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OVERVIEW OF THE 2006 STATE OF THE NATION ADDRESS AND ITS IMPLICATIONS FOR PARLIAMENT

1. Introduction

The 2006 State of the Nation Address was located within the context of the progress that South Africa has made from the early 1990s to date. The Address noted the historical context from which South Africa emerged, and highlighted a number of the events that shaped the country's history, some of which will be commemorated in 2006. Among these is the 50th anniversary of the women's march on the Union Buildings on 9 August 1956, the 30th anniversary of the Soweto uprising in June 1976, as well as the adoption of the Constitution on 8 May 1996. These events highlight the challenges and achievements of the last 12 years of majority rule, including the challenge to address poverty, the delivery of services, reducing the levels of violence and crime, the struggle for a non-racial and non-sexist society, the advancement of women, the redistribution of land and the deepening of equality and democracy at all levels of society.

In addition, the President quoted from the Convention for a Democratic South Africa (CODESA) Declaration of Intent, which committed all the participants to "freedom, equality and security for all irrespective of race, colour, sex or creed". This reference to CODESA suggests the importance to Government of the partnerships that have been established in the development of a prosperous South Africa, referred to more than once in the President's speech. In this regard, for example, the President thanked those social partners – the labour movement, the private sector and the rest of civil society – for their contribution to the development of the country. At the same time, he reiterated the need for these partnerships to continue, calling on business to play its part in the achievement of the goal of halving poverty and unemployment by 2014. This is an important injunction to business as well as a recommitment by Government to the first of the Millennium Development Goals.

While Government is perhaps justifiably optimistic about the growth prospects for South Africa, the historical landmarks highlighted in the State of the Nation Address signify that the commitments made by people over decades to freedom, equality and security for all place certain demands on Government. The President noted that, perhaps because of the high levels of optimism described in his address, South Africans have high expectations of Government to deliver. The following expectations were identified:

- Increasing efforts to reduce poverty, underdevelopment and marginalisation experienced by people participating in the Second Economy;
- Making interventions aimed at improving the First Economy and accelerating progress towards the achievement of economic growth of at least 6% a year;
- Ensuring the effectiveness of social development programmes targeted at protecting those most exposed to the threat of abject poverty;
- Improving safety and security in South Africa, especially by improving the functioning of courts and increasing conviction rates to strengthen the message that crime does not pay;
- Ensuring that the machinery of government discharges its responsibilities effectively and efficiently, especially at the local government level.

The State of the Nation Address was generally regarded as "optimistic", and a number of economists were quoted in the Mail & Guardian, for example, saying that they welcomed the identification of constraints to economic growth, and the highlighting of skills development as key to shared development in South Africa.[1] Others, such as IDASA, noted that there was still much to be done, especially in light of the problems the country has been experiencing with the delivery of basic services, and a perceived disconnection between the institutions of democracy and citizens.[2] Still other commentators pointed out that the State of the Nation Address failed to address some of the key issues facing poor and underdeveloped communities on a daily basis. Percy Ngonyama, writing for the Centre for Civil Society, noted that poor South Africans "have suffered severely in the last ten years as a result of government's conservative economic policies", arguing that "a large proportion of the public is, even after 12 years of so-called democracy, without the basic needs guaranteed by our internationally acclaimed constitution which celebrates ten years this year." In his view, the optimism in the President's speech is misplaced, as the inequalities between rich and poor have continually increased over the last 12 years of democratic government.[3]

Analysts pointed out that only 50% of the goals set in the 2005 State of the Nation Address had been achieved,[4] and that a 6% growth rate would be difficult to achieve unless South Africa develops an industrial strategy and

[1] "Economists upbeat about Mbeki's speech". *Mail & Guardian Online*, 3 February 2006.
[2] IDASA response to the State of the Nation Address, 6 February 2006.
[3] Ngonyama P, The State of the Nation, Centre for Civil Society, University of Kwazulu-Natal
[4] Robinson, Vicky. The sunset speech. *Mail & Guardian Online*, 3 February 2006.

