

COSATU Submission on Socio-Economic Development for the African Peer Review Mechanism for South Africa



COSATU PARLIAMENTARY OFFICE

(021) 461 3835

TABLE OF CONTENTS

1. INTRODUCTION	3
1.1. Overview.	3
1.2. Growth, poverty and unemployment.	4
1.3. New poverty traps.	5
1.4. The emergence of economic dualism in policy discourse.	6
2. OBJECTIVE 1: PROMOTE SELF-RELIANCE IN DEVELOPMENT AND BUILD CAPACITY FOR SELF-SUSTAINING DEVELOPMENT	8
2.1. National and International Codes and Standards.	8
2.2. The scope and nature of Objective One.....	9
2.3. Development/ dependency social grants.....	10
2.4. Labour Market Policies	12
3. OBJECTIVE 2: ACCELERATE SOCIO-ECONOMIC DEVELOPMENT TO ACHIEVE SUSTAINABLE DEVELOPMENT AND POVERTY ERADICATION IN SOUTH AFRICA	26
3.1. International codes and standards.	26
3.2. Growth and Development.....	27
3.3. Growth vs Poverty and Inequality.	27
4. OBJECTIVE 3: STRENGTHENING POLICIES, DELIVERY MECHANISM AND OUTCOMES IN KEY SOCIAL AREAS INCLUDING EDUCATION AND COMBATING OF HIV/AIDS AND OTHER COMMUNICABLE DISEASES.	29
4.1. Health and HIV/AIDS.....	29
4.2. Education.....	38
5. OBJECTIVE 4: ENSURING AFFORDABLE ACCESS TO WATER, SANITATION, ENERGY, FINANCE (INCLUDING MICRO-FINANCE), MARKETS, SHELTER AND LAND TO ALL CITIZENS, ESPECIALLY THE RURAL POOR	41
5.1. Free Basic Services: Electricity and Water Services.....	41
5.2. Electricity	45
5.3. Water Services.....	55
5.4. Housing	64
6. OBJECTIVE 5: PROGRESS TOWARDS GENDER EQUALITY IN ALL CRITICAL AREAS OF CONCERN, INCLUDING EQUAL ACCESS TO EDUCATION FOR GIRLS AT ALL LEVELS	77
7. OBJECTIVE 6: ENCOURAGING BROAD-BASED PARTICIPATION IN DEVELOPMENT BY ALL STAKEHOLDERS AT ALL LEVELS.....	79
7.1. Overview	79
7.2. Local government.....	79
7.3. NEDLAC	81

1. INTRODUCTION

COSATU acknowledges this opportunity to comment on South Africa's progress in terms of socio-economic development and poverty eradication to the joint Ad Hoc Committee as part of the country's Peer Review Mechanism.

This submission will begin with a contextual Overview and then we shall proceed to comment in accordance with the Objectives provided by the APRM Questionnaire, although our comments will be broader in scope than the questions listed.

These six objectives are:

Promoting self-reliance in development and build capacity for self-sustaining development.

Accelerating socio-economic development to achieve sustainable development and poverty eradication.

Strengthening policies, delivery mechanisms and outcomes in key social areas, including education and combating of HIV and AIDS and other communicable diseases.

Ensuring affordable access to water, sanitation, energy, finance (including micro-finance), markets, Information Communication Technology (ICT), shelter and land to all citizens, especially the rural poor.

Progressing towards gender equality in all critical areas of concern, including equal access to education for girls at all levels.

Encouraging broad-based participation in development by all stakeholders at all levels.

1.1. Overview.

The primary purpose of the African Peer Review Mechanism (APRM) is to foster the adoption of policies, standards and practice that lead to political stability, high economic growth and sustainable development and accelerated integration. Thus we are advised that "socio-economic development" refers to a "continuous improvement" in well-being and standards of living.

The South Africa government adopted a conservative neo-liberal macro-economic policy, the Growth, Employment and Redistribution policy, in 1996, which resulted in contractionary fiscal and monetary policies. The impact of this was that macro-economic stability (as evidenced by a reduction in the budget deficit and the rate of inflation) was attained at the cost of reductions in state spending.

The impact of this policy not only resulted in reduced government capacity to implement its own policies (at a time when national reconstruction was vital) which is still felt today, but also in a reduction in resources available for investment, which had a direct impact on private sector investment levels too. The low levels of investment lead in turn to a reduction in development and a big loss in jobs. The decision to adopt an export orientation to the economy further exacerbated the job reduction as local firms sought to cut costs to attain international competitiveness.

While 2000 heralded for the first time a moderately expansionary budget, the effects of these conservative policies continue to haunt the South African economy and government capacity today.

1.2. Growth, poverty and unemployment.

South Africa is an upper middle income country. Economic growth has entered its 29th consecutive quarter, and the GDP growth rate for 2005 was 4.9%, the highest since 1984 (Brait, 2006(b)). At the same time however the country has extremely high and growing levels of chronic poverty and structural unemployment. These two interconnected factors result in South Africa having one of the highest levels of income inequality in the world, according to the gini coefficient measure. According to the 2003 UNDP South Africa Development Report, the Gini coefficient rose from 0.596 in 1995 to 0.635 in 2001. In addition, according to the same report, the gap between South Africa's GDP per capita ranking and its Human Development Index ranking grew from -10 in 1994 to -64 in 2001. The HDI declined from 0.74 in 1995 to 0.680 in 2002.

Of a population of 46 million people in South Africa, 41% of working age people were unemployed according to the expanded¹ definition of unemployment, and 26.2% according to the narrow definition in 2004 (Labour Force Survey, 2004).

48.5% of people were living in poverty in 2002 according to the national poverty line of R354 per month per adult equivalent (1995 value), which is slightly down from the statistic of 51.1% in 1995. In 2002, 23.8% of people were living on less than two US dollars a day compared to 24.2% in 1995, and 10.5% on less than one US dollar a day compared to 9.4% in 1995 (UNDP, 2003). This suggests that while overall poverty might have decreased slightly over this period, absolute poverty increased.

In order to design appropriate socio-economic interventions to improve the well-being of people currently living in poverty, and to support their initiatives to escape out of poverty, it is vital that policy makers understand the dynamics of poverty and its causes and effects, and do not just view poverty as a static statistic.

Poverty can be defined as either chronic or transitory. Chronic poverty refers to long term poverty, while transitory poverty is short term, caused by the happening of an event or unexpected need for money that knocks a person or a household into poverty, such as the loss of a job, or funeral costs etc.

Chronic poverty is usually transferred across generations. A lack of access to assets prevents households from accumulating sufficient surpluses to move out of poverty over time. Living in precarious circumstances also of itself acts as a brake on people's ability to use their resources to move out of poverty. People often choose to use what assets they have in a cautious manner to prevent boom or bust situations, but low risk ventures result in low risk returns. Poor people also have limited access to insurance of any type. When crisis does strike, the most prevalent way of coping is to sell off

¹ The official definition of unemployment counts as unemployed only those workers who have actively sought work in the last 4 weeks. If (for instance, due to past frustrations or due to a lack of resources to travel to a town to look for a job) a worker has not actively sought work in the last 4 weeks, they are strictly and officially speaking deemed not to be unemployed. They are also not "employed", but constitute "discouraged" work seekers (Frye, 2006 a).

what assets exist, to reduce levels of food intake, and to take children out of school both to save school fees and to provide for extra labour (Dercon, 2005).

Access to initiatives that assist in the accumulation of assets, such as access to capital, land, skills and education are necessary to break the cycle of chronic poverty, but so too is access to immediate income to address people's immediate needs, such as cash grants, or else people will be forced to sell off the asset to support their living costs, or will be unable to repay their interest on loans etc.

Transitory poverty can be addressed through short term interventions, such as Unemployment Insurance for a temporary job loss, or enrollment in a Public Works Programme for 3 to 6 months to assist in tiding over the immediate need.

Most poverty in South Africa is chronic, and accordingly needs more complex initiatives than a short term Public Works Programme position. Sustainable interventions need to take this into account. Far more empirical research is necessary into poverty dynamics in South Africa to home the types and duration of interventions to ensure their maximum efficiency. Monitoring of the impact of interventions on a longitudinal basis is also imperative to enable policy makers to track the medium to long term impact of different initiatives in assisting people to move out of poverty.

Unemployment in South Africa is also generally of a chronic, structural nature. Many unemployed people have never before worked. In addition, many people who are unemployed and are still actively looking for work have been looking for work for an excess of 3 years. Unemployment is thus a critical factor in South Africa and has a direct bearing on levels of chronic poverty.

1.3. New poverty traps.

While many of the causes of poverty and unemployment in South Africa lie in over a hundred years of discriminatory policies and laws implemented by first a colonial government and then a racial white minority government, these indicators have increased steadily since the advent of democratic rule in 1994, prompting recent studies which have identified "new" poverty traps that have introduced new dynamics that exacerbate or perpetuate poverty for many millions of South Africans.

Economist Sampie Terreblanche identifies seven "new" poverty traps. These new poverty traps include the privatisation of basic services, the drop of worker's share in national income from 60% in 1992 to 51% in 2002², and an increase in unemployment as the business sector has been allowed to increase its capital intensive production, which has led to an increase in casualised workers outside the protection of labour legislation (Terreblanche, 2005).

Interestingly, the drop in share of worker's income has taken place against an increase in labour productivity- Between 1982 and 1993, labour productivity grew by a mere 1% p.a., while between 1994 and 2002, labour productivity grew by 3.47% p.a. (UNDP, 2003). Thus the formal economy has been encouraged to make bigger and better profits, while the percentage of turnover allocated to wages has fallen.

² Which he compares to levels of about 70% in 'normal' countries.

Against this background, economic growth has grown at a sustained rate since 1994, with an annual GDP growth rate in 2005 of 4.9%.

During this same period, the budget deficit has decreased from 9% to 1.5%, and Income taxes have been cut year on year by R72.7 billion since 1995 (Brait, 2006 a). These two aspects of a conservative fiscal policy force the question of what criteria are used to determine the allocation of the state's available resources.

1.4. The emergence of economic dualism in policy discourse.

In terms of government policy development, we have seen the emergence of a discourse of economic dualism that separates the first or formal economy from the second economy. The formal economy includes those aspects of the economy that are strong and robust, and internationally competitive, while the "second economy" is used to describe everything that fails to find resonance with this, hence the poor, the unemployed, the underemployed are all placed within the construct of the second economy, and formal socio-economic policies have been designed around this dissonance, leading to the impression that within the one country we have both a developed economy and a developing economy. The danger with this approach is that the backwards and forwards linkages between the core and the periphery of economic activities are blurred, which reduces the possibility for developing economic reforms that arrest the continued pauperisation and marginalisation of the majority of South Africans from the wealth and opportunities of the country.

Only if we view the economy as a single unit can we honestly acknowledge that the recent economic growth has been at the expense of jobs and subsequent rising levels of destitution for the unemployed and their households and extended families.

The recent growth policies that are emerging from government under the Accelerated and Shared growth Initiative of South Africa (ASGISA) appear to be based on the idea that we have two separate parallel economies in South Africa which necessitate separate development initiatives by government, which are reflected in the following extract from the President's 2006 State of the Nation Address:

" we should move faster to address the challenges of poverty, underdevelopment and marginalisation confronting those caught within the Second Economy, to ensure that the poor in our country share in our growing prosperity;*

** we should make the necessary interventions with regard to the First Economy to accelerate progress towards the achievement of higher levels of economic growth and development of at least 6% a year;"*

One result of this dualistic approach to the economy is that South Africa lacks a comprehensive, inter-referential development strategy, and in its stead we have a plethora of separate policies. Thus there is a division between macro-and micro economic policy developments, and within macro-economic developments there is a disjuncture between fiscal policies, monetary policies and labour market policies. In regard to the emergent ASGISA plan, the President advised in the 2006 State of the Nation that ASGISA was 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 and development".

As Terreblanche (2005) concludes:

"But what is perhaps of greater importance, is that it will be counter productive to intervene in the 'second economy' while the 'structure', the macro economic policy and the neo-liberal privileges granted to the corporate sector remain intact in the 'first economy'. It is highly necessary to move towards a truly developmental state system in South Africa. But this system cannot be created in the 'second economy'. It will have to be created in the South Africa economy as an undivided entity".

COSATU believes that with the introduction of ASGI SA, the issue of developing a comprehensive development strategy has been placed squarely on the national agenda. In our response to ASGI, we have clearly stated the need for negotiation of such a strategy, and stated our view that ASGI itself falls far short of this objective. We have argued for a development strategy and growth path which places redistribution and equity at its centre.

2. OBJECTIVE 1: PROMOTE SELF-RELIANCE IN DEVELOPMENT AND BUILD CAPACITY FOR SELF-SUSTAINING DEVELOPMENT

2.1. *National and International Codes and Standards.*

The South African Constitution is one of the most progressive constitutions internationally, and includes justiciable socio-economic rights in the Chapter Two Bill of Rights. Many argue that as a result of this, we have no need to sign or ratify international conventions. This is a fallacious argument for two reasons, both of which are illustrated below. Firstly, some international instruments develop the rights further than our Constitution does, and we should thus be guided by these developments. Secondly, the enforcement of international instruments carries with it its own peer review mechanisms in many instances, which we as a progressive country should respect. Thirdly, Section 233 of the Constitution provides for the use of international instruments in the interpretation of South Africa laws.

The ratification of the International Covenant on Economic, Social and Cultural Rights (ICESCR) of 1966 is a case in point. Although South Africa signed this in October 1994, it has never been ratified, and it is a very important instrument insofar as it has bearing on the question of the availability of state resources for the progressive realisation of socio-economic rights, as set out below.

Sections 26 and 27 of the South African constitution guarantee a right of access to shelter and to healthcare, food and water, and social security respectively. Subsection (2) of sections 26 and 27 of the South African Constitution is based on Article 2 of the ICESCR. The ICESCR Article states:

'Each state party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realisation of the rights recognized in the present Covenant by all appropriate means, including particularly the adoption of legislative measures'. (Our emphasis).

The difference between this wording and the wording of our Constitution is that the Constitution says that the government must take *'take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of (this) right'*, rather than saying that the state must use *'the maximum of its available resources'* as the ICESCR says. (Our emphasis).

So while under the ICESCR a state would have to prove that it does not have any more resources to devote towards the progressive realisation of the right, in South Africa, the government just needs to say that it is doing as much as it can, and does not have to prove that it does not have any more resources (Frye, 2005 b).

While South Africa has signed the United Nations Conventions on the Rights of the Child, a report on progress has been outstanding for a few years now. One of the rights in this Convention guarantees to all children the right to social security. Social grants are only available to poor children up until the age of 14, although the

constitution defines a child as anyone under the age of 18. Civil society bodies and oversight bodies in South Africa should use the review mechanisms in this covenant to call for a commitment to the extension of social security to all children.

Recommendations:

1. South Africa should ratify the ICESCR. This would facilitate the development of local jurisprudence to address the requirement on the state in regard to the allocation of available resources to address socio-economic needs of people.
2. South Africa should submit its outstanding report due under the UN CRC.

2.2. *The scope and nature of Objective One.*

The scope and nature of Objective One is very broad and cuts across many of the subsequent Objectives under the rubric of Socio-Economic development. We accordingly recommend that for subsequent report, the ambit and definitions of this Objective be refined. Vague definitions often encourage obscure and equally vague reporting which can undermine the objective of accountability.

Any assessment of the promotion of self reliance in development in South Africa and building the capacity for self-sustainable development has to take into account the huge backlogs in delivery of social and economic infrastructure due to Apartheid legislation and planning.

Any interventions that seek to promote development must take into account both medium to long term outcomes, and also interventions that seek to address people's immediate needs. If people's immediate needs are not met, medium to long term planning proves pretty futile.

The promotion of self-reliance calls for the development of both human and concrete capital. In terms of the development of human capital, it is important to address issues of health, nutrition, education and ongoing skills development. These issues of human capital are interconnected. Poor nutrition will lead to poor health in later life; and it will lower children's ability to concentrate in school. This will in turn impact negatively on later productivity of workers. Poor health likewise negatively affects productivity, and it increases people's poverty and vulnerability.

Access to concrete assets include access to housing, and energy as well as credit. Housing is an essential right as a place of shelter, but it also provides infrastructure to enable people to develop home industries and/ venues for trading etc. Innovative ways can be developed to provide that even informal housing can be used as security for access to credit, providing for a virtuous circle of development.

Access to energy is also an important factor for development, not only for human capital (which enables children to study at night), health and safety, but also to provide for the development of industries. Access to clean and affordable energy also promotes sustainable environmental policies, and it frees people up from having to forage for wood and other fuels.

"Access" should not only mean physical distance to the infrastructure that provides things such as energy and water, but also the ability to use these things. Accordingly, it is deeply problematic when people are denied access due to an inability to pay. We

have many instances in South Africa where people's access to water, and communications has been cut off due to an inability to pay. Government is quick to claim that non payment is solely due to a "culture of non-payment" which was part of the anti-apartheid tactic of rendering townships ungovernable. Any recourse to statistics on household incomes and expenditures provides the empirical evidence to refute this. Many millions of households in South Africa are not able to afford this access.

It is also deeply problematic that many municipalities have developed policies around their free basic services that fail to take this into account. Thus where pre-paid electricity meters are installed, households that have arrears are not able to benefit from the free energy that is their right.

Policies that are developed without any reference to existing conditions on the ground act as obstacles to development, and in addition, many of these policies are inherently unconstitutional.

The ability to accumulate and exploit assets however as mentioned above does require that people's immediate needs are met.

Millions of people in South Africa suffer from food insecurity, despite our middle income status. In 1999, 33% - one third- of all South African households went hungry according to the official 1999 October Household Survey (UNDP, 2003). The inability to afford transport renders people unable to seek remunerative employment, or to engage in social activities and networks as well as making it impossible for people to travel to register births, claim pensions and generally benefit from government development initiatives. All of these manifestations of poverty and vulnerability act as obstacles to development, and undermine people's attempts to move out of poverty and towards self-reliance.

Of critical importance however in South Africa in relation to a review Mechanism is the fact that many of the above are rights guaranteed under the Constitution.

As non-derogable rights, people are guaranteed the right to equality, dignity and life in sections 9, 10 and 11 respectively. Sections 26 and 27 as set out above guarantee the right to shelter, health care services, sufficient food and water and social security, including social assistance. Section 28 guarantees to children further specific protections, and section 29 guarantees to everybody the right of access to basic education, and to further education which the state must make progressively available and accessible.

2.3. Development/ dependency social grants.

The South African government provides for revenue funded, means tested social grants for people considered to be not eligible for the labour market - i.e., children until 14, old age pensioners (the age of eligibility is 60 for women, 65 for men) and disabled people. In addition there is a foster care grant to encourage the fostering of children in need and so reduce the obligation on the state to provide for vulnerable children.

As at the beginning of January 2006, over ten million people were accessing such grants. The majority of these receive the Child Support Grant, which is the grant with the lowest value. The value of the grants (including the 2006/07 inflation related increase of about 5%) per month is set out below.

Table 1. Values of selected social grants, 2005/06 and 2006/07.

Grant	2005/06	2006/07
Old Age Grant/ Disability Grant.	R780.00	R820.00
Foster Care Grant	R560.00	R590.00
Child Support Grant	R180.00	R190.00.

Source: www.treasury.gov.za.

For millions of poor households, these grants form the only source of income. It is almost unheard of for these grants to be used only for the targeted beneficiary, i.e. for the pensioner or for the child, to the exclusion of others in the household. The social assistance schemes is acknowledged widely by government as constituting one of its most effective poverty eradication programmes, and yet at the same time, the President and many Ministers have expressed concern that access to social grants produces dependency, and encourages people to expect the state to provide for their needs³. As the President of the ANC, President Mbeki, wrote on ANC online, in August 2003, the state seeks to see a reduction in "*numbers of those dependent on social grants, by enabling them to pull themselves out of poverty by engaging in gainful economic activity and exercising their right to human dignity*" (ANC Online, August 2003).

Yet as the Ten Year Review report issued by the Presidency in 2003 states, for many millions of poor and un/ underemployed (classified as being in the "second economy"), wage remittances and social grants (funded through a progressive income tax system and hence redistributive in nature) are the only way that millions benefit from the formal economy.

"It is linked to the first economy by the extent to which it can still supply the cheap, unskilled labour this economy may require. It survives on money transfers sent by family members who have been able to secure regular or occasional employment within the first economy, as well as social grants and elements of the social wage provided by the democratic state".

However a study conducted by Charles Meth (2004) which focussed on identifying the income sources of households that had no workers in them, found that due to the increase in unemployment, more and more households were no longer receiving wage remittances. The total number of workerless households receiving no remittances from employed family or friends rose from 1.3 million in 1997 to 2 million in 2002, which represents an increase in number of people living in households receiving no

³ These concerns can also be seen in the Government's Programme of Action. Project 6 of the Social Cluster Projects is entitled "Addressing efficiencies and unintended consequences of social protection", and includes looking at "Issues of dependency, perverse incentives and sustainability of the social grant system" (Project 6.01.1).

remittances from 5.8 million in 1997 to 7.4 million in 2002. These are poor people who benefit neither from wage income nor from state spending on social grants.

Independent research commissioned by the Department of Social Development to explore this very concern has demonstrated empirically that far from encouraging dependency on grants and a mindset of laziness and entitlement amongst the recipient households, social grants are developmental in nature (EPRI, 2004). In addition, they provide for basic needs for many millions of people, not just the intended beneficiaries.

One problem surrounding the existing policy on social grants is the means testing. Currently only care givers that earn less than R800 per month are eligible for the child support grant. For many this may act as a disincentive to pick up piece meal work, since if for one month your income is R801.00, you run the risk of losing a guaranteed income of R180 per month. In addition, the value of the means test itself has not been increased for at least six years, which means that due to the influence of annual inflation, each year fewer people are eligible for social assistance.

COSATU accordingly recommends:

1. The introduction of a universal basic income grant for all in South Africa, and while this is being rolled out,
2. The immediate extension of the child support grant to all children up to the age of 18.
3. An immediate review of the means testing.

