



FUTURES ... FOR THE ECONOMY

TWO YEARS ago, when the ANC met for its controversial national conference at Polokwane, the economy was part of a package of paranoia around the outcome. The resuscitated alliance with its historical partners, Cosatu and the SACP, was at the core of fears that the Left would be given undue influence in the country's monetary and economic policies. Instead, the

process of consensus is still underway but the common position at Polokwane – the upliftment of the poor – has not diminished. Cosatu and the SACP have representatives in Cabinet. There is robust debate. There are significant trade-offs being discussed. In this edition, Finance Minister Pravin Gordhan, top banker Sim Tshabalala, free marketeer Brian Kantor and others examine the economy and where it could be going.





A social contract holds the promise of building great relationships

JANET SMITH

THERE'S no way you can't get excited when you hear top banker Sim Tshabalala on the economy. Tshabalala, the chief executive of retail banking at Standard Bank and Dinokeng Scenarios champion, likes patriots. He's one.

So when it comes to the economy, he's hard on it, but he's high on possibility. Like all patriots, he sees how one situation can have a beneficent influence on another, how captains and kings can battle together to win a war.

"You want to say: 'Hey guys, our country's finances are well run,'" he says, and then explains: "I look at the Dinokeng Scenarios through the prism of a business perspective.

"The first scenario is Walk Apart, which says South Africa continues along the same trajectory in terms of what people worry about: unemployment, poverty, safety and security, a poor public health system, the education system worsening... the public distrust of government would increase as service delivery worsens, and the social compact spoken about in the 1990s and 2000 would fall apart."

Tshabalala believes that this compact – between business, government and labour; "as best illustrated through the success of Nedlac" – would collapse as the social unrest increased.

"That goes to the heart of what happens when unemployment is at 25, 26, 27, 28 percent and more... people live on less than a dollar a day... when the Gini coefficient deteriorates, when the safety and security situation gets worse."

But look at the competitiveness of the nation, he urges, and advises an examination of the World Economic Forum (WEF) Global Competitiveness Report – even if it starts off bleakly.

"It's quite sobering. Pillar one, under institutions, places us at 133 out of 133 countries on crime and violence. In terms of the business impact of TB, we come 131st and in terms of the business impact of HIV/Aids, we're 133rd. In terms of life expectancy, we're 118th, on quality education systems we come 119th, the quality of our maths and science education has us at 133.

"I want to come back to this as a person involved in finance because it is sobering from a social perspective, but hits at what it costs us to raise money under this scenario.

"Right now, we're 45th overall, but if all of this deteriorates, where would we come?"

The second scenario, Walk Behind, sees the government managing and providing leadership, but becoming more authoritarian. "Initially things look to be good and well for some time, but these government interventions are not efficient in the long term as they will alienate not only business but all other organs of civil society.



POSITIVE THINKING: Banker Sim Tshabalala believes that the economy is well run.

Even if there are only some failures in large state expenditure on infrastructure development and attempts at building winning state-owned enterprises, this could cost the fiscus dearly."

Tshabalala says there are elements of all three Dinokeng Scenarios in what is happening in South Africa: "There's the planning, which is good stuff, and there's worrisome stuff which usually centres on the tales of woe in unemployment, poverty, safety and security... the third scenario, the wonderful Walk Together, is my favourite and the most hopeful one.

"It's only when citizens become concerned enough to be more demanding that civil society starts to get louder... Then the voice of business must respond. There's a dialectic between business, society and government, so if they talk, this

could lead to the citizens' charter, contemplated in that scenario.

"That could lead to greater accountability and service delivery should improve. Business would be held more... accountable, as would other organs of civil society when there is a proper social compact.

"That could put us on to a more sustainable growth path, with robust debate happening... So there may be tremendous disagreement, but also consensus at the most surprising of times."

He returns to the WEF report.

"When you look at the current macroeconomic and industrial debates, what is incontrovertible is that the financial management of this country is of a high standard. And what is the evidence? If you look under... pillar eight, you'll find that in terms of financial markets sophistication, we're ranked 6th; in

terms of financing through the local equity market, we're 4th. The strength of our investor protection places us 9th. The soundness of our banks puts us 6th, the regulation of our securities exchanges has us in second place, as does the strength of our auditing reporting standards. Our corporate boards are third.

"This is good stuff. When we compete for money with the rest of the world, to finance our deficit and our expenditure, the ratings agencies look at what matters... the protection of diversity and how market-oriented the economy is... the availability of credit, the efficiency of the public sector. They look at labour flexibility and how your GDP (gross domestic product) is constructed. They look at your fiscal stance: How do you guys live? According to your means? They look at transparency and the

timeliness of reporting, at how good your capital markets are, how strong your financial sector is and how independent your central bank is. So all of this is related to that eighth pillar on which we scored so well... So as we compete... for capital, we see that investors have confidence in the nation and are lending to us at competitive rates.