Government accepts and delivers on its responsibilities as a developmental state. It was further argued that to reach the envisaged growth rate, the ideals spelt out in the Accelerated and Shared Growth Initiative of South Africa (ASGISA) must be tied to specific goals and deadlines.[5] The Congress of South African Trade Unions (COSATU) also noted that "the benefits of the first decade of democracy accrued disproportionately to the rich, mainly white, elite, the middle class and a small number of BEE tycoons, while the majority of the people still live with unemployment, poverty and Aids (sic)". It argued that "a comprehensive response to the deficiencies of the South African economy... (should) be developed as a matter or urgency".[6]

Much of the focus of the President's speech was on ASGISA, while the President also outlined other areas of Government's responsibility. These different areas will be discussed below, followed by a brief overview of the implications the government's programme of action has for Parliament in its oversight role.

2. Accelerated and Shared Growth Initiative of South Africa (ASGISA)[7]

The three spheres of government have been working together for some months and in consultation with partners to elaborate on the specific interventions around the Shared and Accelerated Growth Initiative of South Africa – ASGISA whose ultimate objective is to halve unemployment and poverty by 2014. As the President said in the 2006 State of the Nation Address, 'ASGISA is not intended to cover all elements of a comprehensive development plan, rather it consists of a limited set of interventions that are intended to serve as catalysts to Accelerated and Shared Growth Development'. ASGISA is not a new policy nor does it replace GEAR and it is not an industrial policy. Most of the interventions are built on the micro-economic reforms and agreements reached at the Growth and Development Summit. It takes advantage of a stable macro-economic environment, an economy that is growing at 4% plus in the past two years. Between 2005 and 2009, the Government aims an annual growth rate that averages 4,5% or higher. Between 2010 and 2014, Government will seek a growth rate of at least 6% of GDP.

The recent growth, although welcome has been unbalanced and based on strong commodity prices, strong capital inflows and strong domestic consumer demand, which has increased imports and strengthened the currency way beyond desirable levels; yet levels of unemployment are still too high and growth has not been adequately shared. The divide between the First and Second economy has meant that those who live in the Second economy have less benefits. Government seeks to take advantage of the

[5] See, for example, the South African Communist Party response to the 2006 State of the Nation Address.

[6] Independent Online, 3 February 2006. All must share in economic growth – Cosatu.

[7] The information that follows was sourced from a Media Briefing by Deputy President Phumzile Mlambo-Ngcuka, Background Document, *A Catalyst for Accelerated and Shared Growth-South Africa (ASGISA)*, 6 February 2006.

growth in order to share the benefits and base it on a more sustainable basis beyond commodity prices/consumption and capital in-flows. The high business confidence offers an opportunity to create a healthy and a growing private sector in the First economy, which can address the challenges of the Second economy.

ASGISA does not replace the Growth, Employment and Redistribution (GEAR) policy, but offers a complementary component to underpin and strengthen current initiatives to accelerate growth and development in all sectors. Rather, ASGISA is a product of the Growth and Development Summit. The Summit stressed the importance of promoting investment, creating jobs, and increasing levels of growth with a people-centred development paradigm. Regarded by some observers as a renewed effort introduced by the Reconstruction and Development Programme (RDP) in 1994 and, subsequently GEAR, introduced in 1996, ASGISA's commitment is a strong focus on integrated interventions to boost the economic growth and job creation.

The initiative's ultimate objective was to halve unemployment and poverty by 2014. It responded to a range of constraints that included skills shortage and the challenges faced by small, medium and micro sized enterprises and emphasised partnerships with business, labour as well as civil society. Selected interventions would address challenges related to infrastructure, sector strategies, education and skills, the second economy, public administration as well as macro economic issues.

ASGISA responds to binding constraints, such as:

- The volatility and level of the currency.
- The cost, efficiency and capacity of national logistics system.
- A shortage of suitably skilled labour amplified by the cost effects on labour of apartheid spatial patterns.
- Barriers to entry, limits to competition and limited new investment opportunities.
- Regulatory environment and the burden on small and medium businesses.
- Deficiencies in state organisation, capacity and leadership.

A modelling and growth accounting exercise has been undertaken by a range of economists in the private and public sector to support the premises and potential of ASGISA, but only if the interventions are well targeted and efficiently managed.

The response to binding constraints is a combination of systematic initiatives, optimising on public expenditure, improving an environment to do business in SA and removing bottlenecks within Government. In addition, there is a range of projects especially in the Second economy targeted to urban and rural youth and women as well as limited policy initiatives, wide ranging policy proposal or comprehensive economic review will need a different process.