2.4. Labour Market Policies⁴

The South African Labour Market has seen a significant increase in levels of unemployment since 1994, as set out in the Overview. This is due both to an increase in new entrants to the labour market, and actual job losses in various sectors.

Levels of unemployment are central markers of levels of poverty in South Africa. Unemployment⁵ rose from 34.3% of the total working age population in September 2000 to 40.5 % in March 2005. The likelihood of being employed in South Africa is still heavily influenced by race, geographic location, sex and levels of skill.

Unemployment has destructive consequences for individuals and for broader communities. A recent report for instance on levels of Foetal Alcohol Syndrome in the town of De Aar link the very high levels of alcohol abuse with the decision of the parastatal, Transnet, to cut back on the functions of De Aar as one of the railroad junction hubs nationally (SARPN, 2006).

De Aar has the highest recorded prevalence of Foetal Alcohol Syndrome in the world, affecting one in two children.

⁴This section is based on Frye, 2005a, which can be found on www.naledi.org.za.

⁵Unless indicated to the contrary, "unemployment" shall be used in this submission to refer to the expanded definition of unemployment, which includes the category of discouraged work seekers who are not included in the narrow or official definition of unemployment.

Unemployment accordingly has to be seen as more than just statistics, but as indicators of poverty and social cohesiveness, and trade and economic policies that impact on unemployment should be rated for their broader impact in this way.

This sub-section begins by disaggregating employment/ unemployment by sex and race. We shall then consider the category of "discouraged work seeker", and thereafter examine the average duration of periods of unemployment for unemployed workers. We shall then consider the merits of the optimism surrounding the growth of employment opportunities in the informal economy, inter alia by looking at the average wage distinctions between the formal and the informal economies. We conclude by examining the levels of permanent, casual and temporary jobs.

2.4.1. Overview of the working age population

The number of working age people in March 2005 was estimated to be 29.5 million people (Labour Force Survey 2005). Of the total of 22.8 million black South Africans of working age, just over half (11.8 million) were economically active. 8 million of these people were working and 3.7 million people were unemployed. This must be compared to a total of 2.1 million economically active white South Africans out of a total of 3 million, 2 million were working, and 107 000 of these were unemployed.

Levels of employment and unemployment are contested in this country. The primary contestation concerns the use of the narrow, official measure, or the expanded measure of unemployment.

2.4.2. Definitions of unemployment and discouraged work seekers

The official definition of unemployment counts as unemployed only those workers who have actively sought work in the last 4 weeks. If (for instance, due to past frustrations or due to a lack of resources to travel to a town to look for a job) a worker has not actively sought work in the last 4 weeks, they are strictly and officially speaking deemed not to be unemployed. They are also not employed, but constitute "discouraged" work seekers.

The impact of this distinction on levels of unemployment is well illustrated by studying the following two tables that consider each definition as at September 2004.

Table 2: Number of unemployed people - official, strict definition, September 2004

Population group	Male						Female						Total					
	Total	Not economically active	Economically active				Total	Not economically active	Economically active				Total	Not economically active	Economically active			
			Total	Workers	Unemployed	Rate			Total	Workers	Unemployed	Rate			Total	Workers	Unemployed	Rate
	N (1 000)						N (1 000)						N (1 000)					
All population groups	14 194	5 394	8 800	6 772	2 029	23.1	16 097	8 128	6 969	4 866	2 103	30.2	29 905	13 627	16 779	11 643	4 135	26.2
Black/African	10 932	4 566	6 365	4 610	1 755	27.6	11 703	6 610	5 093	3 261	1 833	36.0	22 645	11 179	11 466	7 874	3 592	31.3
Coloured	1 263	390	873	701	172	19.7	1 422	635	787	597	190	24.1	2 685	1 025	1 660	1 298	362	21.8
Indian/Asian	416	101	316	277	39	12.4	407	238	168	142	26	15.4	823	339	484	419	65	13.4
White	1 551	330	1 221	1 158	63	5.1	1 544	634	910	857	53	5.8	3 099	967	2 132	2 016	116	5.4

* For all values of 10 000 or lower the sample size is too small for reliable estimates.

Totals include other and unspecified population groups and sex.

Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, September 2004.

Table 3. Number of unemployed people, expanded definition, September 2004.

Population group	Male						Female						Total					
	Total	Not economically active	Economically active				Total	Not economically active	Economically active				Total	Not economically active	Economically active			
			Total	Workers	Unemployed	Rate			Total	Workers	Unemployed	Rate			Total	Workers	Unemployed	Rate
	N (1 000)						N (1 000)						N (1 000)					
All population groups	14 194	3 944	10 250	6 772	3 478	33.9	16 097	5 631	9 466	4 866	4 600	48.6	29 905	9 578	19 726	11 643	8 093	41.0
Black/African	10 932	3 232	7 700	4 610	3 090	40.1	11 703	4 315	7 388	3 261	4 128	55.9	22 645	7 549	15 096	7 874	7 222	47.8
Coloured	1 263	318	945	701	244	25.8	1 422	501	921	597	324	35.1	2 685	820	1 866	1 298	567	30.4
Indian/Asian	416	82	334	277	58	17.2	407	211	195	142	53	27.1	823	293	529	419	110	20.8
White	1 551	306	1 245	1 158	87	7.0	1 544	593	950	857	84	9.8	3 099	901	2 198	2 016	182	8.3

* For all values of 10 000 or lower the sample size is too small for reliable estimates.

Totals include other and unspecified population groups and sex.

Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, September 2004.

The difference in the figures (25.2% or 4.1 million unemployed workers compared to 41% or 8 million unemployed workers) is made up as indicated above of discouraged workers.

In Table 5 we can track the rise of discouraged workers from September 2000 to March 2005. The figure increased from 2,2 million workers to 3, 8 million over this period of time, reflecting an increase from 8% of working age people to 13% in just over 4 years.

2.4.3 Increase in size of the Economically Active Population

When tackled about rising levels of unemployment, government often refers to the fact that the economically active population has grown at a higher rate than the

working age population. This is true, as can be seen from the following Table. There are a number of possible reasons for this - an increase in urbanisation, an increase in opportunities for women etc. The underlying question however must be asked - why is it that people who previously did not see themselves as economically active, now do? To hazard an answer based on international social policy studies, can be partly attributed to growing levels of poverty within households, and possibly due to increased levels of unemployment among the traditional breadwinners - males. These questions however should be more rigorously researched, both to understand the current trends, and to anticipate future developments.

Table 4. Labour supply, 1995 to 2002.

	1995	1997	1999	2001	2002
Working age population (15 to 65) (million)	23.9	25.3	26.0	27.2	27.8
Economically active population (official) (million)	11.4	11.4	13.6	15.4	15.8
Economically active population (expanded) (million)	13.6	14.6	17.2	18.6	19.1
Unemployed (official) (million)	1.8	2.3	3.2	4.6	4.8
Discouraged work seekers (million)	2.1	3.2	3.6	3.1	3.3
Expanded unemployed (million)	4.0	5.5	6.8	7.7	8.1
Labour Force Participation Rate (%) (official)	47.8	45.3	52.1	56.7	57.0
LFPR(%) (expanded)	56.9	57.7	66.1	68.3	68.9

Source: DBSA, 2005.

This Table shows the very large increase in labour force participation, growing by 4.4 million people during the period 1995 to 2002. Over the same period however, the number of new jobs grew by only 1.4 million (DBSA, 2005).

Table 5. Disaggregation of unemployment by sex, September 2000 to March 2005.

Labour market indicator	Sep 2000	Mar 2001	Sep 2001	Mar 2002	Sep 2002	Mar 2003	Sep 2003	Mar 2004	Sep 2004	Mar 2005
	%									
Unemployment rate										
Male	28,5	32,3	34,0	34,3	34,6	35,7	34,9	34,4	33,9	33,0
Female	40,5	41,4	47,7	47,2	49,7	49,8	49,2	49,7	48,6	48,5
Total	34,3	36,7	40,8	40,6	41,9	42,5	41,9	41,8	41,0	40,5
Absorption rate										
Male	51,5	49,7	47,3	48,2	47,6	46,7	47,2	47,2	47,7	48,5
Female	37,0	38,0	32,7	34,2	32,0	32,4	32,2	31,6	32,2	32,7
Total	44,0	43,7	39,8	41,0	39,6	39,3	39,5	39,1	39,7	40,3
Participation rate										
Male	72,1	73,4	71,7	73,5	72,8	72,6	72,6	71,9	72,2	72,5
Female	62,1	64,8	62,5	64,9	63,7	64,4	63,4	62,8	62,7	63,4
Total	67,0	69,0	67,0	69,0	68,1	68,4	67,8	67,2	67,3	67,8
Discouraged work-seekers (thousands)										
Male	788	1 030	1 084	1 125	1 185	1 182	1 367	1 405	1 449	1 414
Female	1 429	1 667	1 910	1 930	2 008	2 058	2 367	2 360	2 497	2 406
Total	2 218	2 696	2 994	3 045	3 194	3 241	3 773	3 764	3 949	3 824
Discouraged work-seekers as % of working age										
Male	5,8	7,5	8,0	8,2	8,5	8,5	9,9	10,0	10,2	9,9
Female	10,0	11,5	13,2	13,1	13,7	13,9	16,0	15,7	16,5	15,8
Total	8,0	9,6	10,6	10,7	11,2	11,3	13,0	12,9	13,6	13,0

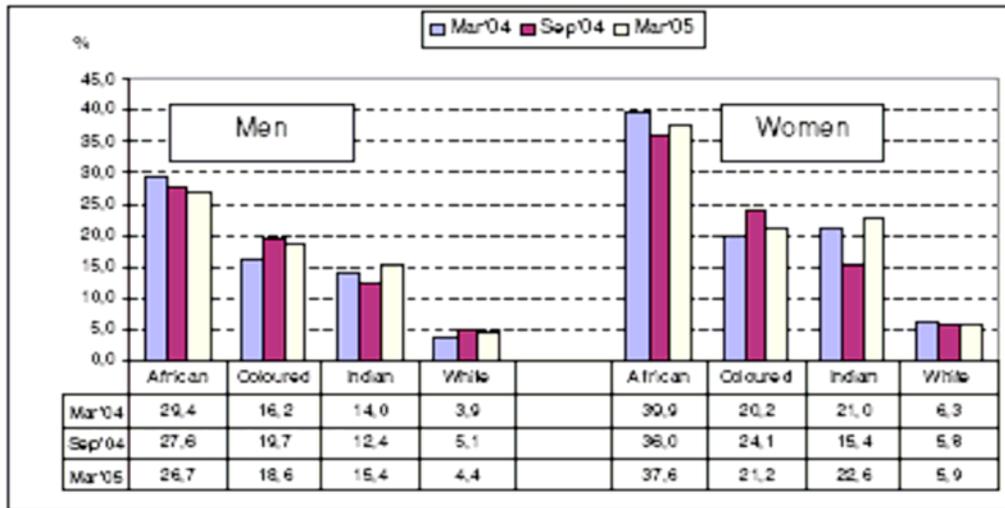
Totals include unspecified sex.

Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, September 2000 to March 2005 Comparison.

The category of discouraged work seekers is an important indicator of the effects of unemployment on unemployed workers. It would be valuable for government policy makers to discover the causes of the discouragement as a preliminary step to re-employment of unemployed people. Accordingly it is extremely troublesome to note that StatsSA, the official national statistical office in South Africa, has ceased to report on the category of discouraged work seeker. The effect of this is to render the 3.8 million discouraged work seekers neither unemployed, but certainly not employed, in other words, they are officially erased.

Table 6. Official unemployment by sex and population group, March 2004 to March 2005.



Source: LABOUR FORCE SURVEY, 2005.

2.4.4 Disaggregation of the officially unemployed

Of the 4,2 million unemployed workers in South Africa, 1, 6 million have been looking for a job for more than 3 years. 2.5 million of the officially unemployed people have never before worked. Of these, the largest single section (41.5%) has been looking for a job for at least 3 years (Labour Force Survey, March 2005).

In each of three age cohorts of unemployed people as presented by the Labour Force Survey who have worked before, namely 15 to 30 years, 31 to 46 years and 47 to 65 years of age, 17.2 %, 46.0 % and 61.4% respectively have been unemployed for in excess of 3 years.

Table 7. The unemployed (official definition) - 15 to 65 years by duration of job seeking, age and whether they have worked before.

Duration of job seeking**	15-30 years			31-46 years			47-65 years			Total		
	Total	Worked before	Never worked	Total	Worked before	Never worked	Total	Worked before	Never worked	Total	Worked before	Never worked
Total	2 688	756	1 919	1 901	743	538	296	216	80	4 283	1 744	2 537
Less than a month	194	76	118	95	67	28	19	16	*	308	159	149
1 month - < 2 months	134	50	84	66	40	25	*	*	*	209	98	111
2 months - < 3 months	169	65	104	54	39	14	*	*	*	233	112	121
3 months - < 4 months	143	47	97	43	32	11	*	*	*	194	84	109
4 months - < 6 months	112	52	60	42	26	16	*	*	*	162	83	78
6 months - < 1 year	293	95	198	88	67	21	21	17	*	402	179	223
1 year - < 3 years	754	198	556	253	164	90	43	34	*	1 051	396	655
3 years or more	849	175	675	647	322	325	174	120	54	1 671	617	1 053
Not applicable	13	*	*	*	*	*	*	*	*	19	*	*
Don't know/ unspecified	24	*	20	*	*	*	*	*	*	35	*	28

* For all values of 10 000 or lower the sample size is too small for reliable estimates.
Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, March 2005.

Of the unemployed people who have worked before, 29.3% last worked in elementary occupations, 15.76 % worked in craft and related trades work, and 13.41% who were previously employed as domestic workers. Given that the structure of employment has shifted significantly in favour of skilled employment (DSBA, 2005), un- and semi-skilled unemployed workers are finding it increasingly difficult to find new jobs.

2.4.5. Wage Income

Between 1993 and 2004, employment remuneration fell from 51% of GDP to 45%, while the share of profits increased from 25% to 30% (Business Report, 13 July 2005).

According to a recent study on wages in South Africa between 1995 and 2000, overall wages declined significantly (Leibbrandt et al, 2005). The most significant decline was however for the lowest earning workers, whose real income during this period halved. For workers in the 10 to the 75th percentile of workers, incomes fell by a third in real

terms. Only for workers in the 90th percentile for women and the 95th percentile for men did real wages increase during this five year period.

Leibbrandt et al are at pains to admit that these findings do not correspond with the National Income figures which suggest real wages either remaining constant or increasing. In response they contend that the data used by them (the Income and Expenditure Survey and the Labour Force Survey) is transparent, while the state that the data used for the National Incomes is not.

As wages for women and for black workers were generally worse off in 1995, the sharp declines have affected their incomes more harshly.

One reason for this sharp erosion in value of wages is that real wages did not keep pace with inflation, a reason not dismissed by the authors (Leibbrandt et al, 2005). Strong unions are vital in demanding real increases for workers, especially for more vulnerable workers.

2.4.6. Incomes per sector

Table 8. Monthly income per Industry, September 2004.

3. Workers (employers, employees and self-employed)
3.9 By main industry and monthly income

1 000

Main industry	None	R2 500 or less	R2 501 - R8 000	R8 001 or more	Total
Total	347	6 361	2 859	938	11 643
Agriculture, hunting, forestry and fishing	242	712	48	27	1 063
Mining and quarrying	-	163	179	40	405
Manufacturing	*	945	419	170	1 714
Electricity, gas and water supply	*	27	37	17	99
Construction	16	595	121	25	824
Wholesale and retail trade	61	1 631	463	124	2 542
Transport, storage and communication	*	222	210	61	563
Financial intermediation, insurance, real estate and business services	*	434	332	189	1 147
Community, social and personal services	12	594	1 036	283	2 185
Private households with employed persons	*	1 032	*	-	1 075
Exterritorial organisations and foreign governments	-	*	*	-	*
Not adequately defined	*	*	*	*	11
Don't know/ unspecified	*	*	*	-	11

* For all values of 10 000 or lower the sample size is too small for reliable estimates.

Total includes don't know/ refused and unspecified income.

Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, September 2004.

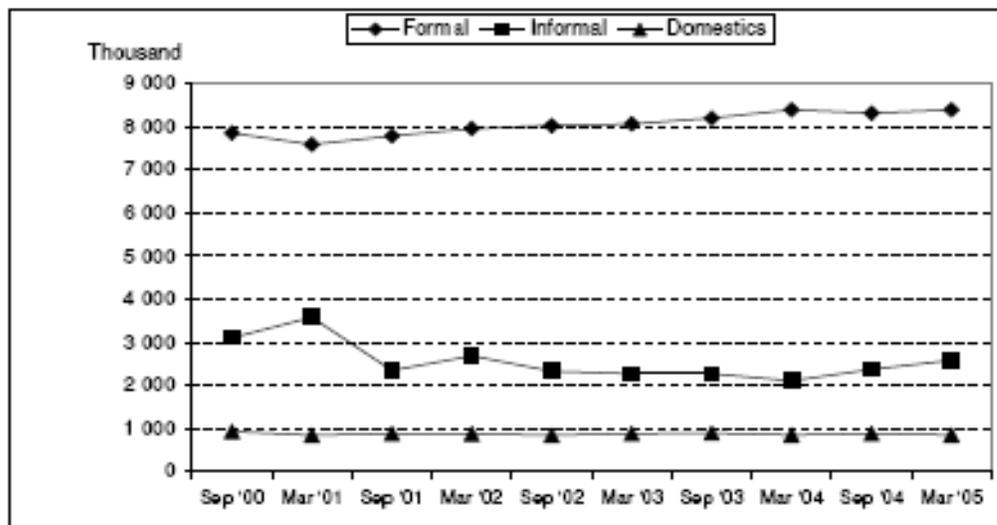
These categories include both workers in the formal and informal economies as recorded by StatsSA (c.f. with Table 8 totals). We can see from this table that the majority of workers (6.3 million out of 11.6 million workers) earned R2 500 or less per month in September 2004. In Table 9 we shall see that while the largest concentration of formal economy workers earned between R2 501 and R8 000 per month, the largest concentration of earners in the informal economy earned between R1 and R500 per month in September 2004.

2.4.7. Formal/ Informal economies

With the realisation of the rate at which the formal economy was shedding jobs, people began to question whether the informal economy could in fact absorb the high levels of the unemployed. Levels of people who pursue their livelihoods in the informal economy in South Africa are very low compared to levels on other developing countries (in India for instance, 90% of working age people are involved in the informal economy). Hopes were high that unemployed persons could provide for themselves through starting small and micro enterprises, and from there “graduate” to medium enterprises in the formal economy.

If we examine Figure 1 however we see that the level of informal economy employment has actually fallen since March 2001, and remains at just over a quarter of employment levels in the formal economy.

Figure 1. Formal and informal employment, September 2000 to March 2005.



Source: Labour Force Survey, 2000 to 2005 Comparison.

According to the DBSA 2005 South Africa Development Report, not enough attention has been paid to the distinction between opportunity and necessity entrepreneurs. The needs of the two groups are extremely diverse. The majority of people fall not into the former category but to the latter, and struggle to make enough for a survivalist existence as can be seen from Table 9.

From Table 9 we can see that just under 70% of people in the informal economy earned R1000 a month or less in September 2004. We also see however that a total of 1,897 000 workers in both economies earn less than R500 per month.

Table 9. Monthly income in the formal and informal economies, September 2004

3. Workers (employers, employees and self-employed)
3.5 By monthly income and sector

1 000

Monthly income	Formal	Informal	Domestic	Total
Total	8 318	2 372	881	11 643
None	31	315	*	347
R1 - R500	358	817	363	1 550
R501 - R1 000	1 109	521	361	2 004
R1 001 - R2 500	2 269	404	117	2 807
R2 501 - R8 000	2 646	199	*	2 859
R8 001+	908	29	-	938
Don't know/refused	992	83	30	1 114
Unspecified	*	*	*	23

* For all values of 10 000 or lower the sample size is too small for reliable estimates.

Total includes don't know/ unspecified sector and payment period.

Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, September 2004.

2.4.8. Terms of employment

Finally we come to examine the trends around terms of employment - i.e. whether a worker is employed permanently, or is a casual or temporary worker by comparing information from September 2002 and March 2005 in order to answer the question as to whether there has been a significant downscaling in permanent jobs in favour of casualisation?

Table 10. Terms of employment, September 2002.

1 000

Main industry	Terms of employment						Total
	Permanent	A fixed period contract	Temporary	Casual	Seasonal	Don't know /Unspecified	
Total	8 738	385	1 116	667	82	52	8 889
Agriculture, hunting, forestry and fishing	585	35	159	44	51	*	884
Mining and quarrying	460	24	*	*	-	-	484
Manufacturing	1 178	55	110	54	*	*	1 425
Electricity, gas and water supply	67	*	*	*	-	-	80
Construction	180	45	108	71	*	*	410
Wholesale and retail trade	940	35	175	119	*	*	1 281
Transport, storage and communication	355	11	53	27	-	*	462
Financial intermediation, insurance, real estate and business services	740	63	50	26	*	*	884
Community, social and personal services	1 589	55	105	30	-	*	1 888
Private households with employed persons	500	15	334	174	*	15	1 040
Exterior organisations and foreign governments	*	*	-	-	-	-	*
Other	28	*	*	*	-	-	40
Unspecified	*	-	*	-	-	-	*

* For all values of 10 000 or lower the sample size is too small for reliable estimates

Table excludes employers, self-employed and those working without pay

Labour Force Survey, September 2002.

Table 11. Conditions of employment per sector, March 2005.

1 000

Main industry	Terms of employment					Total
	Permanent	A fixed period contract	Temporary	Casual	Seasonal	
Total	6 949	600	1 228	747	92	9 546
Agriculture, hunting, forestry and fishing	455	27	99	63	68	715
Mining and quarrying	383	25	10	*	-	423
Manufacturing	1 150	64	128	81	*	1 434
Electricity, gas and water supply	86	22	12	*	-	123
Construction	270	91	182	112	*	662
Wholesale and retail trade	1 141	55	307	176	*	1 585
Transport, storage and communication	371	22	75	29	*	498
Financial intermediation, insurance, real estate and business services	790	87	60	24	*	965
Community, social and personal services	1 757	89	198	67	*	2 055
Private households with employed persons	535	19	317	188	*	1 074
Exterritorial organisations and foreign governments	*	-	-	-	*	*
Other	*	*	*	*	-	*
Unspecified	*	-	*	-	-	*

* For all values of 10 000 or lower the sample size is too small for reliable estimates.