"Surely, if the Walk Together scenario were to ensue, we would be even more competitive and raise money at even better spreads? That said, and in the promise of building the great relationship that happens when you have a social contract, surely we can walk together?"

Tshabalala still has concerns in terms of what business should expect from the government or what is it that society should expect of the government in its relationship with business.

"It's got to help us to get technologically competitive. It's got to help the country's businesses to be able to compete successfully, so we need to have better and higher capacity to leverage on that technological capability. We need to be in a position to compete successfully for goods and services.

"We must be innovative. So... more of our resources should be directed towards research and development. Perhaps we should tinker... with our patent laws to stimulate more patents being registered. Second, we need to build the capacity to exploit this technology. To do so, human capital has to be developed, so must ICT infrastructure and social capital. Then price and cost competitiveness need attention.

"Wage costs and the costs of manufacturing relative to productivity require attention. Demand competitiveness needs to be stimulated. We have to have a bigger market for our goods."

But he's adamant: "Quite frankly, policy matters. It's what civil society expects.

"The duty of management is not just to maximise profits and returns, but sustain the corporation as a living member of society. Certainly, the shareholders must benefit, but all of those risks are not just commercial but also about all those kids who can't write, about our poor public health system..."

"I believe business is utterly engaged. For example, Business Leadership South Africa aims to provide leadership on economic and broad societal issues. Business Against Crime works with other strategic partners to fight crime. The Business Trust works with the government to create jobs, build capacity and combat poverty. There are many other examples.

"We can't avoid dealing with unemployment because it has an effect on the cost of money... We've got to deal with diversity, with conflict, with unemployment and poverty.

"We won't always agree when we negotiate a social contract, but everybody is deadly serious about it."



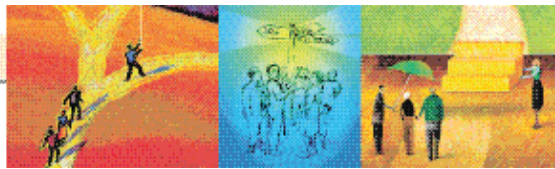
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This week on **The Big Debate**, host Redi Direko chairs an expert panel as they unpack the complexities of the economy in a post-democratic South Africa

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Rising debt, job losses, declining revenue: little wonder SA must now...



BY
PRAVIN
GORDHAN

SLAVE TO SAVE

THE GLOBAL economy has, in the past 14 months, been affected by a crisis of unprecedented proportions. The crisis originated in the financial system, but the effects have been most keenly felt in what we call the "real economy": where people earn their living.

The global impact of this crisis has been enormous. In South Africa, we were spared the worst of the crisis. But the effects on our economy have been severe: nearly a million people have lost jobs; families are struggling to come to terms with the consequences of retrenchment; and businesses must adjust to declining revenue and precarious debt levels.

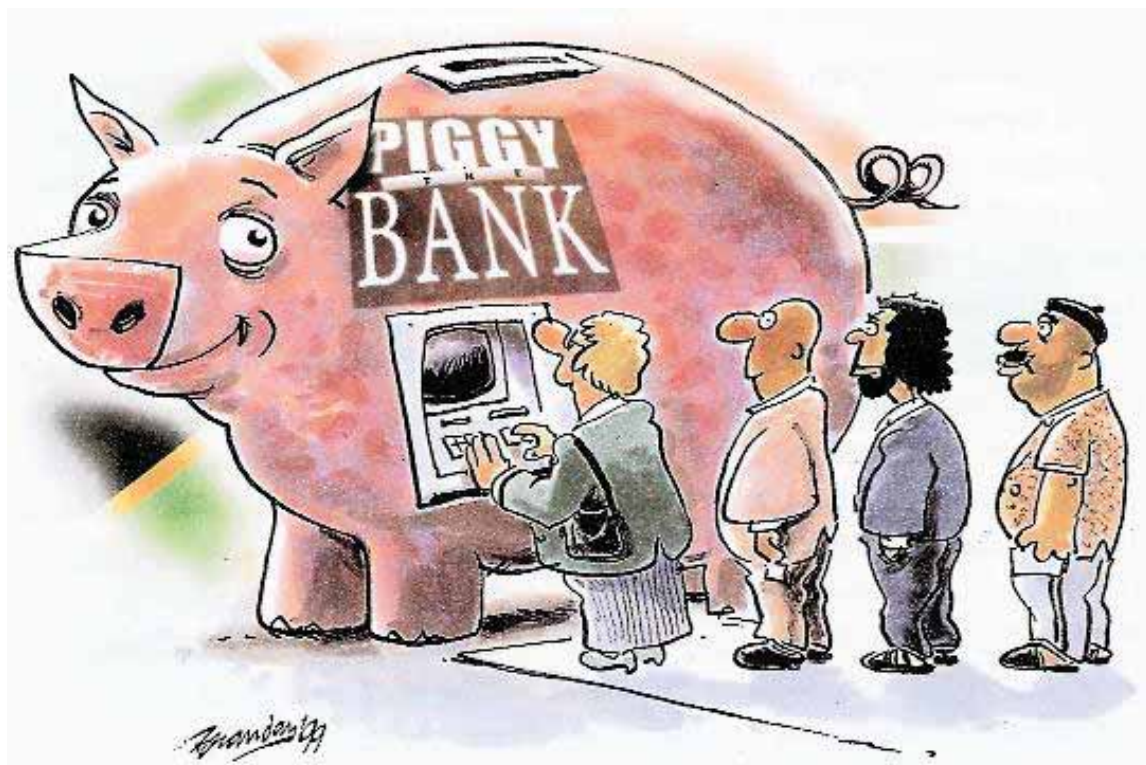
But the crisis also brings with it an opportunity to reshape the economic system to serve all sectors of society. It is an opportunity to deliver on President Jacob Zuma's promise of collective leadership, and hear the voices and opinions of all in charting a new growth path for the country.