The initiative as indicated is not a sum total of all governments' responses to issues of poverty and unemployment. It is selected interventions, organised into six categories:

- Infrastructure.
- Sector strategies.
- Education and skills.
- Interventions in the 2nd economy.
- Public Administration issues.
- Macro-economic.

2.1. Infrastructure

In order to address the backlog that has emerged in the public infrastructure sector, public sector investment is planned to rise to a level of around 8% of GDP. The ASGISA initiative involves R372 billion, budgeted for in the 2005 Medium-Term Expenditure Framework (MTEF), and earmarked for expenditure on infrastructure over the next three years. Almost half of this allocation is to be spent by ESKOM and Transnet. ESKOM is to spend R84 billion, mostly on energy generation, transmission and distribution. Transnet is to spend R47 billion, R40 billion of which is on harbours, ports, railways and a petroleum pipeline. The Airports Company of South Africa is to spend R5, 2 billion on airport improvement and the Dube Trade Port. Almost R20 billion will be spent on water infrastructure.

ASGISA also focuses strongly on the development of the social and economic infrastructure by the public and private sectors. In the public sector, there is a need to accelerate infrastructure investment and project supervision, thus ensuring that budgets are spent without rollovers. These budgets will be implemented in the underdeveloped urban and rural areas, through the Municipal Infrastructure Grant (MIG), and the Expanded Public Works Programme (EPWP). An additional amount of R4, 5 billion will be budgeted for over the 2006 MTEF period for the Expanded Public Works Programme (EPWP), which will provide funding for an additional 63 000 road maintenance workers and over 100 000 more workers involved in road construction, together with the development of approximately 1 000 more small black contractors.

In addition to the general infrastructure programmes, provinces were asked to propose special projects that would have a major impact on accelerating and sharing growth. A set of projects has been selected for finalisation of implementation plans. These projects are selected for their impact on employment, poverty eradication and economic growth including sustainability and possibility to leverage private sector funding. Further work on ASGISA will incorporate local government initiatives.

One of the intentions of the Infrastructure Investment Programme is to address the maintenance backlog, of which skills will be needed and sustainable new jobs could be created for artisans. A framework for Infrastructure Maintenance Plan is being developed along these lines.

Critics of the above component of the ASGISA framework maintained that while the State of the Nation Address set out useful, broad national goals, it relied too heavily on the public sector for delivery. Although many within the economic, social and political sectors, supported the focus on development programmes, there were doubts over the Government's ability to execute them.[8]

2.2. Sector Strategies

Sectors that are competitive and able to meet both the Growth and Sharing objectives of ASGISA have been identified. This process will further benefit from the broader industrial strategy that is being finalised. While all are priority and strategic, the sectors with highest potential for impact within a short time and where extensive work has been done and therefore implementation is immediate are the Tourism and Business Process Outsourcing (BPO) sectors. Implementation will start in first half of 2006.

Other priority sectors under consideration are: biofuels, chemicals, metals and metallurgy, agriculture, agroprocessing, creative industries, wood pulp and paper, clothing and textile and durable consumer goods. These will be announced when more work has been done.

With BPO, SA has attracted about 5000 of such jobs from the rest of the world. The sector has the potential for 100 000 additional direct and indirect jobs by 2009. Challenges that are being addressed to achieve the above include:

- Marketing.
- Skills/Training.
- Telecommunications costs and regulatory challenges.

2.3. Tourism

The other immediate priority sector is Tourism. This sector has already grown rapidly in South Africa but is ready for a second phase of growth that could take its contribution to GDP from about 8% to about 12%, and increase employment by up to 400 000 people by 2014. Key issues are: marketing, air access, safety, and skills development. This industry also entails a strong government/private sector partnership, which was established during the first phase of growth.

There are several cross cutting industrial policy challenges being addressed, including:

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[8] The information that follows was sourced from the Mail and Guardian Online, http://www.mg.co.za and from http://www.idasa.org.za and http://www.busrep.co.za and Ngonyama P, The State of the Nation, Centre for Civil Society, University of KwaZulu-Natal, at http://www.ukzn.ac.za/ccs

- Inadequate competition and import parity pricing.
- Capacity for trade negotiations.
- A more coordinated Africa development strategy.
- Better incentives for private R & D investment.
- Better use of Broad-based Black Economic Empowerment (BBBEE) to encourage industry transformation, beyond the transfer of equity.

