ECONOMIC POLICY AND POVERTY ALLEVIATION
REPORT SERIES

RESEARCH REPORT 3 & 4

ECONOMIC POLICY-MAKING IN A DEVELOPMENTAL STATE: REVIEW OF THE SOUTH AFRICAN GOVERNMENT'S POVERTY AND DEVELOPMENT APPROACHES, 1994-2004

Mark Swilling, John van Breda, Albert van Zyl and Firoz Khan

INSTITUTIONALISING THE DEVELOPMENTAL STATE: THE CASE OF THE 'SPECIAL FUNDS'

Mark Swilling and John van Breda

CONTENTS PG

RESEARCH REPORT NO. 3

RESEARCH REPORT NO. 4

ECONOMIC POLICY-MAKING IN A DEVELOPMENTAL STATE: REVIEW OF THE SOUTH AFRICAN GOVERNMENT'S POVERTY AND DEVELOPMENT APPROACHES, 1994-2004

Mark Swilling, John van Breda, Albert van Zyl and Firoz Khan

I believe it's better to die in battle, rather than hold aloft a very revolutionary and very pure banner, and do nothing ... That position often strikes me as very convenient, a good excuse ... Try and make your revolution, go into combat, advance a little, even if it's only a millimetre, in the right direction, instead of dreaming about utopias.

Hugo Chavez, President of Venezuela, after the August 2004 Referendum

1. Introduction

This paper is a contribution to a wider research project coordinated by the Centre for Civil Society at the University of KwaZulu-Natal. The primary aim of this wider project is to determine the resource flows into poverty eradication and the development process in general. Although the focus of the wider project has been on non-state actors (individuals, corporations, communities, non-profit organisations, local and international donors and faith-based institutions), this paper was commissioned to provide a contextual framework for understanding these non-state resource flows[1]. Therefore, the *primary question* this paper seeks to answer is as follows: How much has the South African state spent since 1994 to address the challenge of poverty and promote development? This is self-consciously a quantitative question. The answer, however, cannot be purely quantitative because the South African state, like any state, intervenes in financial and non-financial ways to address challenges such as poverty, inequality and development. Hence this quantitative question will be contextualised in a qualitative analysis that provides strategic meaning to the primary quantitative dimensions of this paper.

[1] This paper is based on two base documents that were commissioned as inputs for this synthesis paper. They were written in accordance with specific instructions and criteria developed by Mark Swilling. The authors of the base documents appear as second authors to this paper. However, Mark Swilling wrote the final synthesis paper. The contents of the two base documents will be referred to throughout the paper without, in most cases, specifically cross-referencing to the base documents.

The answer to the primary quantitative question posed above will be that during the first decade of democracy, the South African state has *increased* expenditure on social and economic services as a percentage of total expenditure. Expenditure on social services increased in real terms by 57.5%, from R70.2 billion in 1995/6 to R196.6 billion in 2004/5. The result of this trend is that the relative share of social services of consolidated expenditure increased from 45.4% in 1995/96 to 50.9% in 2004/05. Expenditure on economic services increased in real terms by 71.5%, from R16.2 billion in 1995/6 to R49.4 billion in 2004/5. As a result its share of expenditure grew from 10.5% in 1995/96 to a projected 12.8% in 2004/05. Furthermore, this has been achieved by slightly lowering total expenditure as a percentage of GDP from 30.8% in 1995/6 to 28.6% in 2004/5. Nor did state revenues increase - they remained at around 25% of GDP per annum for most of the period. At the same time, in the six years to 2003/4, personal income tax paid to the South African Revenue Services (SARS) decreased in real terms by 0.9% per annum, while company tax increased in real terms by 12.3% per annum[2]. As will be argued later on, this does not fit the profile of the classic neo-liberal state.

The expenditure figures cited above include both operating and capital expenditure. However, given the focus of the overall Social Giving project, of particular interest are the so-called 'extra-governmental transfers' to households, non-profits and special funds (explained in detail in a section later in the report). During the five year period 2000/01 to 2004/05, the total value of direct transfers to households alone is estimated to be R6.7 billion. The total value of transfers aimed directly at poverty eradication and development promotion to special agencies/funds (not controlled by government departments), plus the non-profits and households for the five year period 2000/01 – 2004/05, was R58.7 billion. On its own, this figure may not have much significance, but it does provide a useful contextual reference point for assessing the contributions by the non-state actors surveyed in the wider study.

In a supplementary paper to this one, a more detailed analysis is provided of the fourteen 'special funds' that were either transformed or created from scratch over the past decade to institutionalise the delivery of developmental funding. It was found that they had available for spending (via grants, loans and/or investments) a total of nearly R33.8 billion during the period 1994-2003. Although relatively minor spenders in the larger scheme of things, how they were configured and what their challenges were tells a story about the complexities of building developmental state institutions in the context of a small developing economy that is highly dependent on global economic processes.

---

[2] Gelb, S. 2004. 'The South African Economy, 1994 – 2004', paper presented at Wits Institute for Social and Economic Research seminar, University of the Witwatersrand, 26 July 2004.

The story of the 'specials funds' begins with the rise and fall of the RDP Fund – the archetypal general purpose 'development fund'. This was followed by the emergence of a rash of 'special funds' during the 1998/99 period when the state was running the dualist framework of 'macro-economic stabilisation' alongside 'ameliorative' interventions, culminating in today's 'developmental state' approach. This approach combines state-led investments with massive interventions in physical infrastructure and human skills via two new mega-funds – the Municipal Infrastructure Fund and the National Skills Fund (including the SETAs). This is a remarkable, largely untold, story of large-scale vision-led institutional engineering driven by the need to find vehicles for spending money to realise developmental policy objectives without raising the spectre of 'fiscal populism'. In every case there was an underlying theory of development, an institutional methodology, a set of developmental practices and a set of predictions about the relationship between inputs, outputs and impacts. This story needs to be told.

The single most striking feature of post-1994 South Africa is that despite the general picture described above of rising levels of state expenditure on social and economic services, coupled to ambitious institutional projects to mobilise resources for development, poverty has nevertheless increased. According to the authoritative 'UNDP Human Development Report':

> Poverty gap, which reflects the depth of poverty … has increased between 1995 and 2002, especially when using lower poverty lines.[3]

Furthermore, the Report states:

> Income distribution in South Africa, as measured by the Gini coefficient, is very skewed compared to other countries and has been worsening in recent years. In 1995, the Gini coefficient for South Africa was 0.596; it rose to 0.635 in 2001, suggesting that income inequality is worsening.[4]

How is this possible? Part of the answer is that rising social and economic expenditures have taken place within a context shaped by macro-economic policies that have favoured excessively rapid liberalisation of capital inflows and outflows that have not been strategically aligned with developmental priorities. This mismatch between social spending and the liberalisation of capital flows, goes some way towards explaining the rising levels of poverty and inequality during the first decade of democracy. However, to complete the picture, we must address what

[3] United Nations Development Programme. 2000. 'UNDP South African Development Report 2000' (UNDP (SA)) (available at http://www.undp.org.za/sahdr2000/sadhr20002.html), Chapter 2, p. 42.
[4] Ibid., p. 43.

most economistic and reductionist analyses fail to address, namely the complex and challenging task of institutionalising developmental state institutions. Measuring inputs (expenditures) and outputs (delivery), bemoaning the impacts (rising poverty) and then blaming the macro-economy ignores the quintessential message of institutional economics; namely that financial flows are mediated by institutional transactions that are time bound, constrained by human capacity and costly. If these institutional arrangements are inappropriately configured and/or are rendered ineffective by dysfunctional power relations, inadequate capacity and/or corruption, expenditures will have limited impacts. It follows, therefore, that spending more via dysfunctional institutions could result in qualitatively poorer outcomes than spending less via more functional institutions.

The ideal is, of course, spending more via functionally superior institutions that are staffed by people who understand the meaning of 'deep development' and who are allowed to operate according to procedures that are functional and effective, i.e. that development is about more than spending money. The problem is that plans and budgets take up very little time and require very small groups of highly skilled people to assemble, whereas institutionalisation of the capacity for implementation is a long, time-consuming process, involving large numbers of people who have a mix of skills and who are often geographically separated from one another. When there is a mismatch between the lead times for planning and budgeting and the lead times for institutional transformation, strategic managers and politicians look for people to blame for failures or for ways to short-circuit formal structures. Though initially logical, this response can compound the complexity of aligning plans, budgets and institutional capacity as new layers of decision-making slow down, rather than speed up, the process. When all this gets over-determined by impatient and frustrated political leaders, logjams can turn into meltdowns.

The focus of this report is limited to a quantitative analysis of state expenditures and the institutions that have been set up by the state to manage expenditures. This report will not address the vexed question of the relationship between expenditures and the actual impact of these expenditures on poverty reduction/eradication. Others have attempted to do this, although these studies are now out of date[5]. In other words, this report does not tell us what the money was

[5] Nattrass, N. and Seekings, J. 2001. 'Democracy and Distribution in Highly Unequal Economies: The Case of South Africa'. *Journal of Modern African Studies,* 39 (3): 470-498. May, J. 2001. 'Meeting the Challenge? The Emerging Agenda for Poverty Reduction in Post-apartheid South Africa', in Wilson, F., Kanji, N. and Braathen, E. (eds.), *Poverty Reduction: What Role for the State in Today's Globalized Economy?*. Cape Town: New Africa Education Publishing.

Human Sciences Research Council. 2003. 'Synthesis Report on Social and Economic Impacts of Government Programmes since 1994'. Pretoria: Human Sciences Research Council.

spent on at the programme and project level, how it was spent and whether the intended poverty reduction targets were achieved or not. In order to explain why poverty increases when state expenditures to reduce poverty increase, further research will be required based on a more refined analysis of expenditures at the programme and project level coupled to qualitative case studies of actual impact. However, where this report does indirectly address this issue is at the level of macro-economic policy and the challenge of institutionalisation.

In order to answer the *primary question* posed at the outset, it is necessary to start in **Part One** by briefly clarifying and justifying the ontological and conceptual terrain that has been selected to constructively develop an answer to this question. This will include the need to define what we mean by 'poverty', 'inequality', 'development', and the 'developmental state' and, indeed, what an adequate explanation of state action and the policy-making process entails.

In **Part Two**, it will be argued that state expenditure is not the only variable when it comes to the economic determinants of development and poverty eradication. Limiting the discussion about poverty eradication to social policy and related expenditures makes it possible to disconnect the problem of poverty from economic policy, and hence the wider challenge of inequality and the global context of macro-economic policy-making. For the purposes of this paper, the discussion of economic policy will be limited to the three-way relationship between fiscal policy, monetary policy and exchange rate policy within the wider context of economic globalisation, and how these 'trilemmas' are managed by an aspirant developmental state.

Part Three will be a detailed analysis of fiscal policy based on an empirical analysis of expenditures on social and economic services and infrastructure since 1994. It will be demonstrated that, contrary to the language of fiscal restraint, there is little evidence of a consistent and long-term commitment to cutbacks in social and economic expenditure. In fact, the opposite is true. However, saying that expenditures on social and economic services increased over the decade from 1994 does not automatically mean that this level of expenditure was sufficient to reduce the levels of poverty.

The complementary paper to this one will attempt to provide an insight into the complex challenges involved in the building of developmental state institutions. For this purpose, a selection of so-called 'special funds' have been analysed in order to demonstrate how much effort has gone into building developmental institutions over the years, how much they have spent and on what. This story starts with the RDP Fund, proceeds through its demise and reincarnation via the construction of a multiplicity of 'special funds' in the late 1990s (with special reference to the Special Poverty Relief Allocation), and ends with reflections on the present focus on massive investments in human capital and infrastructure via two rising giants in the 'special

fund' world, namely the National Skills Fund (plus the SETAs), and the Municipal Infrastructure Grant Fund. This will lead to a conclusion that the problem to be addressed in the developmental process in South Africa is not lack of developmental finance, but rather too much relative to the capacity required to deploy (i.e. not just spend) the funds available. Capacity here will refer to both state capacity and the capacity within the developmental sector to acquire and deploy funds for development projects. This, in turn, relates to an inadequate understanding of development practice and the role that development institutions – both state- and civil society-based – play in the process of developmental work on the ground.