What is needed is something more forward-looking. We need to be ambitious in our vision, and in how we achieve that vision. Vulnerability and poverty are deep-rooted in our society, and these structural challenges require sustained, broad-based transformation of our economy, way beyond merely a response to the current conditions.

Our biggest long-term economic challenge remains job creation. In the past several years, job creation has not been at the pace required to reduce unemployment and poverty dramatically. The crisis requires us to extend our investment in job creation, and to embed it in our rural development strategy, social services and local infrastructure programmes. When the crisis has passed, our economy must evolve so that it is able to produce more jobs alongside faster growth.

The crisis challenges us to reconstruct a new deal for our young people, who have little hope, new opportunities for school-leavers, a new partnership between jobseekers and employers, and responsible leadership in public service.

Underpinning the new path for our economy must be a focus on inclusive, broad-based economic growth. How do we achieve this? In the recent Medium Term Budget Policy Statement speech, I highlighted the findings of the Commission on Growth and Development led by Michael Spence, a Nobel-winning economist. The commission revealed that sustained growth over a long time is needed to make a meaningful impact on poverty and the quality of life of poor people. To quote from the report, "policymakers have to choose a growth strategy, communicate their goals to the public, and convince people that the future rewards are worth the effort, thrift and economic upheaval. They



will succeed only if their promises are credible and inclusive, reassuring people that they or their children will enjoy their full share of the fruits of growth." The committee looked at growth episodes of 13 countries, when a country's gross domestic product grows by more than 7 percent a year for more than 25 years.

It is worthwhile to repeat the lessons that Spence derived:

- Successful countries fully exploited the world economy, which for us means an outwardly focused economy that exports what it does best and imports what other people do best. This requires us to re-orient our industrial policy to fully exploit our particular advantages.
- They maintained macroeconomic stability, by focusing on keeping inflation low and budget deficits moderate. The current crisis has led to inflation and the deficit rising. While this is the correct response in the midst of a crisis, we must act fast to reduce the deficit and allow inflation to moderate in order to maintain long-term macro stability.
- They mastered high rates of saving and investment to finance economic growth.
- They let markets allocate resources and provided appropriate training and skills development to enable people to move from declining to rising sectors.
- They had committed, credible, and capable governments that held public agencies accountable and sought to achieve long-term targets that were publicly articulated.

Without such growth, no developing country has been able to reduce poverty significantly over just one generation.

Economic growth can't be seen as an end in itself; it is a necessary but not sufficient condition to drive the kind of development we seek. What is needed is a conversation and debate with all members of society on how best to get there.

The government proposes a new approach to economic growth and development that will incorporate a range of elements. There should be a gradual rise in the role of the government in the economy, especially in terms of public services to help young people develop skills through basic and temporary employment contracts. Expanded public services will also entail the continued development of public infrastructure and services, and a new direction for support to industries. One proposal is the pooling and synergising of resources for support to new industries, taking an economy-wide approach and focusing on technological development, productivity and job creation.

It is essential that an enhanced role for the state is complemented by an invigorated, growth-oriented and labour-creating approach to the private sector. The country's macroeconomic framework should promote domestic investment, job creation and export activity. The state needs to develop a closer partnership with the private sector; where it plays a more effective

catalytic role in enabling the private sector to grow and build a culture of entrepreneurship. Closer ties should also mean that a greater emphasis is put on youth employment and training.

Capitalism is prone to boom and bust cycles. But what is the role of the government in curbing the excesses that have a negative impact on the lives of the poor and vulnerable? A key aspect to this is for the government to play a constructive and central role in regulation, particularly in the financial services. In return for the government's guarantee of the health of that sector, the government needs to be clearer about the rules for the system.