Table excludes employers, self-employed and those working without pay.

Total includes don't know and unspecified terms of employment.

Due to rounding, numbers do not necessarily add up to totals.

Source: Labour Force Survey, March 2005.

According to these tables, the percentage of permanent jobs as a function of the total jobs in 2002 was 75%, and this dropped slightly to 72.7% in 2005. The majority of new jobs created however appears to have been in the category of fixed term contracts which rose from 4.1% to 5.2% of total jobs, representing 215 000 extra jobs.

The estimated real impact of the recent retrenchments and reduction in terms of employment is expected to show effect throughout the rest of 2005/ 06 in the mining and textile sectors.

A number of economists however (Bhorat and Hodge ,1999. Rama, 2001, both cited in DBSA, 2005) argue that there has been a trend towards outsourcing in the manufacturing sector (DBSA, 2005), with the result that vulnerable, unorganised and unprotected informal workers run the risk of increasingly paying the price for increased profitability in this sector.

In addition to offering more security, permanent jobs also in general provide access to benefits and social security, both private such as to pensions and medical aid, and to state social security, such as contributions to the Unemployment Insurance Fund and the Compensation for Occupational Injuries and Diseases Fund.

2.4.9. Impact of levels of Education

The final Table that we look at considers the unemployment rates amongst people according to different levels of education, namely no formal schooling; incomplete primary education; complete primary education; incomplete secondary education;

complete secondary education; matric; diploma and degree. The Table uses the official narrow definition of unemployment, which has seen an increase from 15.8% in 1995 to 30.5% in 2002. Unemployment rates for people with a completed matric doubled, mirroring those of the general unemployment rate between 1995 and 2002 (namely an increase of 16.0% to 32.3%). However the unemployment rate for people with diplomas increased more than threefold, from 4.7% to 14.6%, and for people with degrees, a slightly lower rate of increase, from 2.4% to 6.6% (DBSA, 2005).

Table 12. Official unemployment rates per level of completed education, 1995 and 2002.

Percentage of unemployment per level of completed education	1995	2002
No schooling	12.6	19.3
Incomplete primary	17.4	29.9
Completed primary	18.7	31.4
Incomplete secondary	19.5	38.1
Matric	16.0	32.3
Diploma	4.7	14.6
Degree	2.4	6.6

Source: DBSA, 2005.

Altogether, a gloomy picture. Leibbrandt et al (2005) found that statistically, there was no increase in employment rates as a return to years of education between 1995 and 2000 - in other words, sticking it out to increase the number of years one spent in education did not increase your chance of finding education during this period, which questions to some degree the received wisdom that the reason that so many people are unemployed is due to their low levels of education.

In conclusion, the labour market in South Africa is in serious crisis, which increases poverty and negatively impacts on sustainable development.

The state has introduced a number of policies aimed at reducing the obstacles for new entrants to the labour market, such as the Learnerships programme and the Skills Development Programme. These are positive attempts to address the problem, but fail to tackle the underlying problem which is that Business has shed jobs over the past eleven years, influenced to a degree to the export orientation to the economy agreed on by the state.

The state heralds the Expanded Public Works Programme as a job creating, poverty eradicating flagship. While many do benefit from work through Public Works, it has serious shortcomings, including in the duration of work (between 3 and 6 months); the availability and appropriateness of the training and the skills development aspect of the placement, and the impact that a short term income generating intervention has on existing and future coping mechanisms of poor people. Which have been empirically documented in research done by Anna McCord. Rather than continue to pour money into a flawed project, the state should undertake a serious review of its potential and shortcomings.

COSATU recommends:

1. There needs to be a mainstreaming of labour market policies in all macro-and micro-economic policies, including trade, fiscal and monetary policies.
2. The state needs to acknowledge that the informal economy is not populated just by budding entrepreneurs, but by many vulnerable people involved in survivalist activities. An assessment needs to be done of conditions that affect informal workers to see what interventions could be done to improve their conditions, including local government bye-laws, infrastructure etc.
3. Given the inaccessibility of social security benefits to millions of self-employed and informal employed people, the state needs to revisit the recommendations of the Report of the Committee of Inquiry into a Comprehensive Social Security System in South Africa (the Taylor Report) to provide the framework for a further investigation into developing appropriate support mechanisms for these vulnerable workers.
4. There needs to be a far greater awareness within government about the dynamics and effects of poverty on people's agency, or ability to embrace economic activities. The best way to develop state interventions to support people's income generating activities is to first understand how these activities and dynamics work. Far more consultation should be had with poor people and organized labour to find out what they see as constituting useful interventions at all levels of government policy development and budgetary allocation.

3. OBJECTIVE 2: ACCELERATE SOCIO-ECONOMIC DEVELOPMENT TO ACHIEVE SUSTAINABLE DEVELOPMENT AND POVERTY ERADICATION IN SOUTH AFRICA

3.1. *International codes and standards.*

Despite the repeated commitment by government and other sectors to reducing poverty, there is still no official absolute definition of poverty in South Africa.

3.1.1. Copenhagen Declaration

South Africa acceded to the Copenhagen Declaration which emanated from the 1995 World Summit on Social Development. The declaration calls on all party states to develop:

- National strategies to reduce overall poverty substantially, including *measures* to remove the structural barriers that prevent people from escaping poverty, with *specific time-bound commitments to eradicate absolute poverty* by a target date to be specified by each country in its national context;
- Development of *methods to measure* all forms of poverty, especially absolute poverty, and to *assess and monitor the circumstances* of those at risk, within the national context"

This is followed in paragraph 26 by the statement that governments should (*inter alia*) give:

"... greater focus to public efforts to eradicate absolute poverty and to reduce overall poverty substantially by:

- (d) Elaborating, at the national level, the *measurements, criteria and indicators* for determining the extent and distribution of absolute poverty. Each country should *develop a precise definition and assessment of absolute poverty, preferably by 1996*, the International Year for the Eradication of Poverty."⁶(Our italics).

3.1.2. Millennium Development Goals

Government can only develop appropriate policies and programmes to reduce poverty if it knows what the extent, nature, locale, depth and gender of poverty is. Meth argues that government rapidly needs to finalise a poverty definition given its commitment to meeting the first Millennium Development Goal of halving the rate of absolute poverty by 2015.

Many people feel that the targets contained in the MDGs are at best conservative, and that the targets should be reviewed and tightened to address the conditions of far more poor people in South Africa.

Recommendations:

1. That government place renewed impetus onto the development of a national poverty line which must be developed through broad consultation,

⁶ Quoted by Meth, page 15.

including with civil society and Labour and should be introduced into NEDLAC.

2. That government develop a comprehensive poverty eradication programme, including measurable yardsticks and outcomes, in order to meet its international obligations, as well as provide a reasonable plan that will meet Constitutional muster for the attainment of the diverse socio-economic rights.

3.2. Growth and Development.

According to the UNDP 2003 South African Human Development Report, "The ultimate aim of economic growth and development is to improve the standard of living of the population".

South Africa currently appears to have structural blockages which prevent the benefits of growth being equally distributed amongst its people, let alone allowing for a pro-poor distribution.

The UNDP report is worth quoting at length on this point:

"Neither past nor present growth strategies were articulated from the perspective and requirements of a pro-poor growth strategy...the overriding objective of the present strategy is growth based on an implicit assumption that job creation will result naturally from a strategy that produces economic growth.

...parallel initiatives have been 'added on' to the above core reform in order to respond to the developmental needs of the country. However, despite their contributions, it has become evident that the enormity of the developmental challenges facing the country cannot be satisfactorily addressed by using a 'two track' approach. Growth on the one track is not pro-poor, while.. social development.. is assigned the burden of addressing poverty and unemployment directly".

The challenge for South Africa is thus to reorient the economy to accommodate economic growth while at the same time reduce unemployment, poverty and inequality.

This is what ASGISA should be attempting to do, but it is shirking the challenge, hence our concern is that it will not effect any fundamental improvement in these areas.

3.3. Growth vs Poverty and Inequality.

According to Equity and Development, the World Bank World Development Report 2006, equity is essential for the development of prosperity for any country. Accordingly, policies and institutions that seek to reduce inequality must be seen to contribute to economic growth and development. The reduction of income inequality also increases the positive impact that economic growth has on poverty reduction, both directly through enabling poor people to realize their own potential, and indirectly through supporting higher levels of sustainable development. The Report specifically rejects the assumed dichotomy between policies that promote economic growth and those that seek to support equality, although it does acknowledge that there may be a battle between apparent short term efficiency and equity in this

reprioritization as most resources are allocated with reference to short term results, given the political terms of most democratic governments (Frye, 2005a).

It is important that the state acknowledges that poverty and inequality offend not only moral and constitutional principles, but actively work against attaining higher levels of economic growth.

Recommendations:

1. Government must begin a broad consultative process to identify a growth path that is developmental and pro-poor, rather than focusing on supporting the current path that fails to benefit the majority of South Africans.
2. Social spending should be seen as developmental, reducing inequality and promoting development.
3. In addition to identifying targets for economic growth, government should be identifying targets for the eradication of poverty that can be measured on a regular basis.

4. OBJECTIVE 3: STRENGTHENING POLICIES, DELIVERY MECHANISM AND OUTCOMES IN KEY SOCIAL AREAS INCLUDING EDUCATION AND COMBATING OF HIV/AIDS AND OTHER COMMUNICABLE DISEASES.

4.1. *Health and HIV/AIDS*

4.1.1 Current Policy Issues.

COSATU has always maintained that the public health system must be established as the backbone of healthcare, with a shift to National Health Insurance (NHI) and ultimately to a National Health Service.

The 1990s were characterised by the opening of the public health sector to more people and a shift to primary healthcare, combined with budget cuts. This led to under-resourcing in many facilities. The resulting flight of the middle-classes into the private sector led to soaring health costs.

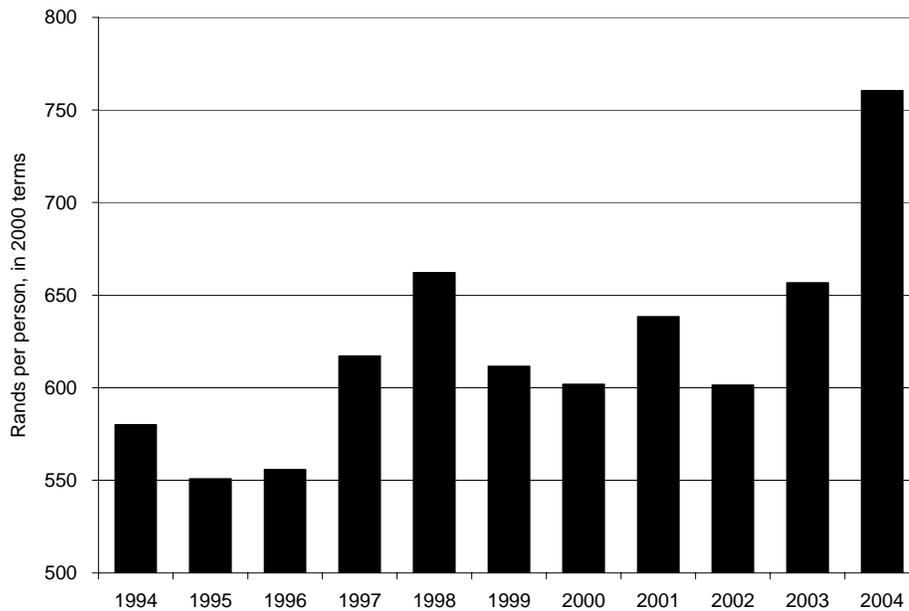
The early 2000s saw increased regulation of the private health sector combined with substantial - but still inadequate - improvements in the health budget. COSATU came into considerable conflict with the state over its reluctance to provide treatment for HIV and proposals for Social Health Insurance (SHI) based on very high contributions from workers. Policies on health were largely shaped by fiscal policies.

Current problems faced in South Africa include the failure of inadequate resources to address the HIV/AIDS pandemic, a failure to transform a health system that was geared to predominantly address the health needs of the white minority at the expense of the majority, unequal distribution of health resources within the provinces and municipalities, and a reluctance by the leadership to take the demands of labour and civil society seriously. Post 1994, the negative impacts on the health system of budget cuts resulting from GEAR were huge.

Mechanisms to realise a vibrant public health system led COSATU to propose that the NHI be funded by taxation plus a contribution from employers and employees that would be negotiated at NEDLAC, but would come to around 1% each for workers and employers. Services would be free to the public at the point of service, and the service provider would then claim the cost back from the NHI. Our resolution also supported government moves to strengthen the regulation of private providers, medicine production and medical schemes.

The following table shows the sharp cuts in public health expenditure per person that followed adoption of restrictive fiscal policies under GEAR. From 2002, however, as overall fiscal policy relaxed, health spending recovered substantially. Between 2002 and 2004, spending per person rose by 25%.

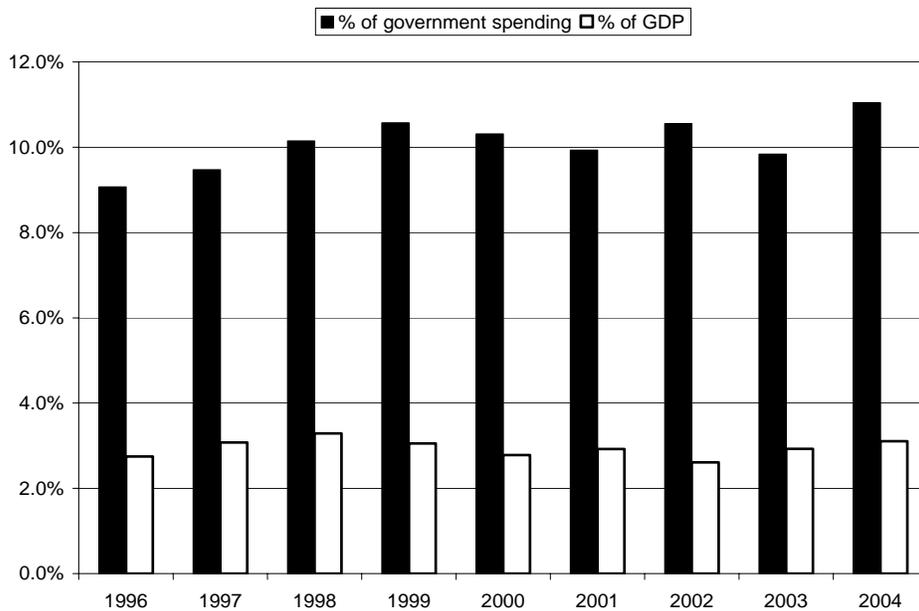
Table 13. Health budget per person in 2000 rand, 1994 to 2004



Source: 1994 to 2002, nominal data from SARB long-term fiscal data, downloaded from www.reservebank.gov.za in December 2004; for 2003 to 2004, nominal data from National Treasury, *Budget Review 2004*, downloaded from www.treasury.gov.za in February 2004. Data was deflated using CPI.

However, as an overall trend, as the following table shows, between 1997 and 2002 *the health budget fell relative to both total government spending and the GDP*. In 2003 and 2004, however, it increased relative to both. In 2004, at 11% of government spending, it accounted for more of its budget than at any time in the past 15 years. Relative to the GDP, however, at 3,1% it remained below its 1998 peak.

Table 14. Health spending relative to the total budget and the GDP, 1996 to 2004¹



Note: 1. GDP for 2004 extrapolated from first three quarters of the year assuming constant growth rate in nominal GDP. *Source:* Expenditure from 1994 to 2002, from SARB long-term fiscal data, downloaded from www.reservebank.gov.za in December 2004; for 2003 to 2004, nominal data from National Treasury, *Budget Review 2004*, downloaded from www.treasury.gov.za in February 2004; GDP figures from SARB long-term national accounts data, downloaded from www.reservebank.gov.za in December 2004.

An anomaly prevalent in South Africa is that whilst we spent more on health resourcing (including expenditure in the private sector) than most middle-income countries as a percentage of GDP, its outcomes were considerably worse. HIV spread faster, immunisation rates were lower, and infant mortality was higher than in countries with far lower spending on health care. The table below vividly demonstrates this.

A longstanding demand of COSATU (as well as the ANC) has been our demand for a National Health Insurance system. In the 2000s, the Department of Health endorsed the introduction of SHI instead. The following table shows the difference between SHI and COSATU's demand for NHI.

Table 15. Comparing SHI and NHI proposals

	SHI	NHI
Source of funding	4,5% surcharge on income tax	Levy of around 1% on employers and employees, plus tax funding
Coverage	Income tax payers	Everyone, employed or not
Governance	Private medical schemes plus a state-owned scheme	Government-run national scheme
Providers	Private and public	Private and public, but moving toward National Health Service

Note: Proposals on SHI reflect government communications with COSATU in April 2005. The SHI proposal would substantially increase the cost of healthcare for workers.

By 2005, the Department of Health proposals included an increase in income tax by 4,5% at all levels, with the increased revenue used, not for public health care, but to subsidise taxpayers' membership in private medical schemes. The tax contribution would cover an extended benefit package providing private acute, chronic and primary care. It would push the cost of healthcare in South Africa to over 10% of GDP.

Medical scheme membership varies widely by income level. Research shows that only about one in 20 workers earning under R2500 a month belonged to a medical scheme in 2000. Most of these low-income members belonged to unions, which negotiated schemes with employers.

Yet, workers who belonged to medical schemes spent a far higher share of their income on health than non-members, who relied primarily on public care. Figures for those earning under R1000 are distorted, as most of these members had outside sources of payment for their medical schemes - for instance, pension funds or family members. In addition to medical-scheme costs, many people paid health providers directly. Altogether, estimates suggest that in the late 1990s, these payments accounted for about a quarter of total private spending on health⁷.

⁷ Data supplied by Cynthesis

Table 16. Medical scheme membership and costs by income level, 2000

Income group	% of group in medical schemes	Members as percentage of:		% of income spent on healthcare by:	
		All medical-scheme members	All workers	Medical scheme members	Non-members
under R1000	3%	4%	22%	100%	2%
R1000 to R2500	5%	17%	53%	12%	1%
R2501 to R4500	31%	21%	11%	9%	1%
R4501 to R8000	57%	25%	7%	7%	1%
over R8000	78%	33%	7%	5%	1%

Source: Calculated from, Statistics South Africa, *Income and Expenditure Survey 2000*. Pretoria. Database on CD-Rom.

4.1.2. Recent developments:

In its strategic overview and outline of key policy developments for the period 2001/02 - 2007/08, the national Department of Health (DoH) makes frank statements of the key challenges it would have to deal with⁸. Key challenges and problems identified by the DoH were the following:

- *HIV and Aids and sexually transmitted infections* - the extent of the HIV/AIDS pandemic in South Africa was finally recognised. There has been a significant shift in government's approach to ARV therapy since the 1990s. An initial victim of the new rationing of care was anti-retroviral treatment. Initially, the government rejected it as too expensive. As prices fell in the late 1990s, however, it adopted a more ideological position, questioning the effectiveness of the treatment. This position was reluctantly reversed only in the early 2000s. Controversy over the refusal to provide treatment to people with AIDS tended to stall other efforts on HIV, and the epidemic was not effectively addressed. As a result, infection rates rose rapidly through the 1990s.
- The implementation of an operational plan for comprehensive HIV and Aids care, management and treatment only became a reality in 2004. Key aspects of the plan included the designation of at least one treatment point in each of the 53 health districts across the country, each consisting of a network of local health facilities. In 2004, provinces identified 113 facilities and 28 786 patients across the country receiving treatment. Furthermore, the DoH developed guidelines for related programmes, such as people living with HIV and Aids, tuberculosis, other chronic debilitating conditions, the expansion of condom distribution; increased availability of voluntary counselling and testing; and the rolling out of mother-to-child prevention programmes.

The above interventions came to fruition at a very late stage in the history of the pandemic, a concern which COSATU and several civil society organisations have raised with government for several years. As a result of the tardiness, ideological and other differences around this critical issue, hundreds of thousands of Southern Africans have lost their lives. The 2003 SA antenatal survey suggests an HIV prevalence rate of 27,9 per cent, the highest in the world, with climbing mortality levels as the epidemic

⁸ Vote 20 Health Budget, 2005 Estimates of National Expenditure, National Treasury

enters its mature phase. A key link to the above programme is the integrated nutrition programme, where guidelines were developed for nutritional supplementation for people living with HIV and Aids. Since April 2004, The DoH is also responsible for the primary school nutrition programme, previously the responsibility of the Department of Education.

COSATU supports the national treatment target of at least 200 000 people to be put on antiretrovirals by the end of 2006, and will encourage voluntarily testing and counselling of workers as part of the new implementation strategy.