The paper ends with a **Conclusion** about the challenges facing a 'pragmatic developmental state' that seeks to eradicate poverty and gross inequalities within a global economic context dominated by forces that aggressively promote the free flow of capital in a way that tends to favour short-term liquid investments in the 'non-real' economy that benefits a small, but powerful, globally-networked group of economic elites. The main contention will be that state interventions aimed at poverty eradication (including social spending and changes in development practice) can only be effective if controls over capital flows are carefully managed to ensure alignment with national economic goals and, in particular, development strategies. This is not a nostalgic call for a return to a protectionist golden age presided over by an omniscient Weberian bureaucracy. It rather suggests of the need for a kind of radical strategic pragmatism that makes it possible for national governments in developing countries to fearlessly marry state intervention to eradicate poverty and gross inequalities with opportunistic strategies for managing the interface between national economic needs and global economic dynamics.

2. Clarifying the terrain of analysis

2.1 Defining the developmental state

There is little doubt that the language of political debate in South Africa at the start of the second decade of democracy has changed. Whereas the first decade was dominated by the language of reconciliation and macro-economic stabilisation, the second is dominated by the challenge of poverty and the somewhat obfuscating notion of the 'two economies' – at best a polite euphemism for inequality. What was common to both decades although admittedly more prominent in the second, was the search for the elusive 'developmental state'.

Market fundamentalism and (the icy grip of) right wing politics present us with a veritable arsenal of stratagems and techniques to effect 'change'. Fortunately, these have been slated by government as inappropriate in meeting our needs and development priorities. In his address to the National Assembly on the occasion of

his 2004 Budget Vote, President Mbeki unequivocally endorsed a 'left' project. Quoting the public intellectual, William Hutton, he said:

> Western democracies have been characterised by one broad family of ideas that might be called left – a belief in the social, reduction in inequality, the provision of public services, the principle that workers should be treated as assets rather than commodities, regulation of enterprise, rehabilitation of criminals, tolerance and a respect for minorities – and another broad family of ideas that might be called right: an honouring of our inherited institutional fabric, a respect for order, a belief that private property rights and profit are essential to the operation of the market economy, a suspicion of worker rights, faith in the remedial value of punitive justice and the distrust of the new.[6]

The President went on to say:

> [T]here can be no doubt about where we stand with regard to this great divide. It is to pursue the goals contained in the 'broad family of ideas that might be called the left' that we seek to build the system of governance. The obligations of the democratic state to the masses of our people do not allow that we should join those who 'celebrate individualism and denigrate the state'. We would never succeed to eradicate the legacy of colonialism and apartheid if we joined the campaign to portray 'the social, the collective and the public realm...as the enemies of prosperity and individual autonomy...opposed to the moral basis of society, grounded as it should be, (in terms of right wing ideology) in the absolute responsibility of individuals to shoulder their burdens and exercise their rights alone'. This is precisely what we meant when we said in the May State of the Nation Address that: 'The advances we must record demand that we ensure that the public sector discharges its responsibilities to our people as a critical player in the process of the growth, reconstruction and development of our country'[7].

Following on from the pre-1994 intra-Alliance work that led to the writing of the *Reconstruction and Development Programme* (1994), the deliberations and policy work of the Reconstruction and Development Ministry reflected the government's belief in the transformative capacity of the state which coalesced around the notion of the 'developmental state'. Again, Thabo Mbeki's words (when he was still Deputy President) in his address at the Development Planning Summit (hosted by the Intergovernmental Forum in 1995) are illuminating:

> Our fundamental challenge…is to construct a truly developmental state. International experience demonstrates that government driven by a vision and measured by results is

[6] Mbeki, T. 2004. 'Address of the President of South Africa on the Occasion of the Budget Vote, National Assembly, Cape Town, 23rd June' (retrieved from http://www.gov.za in August 2004.)
[7] Ibid.

> far more effective than a rule-governed state. In addition government which is empowered at all levels and which is able to ensure the active participation of citizens in decision making is critical. Finally government must be enterprising. If our efforts are constrained by the extensive systems of rules we have inherited we will achieve nothing. We must replace any unnecessary regulations with clear objectives and performance measures. Thus the fundamental role of our vision…is to unleash the creativity of our people, in government and throughout South African society. In the words of US General George Patton, 'Never tell people how to do things. Establish what you want to achieve and they will surprise you with their ingenuity'. (27 November, 1995)

So the components of the 'left' project and the agenda of the developmental state (when reading both the 1995 and 2004 statements) are ostensibly about a vision-driven, enterprising and empowered performance-oriented government; active citizen participation; reducing inequality; and providing public services. However, realities are not a by-product of rhetoric; nor can rhetoric be dismissed as 'mere rhetoric' by the cynics. The search for what's really going on is in the messy world of practice where the grand constructions of visionaries and 'deconstructions' of their armchair critics get lost so easily in the detail.

Although this notion of a developmental state denotes something classical going back to Marx's Bonapartist state or to the Keynesian interventionist state, the concept made its debut in the seminal work by Chalmers Johnson on the Asian model of economic development[8]. The former South African now UK-based academic Adrian Leftwich consolidated much of the research that followed in order to develop by the mid-1990s what he called the 'developmental state model' comprising the following elements[9]:

- a 'determined developmental elite' committed to the modernisation project; 'relative autonomy' from major capitalist economic interests who are always keen to capture the state;
- 'a powerful, competent and insulated economic bureaucracy' that enjoys the highest possible political support but operates without too much political interference;
- a 'weak and subordinated civil society' which means there are no rival centres of alternative policy formation;
- the 'effective management of non-state economic interests' via formal structured compacts, incentives and penalties; and

[8] Johnson, C. 1982. *MITI and the Japanese Miracle*. Stanford, CA: Stanford University Press.
[9] Leftwich, A. 1995. 'Bringing Politics Back In: Towards a Model of the Developmental State', *Journal of Development Studies*, February, 31 (3), p. 400.

- accessible and usable institutions of 'repression, legitimacy and performance.'[10]

The rise of neo-liberalism through the 1990s and the accompanying acceleration of economic globalisation confronted the developmental state with a dilemma: on the one hand the developmental state was the target of market fundamentalists who aggressively posed their preferred alternative, namely the minimalist (or 'hollowed out' state); while on the other the economic results that many developmental states made possible from the 1950s through to the 1980s were praised by neo-liberal economists as proof of the developmental benefits of capitalism and market economics. Although critics of neo-liberal economics never ceased to point out the irony, it was only after the turn of the millennium - and as evidence of the failure of neo-liberal economics in developing countries mounted - that the limits of the minimalist state began to be recognised by mainstream economists[11]. This re-opened the space for states controlled by parties with some sort of base in the poor and working classes to articulate the need for a developmental state to deal with the twin linked challenges of inequality and poverty eradication (Venezuela, Brazil, Argentina, South Africa, India, etc). However, the global economic context had shifted drastically since Leftwich published the developmental state model. Building a robust national developmental state with the capacity to exert strong controls over the parameters of the national economy runs contrary to the enormously powerful global economic pressures, in particular capital flows that are no longer subject to the regulatory strictures of national states, and the morality of the new global middle class that has turned tax avoidance into a moral virtue and who sneer at dinner parties about politicians who say they care about the poor. The action, so to speak, has moved up to regional and global spheres of inter-state governance and downwards into the wild and dangerous world of local economies and local governance. This is, in essence, what it means to 'hollow out' the nation-state.

What implications does this new globalised economic context have for those states that have a more progressive pro-poor agenda and who aspire to build a developmental state? In particular, is it possible to reconcile macro-economic policies aimed at managing the interface with global economic processes and the need to increase state expenditure to promote local development? Or, more specifically, can one remove trade restrictions, liberalise capital markets, eliminate exchange controls, reduce state subsidies, restrain expenditure increases and keep inflation down and, at the same time, spend more money on housing, welfare, education, job creation and infrastructure? In most countries that have experienced

[10] Ibid., p. 406.
[11] Stiglitz, J. 2002. *Globalization and its Discontents*. New York: Norton.

externally imposed structural adjustment programmes, the answer is a resounding no. For these countries, social investment will follow growth, and growth follows integration into the global economy. This is the classic neo-liberal state model. As Aisbet articulated the problematic:

> [L]iberalisation is more often an unwritten requirement of integration. If a country wishes to be integrated into the global economy, they need to attract foreign investment, and in order to do that, they need to implement economic policies that foreign investors think are sound, and at the moment, foreign investors think that the neo-liberal economic policies are sound. The result is what Milton Friedman refers to as the 'gold straight jacket' for economic policy makers.[12]

Following Held[13], the essence of the neo-liberal macro-economic agenda is as follows: free trade, capital market liberalisation, flexible exchange rates, market-determined interest rates, deregulated markets, privatisation of state-owned assets, ***fiscal restraint***, balanced budgets, tax reform, secure property rights, and the protection of intellectual property rights. Significantly, as evidence mounts of the failure of these policies, neo-liberal economists are homing in on capital market liberalisation as a key problem. Stiglitz argues that the East Asian and Latin American crises show that 'premature capital market liberalisation can result in economic volatility, increasing poverty, and the destruction of middle classes'[14]. A 2003 study by IMF economists concurred when they concluded that 'there is no strong, robust and uniform support for the theoretical argument that financial globalisation per se delivers a higher rate of economic growth'[15]. In her grand review of the pro- and anti-globalisation literature from an essentially neo-liberal perspective, Aisbett concludes that there is now a consensus in the literature across all positions that 'liberalization of markets for short term capital can be detrimental and should be approached with caution'; that 'poverty should be measured using education and health as well as income', and that 'excessive corporate power (market and political) is a problem'[16].

The most significant feature of the moment is the return to the global stage of the notion of a 'developmental state'. For the first time in many years, it is possible for mainstream players to be dismissive of neo-liberal fundamentalism, and academics

---

[12] Aisbett, E. 2003. 'Globalization, Poverty and Inequality: are the criticisms vague, vested, or valid?'. Paper prepared for the NBER Pre-conference on Globalization, Poverty and Inequality, October 24-25, 2003, University of California at Berkeley.
[13] Held, D. 2004. 'Globalisation: the Dangers and the Answers', openDemocracy: free thinking for the world, www.openDemocracy.net, downloaded October 2004.
[14] Quoted in Ibid., p. 5.
[15] Quoted in Held op. cit., p. 5.
[16] Quoted in Aisbett. 2003. op. cit., p. 40.

are now writing books that critique the 'new public administration' tradition which was founded on that idiosyncratic mix of public choice theory, neo-liberal economics and post-modern management theory[17]. This comes at a time that is characterised by the following global trends:

- the emergence of the so-called 'post-Washington Consensus' associated most closely with the shifts beyond crude neo-liberalism of some of the former high priests of neo-liberal orthodoxy, such as Joseph Stiglitz and Jeffrey Sachs;
- the shift from multi-nodal multi-lateralism to the US-dominated uni-nodal system of 'Empire'[18];
- the rise within the global south of governments that are no longer prepared to passively accept unfair global terms of trade and are willing to collaborate to exert pressures on the North, this being in part a response to 'Empire';
- notwithstanding the disappointments of the World Summit on Sustainable Development (WSSD) in Johannesburg in 2002, a realisation that the nation-state (embedded as it is in the globally configured multi-lateral system) is really the only player that can act as the guarantor of the Millenium Development Goals - and how to realise, in particular, the twin objectives of poverty eradication and the retardation of reckless eco-system destruction; and
- the rise of 'civil society' as a bona fide actor-cum-partner-cum-opponent in governance, development and service delivery[19].

In the South African context it is clear that the most senior leadership in the executive of the state have realised that 'if all indicators (development performance and societal trends) were to continue along the same trajectory, especially in respect of the dynamic of economic inclusion and exclusion, we could soon reach a point where the negatives start to overwhelm the positives. This could precipitate a vicious cycle of decline in all spheres'[20].

Various government pronouncements have thus cast a spotlight on the meaning, identity and materiality of the transformation project. It is perhaps for this reason

[17] Swilling, M. 1999. 'Changing Conceptions of Governance'. *Africanus*, 29 (2).

[18] For the best discussion of these shifts, see Nederveen-Pieterse, J. 2004. *Globalization or Empire?* New York: Routledge.