A more intensive approach to economic growth will also help to create the revenues needed to sustain the expansion of the state. Fiscal policy will continue to be guided by the need to be counter-cyclical to maintain macroeconomic stability. This implies that a structural, productivity-rich, growth path is necessary to sustain public sector expansion, instead of cyclical revenue growth.

On its own, domestic economic growth and the closing of the productivity gap will be good for competitiveness and exports. It will also encourage private investment in import-competing products. This should be matched by greater resources applied to foreign reserve accumulation under conditions of capital inflows.

At the same time, a more environmentally sustainable approach to tax must be developed for consumption, companies and incomes. Climate change is one of the most serious environmental and development challenges facing the world today.

Some parts of our present policy framework are sound and should be reinforced. Others must be dismantled and overhauled. We need to pursue options through a dialogue that respects a diversity of views and a plurality of methodologies. We need the humility to be open to different paradigms.

Broad-based economic and social development is about commitment, hard work and initiative in the government, private sector and civil society. It is about shared values and how we work together. This is a time of opportunity – a time to face down adversity and proclaim that we will adapt to the new circumstances. We will overcome its challenges. The Archbishop of Canterbury Rowan Williams recently noted that "we are still haunted by the dogma that the economic world, economic realities, economic motivations and so on belong in a completely different frame of reference from the sort of human decisions we usually make". What is needed now are economic paradigms putting human beings and their well-being at the centre.

● Pravin Gordhan is minister of finance

WALKING TOGETHER

BIG SOLUTIONS FOR SMALL BUSINESS

Entrepreneurs stand to gain more than just skills from the Shanduka SME project

In a country where entrepreneurship is waning yet wanting, Shanduka Black Umbrellas is providing an ideal solution to the market of small, medium and micro-sized enterprises (SMMEs).

Cyril Romaphahle's latest endeavour opened its doors in February earlier this year and today is providing a strategic roof over a number of start-ups, some of which are still budding while others are showing enormous potential.

"The Shanduka Black Umbrellas is a young company with a lot of potential," explains Yvonne Tembisa, the chairperson of Shanduka Black Umbrellas.

"The writing was on the wall." Though SMMEs are the future of this country, currently comprising 90 per cent of the country's gross national product, fewer than 20 per cent of them are managing to stay the course beyond their first two years in existence.

Though SMMEs are critical for job creation, their potential is clearly not being harnessed.

"The biggest statistic causing Tembisa in the face was the negative impact which the failure of the SMME market was having on levels of entrepreneurship country-wide.

Today's entrepreneurs are more conscious of the need to be present of their customers. Tembisa has a high level of contribution could be much, much higher, she says drawing from data from the Global Entrepreneurial Monitoring Studies attached to the University of Cape Town. In other developing countries, such as India and Brazil,

complaints on their books, still have a long way to go to meet its having, yet overall job creation.

"We find that the SMMEs are currently hiring people on a part-time basis. But this data will be more meaningful when we see more full-time employment in our business, sustain it and grow it."

Like wise, the turnover is not a good indicator as the number of SMMEs is still too low and secondly, the businesses are generating vastly varying revenue amounts which makes comparisons meaningless. Tembisa, a business savvy TV casting agent, a driver who provides airport transfers and chauffeur services to an elite clientele, and an interior decorator.

There's also a small team who, after two years ago supplying recyclable goods, specialised in the niche of providing a specialised transport service for metal and mineral samples which they ferry from mining and exploration sites to laboratories for analysis and back.

And there's the likes of Patrick Buso, who year ago supplying recyclable energy that is tailored to different needs and at different costs. His solution to the energy crisis was ingenious but his problem was the fact that he was just one of thousands of entrepreneurs in the wind and rain.

For him, Shanduka Black Umbrellas was invaluable, providing the right kind of support at the right time.

"Shanduka Black Umbrellas helped me find direction, and I don't say that lightly, and it has also given me the support."

"Being connected to something like Shanduka Black Umbrellas really helps me as a small business," he says.

The organisational back-up is also proving strategic. "I never had a meeting when I needed it, but now I have it. These kinds of things really count."

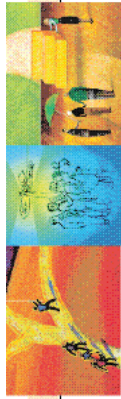
When he joined the programme earlier this year he came with a workforce of 10. Today, he has a staff of 20 and is expected to grow his count by another 20 employees in the next few months, with other staff members next in line.

Not satisfied to stop there, however, Shanduka Black Umbrellas has also incorporated the Broad Based Black Economic Empowerment Act into their strategy and any company that avails of their services or invests in Black Umbrellas, can tick their BBBEE scorecard.