- *Primary healthcare services* - One of the major challenges facing provincial and local government, was the implementation of adequate and appropriate primary health care services, given the fact that this was an areas of overlapping responsibility. The National Health Act (2003) changed the legislative dispensation for primary healthcare services. Local government is now responsible for a narrowly defined set of environmental health services and provinces have responsibility for all other aspects of primary health care. However, provinces may choose to delegate primary healthcare services to local governments. In order to enforce and maintain acceptable norms and standards, the DoH developed a standard service level agreement to better regulate the transfer of funds to municipalities, and is being used by all provinces.
- *Human resources* - Poor working conditions and low salaries led to the massive efflux of nursing staff, doctors and other medical professionals over the past 10 years. Addressing this loss of staff and expertise may take as long a period of time, if not longer. The DoH has finalised the implementation of a national health human resources plan, which was meant to start in March 2005. The plan aims to ensure that "health human resources are developed and distributed equitably", and help ensure that provinces comply with the National Health Act (2003).
- In an attempt to recruit and retain health workers, the DoH instituted a system of scarce skills and rural allowances, and is responsible for the placement of seven categories of community service professionals (recent graduates doing one year's compulsory service). Furthermore, expanded community health worker programme has been launched to strengthen community and homebased care [in line with the Expanded Public Works Programme (EPWP)]. Also, a mid-level worker programme in a range of categories has been initiated to strengthen service delivery.
- *Hospital services* - The programme to revitalise hospitals has been in effect since 2002. 30 hospitals were in the programme in 2004/05. It addresses infrastructure, organisational development, health technology, emergency medical services, and quality of care and is a long-term project that aims to revitalise all public hospitals and their supporting networks. A total of 59 projects over the MTEF period is envisaged.
- COSATU is in principle supportive of initiatives to improve the quality of care in hospitals in South Africa. However, the revitalisation of tertiary institutions is linked to public-private partnerships and in the past, resources were used for these initiatives which in our view could have better served the rollout of much needed primary health care interventions. We have rejected out of hand the differentiated treatment of patients in public hospitals, based on whether they have private health care insurance or not.
- *Medicines* - In an attempt to address the high prices paid by South Africans for medicines, medicine pricing regulations were issued in terms of the Medicines and

Related Substances Control Amendment Act (1997). These, the DoH claims, put in place a clear and transparent system of medicine pricing, and tackle a range of problems and perverse incentives. Aspects of the regulations have been the subject of legal challenges by the business sector.

- Furthermore, to strengthen the rational use of medicines, the primary healthcare standard treatment guidelines and essential drug list was reviewed and launched during 2004. Norms, standards and generic standard operating procedures for pharmaceutical service delivery were developed and distributed to provincial departments of health, correctional services and the military health service, and are being implemented.
- *Broader health financing initiatives* - other critical developments include the development of a social health insurance system for the unemployed and the tax status of medical aid contributions. However, the DoH has failed to raise these important initiatives through NEDLAC and thus may have compromised such initiatives, regardless of their merit.

4.1.3. Constraining (or progressive) elements of government policy

Several recent health policy and legislative developments provide an opportunity to engage government. However, the overarching context and challenges within the health sector requires a massive State-led shift in order to realise the long-standing demands of COSATU and like-minded civil society institutions.

The growth in spending on health in the early 2000s, and especially in 2004 and 2005, remained insufficient to reverse the crisis in the health sector. The Department of Health increasingly called for introduction of SHI, which would effectively push most workers into using private health care.

The initiative by government to implement stronger regulation of the private sector in an effort to reduce duplication and ensure more equitable access across the country is generally supported by COSATU. However, specific measures have been rushed through without adequate consultation or care, causing disputes and uncertainty. Critical measures included:

- The requirement that doctors and clinics obtain “certificates of need” in order to practice. This law caused considerable unease amongst medical practitioners, since the Department of Health refused to build in safeguards to minimise dislocation for them.
- Regulation on the prices of medicines sold to the private sector; the public sector already received substantial discounts. Initially, the Department of Health proposed a 50% cut in all medicine prices, combined with a ban on discounts within the private sector. Faced with industry opposition, it agreed to a cut equivalent to existing discounts. This policy effectively militated against generic producers, since the deepest discounts occurred in any case where patent medicine producers faced generic competition. In addition, the Department of Health placed fairly arbitrary limits on dispensing fees for pharmacies, leading to a successful legal challenge.
- Limits on dispensing by medical doctors. This followed from the Department of Health’s contention that doctors tended to over-prescribe in order to improve their incomes from this practice. COSATU members complained, however, that the new

rules imposed higher costs and considerable inconvenience, since they had to pay separately for doctor's visits and medicines, and often travel far to find a pharmacy. Moreover, the new law threatened the primary health clinics run by SAMWU and SACTWU for their members.

- Efforts to encourage private medical schemes to use public hospital facilities. The Department of Health suggested that public hospitals should use the fees received to establish better-resourced wards for private patients. As the resolution from COSATU's Eighth National Congress noted, this policy effectively diverted public resources from poor patients as well as re-introducing a two-tier health system.
- Increased regulation of medical schemes, with an expansion in the required package of minimum benefits. This legal system contributed to higher medical-scheme costs, since members could not obtain more limited coverage.
- The introduction of a system of trustees for medical schemes. In contrast to the unions' active engagement with pension funds, however, most did not use the new trustee system to influence medical schemes, which generally remained captives of the fund administrators. .
- In an effort to control costs, the state problematically ended automatic promotions for nurses by agreement in 2000. It promised to replace them with a proper career path, but by 2005 little progress had been made. The state also began to admit that the health sector was substantially understaffed, and promised to hire thousands of new nurses. Little progress was made in this effort, however, and the closure of nurses' training colleges in the 1990s and early 2000s meant that the proposal could prove difficult to fulfil.

Recent events pointing to the needs for partnerships and interdepartmental and intergovernmental co-ordination

The most recent update on Government's Programme of Action⁹ is informative insofar as it reflects ongoing areas of engagement with government. It is encouraging to note that these areas of engagement are increasing interdepartmental co-ordination and between spheres of government as well as public entities. Key government departments and entities in this regard include DoH, Department of Education (DoE), StatsSA, DWAF, DPSA and others. These developments point to a range of possibilities for engagement, but also highlights constraints and persisting contradictions.

With regards to the prevention of communicable and non-communicable diseases, COSATU welcomes the fact that the draft strategy for prevention of injuries and non-natural causes of death has been drafted and demands to engage in this process. In terms of the integration and strengthening of programmes within government, we note that partnerships with civil society continue to be coordinated through SANAC, though engagement with and the capacity of SANAC is problematic (see above).

COSATU supports the integration of the TB and HIV and AIDS programme, noting that the DoH is working with all Provinces to ensure improved access to antiretroviral Therapy for TB patients who are co-infected with HIV and that provinces are to take over the management and accreditation of TB hospitals. We remain concerned that attempts to decentralise care of multi-drug resistant TB patients can only be done

⁹ Social Cluster – updated 8 September 2005 – www.info.gov.za – see Programme of Action

when these institutions are competent and have sufficient resources to realise their duties.

Recent reports and experiences regarding water-borne diseases being spread as a result of poor access to, and poor maintenance of, public infrastructure is a source of great concern. There is a need for COSATU along with civil society at a local level, to engage with government in improving inter-departmental coordination to address water and vector borne diseases. We welcome targets such as the reduction of malaria cases by 10% per year; the adequate provision of safe drinking water and sanitation in settlement areas to prevent cholera and other water borne diseases. However these targets can and must happen in consultation with civil society. It cannot continue along current trends and requires a response beyond a response to an epidemic or crisis.

At a Parliamentary level, one of the most recent briefings to the PC for Health, the DoH briefed the Committee on the District Health System (DHS), outlining issues of health district boundaries, the creation of District Health Councils (DHCs) and District Health Plans, the expansion and consolidation of Municipal Health Services (MHS) and Primary Healthcare (PHC) services. DoH also reported that a strategy for rural healthcare was being developed.

Various posts remain vacant in the Primary Health Care Directorate, which is an increasing source of concern to both the Department and the PC for Health.

The Committee "was extremely concerned with the ongoing problem of financial inequities in healthcare between provinces. Other issues of concern included accommodation shortages for staff in rural areas; environmental health service delivery, the need for partnerships between provincial health departments and private institutions, and the need to resolve budget tensions between provinces and local authorities"¹⁰. These challenges must be engaged by COSATU and civil society organisations.

4.1.4 Way Forward.

The current profile of the health sector in South Africa is a result of a complex process of policies that predate 1994. Progressive initiatives by government were constrained by the limitations imposed by GEAR.

The effects of the HIV/AIDS pandemic are by far the most serious crisis facing not only the health sector, but all aspects of our economy, well-being and ability to grow as a nation. Efforts should therefore recognise the extent of the crisis, which has the notorious status of being the worst in our world, demanding resources and interventions beyond the current approach by government. Failure to do so will affect us all gravely.

What has become clear, in terms of establishing an equitable health care regime, is that the skewed development of the private health care sector, often subsidised by government with billions of rands of taxpayers' money, has led to many of the current

¹⁰ Health Portfolio Committee - 16 August 2005. Briefing on the District Health System by the DoH – www.pmg.org.za/viewminute.php?id=6120

constraints of government. What is therefore needed is a more detailed analysis of efforts to regulate the private health sector. COSATU needs to continue its engagement with government on SHI. Health workers need to have power to engage their employers decisively. In this regard, the designation of essential services, and the right to strike when all attempts at reaching consensus have failed, are paramount in advancing the quality of work and rights of health workers.

Finally, many of the existing problems have in part been the making of the Ministry and Department of Health themselves. Intransigent ideological positions, the failure to engage civil society organisations either progressively or mandatorily, has led to a less than ideal working relationship and partnership that would have, in our view, led to a speedier resolution of challenges in the health sector.

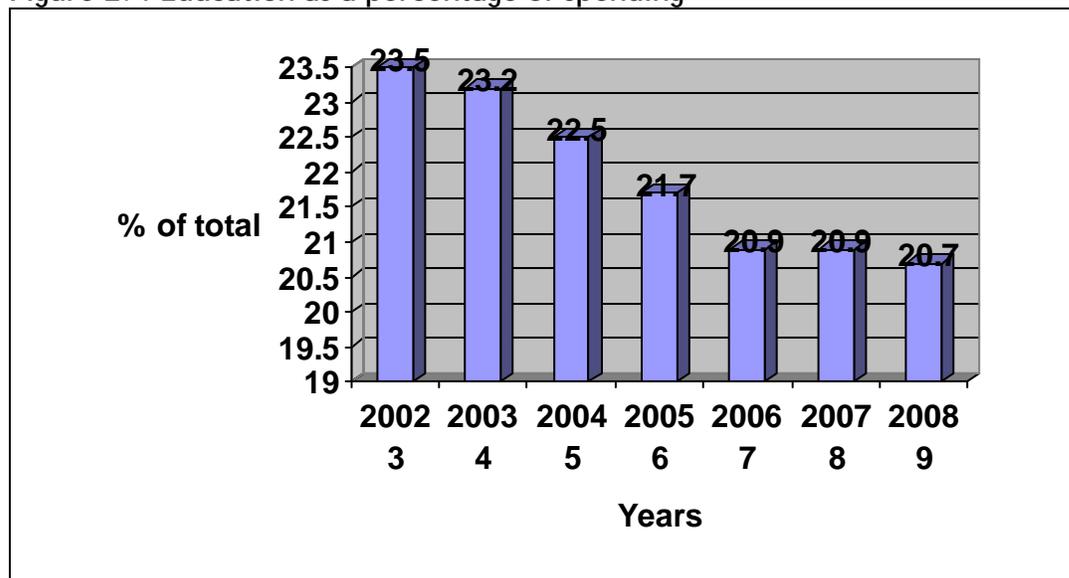
4.2. Education

Education is a key obstacle to equality and growth in South Africa due to the deeply unequal education policies of the past. Since 1994 however, national education policy appears to have vacillated with no clear improvements. Education is vital to revitalize the skills base of South Africa.

The concerns lie not only in access to education - a constitutional right, but also in the quality of the education and the educational facilities, with many children still learning under trees and in schools with no toilets, running water or desks.

Notwithstanding these concerns, the recently announced national budget shows that the national share of education as a percentage of the budget continues to decline.

Figure 2. : Education as a percentage of spending



The declining share of education is significant and unacceptable, given that education is perhaps the top priority for our country. Over the years we have seen an argument becoming hegemonic that the problem with education is not resources, but improving

the efficiency of spending. This argument is completely disjointed from the realities of education in our country. These realities include:

- Lack of skilled teachers
- Lack of infrastructure and support services

Table 17 shows the percentage increase for education over the three year Medium Term Expenditure Framework (MTEF), using consolidated national and provincial spending.

Table 17: Consolidated spending on education

Education	Audited Outcome			Revised Estimate	Medium-Term Estimates		
	2002 3	2003 4	2004 5	2005 6	2006 7	2007 8	2008 9
	62012.2	70130.1	75485.1	83437	91994.8	101145.4	110236
		13.1	7.6	10.5	10.3	9.9	9.0

The increases are modest given the scope of the problems being experienced.

Further concerns:

- The decline in Adult Learning and School Enrichment - itself an odd combination - is worrying, given the challenge of illiteracy in South Africa, and the need for skills development in the economy. The increase over the MTEF is also very small in comparison to needs.
- The discontinuation of the Early Childhood Development conditional grant is worrying. In our review of the Estimates of Expenditure we have found no indication that government will support ECD in other ways. If this is true, than it reflects a significant lack of foresight by government. We will be exploring ways to fund ECD, and call on the Department of Education to do the same
- The modest increases in grants for the school nutrition programme is also an area that we believe would make for excellent budget growth commensurate with equally good development outcomes. Moreover, the intention to extend school nutrition programme to secondary school must be costed.

Substantive problems that persist regarding education include:

- Poverty threatens children's access to education. An inability to pay school fees, registration fees, to buy the necessary school uniform as well as transport fees to and from school all act as barriers.
- We are still awaiting the introduction of "no fee" schools, but believe that this must be closely monitored to ensure that the level of education for poor children does not become poor education, and that the state subsidies must adequately provide for the needs of the school.
- In addition, many poor parents are unaware of the fee exemption mechanism that exist, and school governing bodies are reluctant to provide information around this relief due to their concerns about low levels of revenue and low state subsidies available for poor learners.

The state needs to ensure that there is a wide spread education drive around learners and parents rights in this regards, as well as how the mechanisms operate to claim this relief.

- Teachers' salaries need to be commensurate with market related opportunities to ensure that we are able to retain good teachers in the public school education system.
- The number of children benefiting from the innovative National School Nutrition Programme has fallen by around 20% over the last ten years, notwithstanding the increase in children attending school (CI submission to the Joint Ad-Hoc Committee on Socio-Economic development: Public Hearings Report). This vital source of food is also not available to secondary learners.

Recommendations:

1. In order to ensure substantive equality in education, COSATU calls for free and compulsory quality education, for both primary and secondary levels, as well as universally accessible education for ECD, ABET and tertiary training and education.
2. Teachers' salaries must be reviewed.
3. Safe and reliable transport to schools must be provided by the state.
4. Roll out the National School Nutrition Programme to secondary schools.

5. OBJECTIVE 4: ENSURING AFFORDABLE ACCESS TO WATER, SANITATION, ENERGY, FINANCE (INCLUDING MICRO-FINANCE), MARKETS, SHELTER AND LAND TO ALL CITIZENS¹¹, ESPECIALLY THE RURAL POOR

5.1. Free Basic Services: Electricity and Water Services

In 1996, the Growth Employment and Redistribution (GEAR) strategy was proclaimed as a framework within which the developmental challenges identified in the Reconstruction and Development Programme (RDP) were going to be pursued.

Thus, until its second term in political office the ANC's approach to municipal service delivery was limited to the deracialisation of social provision by way of extending all programmes to communities which historically deprived as a result of Apartheid. However, this was to occur within GEAR's strictures of fiscal austerity. Hence, on the whole the development of policies was piecemeal, incremental and directed or constrained by the Treasury's priorities.

Policy frameworks developed in areas such as water services and electricity are based on doctrines of cost-recovery and commercialization, in contrast to the Constitutional framework which guarantees these entitlements as part of the rights that must be enjoyed by all the citizens. Thus, having institutionally corporatised and commercialised social services delivery, the cost-recovery doctrine became a pervasive *modus operandi*.

Regardless of the social good or service, cost-recovery requires "consumers" to pay partial or full costs of the services delivered, even when these are supposed to be constitutionally guaranteed. Municipalities use it to balance their financial books, preoccupied with the goal of avoiding deficit-financing and the stabilization of finances for service delivery. Accordingly, it is intended to generate revenue for future service upgrades and extensions; and in some instances it can also be used in favour of the poor when applied as part of the progressive block tariffs system. In this context, a pro-poor cross-subsidisation also helps in the management of demand for energy or water by penalizing over-users, particularly the wealthy and business.

However, informed by a Neoliberal orthodoxy, cost-recovery is conventionally used to lay a basis for the privatisation of public enterprises in order to put them on a footing that would entice private service providers who normally purchase profit making state monopolies. Hence, corporatisation and commercialisation of utilities tends to be used as a preliminary measure for the eventual privatization of publicly owned entities.

However, with regard to service delivery cost-recovery refers to the recovery of all or most of the costs associated with the delivery of particular services by the service provider. Where publicly owned delivery agencies are involved, the delivery of service may or may not include a surplus above the cost of production or service delivery, depending on the level of subsidization or commercialization. However, conventionally

¹¹ It is important to note that all socio-economic rights under the South African Constitution are guaranteed to everyone in South Africa, they are not restricted to citizens. The only rights that are restricted to citizens in the Bill of Rights are the rights to Political Rights, Citizenship, and the Freedom of Trade, Occupation and Profession.

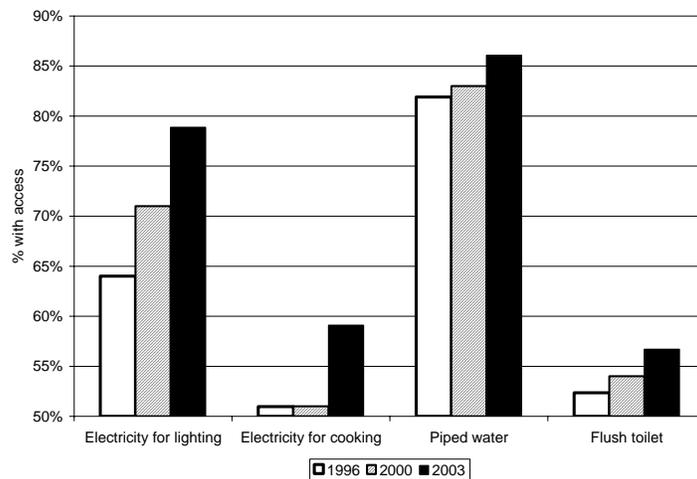
there is an inherent logic to include a surplus (profit). In either case, the objective is to recoup the full-cost of production.¹²

However, not all public goods lend themselves to full-cost recovery charges wherein it is possible to accurately bill in measured volumetric terms, in order to recover short-run marginal cost of production plus a portion of long-term operating and maintenance costs. Such services include waste, street cleaning, education, etc. where there are even greater positive externality costs and returns in the long-term.

With regard to water and electricity, in its attempt to obviate the moral and political hazards associated with the enforcement of cost-recovery measures, government allowed for the introduction of pre-paid meter system at the local level - mainly directed at the poor who happen to be predominantly found in the periphery of urban centers and rural areas.¹³

In the absence of a universal progressive block tariffs system in the delivery of water and electricity, the implementation of cost-recovery measures proved to be counter-productive vis-à-vis government's attempts to extend and maintain access of services to the poor. However, in trying fulfill Constitutional entitlements as well as the RDP's directives, in July 2001 a lifeline or free basic services policy for water and electricity was introduced.¹⁴

Figure 3: Electricity, water and sanitation delivery



Source: People's Budget, 2006 - 2007.

¹² D. A McDonald & J Pape 'Cost Recovery and the Crisis of Service Delivery in South Africa, Zed Books.2002.

¹³ These measures included the physical cutting-off of the electricity and water reticulation infrastructure connecting "defaulting" households, which often prompt violent confrontation.

¹⁴ Free Basic Services and Indigency Policy for the destitute were ANC's trump cards in the December 2000 local government elections.

As illustrated in Figure 3, despite increased electrification (more than three quarters of households), many beneficiaries continue to complement or use traditional fossil fuel sources since they are not able to use electricity for cooking. On the other hand, many people, especially in the rural areas still do not enjoy access to flush-toilets; in fact, in many instances including urban areas (informal settlements) government delivers VIPs. Thus, both the 25 litres per person per month and the 50 kWh of electricity per month are inadequate.

Enjoying exclusive Constitutional competency over electricity and water services yet hampered by capacity limitations, many municipalities are still yet to provide for Free Basic Services or develop an Indigency Policy. According to the Department of Provincial and Local Government (DPLG), in 2005:

- 70% of the 46 553 296 total population is provided with Free Basic Water.
- 61% of the 29 378 792 indigent population is provided with Free Basic Water.
- 64% of municipalities provide Free Basic Electricity.

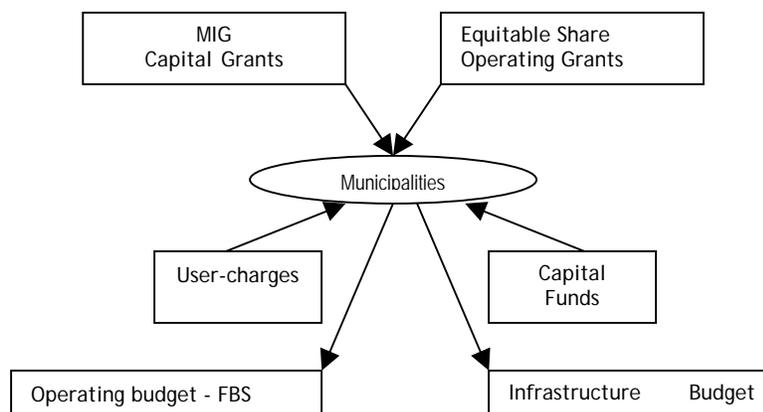
In municipalities where such policies are implemented, they tend to be operationalised in terms of the progressive block tariff system; whereby the initial block of consumption of water (six kilolitres) and electricity (50 kWh) is free of charge, beyond which the tariff rises exponentially to ensure cross-subsidisation.

In terms of the capital investments for infrastructure extension, the Municipal Infrastructure Framework (MIF) is the guiding implementation framework. The MIF seeks to integrate the delivery of water, sanitation, roads, sewerage, storm-water drains, electricity, etc. through the transfer of capital funding from the national government through the Municipal Infrastructure Grant (see figure 4 below). Whilst on the other hand, the Build, Operate, Train and Transfer (BoTT) protocol guides relationship between the state and the private sector whereby government enters into concessionary private-public-partnerships for the extension, operation and maintenance of infrastructure over a particular period of time.