[19] See publications of the Centre for Non-Profit Studies at Johns Hopkins University, in particular Salamon, L., Sokolowski, and Associates. 2004. *Global Civil Society: Volume 2*, Bloomfield USA: Kumarian Press.

[20] Presidency, Republic of South Africa. 2003. *Towards a Ten Year Review: Synthesis Report on Implementation of Government Programmes*. Pretoria: Policy Co-ordination and Advisory Services, p. 102.

that in his second term of office, the President, and his cabinet appear more determined to push the frontiers of transformation in a deliberative manner. This is evidenced in:

- the considerable programmatic reorientations of the restructuring of state assets;
- the ambitious expanded public works programmes;
- the reintroduction of prescribed assets; targeted interventions in the Second Economy;
- the reinvigorated commitment to national spatial planning (with a city focus);
- the rolling out and expansion of the social security net to vulnerable segments (children and youth);
- accelerating the pace of transformation in the judiciary whose collective mindset is perceived not to be in consonance with the visions and aspirations of the majority;
- regulation of dispensing and medicine pricing;
- strengthening the capacity of local government to meet its constitutional obligations (particularly base-line service provision);
- expropriations to speed up land reform;
- new special funds to achieved targeted changes;
- the elaboration of a variety of charters in diverse and influential sectors of the economy; etc.[21]

The 2005 'January 8th Statement' of the African National Congress – an outline of the party's political programme for the year ahead, serving as an important symbolic function of consolidation (*Cape Times*, 12 January 2005) – speaks directly to many of these issues with one commentator remarking that it 'reflects a move by leading members [of the party]…to swing the party back to the left, not only in its rhetoric but in its policy' (Amato in *Sunday Independent*, 16 January 2005)[22]. Of note in the Statement is that the 'democratic state must take the *lead* (emphasis added) in the

[21] In the 'transition to democracy' literature, this broadening out of the initial transition to democracy via a range of state and non-state initiatives is regarded as evidence of 'consolidation' via the penetration of democratisation beyond the narrow political sphere into the social and economic spheres. See O'Donnell, G., Schmitter, P.C. and Whitehead, L. 1986. *Transitions from Authoritarian Rule*. Baltimore: Johns Hopkins University Press.

[22] What is interesting here – 'swing to the left' - is that the Plan makes provision for social housing (public sector rental stock is not excluded) and subsidisation of interest rates/fixed interest rates for citizens in the R3501-R7000 monthly income bracket. These measures that were ruled out in the 1980s and during the National Housing Forum deliberations now appear to be making a comeback.

transformation of the economy away from the fetters of the past, which constrain growth and development'[23]. There is also in government a view – detailed in the *Ten Year Review* – that the state needs to exercise greater leadership beyond the areas under its direct control; elaborate a framework to improve the performance of both formal and informal institutions of the state; provide a vision and coherence to the activities of civil society; and address the functioning of the state in its broadest possible institutional definition. 'Working together with all sectors of society and through the developmental state'[24], the state in the Second Decade of Freedom is one that can be characterised as guiding transformation through a combination of leadership and social control – a form of embedded autonomy (versus consensual autonomy and inclusive embeddedness)[25] which is, in turn, the core feature of the developmental state.

The significance of pushing the frontiers of transformation in a deliberative manner through leadership and social control is that government's commitment to enhancing the power of the state[26] now spans both institutional and political reform. This is the hallmark of the contemporary version of the more pragmatic developmental state versus the liberal market consensus model. The pragmatic developmental state also focuses on service delivery, but to ensure rapid change, the state effects relatively massive interventions in property rights systems (land reform, seizures and redistribution for example); creates, manages and removes (rather than simply minimising and abolishing) growth-generating rents[27]; carries out significant resource transfers; and presides over an effective institutional enforcement regime

---

[23] African National Congress. 2005. 'Statement of the National Executive Committee of the African National Congress on the Occasion of Year 93 of the ANC'. 8 January, Umtata (available at http://www.anco.org.za/ancdocs/history/jan8-05.html) (accessed on 13 January 2005)

[24] Ibid., p. 5.

[25] A key feature of the developmental state is relative but embedded autonomy of the core elite. The elite is able to formulate and implement policy relatively free from aggressive lobbying, but are nonetheless embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation of goals and policies (see Evans, P. 1995. *Embedded Autonomy*. Princeton: Princeton University Press). This is in contrast to consensual autonomy and inclusive embeddedness. The former is about the capacity of an institutionally accountable political elite to define and implement programmes of strategic socio-economic improvement and the autonomy of administrative agencies charged with carrying out these programmes in accordance with institutionalised procedures and subject to political supervision. Inclusive embeddedness is one wherein the social basis and range of accountability of democratic politicians goes beyond a narrow band of elites to embrace broader sections of society (see White, G. (ed.). 1988. *Developmental States in East Asia.* New York: St. Martin's Press.)

[26] To accelerate service delivery, pursue an integrated housing plan, improve services in the health sector, expand access to education and social grants, redress economic imbalances, and deepen the democratisation and responsiveness of institutions (local government and the judiciary being key institutions) (ANC, 2005, op. cit.)

[27] There are a variety of rents including information, licensing, natural resource, etc.

that suppresses or accommodates interests opposed to transformation[28]. Examples of this type of state include the United Kingdom, the United States of America, Germany, France, Belgium, Sweden, the Netherlands and Switzerland in the early stages of their industrialisation[29], and continue (in a milder form) into the post-war Keynesian/social democratic period; the high growth Asian states including Japan, Korea, Taiwan, Singapore, Hong Kong, Malaysia, and more recently China; and also now in Latin America with Venezuela and Brazil under the leadership of left-of-centre governments[30].

Unlike the liberal market consensus state, in which enforcement is fixated on matters of anti-corruption and judicial reform (which are not unimportant), the enforcement capacity of the developmental state is one that revolves around a combined package of institutional reform and political restructuring of organised power blocs. Put differently, institutional capacity-building proceeds in parallel with political interventions aimed at restructuring the distribution of political and organisational power, with a view to encouraging the construction of productive coalitions to support the reforms advocated by the developmental state.

What needs watching, however, is whether the old language of 'developmental statism' will bring with it a conception of the developmental state that was appropriate to a particular context that no longer exists, or whether the concept will be allowed to modify and adjust to suit the new conditions. This applies, in particular, to the institutionalisation of the 'pragmatic developmental state', to coin a phrase. The classic developmental state as described by Leftwich (quoted above) pre-dated the far-reaching transformations that have been brought about by the twin, but related, impacts of corporate-led globalisation on national economies and the rise of various kinds of post-modernist movements that have decentred and emptied out the meaning of progress and development. Included in the classic image of the developmental state was the institutional logic of state intervention via state institutions, with a minimal role for non-state actors, in particular civil society organisations rooted in poor and working class communities. The return of the state as a progressive developmental force may well need to be configured in a way that

---

[28] Khan, M. 2004. 'State Failure in Developing Countries and Institutional Reform Strategies'. In Tungodden, B., Stern, N. and Kolstad, I. (eds.). 2004. *Toward Pro-Poor Policies: Aid, Institutions, and Globalization*. New York:Oxford University Press.

[29] Chang, Ha-Joon. 2002. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem.

[30] The Latin American experiments are underway and it is perhaps too early to make authoritative statements about them being developmental states. It can, however, be safely said that they seem to be increasingly veering towards a variant of the pragmatic developmental state, with Venezuela and Argentina going quite far in this direction, but Brazil under Lula pulling back partly because of rapid delegitimisation due to corruption.

takes into account the new realities, in particular the rise of civil society formations, the enormous power of the small group of people who control the largest flows of investment capital around the world, and the de- and re-composition of the global and local business sector in the light of rapidly changing global economic realities (e.g. the dot com bust, the rise of corporate citizenship coda, the impact of China's growth on primary metals and food, the oil crisis, unstable forex markets, the migration of investors out of blue collar manufacturing in locations other than where the cheapest labour can be found, and the emergence of new 'emerging market' players in search of long-term fixed asset-based investments, etc).

Unfortunately, there is a lot of evidence that key thinkers in the South African state who are leading the post-2004 'developmental state' perspective are using a 'classic developmental state' model. A 'pragmatic developmental state' model would look for a leading developmental role for the state (with a focus on human capacity, knowledge and skills), but via creative and complex partnerships with non-state actors (especially the ethical and responsible wings of the corporate sector), and with civil society formations rooted in poor and working class communities in particular. While there are many local examples of remarkably successful state-community partnerships (many of which get featured in the various 'awards' programmes that have been established), there is also evidence of a 'go it alone' approach, in particular in cases such as the N2 Upgrade in Cape Town where co-generation with communities has been ruled out by state actors in favour of private sector consultants and contractors who are assumed (incorrectly) to have a strategic, intellectual and institutional monopoly on the capacity 'to deliver'.

The key question, therefore, is as follows: What happens to the relationship between macro-economic policy makers and social policy makers when you have a state that is simultaneously integrating itself into the global economy and responding to popular pressures from below to address poverty and inequality? In many cases, these two policy making communities get ripped apart – the former gravitates upwards into the world of global economic policy making (trade negotiations, investment promotion, international borrowing, multi-lateral governance, investment rating systems, balance of payments, exchange rate stabilisation, etc.) where democratic counter-balances are minimised, while the latter gets sucked into the messy local worlds of mounting democratic pressures as diverse constituencies feel the differential impacts of service delivery. This is a world of complex and overwhelming community and workplace civil society interfaces, disrupted project cycles, endless conflict resolution, convoluted planning procedures, dysfunctional bureaucratic capacities, and enormous complexities of local governance characterised by strengthening, rather than weakening, civil society. This image of a bifurcated global-local state is a very far cry from the classic contextual image of the developmental state model with its well-placed all-powerful

policy coordination centre that has the expertise, political power, institutional resources, legitimacy and modernising vision to orchestrate nationally focused and thoroughly integrated economic and social policy making insulated from 'undue external pressures' – the ultimate super-crat language for keeping politics out of the 'science of development economics' – or what Jeffrey Sachs now wants to call 'clinical development economics'![31]

Our argument is that the South African state since 1994 has followed neither the classic neo-liberal state model, nor the developmental state model. The neo-liberal state model has taken various forms, but what is common is that the institutional expression of this model was a zealous desire to use privatisation, decentralisation and deregulation measures to dismantle **welfarist** state systems in developed capitalist economies (in the case of many OECD countries) or to dismantle (often pseudo-)**developmental** state systems (in many developing country contexts). The institutional priority of the post-1994 South African state was neither of these - its priority was to dismantle the uniquely configured *apartheid state system* that was deeply rooted in South Africa's economy of racial capitalism. This did not, however, mean it was a developmental state in the classic sense, i.e. a state with a powerful autonomous policy coordination centre capable of integrating macro-economic and social policy in ways that promote a redistributive economic growth model that entrenches the hegemony of a nationalist class coalition. Our argument will be that instead of integrating developmental, fiscal, monetary and exchange rate policies, these policy-making arenas were subjected to sharply differentiated pressures and strains resulting in severe policy dysfunctions and policy outcomes.

Despite aspirations to be a developmental state, the necessary capacity for purposive, decisive and autonomous policy coordination was not successfully achieved prior to 2004, despite various attempts[32]. This made it possible for differentiated pressures and demands to pull policy processes in different directions. However, it would be a gross mistake to assume that these tensions were understood by state actors, most of whom tended to measure the success of their work in terms of their ability to survive the overwhelming demands of operational life where legal requirements for filling staff posts and completing budgets and long-winded reports used up all the available human energy, leaving precious little for longer-term strategic analysis and reflection. In reality, many progressives in government were forced to make a trade-off between no progress in achieving broadly defined transformation goals, and achievable more narrowly defined short-

[31] Sachs, J.D. 2005. *The End of Poverty: Economic Possibilities for Our Time,* New York: Penguin Press.
[32] Cloete, F., Merrifield, A. and Masiteng, K. 2003. 'Assessing sustainability in developing countries : work in progress in South Africa'. Paper delivered at Annual Congress of the International Institute of Administrative Sciences, Yaounde, Cameroon.

term strategic advances. (Or, alternatively, they would choose a course of action that was designed to prevent an even worse option so that they could be better positioned to make advances in the next budget cycle.) Under these pressures many discourses were adopted from international experiences heavily influenced by the interests of donors who funded study tours (eagerly seized by overworked officials needing a welcome break from the office to think and reflect), and technical advisors who tended to frame the questions in the language of the day (what Stiglitz has called the 'roaring nineties'), namely, a kind of technocratic neo-liberalism devoid of liberalism's own original moral humanism and unsubstantiated by a rigorous theory of justice[33]. However, just because a given politico-economic elite uses the language of neo-liberalism is not a sufficient condition for creating the reality of a neo-liberal state, just as adopting the language of socialism or developmental statism has never been a sufficient condition for building a socialist state or a developmental state. Elites have legitimated countless horrors in the language of all these perspectives over the last fifty years. The job of the analyst is to be sceptical of the language of legitimation at all times.