A win-win solution? "We certainly think so," Tembisa says.



GIVING SHELTER: The Shanduka Black Umbrellas, under Yvonne Tembisa, offer vital business tools to SMMEs. PICTURE: TILLEMONT



WALKING APART

GOING NOWHERE SLOWLY

Majority in KwaZulu-Natal is still languishing in poverty

By BHEBE MBAMVANA

THE INCLUSION of many into the economy has not been as previously envisaged. Provincial development financial institutions like Ithala have not succeeded in their role of uplifting the poor.

"Those people who are at the bottom of the economic pyramid cannot go to Ithala and easily access a loan because the entry level is just too high. These people then go to the loan sharks to borrow funds but that becomes too disadvantageous."

"Even when it comes to purchasing goods, we still find that people in rural and peri-urban areas pay 10 times more when purchasing goods at their spaza shops for something that is available in the city."

He says the province and the country can learn a lot from Grameen Bank of Bangladesh which has proven a success there.

Cosseti provincial secretary Zet Lungwe says that the province's development institutions like Ithala would also need to be redefined.

"What is also important is the issue of advocacy so that people know how and where to access resources."

Bajoo also argues that programmes should be designed to create entrepreneurs, creating only agents.

"These BEE agents are just people who buy and sell."

"They will be awarded a tender to provide goods and they do not import the goods themselves. They are just agents. This is what is contributing to this destruction of the economy," he says.

Bajoo says the current government is saying all the right things "in terms of the economy and putting more focus on rural development."

"What remains to be seen is whether those words will translate into action."



MONTAGE: SIBUSISO DUBAZANA



BY
BRIAN
KANTOR

CAN SOUTH Africa become a first-class, world-class economy? One reason for doubt is the economy is now in the grip of a severe recession. Moreover, the prospect for a restoration of vigorous, soothing economic growth over the next few years, of the kind experienced between 2003 and 2008, now seems rather bleak.

But it is not only the recession that has sapped the morale of many South Africans. A potentially debilitating sense that something is rotten in the state of South Africa has been growing. However, a certain pragmatism about what has happened in the country may be appropriate to modify perhaps unrealistic expectations of the new South Africa.

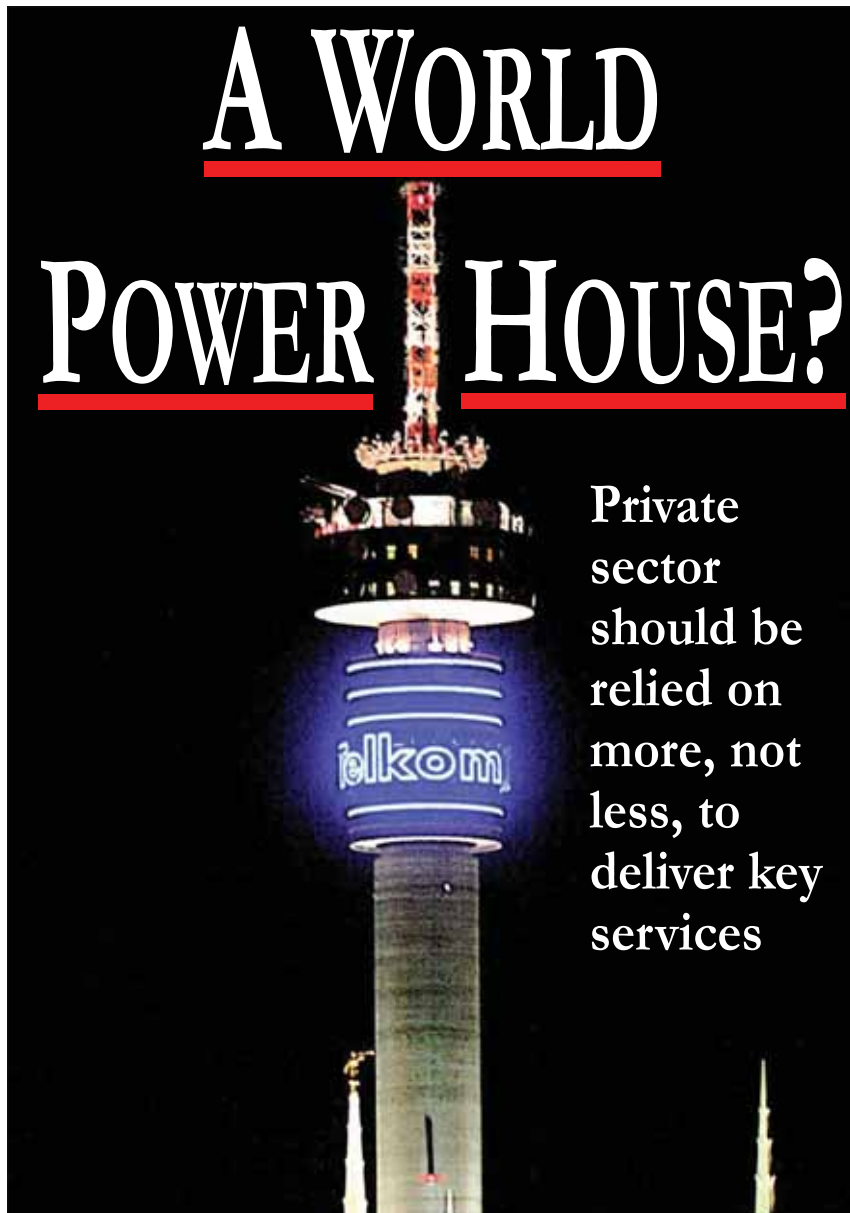
Regime change of the deeply transforming kind experienced in South Africa since 1994 (as in Russia about the same time) offers once-off opportunities to acquire great wealth. Such wealth gains will inevitably, in the circumstances of regime change, have everything to do with political influence, cleverly exercised in much-changed circumstances.