The Local Government Municipal System Act of 2000, contains two key principles relevant to the provision of electricity and water services:

- Firstly, that local government must aim to provide broad access to basic services - making use of cross-subsidies to achieve this goal.
- Secondly, that local government must recover costs when delivering services to ensure that it remains sustainable.

Figure 4: Fiscal Framework



Currently, the delivery of FBS is undertaken universally rather than means-tested. Hence, practically it those citizens residing in big and affluent municipalities that actually enjoy access to FBS rather than the rural poor mostly served by municipalities lacking capacity to deliver FBS.

Government defines an “indigent” as a person “lacking the necessities of life”, including sufficient water, basic sanitation and basic energy. Strangely, this definition does not include income poverty. Thus, according to the DPLG, in addition to housing and refuse removal, these goods and services constitute the “Essential Household Service Package”. Hence, the indigent policies comprise three components:

- Gaining access (extending infrastructure, aided by water and electricity parastatals)
- Maintaining access (through operating expenditure)
- Targeting the poor (through the revenue mechanism)

The Directorate Free Basic Services of the DPLG conducted a survey (both qualitative and quantitative) comprising 256 municipalities country-wide - *A Study into the Provision of Free Basic Services* (2003), which revealed the following:

- 50% of municipalities did not have sufficient finances to support their planned FBS initiatives.
- The total national budget allocations reflected by municipalities for FBS amounted to R7.4 billion, 56% of which are targeted at water, followed by sanitation (26%) and then electricity (18%).
- The collective costs of addressing the infrastructure required for FBS provision was R14.5 billion.
- For free basic water, municipalities heavily rely on equitable share (56%) whilst national grants constitute 4% of their funds for free basic electricity initiatives.
- The majority of municipalities (32%) prefer flush toilets for the provision of free basic sanitation, followed by VIPs (13%) and septic systems (2%).

Table 18: Receipt of Free-basic services delivery per specific household type (poorest 40%).

	Poorest 40% of Households	Female-headed Household	Male-headed Household	Rural Household	Urban Household	Household with no one employed	Households no one employed & no grants	Single women with children	"Granny's Household
SIZE OF CATEGORIES									
No. of Household in a category	5.1 million	2.8 million	2.2 million	2.9 million	2.1 million	1.2 million	0.9 million	0.9 million	1.1 million
As a % of the poorest 40%	100%	56%	44%	58%	42%	25%	18%	18%	21%
AVERAGE VALUE OF EXPENDITURE PER MONTH (Rands)									
Electricity	33	33	33	27	41	31	30	30	33
Water	22	21	22	16	29	22	23	21	20

Source: HRSC (2004) Social Wage in South Africa.

5.2. Electricity

Introduction

Over the past 10 years or so, the electricity industry's annual contribution to the Gross Domestic Product (GDP) amounted to 3, 4% on average. The South African Electricity Supply Industry (ESI) and Electricity Distribution Industry (EDI) are by far dominated by the State Owned Enterprise (SOE), the Electricity Supply Commission (ESKOM).

Until recently, ESKOM was a vertically integrated utility operating across the electricity supply and distribution chain. ESKOM ranks seventh in the world in terms of its size and electricity sales. In contrast to many major Independent Power Producers (IPPs) across the world, notwithstanding the fact that ESKOM is a state monopoly, it is reputed to be amongst the cheapest suppliers of electricity in the world. A credit attributed mainly to the substantial capital investment made in the 1980s and supply of suitable grade coal.

In the middle of the 1980s, the incumbent Apartheid government embarked on a course of privatisation, following recommendations of the de Villiers Commission. Hence, in 1987 government enacted the ESKOM Act in order to repeal the Electricity Act of 1922 through which ESKOM was established as a state monopoly. Thus, this was the very first step in an attempt to privatise ESKOM, which eventually came to a halt as a result of the transitional and political exigencies of the late 1980s and early 1990s until the advent of a new democratic dispensation.

Legal and policy framework

In 2001, the ESKOM Conversion Act was passed, repealing the ESKOM Act of 1987 as amended. This legislation converted ESKOM into a public company called ESKOM Holdings Limited, with its share capital entirely held by the state. Thus, as a corporatised entity, ESKOM now pays taxes and dividends to the state. The ESKOM Conversion Act succeeds attempts of the 1980s, in a managed liberalisation drive that become the main policy orientation of the democratic government. The electricity industry is divided into three main components, namely generation, transmission and distribution.

As part of the overall government's policy with regard to the restructuring of SOEs, the restructuring of ESKOM was dominated by concerns about corporatisation, commercialisation, liberalisation and full cost-recovery pricing.

In 2004, the DME released the Electricity Pricing Policy.¹⁵ This policy document represented the DME's more definitive and comprehensive position on the restructuring of the electricity supply and distribution industry yet. The proposals of this policy bear more substance on some of the key propositions of the White Paper on Energy, 1997. Thus, on the whole it is consistent with the White Paper.

Moreover, the document underscored government's commitment to the restructuring of the industry basically as recommended by PriceWaterhouseCoopers; which recommends a restructuring model along Neoliberal lines.¹⁶ The implementation of this plan of which the electricity pricing policy is an important cog, was expected to span a 10-year period. Thus, this managed liberalisation mirrors previous experiences in England and subsequently some jurisdictions in the United States of America (USA) and a number of developing countries. Since the early 1990s following the liberalisation of energy markets in England and some states in the USA, a new international orthodoxy was consolidated and promoted as an ideal model in the restructuring electricity industries in the developing countries.

However, drawing from lesson of privatisation over the past 15 years or so, some fluidity and flexibility in the model has recently emerged, particularly within the World Bank.¹⁷ In 2000, the Bank's Infrastructure Group and the Energy Sector Management Assistance Programme released the *Energy and Development Report* whose main focus was on energy and poverty alleviation. In reviewing trends regarding private investments in the energy sector between 1990 and 1999, it acknowledges that despite its suggested reforms, millions of households in the developing world still lack access to safe and reliable energy and pay high prices for poor-quality substitutes. This was the fluid backdrop against which the DME grappled with its restructuring policy based on the recommendations of PriceWaterhouseCoopers, hence the inordinate delay in concretising the future end-state of the restructuring drive or clarity in the future role of ESKOM.

Nonetheless, one of government's successful undertakings since democracy has been the phenomenal progress in electrification. Electrification is spearheaded by ESKOM, in part because unlike some formerly white municipalities with electricity entities, ESKOM happened to be already involved in supplying some of the domestic and business end-users in the townships and former homeland areas. As part of the under-developed periphery, these are areas where the main backlog of electrification is to be found, in contrast to the formerly white areas predominantly supplied by their respective municipal distributors. However, it is also because of its strength derived from its vertically and horizontally integrated structure which offers ESKOM economies

¹⁵ DME already had a suite of policies and legislation which are part of the overall government's policy architecture, including the White Paper on Renewable Energy and the Integrated Energy Plan.

¹⁶ PriceWaterhouseCoopers was paid R24.2 million for its consultancy fees.

¹⁷ Some of the policy documents released by the World Bank signify this shift, as they deal with options for improving state owned electricity utilities, public and private sector roles in the supply of electricity services, etc.

of scale to carry out the term of the shareholder compact, at the centre of which is electrification.

Since 2001, the DME established the Integrated National Electrification Programme (INEP). Thus, since ESKOM has become an incorporated company, its mandate to achieve universal electrification is now mainly finance off-the SOE's balance-sheet.

The overriding government's goal is the achievement of universal access to electricity by 2012. With massive backlogs being mainly rural, electrification is seen as critical to the success of government's Integrated Sustainable Rural Development Programme (ISRDP).

Restructuring of the Electricity Supply Industry

Since the 2004 national election, there has been a marginal shift in government's position on the restructuring of ESKOM. This shift was articulated by the new Minister of Public Enterprises, Alec Erwin in his address to the National Assembly in the debate on the Vote 9, the Department of Public Enterprises (DPE) on the 14th June 2004. This was a departure from the announcement made by the previous Minister of Public Enterprises, Jeff Radebe on the 26th November 2003 before the Portfolio Committee of Public Enterprises, whereby he said that: "we are continuing with the regulatory work for the disposal of part of ESKOM generation".

However, COSATU is concerned that notwithstanding these commitments, there has been some stealthy privatization of the state's generation capacity or assets in the form of the "mothballed" power station, and other existing municipal generation assets including the Kelvin, Athlone and Grootvlei power stations under the guise of Black Economic Empowerment.

In 2005, the DME introduced the Electricity Regulation Bill. The Bill represents a legislative codification of the manage liberalisation of the electricity industry. Key aspects of its provisions, (section 46.1 and section 46.2) seek to deregulate the ESI, whilst holding out a possibility of privatisation in the future. Hence, under the guise of expanding the generation capacity, the Bill "provide[s] for private sector participation" and accords the Minister powers to "purchase, hire or let anything or acquire or grant any right for or on behalf of the state or for the purpose of transferring such a thing or right to a successful tender".

In COSATU's view, a lot of time has passed and opportunities missed whilst government was preoccupied with courting IPPs, instead of embarking on a state-led recapitalisation of the ESI and EDI, hence some parts of the country are currently engulfed in rolling-outages. Hence, COSATU was opposed to the Bill on the following grounds:

- Firstly, on the back of rolling years of profitability, ESKOM Holdings posted a record net profit in the 2004/05 year to the tune of R5.2 billion. This profitability far exceeds that of 2003 when it posted a net profit of R3.4 billion.
- Secondly, according to the ESKOM chief executive, Thulani Gcabashe, ESKOM's debt-to-equity ratio has improved to the point where the company was able to negotiate cheaper loans for capital expansion.

- Thirdly, as a result of this year's financials, the rating agency Moody's Investors Service upgraded ESKOM's domestic currency debt to A1 and foreign currency debt to A2.

Against this background and even beyond the more than R90 billion commitment for the capitalization of generation by ESKOM in the coming years, as labour we are not convinced that the electricity supply industry requires 30% percent of new generation capacity from the IPPs as mooted by government. The Bill attempts to deregulate the ESI more as a matter of a liberalization agenda than out of necessity. In many instances, governments in the developing countries resorted to IPPs where bankrupt public sector entities could barely afford such investments, which is not true in the case of ESKOM as highlighted above. In fact, in our view under certain circumstances, especially favourable circumstances such as the current state of our ESI, "IPPs are heralded as the start of further liberalization and subsequent privatization of electricity".¹⁸

But, according to the Public Service International Research Unit (PSIRU), investors in a greenfield IPP development always require a Power Purchase Agreement (PPA) from the dominant utility, such as ESKOM.¹⁹ Thus, through these PPAs they ensure that:

- There is a guarantee that they will be able to secure returns to their investors in which the utility undertakes to purchase the power the IPP produces. Hence, it is understood by the Director of the AES-led consortium, Mr Christian Wright that no bank would ever think of committing funds to an IPP "without the assurance of a PPA".²⁰ As the PSIRU observes:

"The reality is that in a sector like electricity, dominated by capital costs and long lead-times, companies do not now knowingly take risk. Nobody is going to invest, or more accurately, no bank will finance the investment of a billion dollars in a power station without very strong, probably contractual, assurances on the volume and price of the power they sell."²¹

- Thus, IPPs which are usually purported as foreign direct investments are not necessarily the source of investment capital. A utility such as ESKOM, underwritten by the national government as the shareholder is crucial in the IPP obtaining finance for the project. The PSIRU further argues that:

"The government guarantee is in fact assisting the IPP investors to raise finance - not the other way round".²²

- Thus, as labour we argue that under such circumstances, IPPs have no incentive to respond to market conditions or to compete with other producers, and therefore to realize efficiency gains especially because PPAs are fixed for longer periods.

¹⁸K Bayliss, & D Hall 'Independent Power Producers: A Review of the Issues'. Public Service International, University of Greenwich, UK. 2000

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ Public Service International, 'Electricity liberalization: The beginning of the end', World Energy Congress, United Kingdom, 2004.

²² *Ibid.*

Moreover, the World Bank itself does acknowledge that the private sector is not any more interested in investing in the utility industries of developing countries. In June 2004, the World Bank published a report on this matter, which shows "that foreign investment in 2001 was less than half the level of 1997..."²³

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Sub-Saharan Africa	49	0	27	1	84	42	1,014	503	7091	455	2,884
East Asia & Pacific	55	454	4,622	5,592	7,291	7,492	11,677	12,437	4,833	1,945	56,398
Europe and C Asia	85	0	1,041	0	1,332	3,369	3,507	2,128	504	688	12,655
L American & Caribbean	1,204	23	2,497	3,298	2,924	5,788	8,750	20,629	12,720	6,287	64,120
M East & N Africa	0	0	0	0	225	0	217	4,679	0	715	5,837
South Asia	169	735	37	1,186	3,081	3,193	4,934	2,319	926	2,227	18,805
Total	1,562	1,212	8,225	10,077	14,936	19,884	30,100	42,694	19,692	12,317	160,698

Source: World Bank PPI Data.²⁴

Whilst the 1990s saw a wave of unprecedented privatization of electricity utilities around the world and the deregulation of the ESI to allow the participation of IPPs, by the end of the decade the trend was in decline as can be seen in Table 18. These investments were welcomed and punted as Foreign Direct Investment (FDI), only to become albatrosses over host governments after the currency crisis originated in East Asia in 1997 and 1998 as many of the PPAs were denominated in US dollar.

As illustrated by the long delay in securing the Second National Operator in telecommunications, we believe that this trend has not fundamentally changed:

"Electricity privatization, as the World Bank concedes is wisely unpopular now and, as it also acknowledges, foreign investment in electricity industries has dried up as US and European electric utilities lick their wounds from massive losses on foreign investments not only in developing countries but in "safe" environments like the UK. So, privatization is no longer politically or practically an option in many cases."²⁵

Restructuring of the Electricity Distribution Industry

According to the South African Constitution, municipalities are responsible for the provision of basic services such as electricity, water, sanitation, etc. The Intergovernmental Fiscal Review of 2003, published by the National Treasury provides illustrative information regarding the impact of electricity restructuring on the local governments' budgets.

"The electricity restructuring process will have a significant impact on local government, given that electricity makes up 33% of local government activity.

²³ Public Service International, 'Electricity liberalization: The beginning of the end', World Energy Congress, United Kingdom, 2004.

²⁴ T Jamasb 'Reform and Regulation of the Electricity Sectors in Developing Countries', Environmental Policy Research, The Cambridge - MIT Institute, USA.

²⁵ Public Service International, 'Electricity liberalization: The beginning of the end', World Energy Congress, United Kingdom, 2004.

Though numbers are not known (as electricity activities are not ring fenced), one scenario would be that municipalities shift over R20 billion in their budgets, at least 25 000 personnel and a substantial portion of its liabilities to the regional electricity distributors. This will result in local budgets shrinking from R72 billion to R50 billion, personnel employed from 210 000 to 185 000 (or even less), and a reduction in substantial liabilities estimated be in the region of R7 billion. The value of assets to be shifted is not known²⁶.

This scenario spells disaster, given the fact that many local governments are virtually insolvent, mainly because they derive only 17% of their income from national transfers whilst electricity revenue comprises 33% of their budgets. In 2003, the national average of outstanding end-user consumer debts amounts to R23. 7 billion, the bulk (i.e. R15 billion) of which is owed to Category A municipalities.

In many instances, electricity sales particularly to businesses, industry and upper-income suburban areas were used as a means of subsidising electricity for the poor, as well as subsidising and extending other services other than electricity to the under-served areas²⁷. Severely weakening the local government sphere undermines its capacity to live up to its meaningful developmental role, thus its ability to carry out Integrated Development Plans and Local Economic Development Plans.

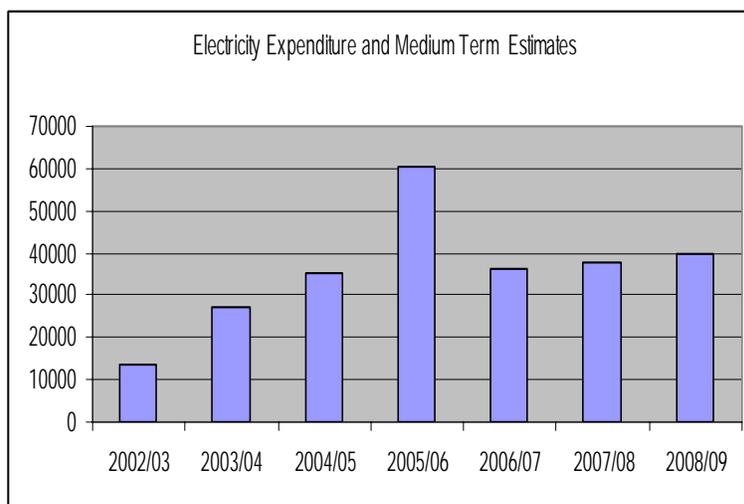
Allocations of Resources

The DME is financially responsible for the roll-out of the INEP, as part of its budgetary appropriations, rather than the now commercialised ESKOM. DME deals with electricity financing as a sub-programme of the Energy Management Programme (EMP) which over the next MTEF it is allocated as reflected in Figure 4. It would seem that the current MTEF breaks the increasing expansionary momentum of the DME's expenditure in terms of the INEP.

²⁶ Intergovernmental Fiscal Revenue, 2003.

²⁷ J Pape & D. A MacDonald. Cost Recovery and the Crisis of. Service Delivery in South Africa. Human Sciences Research Council, Pretoria. 2002

Figure 4: Allocations by the DME for electricity in the MTEF, 2003/04-2005/06 (R thousands)

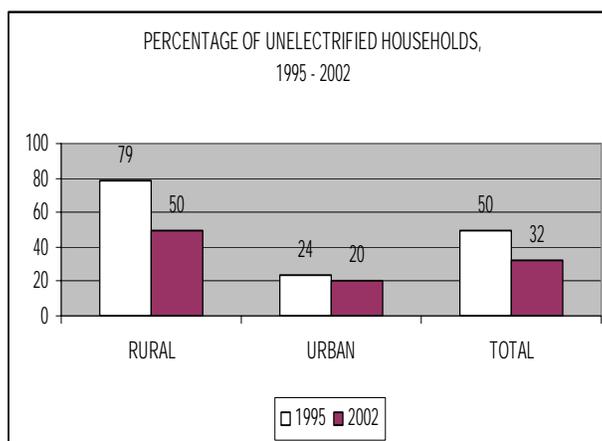


Source: Estimates of National Expenditure

Access to Electricity

The DME launched the INEP with the aim of ensuring universal household access to basic electricity services within 10 years, and electrification of all schools and in clinics. At that time of the launch in 2001, the estimated backlog was 10 000 schools and 500 clinics and the 34% households without electricity.

Figure 5: The electrification progress in urban and rural households



Source: DME Annual Report, 2004/05.

According to the 1999 October Household Survey, between 1995 and 1999 whilst the share of households using electricity for lighting rose from 64% to 70% as a reflection of progress in electrification, practically this did not necessarily mean effective access. The share of those households using electricity for cooking remained unchanged and those using electricity for heating actually declined. This highlights the inherent limitations of a crude cost-recovery system, in tandem with an inadequate

lifeline provision - not corresponding to the average minimum requirements for survival of a poor household.

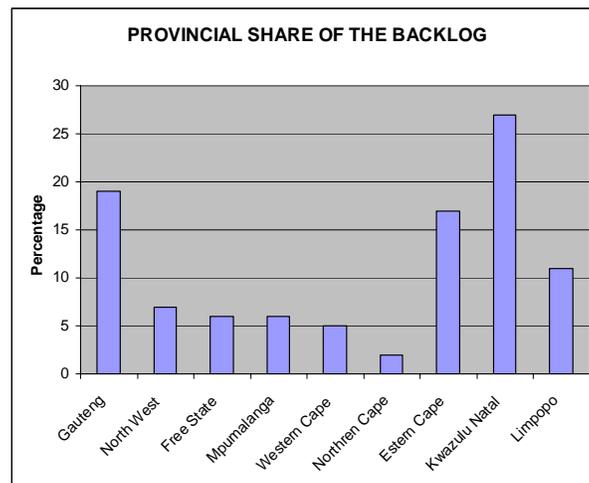
From the beginning it was recognised, as stated in the White Paper, that despite electrification, poor households continue to use other fuel sources such as paraffin, coal, liquid petroleum gas and wood as supplements:

‘These fuels are also used for cooking and space heating in electrified households, where electricity is used only for lighting and entertainment’.

Recently, government has itself admitted that ‘in poor areas in 2001, most of the electricity was still used for lighting and only 49.1% of households used electricity for heating purposes’.²⁸ In fact, in this connection the White Paper did go further, correctly warning that ‘without energy to cook food a household would starve. This is particularly the case for poorer households who rely on cheap staple foods which are inedible without being cooked’.

Yet, the proposed pricing policy recommends that all customers shall have the obligation to pay for the electricity services provided to them, despite the fact that according to the report by PriceWaterhouseCoopers the elimination of subsidies is going to lead to 20 to 50 per cent increase in household electricity tariffs.²⁹

Figure 6: The Electrification backlog in 2002



Source: Intergovernmental Fiscal Review, 2003

As expected, the electrification backlog is higher in provinces with higher proportion of the population and informal settlements. On the other hand, Figure 6 also highlights the backlog in provinces with vast expanses of rural areas.

²⁸ Policy Coordination and Advisory Services ‘Towards a Ten Year Review’. The Presidency, 2003

²⁹ These were estimates in 2001; even worse, this draft pricing policy itself notes that the implementation of full cost-reflectivity will lead to an increase of the price of electricity by as much as 135% and 56% for rural and poor customers respectively, whilst saving industry R12 billion worth of cross-subsidies.

Tariff structure

Electricity pricing is determined according to the administered pricing regime by the National Electricity Regulator, historically derived from the framework of the Electricity Act of 1987. Reflective of its past, the industry still exhibit a pervasive institutional and policy fragmentation of the Apartheid era with regard to its divergent tariff structures, levels of supply, connection fees, energy charges and reticulation network costs. Table 20 highlights some of this fragmentation and divergence regarding tariffs pertaining to business in comparison to households, as well as the level of subsidisation. Disturbingly, although this is only a group of selected municipalities, with the exception of Ethekwini, it can be seen that smaller local authorities tend to struggle to deliver free basic electricity.