This perspective is different from the classic analysis that dominates left-wing critiques of the post-1994 regime. In the latter view corporate-led globalisation plus the need to accommodate a new black elite resulted in neo-liberal economic policies that conformed to the global 'Washington Consensus' about 'best practice'[34]. A key element of this 'best practice' in many other contexts across the globe has been severe fiscal restraint resulting in cuts in spending on social and economic services, coupled to rapid liberalisation of capital flows (exchange rate policy) and tight monetary controls of key variables such as interest rates and inflation (monetary policy). It will be shown that the South African case does not conform to this classic model. In particular, it will be argued that the explanations for developmental failure in the first decade of democracy might lie in the recklessly rapid liberalisation of capital flows (in the name of macro-economic stabilisation) that did indeed benefit certain economic elites (but by no means all), but there is no evidence that this was imposed by the requirements of an abstract global 'structural context'. It was a

[33] These advisors enjoyed the benefits of being totally disconnected from local networks and local histories of ideas and intellectual cultures, which made it possible for them to mount neat, simple arguments that sounded so convincing to South African officials and politicians who were struggling in reality with far more complex transactions. If the advisors had been less naïve and more attuned to the real context, it is highly doubtful they would have exuded that polished, crisp sense of clarity that was very powerful, but ultimately suffered from exactly the weakness that Joseph Stiglitz blames for the failure of these policies, namely external imposition of policies unrelated to the intellectual cultures of the local context.

[34] Bond, P. 2000. *Elite Transition: From Apartheid to Neoliberalism in South Africa*. South Africa: Pluto Press and University of Natal Press. See also: Marais, H. 1998. South Africa: *Limits to Change – The Political Economy of Transformation*. Cape Town: University of Cape Town Press.

policy choice that was based in large part on a misreading of this global context and exacerbated by the fear factor that business exploited so successfully in the first years after 1994 to secure concessions. Furthermore, this choice manifested itself in a way that undermined what could have been a more substantial and deeper developmental impact of the rising levels of spending on social and economic services that did take place. The notion that reckless liberalisation of capital flows was a bad policy choice that was dysfunctional to choices made in the social and development policy arenas distinguishes this approach from those of analysts who have over-emphasised the constraints imposed by a global context dominated by neo-liberal economic preferences[35]. Nor can this 'structural context' be ignored, hence the weakness of the 'institutional incapacity' argument which assumed that the policies were good and unified, but that implementation was where it all went wrong[36].

Rather, this paper is written from a 'muddling through' perspective. 'Policy choices' during the first decade of democracy in South Africa were based on what was invariably an imperfect and incomplete reading of a complex reality (including the balance of class forces), after which choices were made under extreme time pressures and developed their own relatively autonomous momentum as they got 'sold' to many diverse constituencies to mean different things – hence the (suspect and dangerous) assumption that the more bland a policy document was, the wider the support base would be. What often started off as a half-baked idea at a pressurised meeting must suddenly be packaged by desperate (and quite often ignorant) political leaders to win stakeholder support by government officials and advisors who were often plagued by doubt and/or shallow mandates. But often it was too late to reverse the process – the horses had bolted and all that could be done was to pretend this was all part of a well-conceived plan. In short, the policy world was about imperfect analysis, enormous institutional complexity, painfully long time lags between intentions and outcomes as the context shifted too rapidly for institutions to adjust, policy choices as internal compromises, and justifications despite doubts that were designed to mask uncertainties (that were often mistakenly seen as weaknesses) to win support from that classic South African notion of a 'rainbow coalition'. This should not be surprising given the decentred (quasi-corporatist) nature of the policy-making institutional apparatus (i.e. not your all-powerful 'Policy Unit' *a la* the classic developmental state model), the plurality of political centres of policy initiation due to the nature of the 'Alliance' (which has

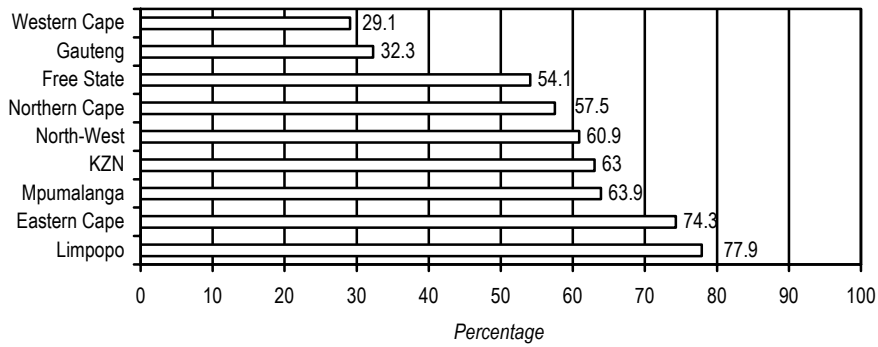
[35] See for example Gelb, S., op. cit., and Davis, D. 2003. 'From the Freedom Charter to the Washington Consensus'. In Everatt, D. and Maphai, V. (eds.) 2003. 'The Real State of the Nation: South Africa After 1990'. *Development Update Special Edition*, 4 (3), pp. 31-51.

[36] As argued by the Presidency's *Ten Year Review*, Republic of South Africa, op. cit.

effectively internalised an 'official opposition' within the governing political coalition), the influence of business via numerous forums, and the rising significance of locally and nationally constituted social movements connected to their own networks of South African and international policy knowledge. Welcome to the new world of complexity where the old certainties associated with the classic developmental state model no longer exist. Welcome, also, to the rise of knowledge systems that are reluctant to compress these complex realities by using reductionist and therefore over-simplifying concepts. Welcome, in short, to the world that progressives like Hugo Chavez face when they want to build 'pragmatic developmental states'.

2.2 Defining poverty[37]

Figure 1. Proportion of people living in poverty by province, 1996



Source: SAIRR (2001:372)[38]

According to the Committee of Inquiry into a Comprehensive System of Social Security for South Africa[39] (hereafter referred to as the Taylor Committee), between 20-28 million South Africans (45-55% of the population) are living in poverty,

[37] This section on poverty includes extracts from an unpublished paper by Mirjam Van Donk and Edgar Pieterse which was commissioned by Sedibeng, but which was subsequently edited and reworked by these two authors and Mark Swilling into a paper entitled: 'State, Civil Society and Capacity Building for Poverty Eradication in South Africa', presented at the Winelands Conference, University of Stellenbosch, September 2003. The authors thank Edgar Pieterse and Mirjam Van Donk for allowing extracts from this 2003 version of their research to be included in this paper.

[38] South African Institute of Race Relations. 2001. *South Africa Survey 2000/2001*. Johannesburg: South African Institute of Race Relations.

[39] Republic of South Africa. 2002. 'Transforming the Present: Protecting the Future'. *Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa, RP/53/2002*. Pretoria: Government Printer.

depending on which poverty line is used. The incidence of poverty varies substantially between provinces (see Figure 1). With the exception of Gauteng and the Western Cape, over half the population in all provinces live in poverty. The highest poverty rates are in the Limpopo Province and the Eastern Cape, where on average three out of four people live in poverty, whereas in Gauteng and the Western Cape poverty rates are around 30%.

Poverty is concentrated in rural areas. About 70% of people living in rural areas are living in poverty, compared to about 30% of people in urban areas. Although less than 50% of the total population lives in rural areas, 70% of all poor people in South Africa live in rural areas[40]. In other words, the majority of people living in rural areas are poor and the majority of the poor live in rural areas.

Post-apartheid South Africa continues to show a persistent correlation between poverty and race, and poverty and gender. According to UNDP's *South Africa Human Development Report*[41], 61% of Africans are poor compared with 1% of whites. Also, three out of five female-headed households are poor, compared to one out of three male-headed households.

So far, statistics referred to as a measurement of the scale of poverty in South Africa are derived from an income-based definition of poverty. The level and depth of poverty becomes even more obvious if we include indicators that measure the extent to which socio-economic rights are satisfied (see Box 1). The section dealing with conceptual issues will discuss the multi-dimensional nature of poverty in greater detail. For now, it suffices to refer to these various statistics as indicators of poverty.

Box 1. Selected socio-economic indicators

Unemployment

- In 1999, official unemployment was between 23.3% (strict definition) and 36.2% (expanded definition)
- Unemployment levels are highest among Africans, reaching between 20% (strict definition) and 44% (expanded definition)
- In each race group, women show a higher unemployment rate than men

Food security

- 14 million people have no food security and 2.5 million people are malnourished

[40] May, J. 2000. *Poverty and Inequality in South Africa: Meeting the Challenge*. Cape Town: David Philip.
[41] United Nations Development Programme. 2000. *Transformation for Human Development: South Africa 2000*. Pretoria: United Nations Development Programme.

Housing
- In 2000, housing shortage was estimated at between 3-4 million units

Basic services
- In 1999, only 39% of the 11 million households in South Africa had running tap water inside their dwellings and almost 40% of non-urban households did not have access to piped water (in dwelling, on site or public tap)
- In 1999, 21million South Africans had inadequate sanitation

Education
- 29% of the adult population is functionally illiterate
- Only 80% of children of school-going ages are in school

Health
- There is an estimated shortfall of almost 800 clinics and gross disparities between private - public health care facilities are noted

Sources: Pieterse and van Donk (2002), SAIRR (2001a), South African Human Rights Commission (2000)

Despite an internationally acclaimed Constitution and substantial progress in addressing apartheid service delivery backlogs and inequalities, for a large proportion of the South African population the situation across a range of social development indicators seems to have worsened since the mid-1990s [42]. Unemployment levels have risen consistently during the 1990s. Between 1995 and1999, there has been an absolute increase of 653 000 informal dwellings, mainly in urban areas[43]. In its recent report, the Taylor Committee notes that the distribution of income seems to have become more unequal between 1991 and 1996. Whereas inter-racial inequalities have declined, intra-racial inequalities have become more stark. As Figure 2 shows, the income of the richest 10% of African households rose by 17%, whilst the income of the poorest 40% of African households fell by 21%.

[42] Nattrass and Seekings, op. cit.
[43] South African Institute of Race Relations. 2001. 'Informal Dwellings Skyrocket'. [http:www.sairr.org.za](accessed 31st January 2002).

Figure 2. Growth of household income by race (1991-1996)

Source: Taylor Committee (2002:27)

Where poverty is rife and employment and income-generating possibilities are limited, many people find themselves forced to migrate to urban areas, which appear to offer better prospects. Because most of these migrants are young single adults (more often than not male), families and households are split between rural and urban areas. This results in a fluidity of household structures that complicates interventions aimed at overcoming poverty.

The level and depth of poverty are likely to be exacerbated by the more recent developmental threat posed by the HIV/AIDS epidemic. On the one hand, poverty enhances vulnerability to HIV infection and significantly reduces the ability of households to cope with HIV/AIDS-related illness and death. On the other hand, the economic and social costs associated with HIV/AIDS (e.g. reduction of household income, diversion of income from nutrition and schooling to health care and funeral costs, possible exclusion from social networks) means that more households are pushed into poverty and that poor households are pushed into deeper poverty. Just as poverty manifests itself along social divides like race and gender, so does HIV/AIDS. Given the scale and nature of the HIV/AIDS epidemic in South Africa, and specifically its interconnectedness with poverty, HIV/AIDS cannot be ignored in debates on poverty or in poverty eradication programmes.