Such gains in South Africa have come partly in the form of very valuable assets (wealth) acquired on highly favourable empowerment terms. A well-connected, enterprising few acquired a significant stake in the South African business upside, at a discount to fair value, without anything like the normal exposure to the risks of business failure. Unfair, but perhaps inevitable.

It can, however, be argued that without the more or less compulsory widening of the ownership and control of South African business, business itself could not have enjoyed legitimacy. If so, the economic upside might not have materialised to the disadvantage of all. Moreover, it can surely be hoped that the easy empowerment pickings for a favoured few are over. Those firms still to meet their empowerment obligations will surely not turn conveniently to a few politically well-connected partners, but engage in more broad-based economic empowerment. This will spread the benefits of owning a share in the profits of business and prove more beneficially protective of the market system, so essential to economic success.

Perhaps more demoralising than the gains of the empowerment barons has been the stream of revelations around the arms deal. Can it be doubted that the deeply corrupting arms deal was conceived and cleverly designed with bribery, on a huge scale, in the minds of its cynical promoters? Hopefully the lessons of how to manage large government-led projects in the public interest will have been learnt in this debacle.

Yet in the bigger scheme of a transforming economy, the most significant economic gains, in an aggregate sense, have come from new employment opportunities provided by the public sector. The transformation of the public sector has led to impressive improvements



GUIDING LIGHT: The Hillbrow Tower is a beacon in Joburg, South Africa's economic hub. More broad-based economic empowerment will benefit and protect the market system, which is so essential to economic success.

PICTURE: NEO NTSOMA

in the living standards of many South Africans, previously denied access to such well-paid and secure employment.

However, the (inevitable?) influence of political patronage, rather than merit in the selection and promotion of public sector employees ("civil servants" does not seem quite the right description) has become obvious. As disturbing has been the political influence on the tenders and contracts awarded by government departments.

The emerging middle class, many of whom work in the public sector, did a great job for the economy on the demand side – especially between 2003 and 2008

when household spending led the faster growth process. They will, however, need to do a much better job on the supply side if the economy is to perform better.

It is a consolation to know that the government recognises the abject limitations of public service in South Africa.

To quote the Medium Term Budget Policy Statement of October 27: "The functioning of the public service requires fundamental reform to obtain better value for public money... to build a culture of responsible stewardship so that citizens trust the institutions of service delivery. The fight against corruption in government... must

be given priority."

It would be defensible to argue that while the public sector has generally delivered poorly (despite strong growth in its budgets), the private sector has generally performed rather well in the delivery of goods and services. This should lead to an obvious conclusion of the kind that the designers of a new (unaffordable) national health scheme came to. That is, more reliance should be placed on the private sector (private hospitals) to deliver essential services that can be paid for by the taxpayer.

This principle can be applied to education as well. The private

A WORLD POWER HOUSE?

Private sector should be relied on more, not less, to deliver key services

school, for profit or not, would provide an excellent education for the poor; if the government paid fees per pupil equivalent to what it is now paying per pupil in its own failing schools.

What the private and the public sector have failed to deliver are enough additional jobs to absorb a growing labour force into gainful, life-enhancing employment.

The same recent budget statement recognised that "creating jobs, particularly among millions of relatively unskilled South Africans, is the country's greatest economic challenge... Only 42 percent of the population aged between 15 and 64 are in some form of employment."

The failure of the economy to absorb labour; the growing gap between the growth in the labour force and the much slower growth in the numbers of employed provides a shocking indicator of a potentially failing economy. When it comes to analysing the cause of this labour market failure, the government seems unable or unwilling to recognise the role played by labour market regulations and trade unions in keeping unskilled workers, especially the young and inexperienced, out of jobs. It is surely no accident that according to the Labour Force Survey "almost half of young Africans have never worked".

