as hungry (depending on the surveys used), a very significant part of the population. 18% of children are stunted, unacceptable in a middle-income country. The promotion of affordable and diverse food has both production aspects, encouraging a broader range of people to contribute part of their dietary intake, but also other aspects such as nutritional enhancement, food stocks etc. The work of other Departments such as Health is critical in improving nutrition levels of children. Key targets by 2014 include:

The % of the total population that experiences hunger from 52% to 30% using national food consumption survey data%.

The rate of under-nutrition of children falls from 9.3% to 5%.

The CPIX for poor people (which is heavily dependent on the price of food) does not rise more than the average level of inflation.

Establishing 67 929 community, institutional and school gardens to enable at least 30% of poor households to produce some of their food and improve income.

[It is a problem that this section doesn't envisage implementation of any of the 'Food for All' measures proposed in the ANC Manifesto]

Output 3: Rural services and sustainable livelihoods
A big challenge for rural areas is access to appropriate infrastructure and services. Working with relevant sector departments, local government and agencies you are expected to improve socio-economic development and growth in rural areas and ensure that appropriate

servicemodels are being used. This implies facilitation of the construction of new and rehabilitation ofold social, economic, ICT and public amenities infrastructure in rural areas, requiring theinvolvement of many departments. The target will be
[the two bullets below don't seem to suggest clear outputs]
Innovative service models eg paraprofessional and community-based models of servicesdelivery enable agriculture, health, adult literacy, ECD services to be available in 80% ofrural municipalities.
Key provincial departments including Health, Education, Agriculture, Social Developmentand COGTA are promoting better adapted service delivery models as a result of work withDRDLR on service models, including the use of ICT to improve services.
65 E Centres established in the CRDP sites
Scale up government services
o The proportion of households with clean water rises from 74% to 90%. [by when?]
o The proportion of households with access to improved sanitation rises from 45% to 65%
o The proportion of households with access to electricity rises from 55% to 70% [but infrastructure outcome says **92%**]

Output 4: Improved employment opportunities and promotion of economic livelihoods

[No clear proposal ito broadening base of economic activity in rural areas, going beyond agroprocessing, eg light manufacturing, beneficiation of certain minerals etc]

Rural areas have to produce viable economic livelihoods as part of ensuring people's quality of life. In some cases this may be from formal jobs (e.g. on commercial farms, agri-processing, or rural services), household production or informal activities. Through a dynamised agricultural sector, tourism, mining and environmental services, much can be done, Some key targets by2014 are:
Unemployment falls from 73.4% (in the current poverty nodes) to 60%;
Jobs created by Community Works Programme and EPWP in rural areas rises to 2m by2014, and these jobs are largely providing value added services in rural areas ranging from working on fire, working for fisheries, land care, farmer-to-farmer extension, fencing etc [need to see detailed plan on this; and
Increase jobs in agri-processing from 380 000 to 500 000, of which 60% are in rural areas including small towns. [need to see plan]
Establishment of 39 agri-parks and 39 trade agreements linked to agriparks
% of small farmers producing for sale rises from 4.07% to 10% (joint target with DAFF).

Output 5: **Enabling institutional environment for sustainable and inclusive growth (joint target with COGTA)**
One of the challenges of rural areas is the weakness of rural local government, and inadequatesocial mobilisation to take forward development, as many of the more dynamic people migrate,and the rural economy stagnates, contributing to weak revenues for local government, and ruralareas being unattractive for people to live and work. Some key targets for 2014 include:
All rural local governments have the top 4 posts (section 57) filled with suitably qualifiedpersons by 2011 (COGTA target);
By 2012 20% of rural local governments and by 2014 80% of rural local governments haveestablished coordination structures (such as Councils of Stakeholders, or districtdevelopment coordinating committees) involving key stakeholders in the area to contributeto development of the IDP, to coordinate and monitor implementation;
By 2014 50% of rural wards have developed participatory and community-based ward plans,and have been funded to take forward community action arising from those;

At least 30% of small farmers are organized in producer associations or marketing coops togive collective power in negotiating for inputs and marketing;

Establishing of community structures to support social cohesion and development (530enterprises and 1590 cooperatives)

50% of rural municipalities have systems for disaster management and mitigation tofacilitate rapid response to rural disasters

Levels of alienation and anomie have fallen from 25% (figures from the rural nodes for 2008)to a maximum of 15%. [what does this mean?]

Table Economic Policy Contestation

Signs of a new policy direction in the state	Elements in state entrenching old economic policy directions	External social factors/ important debates	Unresolved issues
IPAP 2 NB intervention, but has limitations. Needs -macro ec shifts -proper resourcing -more policy levers eg on financing	**Treasury's 'new' macro-economic policy** Contested at level of -cluster -ANC ETC Trying to occupy growth path space	**Alternative emerging business voice-**Manfacturers circle IPAP hearings-raised many of labours issues. Disagree with treasury on monetary policy, currency & interest rates. Busa also supporting Dti view (rather than Treasury) on local procurement.	**Role of planning commission & presidency** on economic planning, co-ordination, & policy debates
NEW GROWTH PATH Headed by EDD. For presentation to Cabinet in July. Needs social mobilisation and engagement	**2010/11 Budget** Occupying space on range of issues. Attempt to appropriate language but conservative on core issues. Real substance is contained in budget review eg on labour market flexibility	**Social debate on nationalisation** Need to be clear on objectives and strategy, & how to make advances	Responsibility for **economic policy co-ordination with Treasury or EDD-**awaiting Presidential Procn
ECONOMICS CLUSTER POA Space for engagement 'Author' of new agenda: Ipap & growth path.	**Outcomes based approach** *Monitor* crafted conservative indices & analysis + treasury. But contestation in state.	**Debate on exchange rate policy**	

	Also see Regulatory Impact Assessment- aimed at reducing 'regulatory burdens' on business		
Signs of a new policy direction in the state	**Elements in state entrenching old economic policy directions**	**External social factors/ important debates**	**Unresolved issues**
EDD STRATPLAN Key questions -Presidents mandate - resourcing & capacitation -Alliance politcal support	**Treasury proposals on wage subsidy and other labour market reforms** Back to 2005 dual labour market proposals. Using q of youth unemployment & labour intensity to smuggle back in	**Debate on tenders/ BEE vs. local procurement**	**Contradictory approaches in column 1 vs 2** But often cast in same language eg 'competitive economy';' new growth path'; 'labour intensive economy'; 'green economy'
	Undermining of legitimacy of economic role of state and SOE's Need to engage with proposed Presidential panel on SOE's	**Debate on monetary policy & role of Reserve Bank**	

	Proposals on Energy and PPP's	**Debate about land and rural development**	