The problem with the traditional quantifications of poverty of the sort provided above is that they generate conclusions about the amount of money required to 'meet basic needs'. What flows from this is a complex policy-making and institutional design process aimed primarily at finding (public, private and donor) funds to spend on well intentioned and often carefully designed programmes and projects (often articulated using the highly rationalistic Logical Framework

methodology). There is nothing wrong in and of itself with this traditional approach to development intervention, but it does tend to obscure the complex and largely unquantifiable relationship between poverty and the capacity of individuals and communities to actively understand, access and use resources aimed at extracting them from the poverty trap. The validity of this statement is revealed by its converse: there is enough evidence from numerous studies that poverty is not reduced simply by spending money to 'provide' for basic needs. Unless spending is coupled to processes that gradually build the intellectual, psychological, cultural, organisational and technical capacity of the 'beneficiaries', development in general and poverty reduction in particular will be an unlikely outcome. The passage from the 'basic needs' approach to the 'empowerment' approach came about as mainstream thinking started to agree with developmental NGOs who had been arguing for the importance of empowerment for decades.

Box 2. International development targets

- Reduce the proportion of people living in extreme poverty by half in 2015
- Enrol all children in primary school by 2015
- Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005
- Reduce infant and child mortality rates by two-thirds between 1990 and 2015
- Reduce maternal mortality ratios by three-quarters between 1990 and 2015
- Provide access for all who need reproductive health services by 2015
- Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015

Poverty is beyond question the most talked about issue on the development agenda at an international, continental and national level. At the end of the 1990s in particular, 'poverty' as a central 'development problematic' made a comeback after being foremost in international development debates in the early 1970s and late 1980s (Wolfe 1996)[44]. As a result, all the big United Nations assemblies during the 1990s seem to converge on the theme of poverty reduction, which culminated in the identification of the 'international development targets' (see Box 2). The one really significant change between current debates and those of the early 1970s is the shift away from an income-based understanding of poverty to a much more multi-dimensional approach. Thus, at the World Summit on Social Development in Copenhagen in 1995, the following understanding of poverty was put forward:

[44] Wolfe, A. 1996. *Marginalized in the Middle*. Chicago: University of Chicago Press.

> Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterised by a lack of participation in decision-making and in civil, social and cultural life. It occurs in all countries […]. Women bear a disproportionate burden of poverty, and children growing up in poverty are often permanently disadvantaged. Older people, people with disabilities, indigenous people, refugees and internally displaced persons are also particularly vulnerable to poverty. Furthermore, poverty in its various forms represents a barrier to communication and access to services, as well as a major health risk, and people living in poverty are particularly vulnerable to the consequences of disasters and conflicts. Absolute poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services.[45]

It is beyond the scope of this report to delve into the various debates about poverty, its dimensions, manifestations and causes. We simply want to assert that we endorse a broader definition of poverty than income-based measures and propose the following *working definition*:

> Poverty exists when an individual's or a household's access to income, jobs and/or infrastructure is inadequate or sufficiently unequal to prohibit full access to opportunities in society. The condition of poverty is caused by a combination of social, economic, spatial, environmental and political factors. Due to the multiplicity of causal factors and their spatial dynamics, individuals and households may move in and out of poverty depending on stages in life-cycle and shifting political economy patterns. Poverty is therefore much more than a lack of adequate income. (Parnell and Pieterse 1999)[46]

The Report of the Taylor Committee endorse and deploy a multi-dimensional understanding of the causes and condition of poverty. It is also clear that new government programmes attempt to operationalise the institutional implications of a multi-dimensional understanding of poverty. Before we get to the more practical aspects of this discussion, a few more conceptual points of clarification are in order.

Firstly, poverty programmes tend to distinguish between individual, household and community poverty. The first two categories are most frequently used in defining who is/is not poor through various absolute and relative poverty lines. However, since poor households tend to be concentrated in particular localities,

---

[45] United Nations, 1995. *Report of the UNRISD Seminar on After the Social Summit: Implementing the Programme of Action, Geneva, 4 July 1995*. Geneva: United Nations.

[46] Parnell, S. and Pieterse, E. 1999. *Municipal Poverty Reduction Framework: Technical Reports on Municipal Poverty Reduction Frameworks for the Cape Metropolitan Area*. Cape Town: Isandla Institute.

communities are often also referred to as being poor. This informs policy ideas about 'zones of poverty' or 'poverty nodes' and often leads to area-based anti-poverty interventions. Generally, this is useful and important, but it can distract from the great variety and diversity of social conditions and types of poverty that coexist in poor neighbourhoods or communities. To fully understand this, one can only look at how unique each individual's psychosocial make-up is and how we as individuals respond uniquely in similar circumstances. However, the policy literature is particularly insightful with regard to the complexity of poor households. For example, a poor household will at any given moment in time comprise both genders and various generations, and these identity markers would coincide with particular divisions of labour. Also, poor households will respond uniquely in times of stress and adversity, manipulating a variety of 'options' as summarised in Box 2 (should it be box 3). Any poverty intervention that does not work from an informed and nuanced understanding of the unique characteristics and power relations in a given community is likely to fail.

Box 3. Survival strategies deployed by poor households

Strategies aimed at generating resources:

- Increasing the supply of labour to the economy;
- Increasing self-production;
- Changing asset-liability position;
- Increasing the flow of income transfers.

Strategies for improving the efficiency of existing resources:

- Changes in purchasing habits;
- Changes in food preparation habits;
- Changes in overall consumption patterns;
- Changes in dietary patterns;
- Changes in intra-household food distribution.

Extended family and migration strategies:

- Changes in household composition and organisation;
- Migration.

Source: UNDP (2001)

Second, especially in South Africa, poverty tends to coincide with race and income inequality. This aspect points to the centrality of redistribution and employment creation in unlocking various anti-poverty strategies.

Third, due to apartheid spatial planning and social engineering, the reproduction of poverty has profound spatial consequences and logics. For example, poverty is usually concentrated on *peripheries* of cities and towns and between urban and rural areas, with the latter experiencing the highest incidence of poverty. This raises profound implications for how anti-poverty investments are clustered and sequenced, both within designated spatial areas and between them.

Finally, poverty and inequality can only be eradicated in a systematic fashion if macro and micro strategies are simultaneously deployed in a mutually reinforcing manner (see Figure 5). This is absolutely crucial for the later strategic discussion about the capacity building implications of poverty eradication policies and actions.

Definitions and conceptual bases of poverty are critical, because these provide the starting point for identifying and exploring appropriate responses. Our working definition leads us to suggest an operational framework that distinguishes between seven platforms or clusters of anti-poverty action:

i) Facilitating access to good quality employment and economic opportunities;
ii) Increasing the physical asset-base of the poor, i.e. land, housing, equipment for economic enterprise;
iii) Facilitating access to basic services for the poor, including water and sanitation, solid waste management, affordable and safe energy, transport, education, health and shelter;
iv) Strengthening community management of own initiatives and external programmes and ability to self-organise. (The most important plank of anti-poverty interventions for CSOs is to facilitate the autonomy and empowerment of poor households and organisations of the poor - community management);
v) Enhancing democratic participation by the poor in public decision making to ensure effective monitoring and influence over public resource allocations and service delivery;
vi) Ensuring access of the poor to legal entitlements and security;
vii) Ensuring access to safety nets to strengthen ability to manage shocks and stresses.

There is a coherence between these seven platforms: activities in i)-ii) relate to economic dimensions of poverty, whereas activities in iii) and vii) relate to material dimensions and iv)-vi) relate to political-social dimensions of poverty: The value of this framework becomes clearer if one explores the possible actions that must be undertaken to address each of the seven platforms of poverty reduction. In Table 1

below we identify a typology of actions in terms of each of the seven platforms of action.

Table 1: Typology of poverty reduction domains

Poverty reduction policy domains	Examples of appropriate poverty reduction interventions
1. Facilitating access to good quality employment and economic opportunities *(income poverty)*	• Ensure macro economic policies—monetary, fiscal and exchange rate policies—that prioritise the needs of the poor; • Ensure the following economic policies prioritise and promote the interests of the poor and the informal sector: private investment policies; micro-finance policies; competition policies; labour market policies; trade policy, especially in pro-poor sector, financial sector development programmes; pricing policies; • Expansion of quality education, especially skills development initiatives; • Labour-based approaches to public works and/or community contracting for infrastructure and service provision/maintenance and management (e.g. municipal-community-partnerships); • Enable policy framework to support and promote the informal sector (e.g. appropriate regulatory framework, land, infrastructure, access to finance and markets).
2. Increasing the physical asset-base of the poor: land, housing, equipment for economic enterprise *(asset poverty)*	• Ensure that sectoral and cross-sectoral/integrated development frameworks and plans facilitate an increase in the asset-base of the poor. Sectoral policies would include those of Land Affairs, Housing and SMME, and examples of inter-sectoral policies would include the Rural Development Framework, Integrated Sustainable Rural Development Programme, Urban Development Framework, Urban Renewal Programme, and Infrastructure Investment Policy; • Investment in public spaces of collective consumption to ensure the presence of beauty and greenery in poor communities that can encourage new forms of sociality and trade and induce collective pride.
3. Facilitating access to basic services for the poor: including water and sanitation, solid waste	***Education:*** • Eradicate literacy through outreach activities and a national campaign; • Ensure full access to primary schooling through

management, affordable and safe energy, transport, education, health and shelter *(capability poverty)*	adequate budgetary allocations, quality monitoring of schools, targeted subsidies to ensure full enrolment, devise practical initiatives to reduce gender discrimination; • Enhance parental involvement and management of schools and sufficient accountability.
	Health: • Full access to primary health care system and facilities for the poor; • Ensure parental education; • Provide access to safe water and sanitation; • Promote breastfeeding and access to health services including immunisation; • HIV/AIDS programmes; • Communication strategies to ensure awareness amongst the poor about health and safety rights and facilities; • Nutrition programs (feeding and parental education).
	Water and Sanitation: • National policy to ensure access of the poor to a minimum lifeline service to ensure basic daily domestic levels are addressed; • Community-based infrastructure and maintenance initiatives to keep cost for minimal for the poor but ensure full access; • Basic lifeline for survivalist economic initiatives of home-based enterprises.
4. Strengthening 'community management' or organisation of own initiatives and external programmes and ability to self-organise (→ Vibrant community organisations provide an indispensable platform for collective actions to exercise rights, manage conflict in democratic ways and provide a learning laboratory on democratic citizenship; all of which can increase stocks of social capital.)	Community Management is facilitated through initiatives that: • strengthen community management capability; • support democratic processes internally and externally; • focus on organisational development, training and capacity building of organisations; • focus on leadership development, especially amongst women and the youth; • provide access to relevant information in appropriate formats; • support collective action aimed at a) increasing access to opportunities and entitlements; and b) transforming policy framework that shape the opportunity structures of the poor.

5. Enhancing democratic participation by the poor in public decision making to ensure effective monitoring and influence over public resource allocations and service delivery	• Pro-active support measures to enable poor households and representative organisations to participate in formal participatory mechanisms (e.g. IDPs), especially at local government level; • Ensure good governance practices — transparency and accountability — meet needs of the poor; • A strong and effective local government system that can ensure the provision of an integrated package of basic services to the poor, tailored to neighbourhood dynamics; • Improved budget management and transparency, with disaggregated information about expenditure targeting the poor; • Information and public dialogue tailored to the needs of the poor; • Targeted anti-corruption and anti-abuse efforts in the public service that interface with the poor; • Actions to expose and address gender discrimination.
6. Ensuring the access of the poor to legal entitlements and security	• Fair judicial system that meet the needs of the poor; • Providing squatters/landless communities with tenure to reduce risk of eviction and increase value of the assets, and so raise prospect of accessing credit; • Ensure access to relevant information about human rights, socio-economic rights and right to information and quality service from public sector officials; • Access to information about legal instruments to ensure employment protection and workplace safety and security, especially for domestic workers and other vulnerable categories; • Protection against violence and insecurity at household and community levels; • Opportunities and facilities to exercise political democratic rights and responsibilities via adequate arrangements for elections, political representation and accountability.
7. Ensuring access to safety nets to strengthen ability to manage shocks and stresses	• Access to risk management mechanisms, e.g. micro-credit and safety net programs (e.g. public works); • Access to emergency curative care; • Actions to reduce domestic, gender and community violence (e.g. community policing); • Measures to mitigate environment disaster risks (e.g. better designed infrastructure);

	• Spending on and targeting of safety net programs, including nutrition, disability, old-age pensions and child support grants and ensuring access to private maintenance grants; • Emergency credit facilities for the poor in times in disaster or rapid economic decline.