The reality is that the wages and other employment benefits most potential employers are required to offer workers, especially unskilled young workers, are just too high to encourage enough job offers. The employment problem will not be solved unless the government can deregulate employment benefits, so that the private sector can adapt its hiring policies and become much more unskilled-labour intensive in its methods.

It is the failure to reform the labour market that stands most firmly in the way of faster sustainable economic growth in South Africa. Only faster economic growth, sustained over an extended period and accompanied by equally rapid growth in employment, can make South African labour; especially unskilled labour; relatively scarce and so better paid.

Only growth can provide decent jobs for all rather than for only a relatively few, as has been the case almost everywhere poverty-relieving growth has occurred.

The poor must come to understand that they are being kept out of jobs to protect the pay of those in jobs.

The sooner the government recognises this reality and acts accordingly in the interest of the poor, the sooner the potential labour force can become an economic asset rather than an economic disaster.

Hopefully, the obvious conclusions about the failure of the economy to provide employment can be drawn and allow the economy to realise its full potential and meaningfully address its greatest challenge.

● Brian Kantor is an economist and strategist at Investec Private Client Securities

“ Only growth can provide decent jobs for all rather than for only a relative few, as has been the case almost everywhere poverty-relieving growth has occurred. The poor must ... understand they're being kept out of jobs to protect the pay of those in jobs ”



HANDS



OFF!



VITAL COG: South Africa's power utility, Eskom, is one of the state-owned businesses that are crucial to the country's economy.

PICTURE: CINDY WAXA

THE CRISIS faced by most of the country's major state-owned enterprises (SOEs) is of the ANC's own making, at least in two respects.

The first relates to the usage of SOEs by the ANC as sources of patronage, whether it is to reward its loyal cadres with jobs or to direct contracts to businesses that contribute to the ruling party's coffers.

In the second respect, these companies have during the past 15 years operated in circumstances where policy changed with every new minister.

So, SOEs haven't had time to settle down, absorb what is expected of them by the shareholder and then deliver on it.

Every new public enterprises minister has had a different style and policy nuance to the portfolio.

Alec Erwin, the public enterprises minister from 2004 to 2008, had a different approach to Jeff Radebe, who was the minister from 1999. Radebe, who took over from the late Stella Sigcau, once toyed with the idea of creating a super-holding company for all state-owned companies, a format borrowed from Austria.

The current public enterprises minister Barbara Hogan alludes to this point in her foreword to the DPE's strategic plan for 2009 to 2012.

It is only since 2004, Hogan says, that government policy "has shifted decisively from preparing SOEs for privatisation to ensuring that they

Greatest challenge faced by South Africa's parastatals is government interference

are sustainable businesses that provide economic benefit to the country".

That's easier put on paper than implemented. That's partly because most of Hogan's time and that of her department will for the next foreseeable future be spent fighting fires that have broken out all over her portfolio, especially the two most important companies, Transnet and Eskom.

Given their pivotal role in the economy, Eskom generates more than 90 percent of the country's electricity and Transnet runs South Africa's only rail transport network as well as the ports.

Both are operating without key permanent executives. Transnet has had an acting chief executive, Chris Wells, for almost a year.

It has had an acting chairman since August when Fred Phaswana reached the end of his term. In addition, Transnet got entangled in the ruling party politics a few months ago when Justice Minister Jeff Radebe and Communications Minister Siphwe Nyanda crossed ministerial boundaries in support of Siyabonga Gama as their preferred candidate for the CEO's job. Gama is currently on suspension pending a disciplinary hearing relating to the awarding of



BY
**JABULANI
SIKHAKHANE**

contracts by Transnet Freight Rail, one to a company associated with Nyanda.

Eskom is without a CEO after Jacob Maroga fell out with the board and resigned, an event which Maroga subsequently disputed and is, according to media reports, planning to challenge in court.

But even if the current leadership vacuum is addressed, there remains a much more daunting challenge: How to keep the ruling party's grubby hands off the SOEs. The interference by the ruling party in the business affairs of the state-owned companies is the biggest threat to how well they will live up to their mission.

SOEs – from the Land Bank, the SABC, Eskom, to Transnet – have over the years become the playground of the ruling party.

Where the SABC was the mouthpiece of the various National Party governments, it now

performs the same function for the ANC governments, a role that will be cemented even more in terms of Nyanda's proposed new governance structure for the SABC. Similarly, SOEs have since 1994 become the aggressive entry point for black professionals into the economy.

This, unfortunately, coincided with the use by the ruling party of these institutions as sources of patronage, resulting in cadres of the ruling party being deployed to run some of the SOEs.