Table 20: Household and business tariffs in 2002

MUNICIPALITY	RESIDENTIAL			BUSINESS (r/kWh)
	Basic Tariff per Month	Monthly Charge (r/kWh)	Free Service (r/kWh)	
City of Cape Town	32.70	0.29	0.00	Various
City of Johannesburg	60.99	0.26	0.35	0.31
Ethekwini	0.38	0.38	n/a	0.43
Nelson Mandela	0.30	0.30	0.30	0.36
Buffalo City	9.60	0.34	0.00	0.40
Klerksdorp	32.66	0.35	n/a	0.44
Matjhabeng	50.56	0.33	n/a	n/a
Mbombela	40.00	0.40	n/a	0.33
Rustenburg	22.00	0.33	0.33	0.40
Mogale City	1.10	0.23	n/a	0.32
City of Tshwane	0.00	0.36	0.36	0.29

Source: Intergovernmental Fiscal Review, 2003

There has been a serious lack of a coherent regulatory framework. This has led to retrogressive discrepancies, where the poor are virtually cross-subsidising the wealth:

'high per unit costs for township dwellers - typically 30% higher than white suburban areas and up to ten times higher than off-peak prices offered to industry - has meant that low-income households are unable to purchase the volume of electricity they need to sustain the most basic requirements of heating and cooking'.³⁰

The elimination of the current cross-subsidies from the wealthy and intensive end-users, between geographic areas as well as municipal levies will be phased-out over a 10-year period. The policy holds that these subsidies are price-distorting and not in line with key principles of the policy itself, i.e. transparency and costs-reflectivity.

In addition, it is stated in the policy that measures protecting the poor such as subsidies, fall outside the purview of the industry - hence, subsidisation will depend on the fiscus. In this context, suppliers and distributors will be entitled to full cost-recovery directly from end-users. The policy argues that the elimination of cross-

³⁰ M Fiil-Flynn "The Electricity Crisis in Soweto" Municipal Services Project Occasional Papers Series (4). 2001.

subsidies in favour of full cost-recovery is necessary because current tariff structures are discriminatory and that because of cross-subsidisation businesses generally pay higher tariffs than households. This position is also echoed in the 2003 Intergovernmental Fiscal Review.

Cost-recovery and Cross-subsidisation

The introduction of cost-recovery and electricity market would mean that tariffs will comprise three main components:

- Energy costs - costs reflecting household consumption level; which means that as the individual household consumes more energy as measured in units of kilowatts per month, so will the costs of supply to household increases.
- Service costs - these are incurred by the supply authority in maintaining and servicing the network, reading meters or selling prepayment tokens, marketing electricity, running costs, etc. These costs are not related to the level of household consumption and therefore do not vary with the number of units consumed each month.
- Loan repayment - these are the transferred costs for the repayment of the capital costs loan taken by the supply authority to pay for the capital cost of the network supplying the house. This monthly amount does not vary but remain constant on monthly basis.

All these costs would be transferred to end-users on top of the elimination of subsidies and cross-subsidies. The logic behind the elimination of cross-subsidies and transfer pricing in favour of full cost-recovery is based on the belief that current tariff structures are discriminatory and that because of cross-subsidisation businesses generally pay higher tariffs than households. This is a stance that is also espoused in the 2003 Intergovernmental Fiscal Review.

Table 22 below is the basis of DME’s guide to local governments on FBS, informed by an assumption that 56% of households consume no more than 50 kilo Watts (kWhs) per month, hence the FBE volume which effectively only amounts to R25.

Table: 21 A typical poor household’s electricity consumption per Kilo watt hour (kWhs)

Item per month	Hours	Days	kWhs	Quantity
Energy Saver Light	5	30	1.7	1
Lights	5	30	9	3
Television	6	30	7	1
Iron	4	6	24	1
Kettle	0.5	30	15	1
Hotplate	1	25	25	1
Light	5	30	15	1
Small Fridge	6.5	30	49	1

Source: Electricity Basic Service Support Tariff, DME. 2003.

Challenges And Steps That Need To Be Taken

- The excess generation capacity is expected to diminish from 2007, as electricity demand continue rising by 3% annually. Already in the Western Cape this appears to have already happened. This means that prices would soon be rising as demand for electricity rises and the costs of further capitalization are factored in. To ensure security and reliability of supply, to avert sustained price hikes and intermittent spikes and to ensure affordable tariffs particularly for the poor - the South African electricity industry requires new capital investments both in its ESI and EDI. ESKOM's current balance sheet puts it on a strong footing to embark on an extended investment programme in infrastructure. Rather than looking up to IPPs which often demand onerous terms from host governments or single buyer state monopoly; government must support ESKOM's recapitalisation programme.
- Access to electricity without necessarily being in a position to use it for cooking does not help to alleviate problems faced by rural women. Thus, despite the fact that their households have been electrified, they have to continue bearing the drudgery of gathering fossil fuel alternatives. In urban areas, many of such beneficiaries continue to be exposed to the dangers of paraffin.
- It is unacceptable that only the poor are subjected to the billing system of pre-paid metres. In many countries, including Britain the pre-paid metre system has been banned, hence COSATU calls on government to do the same.
- Both inter-tariff and intra tariff cross-subsidisation must be maintain in favour of the poor, majority of whom are currently not even enjoying access to free basic electricity.

5.3. Water Services

Until 1994, the South African water policy was driven by the supply-side and water resource management issues. In this context, more emphasis was based on the river basin, dam and reservoir management. The 1996 Constitution allocated responsibility for water to local government, with the national department's role being to build but not to sustain or operate infrastructure. Currently, the Department of Water Affairs and Forestry (DWAF) provides finance for infrastructure development and implements its infrastructure programmes through water boards, municipalities, Non-governmental Organisations (NGOs) or private partners.

Constitutional framework

The Constitution of the Republic of South Africa, Act 108 of 1996, section 27, provides that "everyone has the right of access to water"; and "the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of each of these rights".

Furthermore, everyone has the right to a protected environment, for the benefit of present and future generations. In this connection the state is expected to take reasonable legislative and other measures to prevent pollution, promote conservation, and secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development (s 24(b)).

The right of access to water places two interrelated but distinct obligations on the state:

1. It must ensure that all people have physical access to water. This means that the facilities that give access to water must be within safe physical reach for all sections of the population, especially for vulnerable and marginalised groups.
2. It must ensure that all people have economic access to water. This implies that the cost of accessing water should be pegged at a level that would ensure that all people are able to gain access to water without having to forgo access to other basic needs.

Legislative and policy framework

Water Services Act No. 108 of 1997 was passed by Parliament to provide for "the right of access to basic water supply and basic sanitation necessary to secure sufficient water and an environment not harmful to human health or well-being". These rights are expressly recognised in the legislation, and every water services authority must provide for measures to realise these rights in its water services development plan.

The following criteria are crucial in the evaluation of the extent to which the water law gives effect to the right of access to water and the environmental rights in terms of the Bill of Rights:

- the provision of an enabling framework to facilitate equitable and sustainable access to water;
- fulfilment of the minimum core obligation to ensure essential levels of water sufficient to meet basic human needs;
- prioritising the needs of groups in disadvantaged and vulnerable circumstances;
- consultation and community participation in the institutions and processes of water management;
- the establishment of monitoring and review mechanisms.

These are criteria used by the UN Committee on Economic, Social and Cultural Rights in supervising the states' fulfilment of their obligations under the International Covenant on Economic, Social and Cultural Rights.

The Local Government Municipal Systems Act of 2000 contains two principles of key relevance to government's policy on water service delivery. Firstly, that local government must aim to provide broad access to basic services and should make use of cross-subsidisation to achieve this goal. Secondly, the Act is based on the principle that local government must recover costs when delivering services to ensure that it remains financially sustainable.

In 2000, government issued a proclamation of regulations in terms of the Water Services Act of 1997 to give effect to the right of access to basic water services to all people in South Africa. These regulations are based on the assumption that each individual person needs 25 litres of water per day or, calculated differently, that each household requires 6 kilolitres per household per month and provides for the free delivery of the 6 kilolitres of water per household per month.

Accordingly, in order to ensure the financial sustainability of the provision of free water, municipalities are required to adopt an inclining block tariff system. According to this system, the cost of water increases with usage, subject to the requirement that the first block of water for up to 6 kilolitres per household per month should be provided free. The price of water then increases for every additional block of water used by a household to ensure that those who use large amounts of water subsidise - to some extent - the free provision of 6 kilolitres of water for all households. Municipalities are also encouraged to make use of available subsidies for water to recover the costs of supplying free basic water to all.

The 2003 White Paper defines basic sanitation service as:

“the provision of appropriate health and hygiene education and a toilet which is acceptable to the users, safe, reliable, environmentally sound, easy to keep clean and provides privacy and protection against the weather, is well ventilated, keeps smells to the minimum and prevents the exit of flies and other disease carrying pests.”

This is much less specific than the water services definition, but (as mentioned above) it clearly points towards Ventilated Improved Pit latrines as the basic form of sanitation. In this regard, the White Paper explicitly argues that;

“in most instances, waterborne sanitation should not be regarded as a basic level of service.... A municipality should only consider subsidising flush toilets further where it is confident it can fund, administer and sustain these subsidies.” (section 5.5.2 pg. 34)

This position is in contradiction with the stance taken by South African Local Government Association (SALGA), which characterises VIPs (particularly as a replacement to the bucket system) as socially unacceptable.³¹

Review of the Water Policy and Law

Free Basic Water

The government’s FBW policy is at the bottom of the World Health Organisation’s (WHO) recommended daily minimum, which is in line with estimates of 50 to 60 litres per person per day common in health literature.³² It is also below the 50 - 60 litres per person per day called for in the ANC’s original RDP as a medium-term service delivery goal.

“the average bathtub takes 200 litres to fill, while the average toilet uses 10 to 15 litres per flush - a situation made worse by the fact that water (and energy) saving devices have never been a serious part of service delivery strategies in South Africa”.³³

³¹ SALGA NGC Discussion Document “Local Government: The driving force of delivery”

³² Pape, J ., McDonald, D.A. (2002) Cost-recovery and the Crisis of Service Delivery in South Africa, Human Science Research Council, Cape Town.

³³ *Ibid.*

In 2003, the Department of Water and Forestry (DWAF) produced a new policy framework called the White Paper on Water Services. This document basically replaces the 1994 White Paper on Water Supply and Sanitation Policy, although it does not bring much improvement. In many respects it sought to align water policy with the prevailing paradigm of cost-recovery and commodification. In addition, the 2003 White Paper was also promulgated to provide a framework for the transference of the water service function from DWAF to local government, in line with the Constitution.

On the whole, the 2003 White Paper carried the prevailing conservative framework, viz.:

- It provides for 200-meter cartage, with 10 litres per minute flow rate at all water points. Thus, it fails to provide for yard-connections in rural areas as was espoused in the 1994 White Paper.
- Its definition of the basic sanitation is vague although it points to VIPs, as the basic minimum sanitation provision.
- The policy contradicts itself; whilst it supports Section 19 of the White Service Act - in terms of which public sector delivery model is the preferred option - it does not carry this stance consistently throughout the document. Instead, under the cloak of "public interest" it puts any kind of delivery model (private or public) on the same footing. Thus, it leaves options to the discretion of various, often institutional weak local authorities.
- It introduces a combined definition for potable water and sanitation - called "basic water supply" as;

"the provision of appropriate education in respect of effective water use as well as a minimum quantity of 25 litres of potable water per person per day (or 6 000 litres per household per month) within 200 metres of a household, which is not interrupted for more than seven days in any year; and with a minimum flow of 10 litres per minute in the case of communal water points. Potable water is defined as drinking water that does not impose a health risk."

- It is heavily influenced by the prevailing cost-recovery paradigm - which was reinforced by GEAR (unlike the 1994 White Paper). The 2003 White Paper even stipulates specific policy positions on a matter not relevant to a policy framework, i.e. the issue of credit control. It calls for disconnections, including the termination of even the basic amount of free water (lifeline).

"Where the costs associated with limiting water services in this manner would have a substantial impact on the viability of the water services provider, water services may be disconnected after proper procedures have been followed, and until such time as the consumer has made an arrangement for the settlement of the outstanding amount." (section 5.6.6 pg. 36)

- The 2003 White Paper views pre-payment meters as viable mechanism for credit control by municipalities.

"Immediate disconnection may be appropriate where services equipment has been tampered with, since this may jeopardise the health of consumer and the security of the system." (section 5.6.6. pg. 36)

- The document entrenches the division between the water service authority and the water service provider. This division seems to be consistent with the general commercialisation of service delivery, and simply sets-up a situation where the move towards privatisation can be made that much easier. This is a shift away from the previous situation where the municipalities could be a regulator and a provider at the same time. Municipal councils have always carried out this dual role.

In 2003, DWAF promulgated the National Water Resources Strategy (NWRS). This policy document takes an internationally dominant approach to water resource management and endeavours to ameliorate water insecurity and scarcity. Hence, its thrust is more on institutional reforms rather than hydraulic infrastructural expansion. In other words, in this regard DWAF seems to follow the general shift from what is called supply-side to demand-side management approach. However, in the 2004 State of the Nation address President Mbeki announced government's plans to build some dams in the next few years, despite the NWRS framework.

The main thrust of the existing water law, particularly legislation introduced since 1994, is generally towards the demand-side management approach to water resource management.³⁴ By contrast, as it is leaning heavily towards supply-side measures, the NWRS seriously neglected demand-side management measures. Hence, despite the fact that agriculture (irrigated agriculture particularly) is by far the largest single user of water in GDP terms whilst its employment contribution is notably small, the NWRS failed to provide any strategies to deal with this very important issue.³⁵

However, one of the important developments from the NWRS is the fact that it seeks to encourage broad-based participation and empowerment of stakeholders in the use of water. In this regard the NWRS introduces the establishment of Catchment Management Agencies. This is in line with the National Water Act of 1998, which has basically re-nationalises water resources, i.e. taking away ownership from riparian users.

Although on paper the legislative framework provided by the 1997 Water Act seems to be in line with the constitutional requirement to progressively realise access to water by all South Africans, some serious issues remain:

- There are vast areas in South Africa where water infrastructure does not exist and water delivery of any kind is not possible. The policy to provide free basic water therefore needs to be supplemented with a policy that aims to rapidly increase access to water infrastructure - especially for the rural poor.

³⁴ See, for instance, 'Establishment of a Pricing Strategy for Water Use Charges in Terms of Section 56(1) of the National Water Act, 1998. Government Gazette 20615, 12th November 1999

³⁵ See, for instance, DWAF, 'National Water Resource Strategy - Summary. August 2002, p.6

- Especially in rural communities where there are not enough high volume users to cross-subsidise the provision of free water to all, the policy creates serious problems for local governments, which are often not able to finance the FBW. In some instances, to a situation where some municipalities take drastic measures (e.g. disconnections), that deprive their residents of access to water. The policy therefore does not seem to be properly targeted to meet the needs of the rural poor - a particularly vulnerable group in society.
- For the urban poor who in most instances use relatively high levels of water, (although obviously not incomparable to the wealthy) 6 kilolitres of free water for each household per month is not adequate. For a household of 8 people, six kilolitres of water amounts to two flushes of a toilet per person per day and therefore, it is completely inadequate.

Due to the cost-recovery principle, poor households that are forced to use more than their 6 kilolitres of free water, find themselves unable to pay. In the case of *Manquele v Durban Transitional Metropolitan Council* 2001 JOL 8956 (D) the High Court found that the City Council had a right to disconnect the water supply of the applicant because she chose not to limit herself to the water supply provided to her free of charge. She therefore used more than what can be considered as a basic water supply, and if she could not pay for this extra amount, she should face the consequences. The irony is that by completely disconnecting her water supply, Mrs Manquele was deprived even of the free basic amount and therefore her Constitutional right.

However, in another matter, the High Court (WLD) took a different approach in an unreported case - *Residents of Bon Vista Mansions v Southern Metropolitan Local Council*, where it was found that the disconnection of water supply constitutes a *prima facie* breach of the state's duty to respect the right of access to water. It also said that the procedures employed to effect a disconnection also have to be fair and equitable. Such measures should not result in a person being denied access to basic water services for non-payment where the person prove their inability to pay.

The 1997 White Paper on Water Policy stated that the present the provision of 25 litres per person per day constitutes a short term target, allowing for the progressive increase in the standards of basic service to be assured by local government (para. 5.2.1). In our submission on the Water Services Bill to the Portfolio Committee on Agriculture, Water Affairs and Forestry as COSATU, we called for the definition of "basic water supply" in the Act to include a prescribed minimum "of at least 50 litres free potable water per person per day."

In summary, the Act provides for the setting of compulsory national standards relating to the provision of water services. In prescribing these standards the Minister must consider a range of factors, including "the need for everyone to have a reasonable quality of life and "the need for equitable access to water services." (s 9(3)). Norms and standards in respect of tariffs for water services may also be prescribed by the Minister with the concurrence of the Minister of Finance. Amongst other factors, the Minister must consider social equity. Procedures for the limitation or discontinuation of water services must be fair and equitable, contain reasonable notice provisions, and an opportunity to make representations. They may "not result in a person being denied access to basic water services for non-payment, where that person proves, to the satisfaction of the relevant water services authority, that he or she is unable to pay for basic services." (s 4(3)).

The Act establishes a regulatory framework for water services institutions and water services intermediaries, and for the establishment of water boards and water services committees. In our submission as COSATU, we criticised the Bill for over-reliance on private sector partnerships for the extension of water and sanitation services.

Further, we argued that South Africa faces the challenge to extend water and sanitation services to millions of people: "If provision is private sector driven such extension will not occur as there is little profit to be made in the delivery of water to impoverished areas." COSATU also called for the allocation of sufficient public resources for the purpose of building capacity for public sector delivery of water services and sanitation, particularly at local government level.

Basic sanitation service

COSATU is completely opposed to the 2003 White Papers definition of basic sanitation service, viz:

"as the provision of appropriate health and hygiene education and a toilet which is acceptable to the users, safe, reliable, environmentally sound, easy to keep clean and provides privacy and protection against the weather, is well ventilated, keeps smells to the minimum and prevents the exit of flies and other disease carrying pests."

Apart from social considerations, there are also environmental and health problems associated with VIPs, which the White Paper does not recognise. These include:

- Waste-water (e.g. water used for bathing, washing, cooking) needs to be properly drained away -it can't be put into a dry sanitation system.
- VIPs that are self-constructed are often not properly constructed - they need an expensive, independent external structure and complex draining and ventilation duct procedure.
- There isn't enough capacity to drain/suck VIPs - and cost to low-income residents is high.
- Bacteria etc from pit latrines often penetrates into water table and contaminates it.
- Children often don't use VIPs because they are kept dark to keep insects out.
- People with Aids need better standards of hygiene as part of fight against opportunistic diseases.
- Approximately 20% disease abatement could be gained by having flush toilets rather than VIPs.³⁶

Part of the short comings of the basic sanitation policy is that there are limits to what DWAF's subsidy for sanitation can be used for i.e. for an on-site toilet facility like a VIP. It is only under certain conditions that DWAF's subsidy can be topped up with other subsidies to provide a higher level of service.

Viewed from a perspective of the sustainability of the delivered services and the consequent improvements in the conditions of life, the insistence on the VIP as the prescribed minimum sanitation service does not take into account the health and social benefits in the long term, as opposed to the narrow and immediate concerns

³⁶ Patrick Bond "Unsustainable South Africa" pg 23

about the financial cost. VIPs do not necessarily help to avoid the financial, human toll and suffering costs associated with cholera outbreaks.

COSATU believes that flush toilets, or equivalent new technology that is environmentally friendly, should be set as the minimum level of sanitation service. It is taken as a given that the bucket system, where it still exists, must be eradicated as rapidly as possible; to this extent COSATU welcome recent announcements by government in this regard - whereby the President committed government to eradicate the bucket system by 2008. We have specified "equivalent new technology" because we recognise that some areas of the country are water scarce and full water borne sanitation might not be feasible. We believe, however, that there are viable and acceptable alternatives, which are the equivalent to flush toilets. This is in line with the NEDLAC agreement whose minimum service standards called for the provision preferably of water-borne sewage, necessary for the safe, environmentally friendly, hygienic and adequate collection, removal, disposal or purification of human excreta, domestic waste water and sewage from household, including informal households.

Resource Allocations Water Services

According to the DPLG, municipalities rely heavily on the Equitable Share (61%) as the primary source of funding for FBW and basic sanitation.³⁷ However, in addition about 6% of support is also received by municipalities from other national grants in respect of FBW, which helps to complement requirements for the local FBS provision. In the midst of massive poverty, and therefore the implementation of the indigency policy, municipal tariffs serve only as a supplementary resource, because on its own it would not sustain the provision of FBS.

Access to Portable Water

Government has set 2008 as the national water provision target, whereby all citizens would enjoy their Constitutional right to access to water. According to the DPLG, a total of 207 municipalities (81%) were providing FBW in 2003.³⁸ Thus, as illustrated below IN Table 22, the Northern Cape and the Western Cape have the highest percentage of municipalities providing FBW, 100% and 93% respectively. On the other hand KwaZulu Natal has the lowest percentage of municipalities providing FBW at 63%.

³⁷ Department of Provincial and Local Government, Study into the provision of Free Basic Services, 2003.

³⁸ *Ibid.*

Table 22: FREE BASIC WATER Provision

Province	PERCENTAGE OF MUNICIPALITIES
Eastern Cape	88%
Free State	72%
Gauteng	79%
Kwazulu Natal	63%
Limpopo	80%
Mpumalanga	86%
North West Province	87%
Northern Cape	100%
Western Cape	93%
Grand Total	81%

Source: DPLG, 2003

According to this DPLG's study, municipalities prefer to provide FBW directly to individual households, hence in 67% of municipalities household or yard connections is regarded as being the appropriate level of service, compared to 12% of municipalities preferring communal access.