Source: Pieterse (2001)[47]

Before an organisation can work out where it fits in this matrix of actions, it needs to be clear about its interest in addressing poverty: is it to facilitate poverty alleviation, reduction or eradication? The differences between these concepts can be defined as follows:

- **Poverty alleviation** refers to public and private actions to address destitution in terms of a lack of food, access to safe potable water, safety from abuse and shelter. By definition, these interventions are fundamentally ameliorative and tend to be carried out with a 'welfarist' mentality, although not necessarily. Nonetheless, ameliorative measures are obviously necessary to prevent starvation, ill-health and exposure to the elements.
- **Poverty reduction** refers to deliberate actions that reduce the depth of poverty that individuals and households experience. Deliberate actions could include income and physical asset transfers and/or the supply of education, employment and trading opportunities. Such measures can lead to a reduction in the absolute number of people that are (income and asset) poor, but do not necessarily alter the structural conditions (at various scales) that reproduce poverty and inequality.
- **Poverty eradication** refers to institutional reforms that increase the political power of the poor to the extent that — through their social movements and 'encroachment practices' as well as their voting power in the formal electoral process — they determine and/or shape the agenda for how the full gamut of poverty reduction measures are to be structured and sequenced in order to address the structural causes of poverty, whilst simultaneously addressing chronic destitution. As a result, poverty eradication actions (including remedial ones) are organised to ensure the *political empowerment* of poor citizens and their organisations relative to political and economic elites.

[47] Pieterse, E. 2001. 'In Praise of Transgression: Notes on Institutional Synergy and Poverty Reduction'. *Development Update*, 3 (4), pp. 39-69.

In terms of these definitions, poverty eradication is obviously the most developmental approach. It is also an approach that directly challenges the causes of poverty, namely inequality and, in particular, the relations of political and economic power that elites keep in place to ensure that inequality persists. However, this does not mean that alleviation and reduction measures are not legitimate or acceptable as an aspect of the fight against poverty. One of the difficult paradoxes in anti-poverty work is that the organisations of poor people often tend to work on poverty alleviation and reduction programmes and less on campaigns that challenge global and national structures of inequality that operate as underlying causes of poverty. It tends to be advocacy organisations and multi-class alliances that work at national and global scales. However, the success and legitimacy of those organisations that work on national and/or global issues depends fundamentally on how well rooted and accountable they are to poor people themselves. Furthermore, actions at national and global levels also expand space for local actions that can be remedial and/or transformative.

3. Understanding the macro-economic choices

3.1 Conceptions of investment

Looking back over the past two hundred years of global economic history for lessons about the relationship between macro-economic policy and poverty eradication, it is possible to conclude that three general processes can make a decisive impact:

- *State-led infrastructure investment:* This normally entails massive public sector investments in infrastructure as a precondition for increases in economic output, productivity and technical efficiency (based on either state or private investments), with special reference to both material conditions (roads, transportation, piped water, energy, buildings, ports, raw material supplies, education, communications, etc.) and human skills (literacy, numeracy, levels of skills, specialist skills, high level professional and managerial skills, and cultures [e.g. 'protestant ethic', 'fordist disciplines', 'consumerism']). These massive public sector investments were common to liberal capitalist, social democratic, corporatist (of the fascist through to the 'progressive' varieties), 'third world' non-capitalist, and actually existing socialist pathways to development[48]. Although pervasive in the classic economic transformations (United States and Europe from the late c.19th through to the early c.20th, Soviet Union in the second quarter of the c.20th, some

[48] The dominant approach today is only one of many used in the past, namely the notion that public sector investments are intended to create the conditions for private sector-driven economic growth.

modernising Middle East economies such as the U.A.E and certain Asian Tigers in the late 20th century), it is an approach that remains an option today (e.g. China, Venezuela, Cuba, and possibly South Africa).

- *Private sector-led economic investment:* This refers to large-scale private sector investments in infrastructure and the productive economic base to rapidly expand the economy, absorb labour, and increase the output of products for an expanding internal market as well as external markets (e.g. certain Latin American countries, certain transitional economies [e.g. Poland], Japan, some Asian Tigers in the last quarter of the 20th century). It is often centralised and well organised finance capital that drives this agenda, often working in close collaboration with state economic planning agencies. This approach has become particularly evident at regional levels where particular alliances and contexts combine to trigger regionally defined economic transformations across developed, developing and transitional economies.
- *Community-based capital moblisation:* Widespread and deeply rooted expansion of micro-economic institutions and enterprises within poor and working class communities can mobilise huge quantities of small bits of capital as part of bottom-up economic mobilisations that often translate into changes in the balance of political power[49]. This is a tradition that has always been present to a lesser or greater extent depending on context in every society that has gone through an industrial revolution and persists on a large scale into the present[50]. It gets presented in diverse discourses ranging from the rabid individualist entrepreneur of the liberal tradition right through to the collective or cooperative relational approaches inspired by the socialist tradition. What is common to both is a sense of self-making from below that is highly dependent on local contexts. Whereas in the past this tradition has existed alongside and often subordinated to the state-led and/or private sector-led approaches described above, it has become fairly dominant in many developing countries over the past twenty years where states have virtually collapsed and/or private sector investments are at best speculative but usually just kleptomaniacal. The classic contemporary case of this phenomenon is Bangladesh, but it is also true for many African states.

[49] These patterns are confirmed by the *Social Giving Survey* and *Community Case Studies* that were conducted as part of the Social Giving Project that this paper is part of.

[50] Although this is a large literature that spans the 'small is beautiful' economics of E. F. Schumacher through the massive micro-finance literature and on into the 'Local Economic Development' literature that became so fashionable in the 1990s, two fairly contemporary texts from a northern context are worth citing, namely: Schuman, M. H. 1999. *Going Local: Creating Self-Reliant Communities in a Global Age*. New York: The Free Press. Also: Dowthwaite, R. 1998. *Short Circuit: Strengthening Local Economics for Security in an Unstable World*. Totnes, Devon, UK: Green Books.

> Although dominated today by the magnificent obsession with the 'micro-finance revolution' (often associated with this revolution's self-appointed 'Che Guevara', namely the charismatic Professor Mohamed Yunus from Bangladesh), it would be a mistake to collapse what is being referred to here into the narrow often technical meaning of 'micro-finance'.

All three approaches, simplified here for the sake of the argument, are interactive and interrelate. Except possibly for some the harshest authoritarian statist cases where one or other approach gets forcibly suppressed (with examples from across the ideological spectrum), these three approaches have combined in various ways in accordance with the balance of power, hegemonic culture and politics of each context[51]. What is interesting about South Africa is that this mix is clearly evident, with the community-based approach being the junior but not insignificant partner. What is dawning on many economic policy thinkers in South Africa, is that the community-based approach may well be what is needed to mobilise *relational dynamics*[52] as a precondition for the success of *economic* strategies as the importance of 'non-economic' relational determinants of poverty become increasingly obvious. In other words, the benefits of the Community-Based approach – no matter whether this refers to the individualist entrepreneurial or communal collective variety or usually some mix of both - should not be judged purely in economic terms.

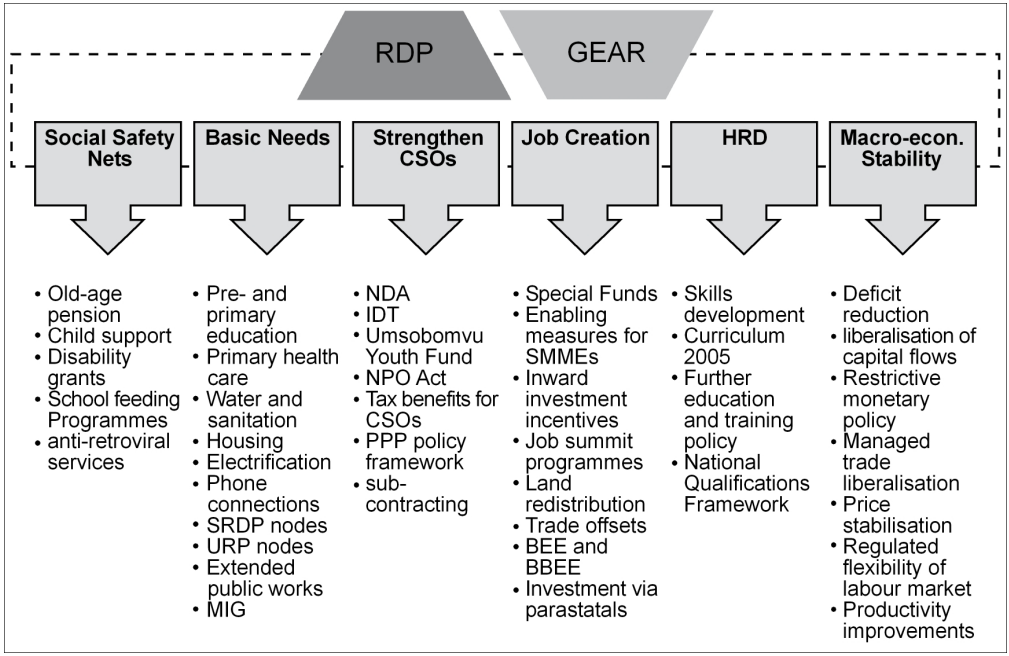
3.2 Mapping policy

If it were possible to visually map government policy from the point of view of the Presidency, one might end up with the following diagram. The next section unpacks the fiscal framework that finances the Social Safety Nets, Basic Needs, CSO, Job Creation and HRD policies and programmes. The remainder of this section will critically unpack the cluster of policies and interventions that are designed to ensure macro-economic stability.

[51] Salamon, L. and Anheier, H. 1998. 'Social Origins of Civil Society: Explaining the Nonprofit Sector Cross-Nationally'. *Voluntas*, 9 (3), pp. 213-248.

[52] This term is preferred to the more popular notion of 'social capital' because the latter is usually limited to relations within social formations that lie between the family and the state leaving the market unaffected whereas the wider concept of relational dynamics penetrates spheres such as the workplace, public institutional spaces like schools, and what are now public services but which risk privatisation.

Figure 3: SA government's anti-poverty policies and programmes



For various reasons that have been adequately covered elsewhere[53], by the time of the founding election in 1994 the ANC's senior policy makers were convinced that the best bet for South Africa's economic future was to integrate the South African economy into the global economy and the various multi-lateral institutions that govern and regulate the global economy. This effectively meant adopting language and policy positions that made this entry and integration strategy viable. This was believed to be important to pacify the fears of a jittery white business community who wanted access to FDI and the right to relocate capital offshore, attract foreign direct investment and create new opportunities for emerging black business – all, of course, legitimised by the language of job creation via private sector investment. Measured on its own terms, and given that a Government of National Unity was in place, the achievements by the end of 1994 were impressive: the Reserve Bank's independence was constitutionally guaranteed, a new Treasury Department was under construction, DTI was preparing its role as Africa's 'MITI'[54], inflation was

[53] Habib, A. and Padayachee, V. 2000. 'Economic Policy and Power Relations in South Africa's Transition to Democracy'. *World Development*, 28 (2).

[54] The reference to Japan's all-powerful centre of economic policy making

down, GATT commitments on trade liberalisation were agreed, legislation was passed to open up the banking system and JSE to international investors, the plan for liberalising capital movement controls was on the drawing board, the idea of an institutionally autonomous Revenue Service had been accepted at senior level (but only implemented in 1997), and a policy of fiscal restraint had been adopted (including 'targets' that were conveniently ambiguous).