2.4. Skills development

For both the public infrastructure and the private investment programmes, the single greatest impediment is the shortage of skills – including professional skills such as engineers and scientists, managers and financial personnel, project managers; and skilled technical employees such as information technology (IT) specialists and artisans.

Key measures to address the skills challenge in the educational sphere will focus on the a) quality of education, b) adult basic education and training (ABET), further education and training (FET) and artesenal skills, which the Minister of Education will elaborate. Scarce and priority skills include high skills and artisans.

In the context of ASGISA, the focus will be on priority and scarce skills which including artisans. A new institution that will be established in the month of March is the Joint Initiative for Priority Skills Acquisition (JIPSA). This structure is led by a committee of relevant Ministers, business leaders, trade unionists and education and training providers or experts. Its job will be to confirm the urgently needed skills and find quick and effective solutions. Solutions may include special training programmes, bringing retirees or South Africans who are working outside South Africa, and drawing in new immigrants when necessary. Programmes for placements of personnel and unemployed graduates are. JIPSA will have an initial timetable of 18 months placement of skills for local government is already advanced. Plans for private sector placement in infrastructure project management are also advanced and will ensure women's involvement.

2.5. Second Economy Interventions

Inequalities are entrenched in the structure of SA economy and a systematic policy intervention will be elaborated outside ASGISA, which will only consider more urgent interventions.

Without interventions directly addressed at reducing South Africa's historical inequalities, growth is unsustainable. The intention is to create sustainable bridges between First and Second economy to enable the following:

- Growth and graduation to a sustainable economy.
- Unlock dead assets/asset poverty in poor people's hands e.g. livestock, housing, and land.
- Promote local economic development and local content.
- Growth cooperatives with a link to First economy markets.

- The need to address the "missing housing stock" valued between R50 000 and R150 000.

All priority sectors will have to provide a bridge to the Second economy. Tourism, BPO, Creative Arts, Agriculture, Clothing and Textiles are sectors, which are easily responsive to the Second economy. A link is in the business plans with the Second economy are being made. Infrastructure is crucial for such linkages.

There are several other interventions designed to support Small and Micro-Enterprises (SMMEs). Nafcoc's commitment to establish 100 000 new SMEs per year is laudable, and government will support Nafcoc's efforts. A key challenge is to address the gap in loans between R10 000 and R250 000. One such effort is a new partnership between Khula and business partners in a R150 million fund for business loans of this size, we will be launching tomorrow which has a stronger focus on women. Government will also plan to accelerate the roll out of the Apex and Mafisa programmes of loans under R10 000.

For the next stage of business development venture, funding is key, and government is trying to establish new venture funds for SMMEs. The R1 billion programme recently announced by the IDC and the National Empowerment Fund's venture fund will make a considerable impact on the growth of small businesses.

The other intervention is in the area of Preferential Procurement. For Public Enterprises, the State Owned Enterprise Procurement Forum is codifying and spreading best practices for Affirmative Procurement, which will have a dedicated Supplier Development Programme. For the government, the DTI is developing a procedure through which 10 products will be set aside for Procurement through Smaller Black Owned Businesses.

A further key small business initiative will be to pursue the recommendations made to Cabinet on the regulatory environment for small businesses. These recommendations include:

- That the Minister of Labour will lead a review of labour laws' impact on small businesses.
- That the reforms in tax administration affecting small businesses will continue.
- That the DTI and DPLG will prepare recommendations on how to improve the regulatory environment for small businesses in municipalities.
- That sector departments will review the impact of their laws and regulations on small businesses. In respect of municipalities, the ASGISA process has also mandated DPLG, in consultation with the DTI, to improve the capacity of local government to support local economic development.

Another key Second economy intervention is the Expanded Public Works Programme (EPWP). This programme will be expanded beyond its original targets in terms of ASGISA. The relevance of training provided will be given greater attention. EPWP mandate has been extended to a larger number of roads and some larger road projects. This will entail about R4,5 billion additional funds over the coming Medium Term Expenditure Framework period, about 63 000 more people maintaining roads, and about 100 000 additional people in jobs averaging 6 months in roads building. In addition, 1000 more small black contractors will be developed. New access roads will have a significant impact on conditions and opportunities in some poor and rural areas.