Access to Sanitation

Government has set 2010 as the year whereby all households would have access to basic sanitation. As illustrated below in Table 23, as a province, the Northern Cape is well ahead in the implementation of the government's policy of Free Basic Sanitation, whereby about 96% of municipalities in the province were in line with the policy, compared to Limpopo and Mpumalanga, which only report 28% and 24% implementation respectively.

Table 23: Free Basic Sanitation Provision, in 2002

PROVINCES	PERCENTAGE OF MUNICIPALITIES
Eastern Cape	55%
Free State	32%
Gauteng	57%
Kwazulu Natal	34%
Limpopo	28%
Mpumalanga	24%
North West	30%
Northern Cape	96%
Western Cape	50%
Total	44%

Source: DPLG, 2003

CHALLENGES AND STEPS THAT MUST BE TAKEN

- *It is necessary for government to develop a consistent definition of indigent households across service sectors (water, electricity, sanitation) and through out the country, as a framework for all municipalities in order to harmonise policies. Equally important is a need for a determination as to whether FBS*

should be targeted or universal, as well as some direction with regard to the issue of indigent registers and database.

- *The cost-recovery principle combined with a practice by many local authorities to cut-off water supply to those who cannot pay constitutes a severe impediment in the realisation of access to water for all. In many instances it even constitutes a violation of the citizen's right to access to water.*
- *As argued above, mere 25 litres per person per day is simply not sufficient. It amounts to only half of the World Health Organisation's (WHO) recommended 50 litres per person.³⁹ It is too little to meet human and environmental needs, let alone the special needs of infants, the sick, incontinent, aged, or those living with HIV/Aids. In these cases the need for water is greater, and it is well recognised that sufficient water would contribute considerably to the health and well being of these individuals.*
- *Government's policy regards a standpipe as the basic water service level. This level of service is too low and does not improve the standard of living of poor people. Research has shown that a yard or house connection reduces diseases like diarrhoea (particularly among infants and the aged); saves time (water does not have to be fetched from a community standpipe); it relieve the burden for rural women; allows for more effective subsistence gardening/farming and economic activity in the informal sector; and allows communities to live with more dignity.*
- *Whilst in the short-term it appears to be cheap to provide standpipes as the basic level of services to community, in the long run it is inefficient and costly:*
 - *The economic, social and environmental benefits of providing a higher level of service are not achieved.*
 - *When demand for water increases in the area the system becomes overloaded.*
 - *When the services are upgraded, the basic infrastructure (such as thin pipes and reticulation system that only extends as far as streets) has to be ripped out and completely replaced at great cost.*
- *In line with the Constitution's right to equality, it completely inaccessible that government's policy inadvertently engenders discrimination against the poor with regard to sanitation. Many poor people in informal settlements which are high in density, do not enjoy flush toilets as a basic level of sanitation. Whilst on the contrary, farmers who are located in sparse areas enjoy flush toilets, even though their counter-parts in rural areas given VIPs.*

5.4. Housing

Legal, Policy, Processes And Institutional Steps:

Constitutional framework

Two articles in the Bill of Rights of the *Constitution of the Republic of South Africa, Act 108 of 1996*, namely Section 26 and Section 28 constitute the foundation of the

³⁹ McDonald, D.A. 2002a, "You get what you paid for: Cost-recovery and the crisis of service delivery in South Africa". *Alternatives*, 28(3).

housing policy in South Africa. Thus, according to Section 26, “everyone has the right to have access to adequate housing”; and that the state is required to take reasonable measures within its available resources to ensure the progressive realization of this right. In addition, Section 26(3) provides that no one may be evicted from their home or have their home demolished, without an order of a court, after considering all the relevant circumstances. Further, that “no legislation may permit arbitrary evictions”. On the other hand, Section 28 provides for the rights of children to shelter. Hence, Section 28(1) (c) obliges the state to provide shelter for children in times of crisis where parents are unable to do so.

Legal and policy framework

Based on the Constitution, the legislative and policy framework of the housing policy comprises the *1994 White Paper: A New Housing Policy and Strategy for South Africa*, the *Housing Act of 1997* and the *Social Housing Policy of 2003*. Recently, in September 2004 government launched the *Comprehensive Housing Plan for the Development of Integrated Sustainable Human Settlements*, which markedly represents a shift from the implementation strategy of the housing strategy, to date.

In keeping with the Universal Declaration of Human Rights, the Committee on Economic, Social, and Cultural Rights of the United Nations elaborates the substance of *adequate housing*, which is encapsulated in the South African Constitution, and therefore in terms of which government is expected to pursue the provision of shelter. Thus, accordingly, adequate housing comprises of the fulfillment of about seven criteria, namely legal security of tenure, affordability, availability of service, habitability, accessibility, location and cultural accessibility.

- **Legal security of tenure:** as it may be established through owner-occupation, cooperative housing, informal settlement, rental, emergency occupation of land, etc. - tenure security is fundamental to the realization of the right to adequate housing. Thus, its fulfillment means protection of people against arbitrary evictions, harassments and other threats causing insecurity.
- **Affordability:** the state is expected to ensure that access to housing is not compromised by problems related to affordability, this includes the protection of tenants against unreasonable level of rent charges or increases.
- **Availability of services:** adequate housing calls for access to portable water, energy for cooking, heating and lighting, sanitation and washing facilities, refuse disposal and site drainage, food storage and emergency services.
- **Habitability:** adequate housing must be habitable whereby inhabitants have reasonable space and protection against the cold, damp, heat, rain and/or other threats to health, structural hazards or diseases.
- **Accessibility:** Everyone must have access to housing. Therefore, the laws and policies of government must proactively ensure prioritization of disadvantaged groups such as the elderly, physically and mentally disabled people, the terminally ill, HIV positive persons, victims of natural disasters and children.
- **Location:** adequate housing means that it must be reasonably located, facilitating access to employment opportunities, health care services, school

- and other socio-economic amenities. It must not be located in polluted areas compromising the health of the inhabitants.
- **Cultural adequacy:** Building materials and design must enable the expression of cultural identity and diversity without compromising modern technological facilities.

Review of housing policy and delivery

Since 1994, the housing policy has been marked by “incrementalism”, referred to in the White Paper as “progressive housing”, seemingly drawn from the Enablement approach espoused by the World Bank⁴⁰. In this regard, government’s delivery of units of houses is consciously conceived as only a start (given their small size); which means that beneficiaries are expected to develop their houses further towards what may constitute adequate housing, i.e. meeting constitutional requirements.⁴¹ In other words, access is rigidly targeted through means-testing, requiring beneficiaries to make their “own contribution” to the total cost of the housing development, i.e. the top structure.

Smaller even in comparison to the old Apartheid match-box houses, it could be argued that post-Apartheid housing delivery falls short of the Constitutional imperative - calling for adequate housing, understood in terms of the Committee on Economic, Social, and Cultural Rights’s definition. By contrast, by ‘adequate housing’ the RDP conceptualized housing development consistent with the Committee on Economic, Social, and Cultural Rights’s definition stated above. Thus, the RDP envisaged adequate housing defined as:

- providing shelter from the elements,
- providing suitable living space for inhabitants,
- located within a pleasant living environment, and
- well located for economic and social opportunities.

Over the past decade, housing provision has been market-based, private developer-led and unduly biased towards the one-plot-one-house individual ownership tenure. Designed to be driven by developers, housing development is premised on the proposition - “full-pricing for cost and risk” as entrenched in the Housing Act. This departs from the original framework of the RDP, which conceived housing delivery as a state-led undertaking.

⁴⁰ The Enablement approach was an integral part of the political economy of the Structural Adjustment Programmes administered by the World Bank - based on a minimalist state, commercialization and market-based delivery of social services through public-private partnerships.

⁴¹ However, through dedicated infrastructure grants, other services such as water, sewerage, electricity, etc. are also provided by local government as part of the housing development. This incremental approach neatly falls within the wider Neoliberal paradigm; which is also given expression in social policy by a residualist welfare regime. Like the housing strategy, the latter targets the extremely vulnerable groups based on the supposition that providing a comprehensive social protection package has “moral hazards” and “perverse incentives” inducing economically sub-optimal behaviour on the part of beneficiaries.

Based on the notion - "progressive realization", the White Paper gives government a leeway to depart from the original housing pledge of the RDP manifesto. The RDP envisaged the delivery of units in a manner realizing 'reasonable space and privacy' for beneficiaries. Under strictures of GEAR's fiscal policy, a 25 square metre unit without any partitions typified an RDP house; a size that was less than half of the old Apartheid match-box houses.

One of the objectives of the government's housing policy is to transform the skewed and dual housing market into an integrated one in which low-income home seekers become part of the mainstream mortgage-based housing market. Ironically, in pursuing this objective, government failed to ensure the corresponding transformation of the inherited race and class spatial segregation reproducing the socio-economic marginalization of black and poor people trapped in the urban periphery. Instead, government continued to launch housing township developments in the peri-urban areas called "townships". This runs counter to its policy objectives and inadvertently maintains the status quo of the socio-economic exclusion of the majority.

In its endeavour to create a single housing market, at best government embarked on the so-called "facilitative interventions" - offering incentives and concessions to financial institutions to service the "township housing market". These measures included the creation of several agencies and mechanisms intended to facilitate financing from the financial institutions. However, low-income home seekers continued to be excluded and their urban periphery and rural areas redlined; even after the Home Loan and Mortgage Disclosure Act was passed in 2000, whose regulations are yet to be proclaimed.⁴² This inability to mobilize private sector funds for low-cost housing has plagued government's housing programme since 1994, and may undermine even the Sustainable Human Settlement Plan.

As part of its 1994 elections manifesto, the ANC made a headlong pledge - targeting 1 million houses in five years. Thus, its preoccupation with a quantitative target compromised quality, location, choice and economic viability of settlements that are built. Hence, many of the 1, 6 million units delivered over the last decade or so are of poor quality and are spatially misplaced relative to economic centers. In addition, government lacked the political will to deal with the "not-in-my-backyard" backlash from affluent property owners in the former white suburbs. This expediency reinforced the Apartheid spatial patterns, including the perpetuation of inefficient and costly urban sprawl.

Review of tenure security for the rural poor

⁴² Government has recently concluded a Memorandum of Understanding with the private financial institutions in an attempt to draw them to the low-income market, which follows on the unsuccessful 1994 Housing Accord. The Home Loan and Mortgage Disclosure Act is a step forward as it is intended to ensure disclosures on the part of financial institutions with regard to their coverage of the low-income market.

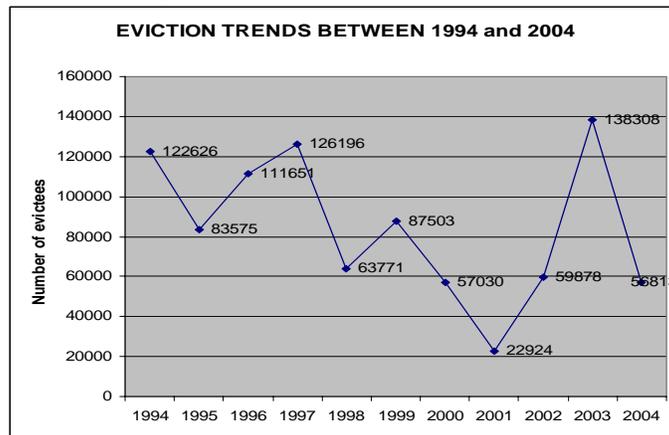
Tenure security is one of the cornerstones of adequate housing. The Constitution provides a basis for the introduction of a legal framework for security of tenure in order to protect poor people lacking land and tenure rights as well as housing. Thus, Section 26(3), requires a court order for any eviction to be effected. Hence, during its first term as a majority party in Parliament, the ANC passed the Extension of Security of Tenure Act of 1997 (ESTA). ESTA was originally intended to protect people living on rural or peri-urban land with the permission of the land-owner - beginning from the 4th February 1997, against "unfair" evictions. Accordingly, such people are referred to as "occupiers", whether as farm-workers, labour tenants or farm-dwellers. ESTA purports to pursue the following four key objectives:

- To protect farm-occupiers from unfair or arbitrary evictions by giving them security of tenure allowing them to continue living and using the land or property they occupy. Accordingly, occupiers would not be unreasonably deprived of access to electricity, water, sanitation, educational or health services.
- ESTA places some duties upon occupiers; including prohibitions such as to help other persons to set up new dwellings without the owners' permission or to cause harm on other occupiers and unlawfully damage the property of the owner.
- Importantly, ESTA sets-out procedural conditions under which evictions of occupiers may take place. This includes, the requirement that legal evictions can only be carried out through court orders. Further, it offers "absolute" protection from eviction of long-term occupiers such as those who are sixty years or more, the disabled and occupiers of more than ten years of the land concerned.
- Through a settlement grant from the Department of Land Affairs (DLA), ESTA enables occupiers to purchase land individually or collectively requiring the subdivision of the owner's land.

According to the Surplus People's Project, about 3, 5 million people have been forcibly removed from commercial farms in the 23 years leading to 1983.⁴³ As can be seen in Figure 7 below, since 1994, the deprivation of tenure rights persisted in tandem with the deprivation of the farm workers and dwellers' shelter or housing. Thus, it is needless to say that ESTA has proven to be an effective mechanism to facilitate "legitimate" deprivation of tenure rights of the masses of people who are already dispossessed of their land rights. It is widely held amongst land-rights organizations that the courts routinely rule in favour of land-owners, whilst evictees neither have representation nor even know their rights.

⁴³ Nkuzi Development Association & Social Surveys Africa, Farm Eviction Survey. 2005

Figure 7: Farm evictions since 1994



Source: Nkuzi Development Association and Social Surveys Africa, 2005

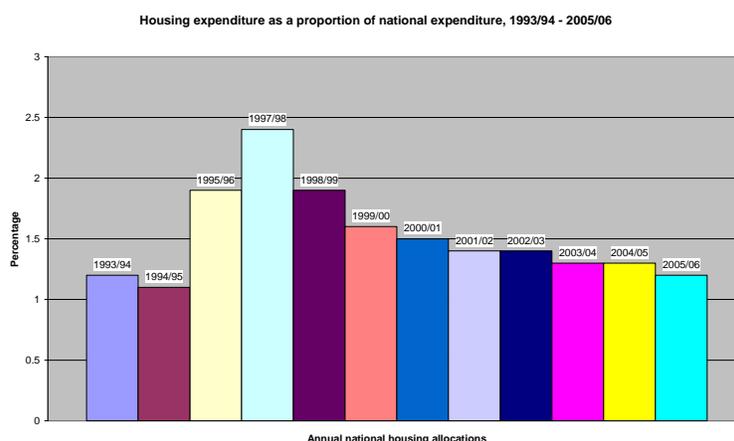
The above data in figure 7 show an escalation of evictions under a democratic order, definitely as part of the long-term trend of the deprivation of the rural poor of their land and tenure rights, and therefore shelter. Equally, it is clear that there is a positive correlation between the magnitude of evictions in a particular period and government's policy or legislative interventions. Perhaps as expected, 1994 saw a sharp rise in the rate of evictions (7.4%), largely as a result of farmers' alleged sense of uncertainty in the midst of the political transition. From 1994 on-wards, there was a generally sustained rise in the rate of evictions culminating in 1997 - the year when both ESTA and the Basic Conditions of Employment Act were passed, which were preceded by the proclamation of Labour Relations Act in 1995 and the Labour Tenants Act in 1996, respectively.

In social terms, these evictions are devastating on the poor; 77% of the evictees are dependents - women and children who are regarded as secondary occupiers by the courts, only allowed to live on farms on account of the male's employment contract. In fact, according to the Nkuzi's study, 46,748 evicted children were involved in child labour when they lived on farms, although a sizable proportion of such children did substantially drop after 1994.

Resource Allocation And Criteria

Emerging from the deliberations of the National Housing Forum in 1993 and 1994 was a consensus on the need for the increase of the housing budget from 2% in 1994 to 5% of the total government budget in order to achieve a million houses in five years. This consensus was given expression in the RDP as well as the White Paper itself. However, on the contrary, between 1994 and 2004 the housing budget took an opposite trend - averaging about 1.5 % (see figure 8).

Figure 8: Post-Apartheid national housing budget allocations



Source: GEAR 1996, MTEF 2000 and Estimates of National Expenditure, 2005.

Claiming a mere 2% in the current (2006/07) fiscal year, government intends keeping the housing budget at about 2,3% in the Medium Term Expenditure Framework period. It is this stagnant proportion of housing expenditure that accounts for the increasing backlog of the housing demand as acknowledged by government in the *Towards a Ten Year Review, 2003*. In addition, this is also responsible for the limited size of the units that are being built. According to calculations by Isandla, in real terms the housing budget for 1998/1999 was 24% lower than the 1997/98 budget.⁴⁴ According to the World Bank, by contrast, in the same period the international average for housing expenditure as a proportion of total expenditure for developing countries has been in the range of 2 - 5% of total government expenditure.⁴⁵

Table 24: Housing subsidies by province and category of subsidy, 1994 - 2004

	Project Linked	Individual	Consolidation	Institutional	Rural	Hostel Redevelopment	Total
E Cape	201,051	27,653	9,305	5,710	1,050	0	244,769
F State	79,920	15,364	8,127	1,300	2,459	516	107,686
Gauteng	709,352	52,639	841,161	19,105	563	162,282	1,028,102
KZN	234,574	14,353	28,477	21,197	10,248	0	308,849
Limpopo	91,425	4,348	3,252	0	61,606	353	160,984
M'langa	85,615	16,362	46,046	5,450	1,475	885	155,834
N Cape	37,631	7,688	384	1,000	0	0	46,703
N West	118,624	8,419	7,326	1,154	17,492	1,237	154,288
W Cape	157,984	10,998	48,343	6,998	0	4,866	229,189

⁴⁴ F Khan & Sarah Thurman, *Setting the Stage: Current Housing Policy and Debates in South Africa*, Isandla Institute. 2001.

⁴⁵ *ibid*

Total	1,716,176	157,824	235,421	61,914	94,894	170,175	2,436,404
-------	-----------	---------	---------	--------	--------	---------	-----------

Source: Department of Housing, 2004

From Table 24 above, the urban bias in housing delivery is starkly put in bold relief where the Gauteng province has claimed about 42% of the allocated subsidies between 1994 and 2004. As confirmed by the Western Cape and Kwazulu Natal, which also have a relatively high level of urban concentration, housing delivery has been urban biased. This is partly because in many instances delivery tends to comprise the upgrading of informal settlements - which are predominantly found in these three highly urbanized regions.

As pointed out above, despite the availability of different types of subsidy and tenure systems, housing delivery has been biased towards a one-plot-one-house ownership tenure - hence the project-linked subsidy had the highest allocation (70%) relative to all others. It is argued here that approving just over 240 000 subsidies and building 160 000 units of houses annually between 1994 and 2004 accounts for the growth in the housing backlog, since the housing demand amongst poor households was growing at 204 000 families per annum. Therefore, the limited budget for housing (as a result of the conservative and now moderately “accommodative” government’s fiscal stance), is the underlying factor.

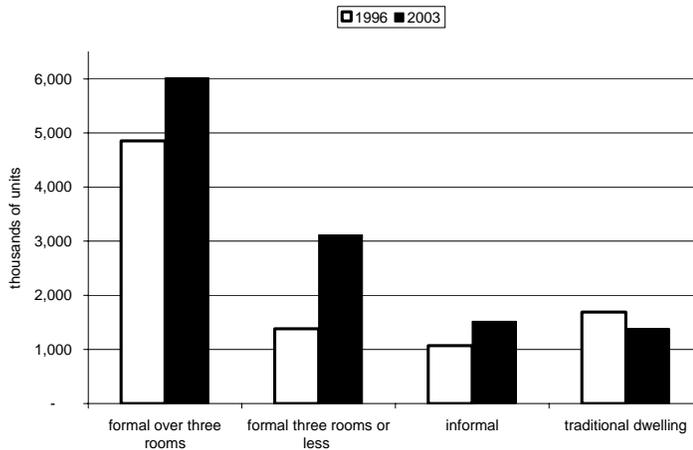
Results of the Housing Policy

Access to housing

As can be seen in Figure 9, the overriding concern is low-income housing which reflects contradictory trends. On the one hand, whilst formal low-income housing has been growing, (i.e. formal over-three-rooms and formal three-rooms or less,) informal housing has been rising on the other hand, notwithstanding increased delivery. The decline in traditional dwellings may partly account for the increasing urbanisation, and therefore the increase in informal dwellings - as generally found in urban centres. However, some of those living in informal settlements are families evicted from the farmlands, 67% of whom end up in urban centres.⁴⁶

⁴⁶ Nkuzi Development association & Social Surveys Africa, National Evictions Survey, Briefing to the Portfolio Committee on Agriculture and Land Affairs, 2005.

Figure 9: Access to housing, 1996 and 2003



Source: People's Budget Campaign, 2006 - 2007. Calculated from, Statistics SA, October Household Survey, 1996, and Labour Force Survey, September 2003. Pretoria. Databases on CD-Rom.

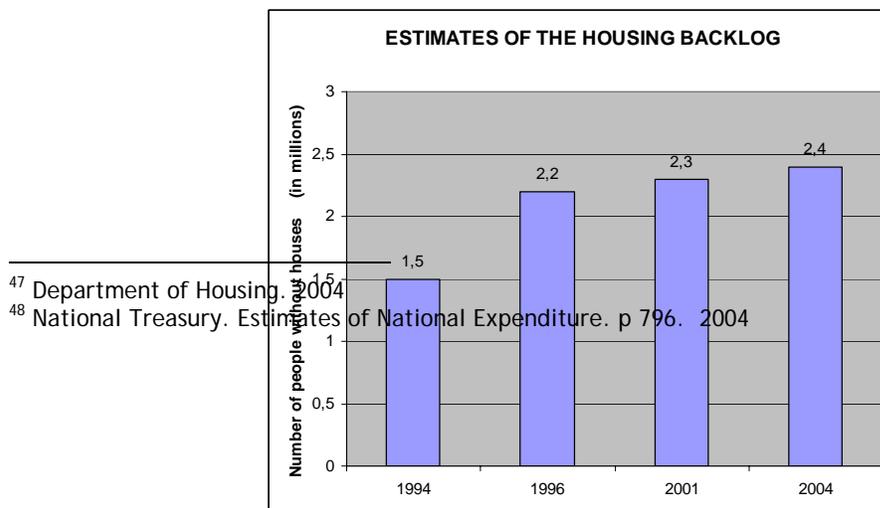
Availability and Accessibility of Basic Services to Rural and Urban Poor and Other Vulnerable Groups

Housing Backlog

Government defines the housing backlog as the total number of households living in either a house/flat/room, a backyard, in an informal dwelling or shack, in a room/flatlet on a shared property, in a tent or who are homeless.⁴⁷ In late 1994, when the DOH introduced the National Housing Programme the estimated housing backlog was 1, 5 households.