The Government of National Unity under ANC leadership essentially took over the core policy group that spanned the Ministry of Finance and Reserve Bank (plus other related institutions such as the IDC, DBSA, etc.) that had dominated macro-economic policy making before the regime changed in 1994. This approach was predicated on the assumption that it was possible to simultaneously manage three macro-economic variables: capital mobility to secure FDI, exchange rates to promote export competitiveness, and interest rates (via monetary policy) to control domestic growth and debt. The underlying assumption was that the more liberalisation there was, the better things would be for the economy. However, by the late 1990s the logic of the measures referred to in the previous paragraph built up pressures within the domestic economy that made it necessary to abandon these old habits. Gelb articulates the 'trilemma' that drives the choices all macro-economic policy makers must make if their aim is to manage national economies that have been inserted into a global economy managed by neo-liberals as follows:

> Monetary and exchange rate policy should be considered together with each other and with capital account liberalisation, because capital mobility places limits on monetary and exchange rate policies. In general, macroeconomic policymakers in any economy would choose, if they could, to have an open capital market to enable access to external finance, and a stable nominal exchange rate to underpin international trade and the freedom to adjust interest rates via monetary policy to achieve domestic objectives such as output growth or price stability. The problem is that these three goals constitute a 'trilemma': achieving all three simultaneously is not possible, at least not in the medium to long-term, and policy authorities must decide which two to prioritise and abandon the third.[55]

Gelb argues that it is possible to divide post-1994 macro-economic policy into a pre- and a post-1998 phase. Whereas between March 1995 (when capital flow liberalisation began) and 1998 it was assumed that all three goals (i.e. capital flow liberalisation, exchange rate targeting and inflation targeting) could be achieved, Gelb argues that by mid-1998 exchange rate policy had been 'abandoned' in favour of capital flow liberalisation and inflation targeting (via an autonomous monetary policy managed by the Reserve Bank)[56]. This needs further elaboration.

---

[55] Gelb, S., op. cit., p. 7
[56] Ibid.

Based on the policy framework that had been put in place by the end of 1994, it was decided to adopt a 'big bang' approach to capital flow liberalisation in March 1995. With considerable fanfare, the dual exchange rate was unified to remove restrictions on transactions (mainly outflows) by non-residents. The liberalisation of controls on outflows was seen at the time as necessary to balance the large inflows that were increasing money supply, thereby creating upward pressures on the currency which, in turn, could have endangered export competitiveness. To understand this balancing act, we need to realise that two assumptions dominated the mindset of macro-economic policy makers during this myopic honeymoon period between March 1995 and its rude end in 1998: the first was the belief (fuelled by the mesmerising impact of 'Madiba Magic' and the love affair with Clinton, etc.) that FDI was going to continue to flow in as investors rushed to participate in the 'the miracle'; and the second was that export-led growth was the key to achieving sustained long-term growth. At the time these were such deep-seated assumptions, the possibility of both being false was hardly ever expressed.

But as long as large capital inflows continued (or appeared to be about to materialise), economic policy makers believed they could avoid the 'trilemma'. If FDI was going into assets with long maturity time frames then the risk of rapid outflows would be reduced and 'trilemma' avoidance could have lasted longer. In reality, the liberalisation of controls over investment in the JSE (an achievement by a lobby of interests not always aligned with the interests of exporters) encouraged rapid inflows of speculative capital in short-term portfolio investments that are notorious for disappearing overnight at the first signs of trouble. This, coupled to the fact that currency speculators could rely on the Reserve Bank to intervene via dollar purchasing or selling in pursuit of a stable exchange rate, created a highly volatile situation. By 1996 this resulted in the famous exchange rate crisis that triggered the dropping of the RDP and the adoption of GEAR. By 1998 (the second crisis but this time triggered by the Asian meltdown) it was clear to enough senior policy makers that the much vaunted and expected FDI wave was not going to materialise.

A future without mountains of FDI slowly dawned. And with this dawned the realisation that choices had to be made: monetary targets, or exchange rate targets, or an open capital market? (Unfortunately, all three were choices couched within a neo-liberal paradigm underpinned by the globalised flow of capital investments which imposed limits on the so-called 'patriotism' of South African capital.) Something had to give. To make matters worse, the state liberalised inflows into liquid assets instead of focusing inflows into investments in fixed assets for an initial ramp up period which is what even the IMF now contends is a preferable approach for managing volatility (especially after the Asian crisis in 1998). The policy response after 1998 was based on the assumption that capital market liberalisation was irreversible and inflation targeting was a domestic priority. The

result was the dropping of exchange rate policy, thus effectively allowing the exchange rate to float. However, little was done beyond moral exhortations to direct FDI into fixed assets where the job creation (and therefore poverty) impact would be greatest. The arms deal trade offsets represent a strategy that was about more than moral exhortation, but the results of this strategy have been disappointing (not to mention the fiscal price paid to achieve these poor results).

Capital liberalisation across the board plus harsh inflation targeting using the single instrument of interest rates has effectively become the hard core of the state's macro-economic policy since 1998. The question is whether this has in fact achieved what government claims it has achieved, namely 'macro-economic stabilisation' and the clearing of the way for an endogenous 'micro-economic' focus on job creation via enterprise, BEE, extended public works, land reform and – more recently – micro-finance.

Gelb makes a distinction between 'external' and 'internal' economic stabilisation and questions whether 'external' stabilisation has taken place. Although Trevor Manual argued that a flexible exchange rate can 'help cushion the economy from external trade and capital shocks and mitigate the impact of economic contraction, especially for the poor'[57], Gelb points out that '[o]ver the three years since mid-2001, the rand has been perhaps the most volatile currency in international markets'[58]. Exchange rate volatility has increased the levels of uncertainty which, in turn, have delayed investment decisions in sectors that are particularly dependent on exports. This, plus the continued light handed approach to capital inflows into the non-real economy instead of into fixed assets, has had a detrimental effect on job creation and labour absorption. Investments in the real economy have suffered as a result of 'external instability', while 'internal stability' has been achieved via an extremely narrow focus on inflation targeting and tight fiscal controls. Even the US Federal Reserve uses a wider set of criteria (including employment levels) to determine interest rates than a simplistic focus on inflation.

Before proceeding, however, it is necessary to link inequality (and therefore poverty) and economic growth. There is a newfound acceptance in mainstream economic circles of the (obvious and commonsense) notion that there is a link between inequality and growth. Although the more conservative wings of the neo-liberal movement still insist that any form of state intervention to prepare the conditions for market-led growth is economically irrational, less fanatical fundamentalists have found it difficult to deny empirical evidence that clearly demonstrates the linkages. In its 2000 *World Development Report*, the World Bank has come to endorse some of this thinking. While the Report has many weaknesses -

[57] Quoted in Gelb, S., op. cit., pp. 10-11.
[58] Ibid., p. 10.

chief among them being a failure to identify the optimal combinations of policies that would reduce poverty more than others[59] - it does contain numerous useful insights. The Bank notes:

> For a given rate of growth, the extent of poverty reduction depends on how the distribution of income changes with growth and on initial inequalities in assets, and access to opportunities that allow poor people to share in growth …Other things being the same, growth leads to less poverty reduction in unequal societies than in egalitarian ones…Evidence confirms this: when initial inequality is low, growth reduces poverty nearly twice as much as when inequality is high …These results open the possibility that policies to improve the distribution of income and assets can have a double benefit - by increasing growth and by increasing the share of growth that accrues to poor people …*Policies should focus on building up the human capital and physical assets of poor people by judiciously using the redistributive power of government spending*…These reinforcing effects from human development to economic development and back suggests the possibility of vicious and virtuous circles. Poor countries and poor people can be locked into a vicious cycle as low human development diminishes economic opportunities, making it more difficult to invest in health and education. In contrast, well-targeted public interventions in health and education can contribute to a virtuous circle of greater economic opportunities generating resources for further investments.[60]

Given that South Africa is one of the most unequal societies in the world, it is unsurprising that economic growth strategies could feed into a vicious rather than a virtuous cycle of low growth, increasing inequality and rising poverty levels (as the evidence suggests for the period 1994-2004)[61]. As the next section shows, the state recognised this and has massively increased expenditures in human and physical capacity with results that may only become apparent in the second decade of democracy. However, there is also evidence that the white elite that continues to

---

[59] Institute of Development Studies. 2000. 'Not Enough and Little New – The response from the Institute of Development Studies to the World Bank's World Development Report 2000/01' (*cf* http://www.ids.ac.uk/IDS/news/Worldbank.htm

[60] Institute of Development Studies. 2000. 'Not Enough and Little New – The response from the Institute of Development Studies to the World Bank's World Development Report 2000/01' (*cf* http://www.ids.ac.uk/IDS/news/Worldbank.htm

[61] Of course, what the authors of this World Bank report will not say is *why* inequality contradicts the logic of investment-driven growth because they are paradigmatically sealed off from an analysis of power relations. It should go without saying that socio-economic inequalities underpin and also reflect unequal power relations which, in turn, make it possible for elites to capture increased investment flows in order to make themselves richer by resisting the circulation of investments beyond a narrow band of institutions and transactions. BEE and BBEE challenge this elite strategy in the SA context, but these strategies may only broaden the elite circuits rather than reducing inequalities. Community-based capital formation via various progressive micro-finance mechanisms plus genuine entrepreneurialism can break elite capture of investment flows.

dominate investment decisions in South Africa remains reluctant to invest their large pools of surplus cash (preferring instead to increase dividend payout levels to shareholders, invest externally and splash out on conspicuous and ultimately economically dysfunctional consumerism [such as property booms]) for reasons that have little to do with the kinds of economistic calculations that World Bank technocrats like to make. White business elites still (correctly) regard increasing inequality and rising poverty levels as a political threat that could culminate in a rapid leftward shift in government policies or, alternatively, a disruptive leftwing challenge to an increasingly moderate mainstream ANC leadership[62]. In short, as Professor Sampie Terreblanche likes to say repeatedly, the ANC was assured by business elites that business would support the 'Rainbow Nation' and invest, but the problem is that investment decisions are made at company level and not at the level of collective business representation.

To grow a capitalist economy to eradicate poverty, the ANC needed the 'corporate sector' to invest. However, this did not translate into investment decisions at company level on the scale that was required because the strategic calculus at work at company level is still driven by the notion that the only returns on capital are financial returns (normally at remarkably high levels). At this level, it is the pressure created by globalised competitiveness to report profits at quarterly intervals that determines the overwhelming power of finance departments in large corporates and the financial czars that run them. Locked into the computerised wizardry of contemporary financial reporting and engineering, these czars have little incentive – or even methods - to align the financial flows with the domestic political agendas of so-called 'political CEOs' or their (often BEE) allies on the board. Ironically, however, the underlying bias within the business community that informs these investment decisions is remarkably over-politicised. The conclusions across countless reports (often written by consultants from a small number of large consulting companies and investment analysts in merchant banks) were invariably that there is no shortage of available funding (from both local and international sources), but that the 'risk assessment' of the business environment for long-term investments in fixed assets was suspect.

The spat between Thabo Mbeki and Tony Traha over the latter's reference to 'political risk' was merely the tip of the iceberg. The same issue is a deep faultline that cuts right across the business sector. In short, the issue was pervasive distrust

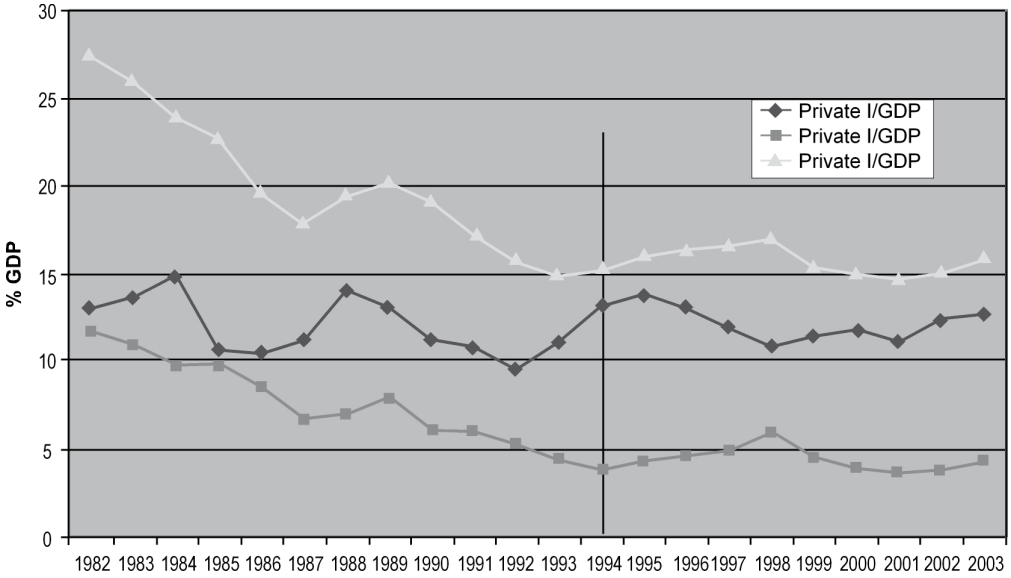
[62] . Although evidence of this view can be found in the popular and financial press on a weekly basis, in a recent systematic survey of 800 South African firms by the World Bank that tried to determine amongst other things the causes of limited investment despite high profitability, this factor was referred to as 'systemic risk' – a euphemism in our mind for 'doubts about whether blacks can run the country – or any country, for that matter'.

rooted, ultimately, in a deadly mix of racism and the reporting formats required by the world's stock exchanges. Until the white elite's control over the major investment decisions is broken, investment levels in the South African economy are unlikely rise and therefore the linear logic of the 'virtuous circle' will not materialise. This is the nub of the matter. Every other factor is less important.