Often, their capital expenditure programmes have been used as indirect funding mechanisms for the ruling party. The party directs contracts by these companies to friendly BEE companies whose owners are regularly contributors to the coffers of Luthuli House.

The ANC's treatment of SOEs this way is no different to how the National Party used parastatals under apartheid.

Interestingly, Hogan recounted this history during her budget vote speech in June but conveniently didn't see that her party used SOEs in the same way. State-owned companies, Hogan said, were "creatures of their time", reflecting in their practices or founding mandates the socio-political objectives of their governments.

"In the case of South Africa in particular, this was most evident in the era of apartheid, where they were aggressively used to disempower blacks and drastically reduce white poverty by privileging the white working-class, to insulate the apartheid economy from economic sanctions, and to 'develop', euphemistically speaking, the homelands," she said.

Hogan's description of the history of parastatals rings similar to what the DPE's outgoing director-general, Portia Molefe, explained in the department's strategic plan for 2009 to 2012: "Over the last period, we became increasingly aware of the potential of SOEs to be powerful instruments of the developmental state."

She added that DPE has been refining the shareholder management model to develop "a precise definition of the government's strategic intent and negotiating with the boards of the SOEs to translate the strategic intent into a shareholder compact containing relevant key performance indicators".

The strategic plan makes no mention of how the excessive interference by politicians in the business affairs of the state-owned companies will be prevented.

Interference is the biggest challenge facing SOEs, but don't hold your breath for the ruling party to cut the umbilical cord to the SOEs anytime soon. If it did, how would it fund its multi-million rand election campaigns?



BY
QUENTIN WRAY



More than 4 million unemployed depend on politicians to act now



SICK OF WAITING: Workers trash a Durban street during a riot over wages in July. People need hope, otherwise they will keep rising up in protest.

PICTURE: REUTERS

POWER TO THE POOR

PROTESTERS swarm like locusts, indiscriminately destroying whatever comes before them, anger and deprivation written on their faces as they do the only thing that will get them the attention they crave. They want their powerful former comrades, who left them behind in their vainglorious pursuit of wealth and power, to take them seriously. They want the better life that was promised to them and they are sick of waiting.

The middle classes – black and white – sit, ensconced behind high suburban walls, talking about the fact that, by destroying the very fabric of their communities, the protesters are delaying any improvement in their lives.

Politicians strut around saying what needs to be said but falling far short of doing what needs to be done, either not understanding that the two things are not the same or shying away from it because the job is seemingly impossible.

So we face a seemingly intractable problem. The issues behind the protests – poverty, unemployment, homelessness, poor education, bad health care, political infighting – are real. They are so pervasive that, even with all the money, skills and political will in the world, the government could not fix things quickly.

So, what needs to be done over the medium to long term?

The answer is easy to say but difficult to achieve: create jobs. Unemployment is the biggest crisis facing South Africa. Unless we put more people in work we will never be able to deal with the disparities in incomes and living standards. The system will then collapse under the weight of unfulfilled promises and unmet expectations.

Creating jobs is central to giving people enough hope in the future to stop them rising up in protest. Anything less is unsustainable as it relies on the government's ability to shell out ever-increasing amounts of money to the poor. Social grants and

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short-term state-funded “work opportunities” cannot deal with the problem on their own. But job creation is a lot more complicated than the ideologues would suggest.

There are only three ways it can be done: one, the state can employ people; two, the private sector can take them on; or three, they can become self-employed and create jobs for other people.

But the government's capacity to employ people is limited. It gets its money from taxes and duties and

from raising debt. Both sources are limited and excessive plundering of either by the state will dry them up.

The private sector is now in trouble but, even in the good times, is loath to employ more people because labour is relatively expensive, unproductive and difficult to get rid of. Policy uncertainty, threats of nationalisation, the banning of labour brokers and other business-unfriendly practices make this worse, so businesses get by with the minimum number of workers required. The trick to getting business people to grow this number is by improving the business climate to a point where they become keen to invest because that's the only way they will be able to ride the growth train.

That leaves the entrepreneurs. But they have got too much stacked against them. Lack of education and training, slow payment by government departments, unskilled labour, red tape, tight-fisted banks... the list just goes on.

South Africa could create jobs over the past decade, but a lot of this can be attributed to luck. The global economy was booming and we were a boat on the tide. We rose with the world economy, and sensible economic (if not labour and industrial) policies meant the country benefited. Jobs were created. But when the tide went out, it took with it all it had brought.

The time is ripe to examine what realistic and practical steps, no matter how unpalatable, can be taken to ensure that every job is fought for and that none are lost that could be saved. We should be scrapping ideological starting points – fighting ideas just because you either didn't have them yourself or don't like them is short-sighted, self-serving and petty.

We are in a crisis and it is time for politicians, trade unionists and business leaders to put aside their differences and get on with the job.

There are more than 4 million unemployed people counting on this.