Government is convinced that to achieve ASGISA's goal of halving unemployment and poverty by 2014, it will have to work more closely with women and the youth.

On women, the focus will be on:

- Human resource training.
- Ensuring they have access to finance across the board.
- Fast tracking them out of the Second economy.
- Ensure their significant participation beyond SMMEs and to improve their access to basic services.
- Increase their participation in expanded public works programme.

On the youth front, one of the interventions is to target unemployed graduates for jobs or learnerships, which will also be part of the Second economy outside ASGISA. With regard to youth, the focus will be on:

- Targeting unemployed graduate for jobs or learnerships.
- Set 100 new Youth Advisory Centres.
- Enrol at least 10 000 young people in the National Youth Service.
- Enrol 5 000 volunteers to act as mentors to vulnerable children.
- Expand the reach of business support systems to young people.
- Intensify the Youth Cooperative Programme.
- Monitor the impact of programmes on youth skills training and business empowerment as an integral part of the National Effort.

In relation to the Second Economy, much focus is on women and youth in the rural and urban areas and on programme interventions that can be upscaled to achieve mass impact. Cooperatives, land reform and productive use of land, and housing stock problems of the range between R50 000 and R150 000 will receive special attention.

Economists in general, responded positively to economic growth through ASGISA. There were however, arguments that while the Government identified factors constraining the economic growth strategy, there was no mention of how these would be addressed. Critics in this sector claimed that redistributive promises could not be met, and that having social democratic aims within a neo-liberal system is contradictory[9].

2.6. Macro-Economic Issues

ASGISA responses to macro environment are limited as it is focused on micro initiatives. The National Treasury, SARB will engage on issues identified in the binding constraints.

A key challenge is to improve budgeting in government, particularly at a macro level, where there is a tendency to underestimate revenue and over estimate expenditure. This results in the budget appearing more expansionary than it is, which in turn sends misleading signals to other players in the economic arena. A further area where macro economic policies or implementation will be improved is in expenditure management, particularly in government capital investment, where several agencies' budgets are considerably under-spent and some run out of funds before the end of the financial year. One of the key activities will be the review of the functioning of the Development Finance Institutions to ensure that they are effectively employed in our developmental efforts. One innovation to be introduced in 2006 is a development of a new capital expenditure management information system by the National Treasury.

Analysts, in their critique of macroeconomic issues, as outlined in ASGISA, stated that while South Africa recommitted itself to market-friendly economic policies, the President failed to outline specific programmes to meaningfully deal with the country's worsening poverty and underdevelopment. The South Africa's 'have-nots', who have suffered severely in the last ten years as a result of Government's conservative economic policies will not benefit from this initiative. Further, ASGISA sees increased exports as fundamental for economic growth and projected 6% annual growth rate in the next few years. However, in recent years, the country has managed to drastically increase its exports, but this has come at a heavy price for the working class. While output growth has increased, employment growth has declined in major sectors, such as manufacturing, business services, agriculture and mining.[10] As the Cape Town based Alternative Information and Development Centre (AIDC) points out, export oriented growth also means increased competition in many instances, and this has meant cost reduction, which leads to unsafe working conditions, retrenchments and cutting of working hours and wages.[11]

On the issue of reliance on the private sector, commentators argue that too much reliance would be at the expense of the poor. The problem with this, however, is that the private sector's primary aim is to increase profitability.

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[9] The information that follows was sourced from the Mail and Guardian Online, http://www.mg.co.za and from http://www.idasa.org.za and http://www.busrep.co.za

[10] The information that follows was sourced from the Mail and Guardian Online, http://www.mg.co.za and from http://www.idasa.org.za and http://www.busrep.co.za

[11] The information that follows was sourced from the Mail and Guardian Online, http://www.mg.co.za and from http://www.idasa.org.za and http://www.busrep.co.za

Private companies are not accountable to anyone, but shareholders. South Africa, with its heavy apartheid induced services backlog cannot afford this situation.