Based on the 1996 and 2001 population censuses, between 1996 and 2001 the South African population grew by 2%, which resulted in actual population increase by 4, 4 million. During this period, the average household size decreased from 4, 5 people to 3, 8 people per household, thus contributing to the increase of the housing backlog.⁴⁸ Thus, based on the findings of the last census of 2001, the DOH estimates that the current housing backlog is around 2, 4 million households, an increase of almost 9% from 1996 when the housing backlog was estimated at 2, 2 million households.

Figure 10: Housing backlog



⁴⁷ Department of Housing, 2004

⁴⁸ National Treasury. Estimates of National Expenditure. p 796. 2004

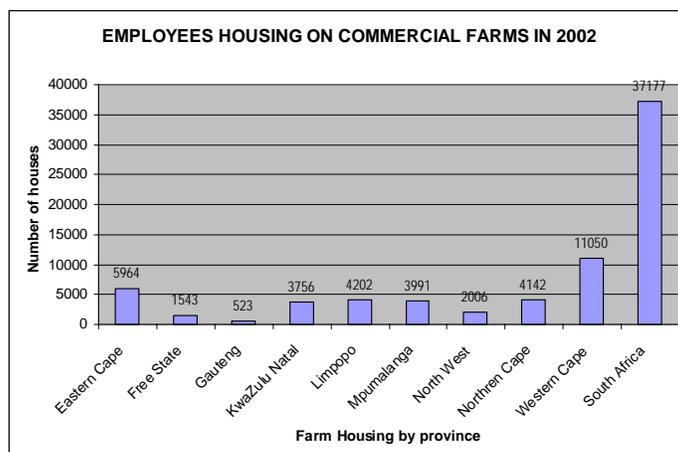
Source: Census 1996, 2001 and Department of Housing, 2004

However, COSATU argues that the housing backlog can not merely be explained on the basis of what appears to be objective factors such as the “unexpected” decrease in the size of households and the growth in the overall population. In addition to the perennial mismatch between the housing demand and budget allocations, the housing backlog is exacerbated by the on-going escalation of evictions on farm lands, perpetuated by ineffectual tenure laws and poor law enforcement, as pointed out above.

It was assumed that with increased housing expenditure, at least at around 5% of the government’s total annual expenditure, 5 million low-cost houses could be built over the first term of the ANC government. To achieve this goal, at least 350 000 units were required on annual basis. As pointed out above, this did not happen; instead the housing budget remained limited far below 5%. Based on the 1996 Census, the DOH established that the housing backlog was growing by 204 000 families per year, whilst the average annual housing delivery rate between 1994 and 2002 remained around 167 000, which is obviously far less than the annual growth rate of the backlog.

In reality, there should not be a housing crisis in rural areas affecting farm-workers and dwellers. Over the years a huge housing stock has been accumulated through the state’s assistance (see figure 11). Instead, farm houses are being demolished, laying empty or utilized for different business purposes. Certainly, there is a crisis with regard to the quality of the living and working conditions of those remaining on farms as well as the human toll exacted by mass evictions taking place in the countryside.

Figure 11: Housing on commercial farm in South Africa



Source: Statistics South Africa, 2002

Sustainable Human Settlements Plan

In essence, the Sustainable Human Settlements Plan is an implementation strategy, correctly drawing from Urban Development Framework of 1997 whose implementation strategy was never pursued - in particular the compact urban development approach for viable, pleasant and sustainable human settlements.

However, it would seem this plan is also preoccupied with quantitative targets, viz. the elimination of shack-settlements by 2014, which as argued above might just mean replacement of them with glorified shacks. Nonetheless, COSATU welcomes the emphasis on "fast-tracking" housing development, challenging provincial and local governments to apply provisions of the Development Facilitation Act - to rapidly access suitably located land.

The plan also sets out to consolidate or collapse the current subsidy system and creates a three-tiered model of income categories for "better targeting", composed of:

- destitute beneficiaries in the income category of 0 - R1 500, receiving full housing subsidy of R28 000.⁴⁹
- working-poor beneficiaries in the income category of R1 500 - R3 500, receiving full housing subsidy but required to provide either a small "own" contribution or sweat equity.
- a new subsidy band for beneficiaries in the middle income level - R3 500 - R7 000, for whom government would advance 50 percent of the mortgage bond deposit, as a basis of access to mortgage finance from the financial institutions.

The objectives of this new comprehensive implementation plan are to:

- Ensure that everyone has access to housing finance
- Accelerate housing delivery
- Increase choice for beneficiaries, both in terms of location and dwelling types
- Ensure maximum efficiencies in the development of villages, towns and cities in terms of infrastructure such as transportation, water supply and electricity provision

⁴⁹It must be argued that full-housing subsidy must be measured in relation to the relative concept or standard of adequate housing within the concrete context of a particular society, taking into account the prescribed minimum standards of quality and size. Thus, it remains to be seen what difference the new Sustainable Human Settlement would deliver in this regard.

- Upgrade and remove informal settlements in consultation with residents
- Educate beneficiaries about the economic value a housing unit (as an assets)
- Reduce the duality in the property market by breaking barriers between the booming first economy and the second economy property in a slump.
- Introduction of a new Emergency Housing Programme

Challenges Faced and Steps That Need to be Taken

- In principle we welcome elements of the new housing strategy - the Sustainable Human Settlement Plan, although we are yet to see a comprehensive implementation of the strategy as it seems to be limited to several pilot projects, so far. In this connection, we are concerned that the emphasis placed on the upgrading of informal settlements might mean that many of the poor beneficiaries falling into the maximum subsidy category will still be trapped in the urban periphery.
- Whilst the private sector has a role to play in the low-income housing market, in reality housing is always plagued by corruption in the tender processes. Similarly, a number of project-linked housing developments in a number of municipalities have been plagued by poor quality of work as developers seek to minimize costs and maximize profits.
- In keeping with government's vision of an integrated housing market, the success of the Sustainable Human Settlement Plan will depend on the cooperation and involvement of the private financial institutions in the low-income market. For instance, the 1997 the Record of Understanding has already proven a failure; amongst all the subsidized houses delivered since 1994 only 14% were private sector credit-linked. Recently (31 March 2005) the Housing Minister, Lindiwe Sisulu has concluded a Memorandum of Understanding with the private financial institutions. Since the strategy is partly dependent on the cooperation of the financial institutions, it remains to be seen whether this time government is going to enforce the Loan and Mortgage Disclosure Act in order to ensure success of the strategy.⁵⁰
- The possibility of achieving adequate housing as defined above may have been compromised by the Soobramoney vs Minister of Health judgment in 1997. Basically, the court interprets social delivery within the given fiscal constraints. In other words, as may be established by the Treasury's deficit/budget ratio.
- Despite the delivery of 1 831 000 new subsidised houses between 1994 and March 2005, with a further 57 065 sites serviced and 52 548 houses built between April and September 2005, the housing backlog continues to grow, as admitted by the Treasury.⁵¹ Thus, we are concerned that the 2014 target may not be met.

⁵⁰ Already, some few months after the MOU was signed, some financial institutions were reportedly threatening to pull-out of the low-income market if government does not agree with some of the products they are offering or the terms thereof.

⁵¹ Treasury, Estimates of Expenditure, p. 642. 2006

- Despite increased subsidy provision for the destitute (full subsidy=R28 000) in terms of the Sustainable Human Settlement Plan, the “inclusion” of this category into the mainstream housing market as free-hold tenure is questionable. Many of these beneficiaries are currently in informal settlements (which the plan seeks to upgrade) and the impact of land prices in the urban core may be an obstacle given the limited housing budget.
- As argued by the People’s Budget Campaign (of which COSATU is a member), for government to spend 5% of the total budget on housing, and therefore to turn the tide against the growth of the backlog - on course towards the elimination of shacks by 2014, will require 143% increase in the housing budget.

CONCLUSION

Being a core government mandate, COSATU calls for a state-led delivery of housing. Building on existing relevant e.g. Transnet Housing, a national public housing agency need to be established. Such an agencies can be formed by provincial governments and municipalities (taking into account issues of accreditation) in terms of section 9(2) (a) (ii) of the Housing Act. Thus, in this regard the Act states that a municipality can act ‘as a developer in respect of the planning and execution of a housing development project...’. This could also help improve coordination and integrated planning between provincial governments, housing boards and local municipalities. Similarly, it will also help coordination with regard to provincial spatial and economic development plans and Integrated Development Plans. Thus, the modalities of our proposed state-led housing entails;

- greater emphasis on public financing as opposed to the current reliance on the private financial institutions.
- an extensive direct investment by government in the building of new housing stock and related infrastructure as part of endeavors to foster higher economic growth and employment creation.
- housing provision giving beneficiaries different tenure security and choices with regard to occupation and types of units respectively.
- compact development of urban settlements at higher densities as well as sustainable rural settlements.

COSATU supports adequate housing, unencumbered by means-testing which creates access barriers for some beneficiaries who are expected to make their “own contribution”. Therefore, whilst we welcome some progress reflected in the Sustainable Human Settlements Plan, we call for adequate housing providing;

- shelter from the elements,
- suitable living space for inhabitants,
- located within a pleasant living environment, and
- well located for economic and social opportunities.

In addition, as part of a comprehensive social protection package, our perspective on adequate housing, calls for fully-serviced units with municipal infrastructure such as electricity, water and sanitation. Thus, this means the free basic or lifeline provisions must be increased to RDP levels.

6. OBJECTIVE 5: PROGRESS TOWARDS GENDER EQUALITY IN ALL CRITICAL AREAS OF CONCERN, INCLUDING EQUAL ACCESS TO EDUCATION FOR GIRLS AT ALL LEVELS

It is imperative that we consider the distinction between formal and substantive equality when reviewing gender equality.

Gender equality is a non derogable right in terms of section 9(3) of the Constitution of South Africa, and subsection (2) provides for the use of affirmative action where necessary to attain such equality.

The South African government has a very clear policy in terms of preferring women in relation to the filling of government positions, which position is influenced by the ANC's strong position on empowering women.

Despite this however, according to the 2003 UNDP Human Development Report for South Africa, the gender empowerment measure (GEM), which measures participation and gender inequalities in terms of economic and political decision making, declined from 0.80 in 1995 to 0.76 in 2002.

Substantive empowerment requires that women are economically empowered, and yet women still are proportionally over represented in terms of experiencing poverty. The poorest households are those that are headed by women in rural areas.

Males, particularly white males, dominate the upper echelons of the labour market. As a result of inherited wage inequities and the fact that women are concentrated in low paid jobs, women's share of income is substantially lower than men. Discrimination also takes the form of differences in the valuing of men and women's jobs translating in wage disparity. The majority of the unemployed are women particularly black women.

Women also face hardship in accessing and sustaining their participation in the labour market. The majority of women have to juggle careers and domestic responsibility such as cooking and taking care of children. The shortage of childcare facilities and the sexual division of labour in the home impose serious burdens on women. Maternity leave and pay provision are also inadequate, and in some cases even the legislated minimum is not complied with.

Further challenges to women with regard to the labour market is evidenced by the fact that in September 2005, 65% of discouraged workseekers were women. 31.7% of economically active women were unemployed, compared to 22.6% of men. 63.03% of the 8.6 million formal sector workers were men, while 43.73 % of informal sector workers were women, to which a further 859 000 domestic women (who are predominantly female) should be added. The sectoral differences is indicative of the fact that women in general work in more vulnerable conditions than men, and earn less.

Any discussion of the equality between men and women in general terms on South Africa has to consider questions of gender based violence. South Africa has an extraordinary high level of reported rapes.

According to a paper prepared for the People's Budget Campaign (Vetten, 2005), domestic violence affects as many as one in two South African women. Its impact is diverse, leading to disability, suicidal behaviour and self-harm, alcohol and drug

abuse, depression, complications in pregnancy (including miscarriage), gastrointestinal disorders, ocular damage, fractures and eating and sleep disorders (WHO, 2002). Approximately half of all South African women murdered in 1999 were killed by their intimate partners, translating into a prevalence rate of 8.8 per 100 000 of the female population aged 14 years and older - the highest rate ever reported in research anywhere in the world (Mathews *et al*, 2004, quoted in Vetten, 2005).

7. OBJECTIVE 6: ENCOURAGING BROAD-BASED PARTICIPATION IN DEVELOPMENT BY ALL STAKEHOLDERS AT ALL LEVELS

7.1. *Overview*

Participative democracy is a cornerstone of the South African Constitution, and it makes specific provision for consultative and participative processes with regard to the passing laws, as well as the functioning of local government – Section 152(1)(e) for instance - provides that one of the objects of local government is to “encourage the involvement of communities and community organisations in the matters of local government”.

We shall focus on local government as the earmarked site for broad based development, and highlight COSATU’s concerns around the impact of weakened capacity in many municipalities.

7.2. *Local government.*

Local government has been earmarked as being a crucial actor within development in South Africa. In the 2006 State of the Nation Address, President Mbeki announced that much of R372 billion earmarked for infrastructure development over the next three years as a way of boosting the economy would be targeted through the local government Municipal Infrastructure Grants. It is accordingly that we express concern at the ongoing lack of capacity within many local governments which means that many of the necessary development initiatives remain uncompleted.

The President announced in the same Address that 3000 Community Development Workers had been deployed this year to facilitate delivery at local government level. This however does not address the shortages of managerial staff, engineer and other professional staff that he identified as representing an existing obstacle to local government interventions.

Currently, neo-liberal and market-led policies dominate the local government policy arena. Examples include cost recovery models for service delivery, public private partnerships, and performance-based remuneration incentives, with a preoccupation with senior management posts. These policies have resulted in soaring costs for basic services as well as slow delivery, particularly for low-income groups, who struggle to pay for these kinds of services, given these unaffordable costs.

Since 2004, government has realised the need to address many of the shortcomings of local government. Project Consolidate, a “hands-on Local Government Support and Engagement Programme” by the DPLG” is a welcome development insofar as it aims to work together to address ‘remaining challenges’; provides a frank input on “key indicators of progress regarding basic service delivery”; and attempts to ‘refine policy, fiscal and institutional matters that will enable consolidation of the local government system in the long-term’.

The Portfolio Committee for Provincial and Local Government in mid-2005 held a series of briefings in Parliament, which for the first time has helped various municipalities, the DPLG, related public entities and civil society gain a deeper insight into the challenges facing local government. Insights from these briefings provide

ample opportunities to review and revisit existing legislation and policies that are problematic. It is a process closely followed by the Federation.

Whilst there are many opportunities to engage, as well as a willingness at a national level to engage key stakeholders, there remains several critical assumptions, policy doctrines and mechanisms of implementation that require a robust review, analysis and critique in order to realise the vision as originally envisaged.

A major constraint, now agreed to by all stakeholders, to realising many progressive elements of local government legislation, is the *mismatch between the current needs, and the resources available to address these*.

There are also serious instances of encroachment of the private sector in local governance, specifically where local governments feel that they lack capacity, and few of the private sector consultants are driven by progressive developmental policies.

It is clear that consultative processes, including local government budgets and IDP consultative processes will have been affected by this lack of capacity.

During the period 1997 to current, COSATU Parliamentary Office has engaged parliament and the DPLG in at least a dozen submissions related to local governance. Several of our long standing concerns remain and therefore feature as a constraint to broad based development.

Broadly these include the absence of consideration of the impacts of policy proposals on the poor, prior to the promulgation of policy, an overall failure with regards to expressing how resources are to be redistributed in favour of the underdeveloped areas in a manner that redresses the historical pattern of the exploitation of black peri-urban and rural areas (Unfortunately, these details were left to each municipality to resolve). Even though local government is a distinct sphere of government, national could have issued broad guidelines for implementation.

Many of the policies relating to local government, as well as the absence of an appropriate rural development strategy have led to rapid urbanisation patterns. The metropolitan municipalities in the Western Cape, Gauteng, and KZN are taking major strain as a result. This is due to the piecemeal and inadequate transformation of the underdeveloped areas from their current dormitory character to viable economic centres⁵².

As far back as 2000, COSATU and the South African Municipal Workers' Union (SAMWU), asserted that that "the current infrastructure backlog can only be resolved if the state plays a significant and a leading role in infrastructure development"....and "further believes that the state has an obligation to ensure that there is universal access to basic services", calling for a "nationally driven cross-subsidy system [that] should be

⁵² COSATU Submission on the Local Government: Property Rates Bill, Presented to the Portfolio Committee on Provincial and Local Government, 13 May 2003

used to fund shortfalls that can be encountered by the poor communities and municipalities.⁵³

Almost 5 years later, government has acknowledged this as a necessity (albeit with the State in a more regulatory role and in partnership with capital through public private partnerships). The National Treasury has, in 2005, revised the division of revenue in favour of increased allocations to poor municipalities, asserting that:

“The Municipal Infrastructure Grant will assist municipalities to provide basic municipal infrastructure and community services to low income households. It further aims to provide greater certainty in allocations, improve capital planning and facilitate higher infrastructure spending.”⁵⁴

All of these interventions come “too little, too late” for local government, where the challenges have become greater, in the absence of earlier interventions.

Poor or non-delivery of municipal services is not a simplistic association with a lack of resources. Some municipalities (supporting the call to include the private sector in partnerships, many of which are controversial), are increasingly engaging in initiatives that are retrogressive and prevent access to services by the poor.

Whilst services may be aimed to be accessible, it cannot be said that these are affordable, given the privatisation, commercialization and corporatisation of key units within local government and entities. Whilst exclusion of the majority of South Africans was formerly political and along racial lines, the phenomenon of exclusion is now increasingly along economic lines and it remains a matter of grave concern to the Federation.

Recommendations:

1. COSATU accordingly calls for a thorough audit to be done in consultation with local governments and the appropriate communities to identify which of the IDP processes correctly reflect the development priorities of local communities; that comprehensive implementation plans were developed and that the implementation is being routinely monitored and evaluated.
2. Further consultation be had with SAMWU (the South African Municipal Workers’ Union) to ascertain staffing constraints and identify priorities for addressing same.

7.3. NEDLAC

The National Economic Development and Labour Council (NEDLAC) was established in 1994 as a social dialogue forum. Section 5(1) of the Founding Act of NEDLAC sets out its mandate and objectives as follows:

Section 5(1) states: *The Council shall-*

⁵³ COSATU Submission on the Municipal Infrastructure Investment Framework Presented to the Department of Local Government and Provincial Affairs, 30 August 2000.

⁵⁴ p.158 Chapter 7, Provincial and Local Government Allocations, 2005 Budget Review - National Treasury.

- (a) strive to promote the goals of economic growth, participation in economic decision-making and social equity;*
- (b) seek to reach consensus and conclude agreements on matters pertaining to social and economic policy;*
- (c) consider all proposed labour legislation relating to labour market policy before it is introduced in Parliament;*
- (d) consider all significant changes to social and economic policy before it is implemented or introduced in Parliament;*
- (e) encourage and promote the formulation of co-ordinated policy on social and economic matters.*

However Labour has expressed increasing frustrations arising from the by-passing of the NEDLAC processes by the state, and has questioned the commitment of Business to implement some of the negotiated agreements forged through NEDLAC.

Recommendation:

It is imperative that the Council be strengthened and that all parties recommit to including the NEDLAC processes as central to the development and negotiation of policies and programmes that will impact on the social and economic imperatives and dynamics within South Africa and beyond her borders.

References.

ANC Online. Bold Steps to end the 'Two Nations' Divide. August 2003

ANC Today. Approaches to Poverty Eradication and Economic Development VII. Volume 4, Number 47. 26 November to 2 December 2004.

Brait, Macro GDP, 29 November 2005

Brait, Budget Preview, 15 February 2006 (a).

Brait, GDP Performance. 28 February 2006 (b).

COSATU. Draft Gender Policy, July 2003.

COSATU Strategic Audit of Government Policy, and recent shifts, 2005. Draft.

Dercon, S. Vulnerability: a micro perspective. Paper presented at the Annual Bank Conference on Development Economics, Amsterdam, May 2005.

Economic Policy Research Institute (EPRI). The Social and Economic Impact of South Africa's Social Security System, 2004.

Frye, I. An International Literature Review on the targeting, administration, financing and developmental stimulus of cash transfers (Draft). BIG Coalition, 2005 (a).

Frye, I. Chapter 11: Social Welfare Rights in Socio-Economic Rights in South Africa. Second Edition, (forthcoming). 2005 (b).

Frye, I. Poverty and Unemployment. Paper prepared for SARPAN, 2006(a).

Frye, I. The second economy: short hand, underhand or sleight of hand. Paper prepared for the CCS Colloquium on the Economy, Society and Nature. 2006(b).

Mbeki, T. State of the Nation Address, 2006.

Meth, C. What has happened to poverty in SA as unemployment has increased? Work in Progress - 4th draft. 2004.

Southern African Policy Network (SARPAN). Newsflash, 9 March 2006. www.sarpn.org.za.

Terreblanche, S. An evaluation of macroeconomic policy in the democratic Era. 2005.

Towards a Ten Year Review. Synthesis report on implementation of government programmes. Policy Co-ordination and Advisory Services (PCAS), The Presidency, 2003.

UNDP. South Africa Human Development Report, 2003. The challenge of sustainable development: Unlocking people's creativity. UNDP, 2004.

Vetten, L. What Cost Domestic Violence? Criminal Justice System Budgets And The Implementation Of The Domestic Violence Act, 2004.