The critique of the EPWP, which government sees as the solution to the worsening unemployment crisis, relies heavily on small, medium and large corporations for infrastructure development. The EPWP is being touted as a brilliant strategy and response to the prevalent unemployment virus and skills shortage. South Africans are told that the EPWP will result in 1 million job opportunities in the next five years. EPWP, according to the writer, has proved to be a major fiasco in many parts of the country. It has been characterised by widespread corruption and cronyism. Also, the jobs are very temporary and pay next to slave wages.

Writers critique of ASGISA's focus on youth and women, estimate that 70% of the unemployed are young people, but only about 14% of those graduating from tertiary institutions, each year, find secure employment in the formal economy. The majority of women live under unsuitable conditions. The question posed was, Should the success of government's so-called women and youth empowerment programmes not be measured by the number of women and youth that have been lifted out of the life of poverty[12]?

While COSATU supports the state's interventionist efforts to bolster economic growth, they claim that ASGISA only 'pays lip service to the issues of redistribution and inequality'. Critically, ASGISA does not explore how the economy should evolve to bring about more inclusive growth. It lacks 'any systematic attempt to ensure that growth of whatever figure – 6% or more – does not perpetuate the current growth path of inequality. It does not address the critical question of how to ensure that the beneficiaries of growth do not continue to be largely the same suspects'. Strategies to address the economically marginalised and second economy tend to be add-ons to a largely market-driven strategy, although there are some tentative shifts in the direction of a more interventionist role for the state[13].

2.7. Governance and Institutional Interventions

The relatively slow progress made on the implementation of some aspects of the Growth and Development Summit was an issue of concern. Social partners, it was maintained, should seek the context of ASGISA to make progress towards the realisation of a people's contract on economic matters. Within the Governance and Institutional Intervention component of ASGISA, other issues of focus are:

- The effective implementation of agreed BEE Charters, and leveraging benefits from offsets.

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[12] The information that follows was sourced from the Mail and Guardian Online, http://www.mg.co.za and from http://www.idasa.org.za and http://www.busrep.co.za

[13] The information that follows was sourced from the Mail and Guardian Online, http://www.mg.co.za and from http://www.idasa.org.za and http://www.busrep.co.za

- On Local Government and Service delivery, the focus will be on addressing the skills problems identified in Project Consolidate. The skills interventions include the deployment of experienced professionals and managers to local governments to improve project development management and maintenance capabilities. The project managed by the Development Bank of Southern Africa (DBSA) will deploy an estimated total of 150 expert staff, with the first 90 to be deployed in May 2006. The project will also include skills transfer to new graduates.
- Government is committed to reviewing the functioning of the Development Finance Institutions, which include the Industrial Development Corporation (IDC), the Land Bank, the DBSA and the National Development Agency (NDA).
- A new institution will be the Joint Initiative on Priority Skills Acquisition (JIPSA). JIPSA, a short-term initiative involving Government, business, labour and civil society, will focus on finding quick and effective solutions to South Africa's current skills shortage. The Government is to launch an intensive campaign to link up over 60 000 registered unemployed graduates with companies around the country.[14]
- A further innovation will be the institution, of a system of regulatory impact analysis. The RIA will add well-designed procedures to reduce or eliminate the negative unintended consequences of laws and regulations, especially on job creation.
- A final key area requiring institutional reform is the framework for the planning and management of land use. Many investment projects are unnecessarily held up by the weakness of local or provincial planning and zoning systems or the cumbersome Environmental Impact Assessment system. The EIA system is being reformed so that it will reduce unnecessary delays, without sacrificing environmental standards. A complimentary activity must be improvements in the planning and zoning systems of provincial and local governments.

3. Social service delivery

The President noted that Government would continue to play a major role as development agency. In this regard, efforts to strengthen the public service will continue, and it is envisaged that agreements must be reached with all stakeholders to create one public service at all levels of government. In addition, Government will continue fighting corruption in the public service.

3.1. Education

The development of skills has repeatedly been identified in the State of the Nation Address as one of the key drivers to economic growth and prosperity in South Africa. It is one of the main mechanisms for ensuring that people can be employed in fulfilling and rewarding jobs. A number of the skills development initiatives mentioned in the 2006 State of the Nation Address

[14] South Africa Info, 3 February 2006.