Whereas the next section will demonstrate that the state did its part by substantially increasing investments in the 'human capital and physical assets of poor people', the rest of this section will examine the efforts the state has made to increase economic investment levels within the framework set by its macro-economic policies. This will overlap and set the context for the second paper that flows from this project that looks at the special funds, some of which were motivated by the need to address poverty via investment mobilisation of various kinds.

This periodisation of state efforts to trigger large-scale private sector investments will use the three typologies of investment referred to at the outset of this section, namely state-led infrastructure investment, private sector-led investment, and community-based capital mobilisation (of both the individualist and collective varieties). Unfortunately, official statistics do not track community-based capital mobilisation, which means the data is subsumed within the data on private sector investment. Table 2 below represents private, public and total investment in fixed assets as a percentage of GDP for the period 1982-2003. The trend is obvious: total fixed investment is on a long-term downward spiral, and declining public investment levels have led the way. Private sector investment picked up after 1994 but dropped to an all-time low in 1998, after which it has slowly recovered, but very slowly with few signs of significant inclines. Public sector investment slowly increases after 1994, peaks in 1998 but declines dramatically in the aftermath of the switch to GEAR, with the first signs of what could be sharp increases from 2003 onwards as the 'developmental state' agenda starts to kick in.

Table 2: Investment as GDP 1982-2003



Given that the focus of this report is on state action to address inequality and poverty, what follows relates to the essence of the state's capacity to mobilise the institutional, political, corporate and cultural forces of a society to invest in concrete organised activities that create jobs, generate incomes and foster sustainable livelihoods.

3.3 1994-1998: 'wishful thinking'

As already mentioned, the 1994-98 period was a time of 'wishful thinking', a time when faith was placed in the models generated by econocrats which, in turn, were based on the assumption that the global impact of the 'miracle' would generate large-scale inflows of FDI and significant returns from exports to new markets. This, it was believed, would make up for the low levels of individual and corporate savings that on their own were believed to be insufficient to fuel high growth rates. This was supposed to be coupled to rapid increases in pro-poor public investments by various components of the state, plus a supportive environment for community-based capital mobilisation (as a minor player). One of the more remarkable acts to support community-based capital mobilisation was the deal that the Minister of Housing (Joe Slovo) did with the South African Homeless Federation to establish the Utshani Fund with R10 million of state funds to complement community-level savings for investment in housing.

In reality, as Table 2 demonstrates, FDI rolled in initially and there was a mild increase in domestic private sector investment, but this soon levelled off and dropped down steadily each year to a low in 1998. In general, the FDI that did come in tended to flow into short-term liquid assets. Exports proved to be much harder to achieve. And the enormous complexities of transforming state systems and redirecting capital and operating budgets were massively underestimated. Nevertheless, as Table 2 shows, public sector investment did increase to a high point in 1998 – indeed, the highest point in the 1994-2003 period reflected in this table. Community-based capital mobilisation escalated rapidly (including the aborted attempt to create the Community Bank inspired by community banking principles but structured as a conventional bank due to the managerialist culture of the top management team), but for-profit micro-finance companies with no developmental commitment managed to capture the bulk of this fertile market[63] – an outcome that will in the end destroy the relational dynamics and solidarities this market depends on.

3.4 1998-2003/4: 'less wishing, more carrot'

Once it became clear that a combination of 'Madiba Magic', wholesale liberalisation, paying verbal homage to the gods of neo-liberal fundamentalism and aggressively showing off that the left can be ignored (by not consulting labour about GEAR in 1996) was still not in and of itself sufficient to attract FDI and increase local investment, a raft of strategies was adopted to systematically mobilise, facilitate and organise investment decision-making. These included the following:

- building social and economic partnerships via various forums, ranging from the formal (such as NEDLAC and President's advisory structures, plus others) through to extensive informal engagements both domestically and globally with key financial and business decision-makers;
- active involvement and even leadership in global multi-lateral negotiating structures, from the WTO through to the WSSD in 2002 (where South Africa managed to unify a European and developing country consensus around the need for a global governance structure that would have combined global economic governance with governance for sustainable development – a position that was defeated due to US resistance);
- a wide range of investment incentives aimed at small, medium and large-scale investors;

[63] See various contributions on housing finance in Khan, F. and Thring, P. (eds.) 2003. *Housing Policy and Practice and Post-Apartheid South Africa.* Johannesburg: Heinemann.

- investment promotion campaigns to 'sell' South Africa, including support for initiatives such as Proudly South African and the King Report on Corporate Governance;
- continuation of public investment, which nevertheless remained low at 3.7% to 4.7% of GDP, but growing by 10% per annum from 2001 onwards, with a long way to go to the 10% of GDP mark which is what was reached in the early 1980s;
- various permutations of the BEE strategy, the start of the Charter strategy, plus politically anointed strategic appointments in the parastatals and large corporates to physically dislodge white control of investment decision-making;
- increased support for SMMEs via bodies such as Khula and Ntsika (see the second paper), but with disappointing results;
- spectacular attempts to float mega-sized venture capital funds with state funds, but with little success (see the Isibaya and NEF cases in the second paper).

In general, Table 2 shows that private sector investment as a percentage of GDP did increase from 1998 onwards (with a dip in 2001), but it is not clear whether this was mainly in response to the floating of the exchange rate or to the inducements referred to above, or a mixture of both. However, these increases in investment levels were way below expectations and therefore insufficient to trigger a switch over to high growth. The greatest threat this posed is that, whereas state investments in physical assets and human capacity to reduce poverty should have been reinforced by increased investment-driven growth to take advantage of the results of state investments, in reality there were insufficient signs that the 'vicious cycle' was being broken. By the end of this period senior policy-makers in government started to look towards state-controlled investment instruments as a means of jacking up total investment levels to where they should be, namely at least the 25% of GDP mark.

3.5 2003/4 – present: 'building the developmental state or a control state?'

The most revealing sentence in the Presidency's 'Ten Year Review' was as follows:

> From an assessment of the various themes, it can be seen that the Government's successes occur more often in areas where it has *significant control* and its lack of immediate success occurs more often in those areas where it may only have indirect influence.[64] (emphasis added)

[64] Republic of South Africa, The Presidency, Ibid., p. 75.

This sentence is the cornerstone of the analytical framework that has been used by the Presidency to make sense of the first decade of democracy. It also captures the underlying mind-set that informs the 'developmental state' strategy. Many senior policy-makers and politicians refer (often with concern) to the rising levels of centralised control exerted by the Presidency. Although there is nothing wrong with this in and of itself (and is by no means unusual for state systems across the world, especially in fast growing developing countries like South Africa), much depends on whether this impoverishes or enriches the intellectual and strategic content of policy-making. Evidence of this way of thinking goes back to late 2001, but gathers momentum in the lead-up to the writing of the *Ten Year Review*, and breaks out publicly in speeches of the President during and after the 2004 General Election. Building the 'developmental state' is now official government policy, and with this goes an interventionism across the board that is premised on the assumption that greater state control means greater success. The Constitutional Court decision on price fixing in the pharmaceutical industry marked a decisive test of this reconfiguration of the state's role in the economy – in other words, is the developmental state constitutionally 'legal'? It also started to open up tensions between the Executive and the Reserve Bank, tensions which have now broken out into the public domain and been commented on in the press[65].

The key characteristic of the current phase is the all-pervasive emphasis on state-led public sector investments, which is reflected in a remarkable turn away from privatisation in favour of a strategy to use the parastatals to lead massive increases in physical and economic infrastructure investments. The goal is clearly stated in the Medium Term Strategic Framework authored by the Presidency as follows:

> 1 The aim is to increase the gross fixed capital formation (GFCF) rate from 16% to 25% over the next decade. This would require a number of catalytic interventions that would help galvanise economic activity to a new level.[66]

Together with state controlled financial institutions such as the IDC, DBSA, state pension funds (PIC) and the special funds, there is clearly a new-found commitment to demonstrating what state controlled investment can achieve. The approach is also reflected in the merging of various funds to create the mega-fund for managing investment in municipal infrastructure (the MIG fund), reinforced by strategies to build the capacity of local governments to deliver rather than just assuming that

[65] *Mail and Guardian*, 18-24 March, 2005.
[66] Republic of South Africa. 2005. 'Medium-Term Strategic Framework'. The Presidency: unpublished mimeo, 12.

contracting out to the private sector will work. The MIG Fund plans to coordinate the investment of over R15 billion into infrastructure over the three year period starting 2004. This is all coupled to aggressive strategies to break white control of investment decision-making via BEE, BBEE and the Charters, a renewed commitment to community-based capital mobilisation via increased support for SMMEs, the creation of a new framework for supporting the growth of micro-finance institutions, and a return in, for example the housing sector, to policies that are supportive of community-based rather than purely private sector-led delivery mechanisms. Last, but by no means least, is the rising giant in development finance, namely the National Skills Fund (NSF) and the various SETAs which have to date accumulated billions of rand via the Skills Levy on employers, but due to rampant managerial incompetence, corruption and strategic myopia, these potentially revolutionary structures have not had the intended impact. These are problems, however, that are solvable.

The resurgent commitment across state structures to building a developmental state, the virtual disappearance of talk about privatisation, and constant references to state-led investment, raises the obvious question as to the spatial dimensions of investment strategies. This is where the remarkably influential National Spatial Development Framework (NSDF, sometimes also referred to as the National Spatial Development Perspective) comes in. Written by a group in the Presidency, this document cuts right across the well-established, but badly-organised, rural agenda within the ANC by articulating a commitment to an urban bias for state-led investments, in particular infrastructure investment. Based on the argument that investment should target spaces where there is a combination of highest social need (i.e. poverty) and greatest potential for growth, this document concludes that most rural areas have low potential and most inner city areas don't have high enough needs. The result is the targeting of new growth areas within certain non-core parts of metropolitan areas and in core areas of growing secondary cities. If one could map the state's vision of where investments in fixed assets will land up and who will benefit, then a map of the NSDF's 'priority areas' would fit the bill. Whether the private sector follows the state into these areas will depend heavily on the influence of BEE interests and whether key financial directors can reconcile quarterly reporting of profits with long lead times between investment and break-even points.

A key challenge is how to manage the growing tensions between the Executive (in particular the Ministry of Finance and its Department) and the Reserve Bank, or - to move away from the language of the policy analyst to the language of macro-economics – to the emerging tension between monetary and fiscal policies. The Reserve Bank's robust narrow-minded monetarist focus on inflation will come up against the ambitious desire by the Executive – and the Ministry of Finance in

particular - to ramp up investment levels via the investment strategies of state-related institutions and structures. If this translates into increased borrowing on local capital markets (using the substantial asset base available to state structures) with the resultant upward pressures on interest rates (which may, in turn, increase pressures on private sector borrowers to search for more off-shore funding) and if this does in fact stimulate FDI, thus increasing money supply with implications for the exchange rate (and therefore exports), then the Reserve Bank's number one enemy – inflation – will start to rear its ugly head. Mistimed over-reactions could contradict what the Executive is trying to do. Greater coordination would be the solution, but senior Reserve Bank officials complain they are being shut out of economic policy-making in the Executive – for example, there is evidence that the old practice of passing cabinet memos through the Reserve Bank for comment before going to Cabinet is no longer generally applied. This may be one example where over-centralisation of control could impoverish rather than enrich the policy-making process. Conversely, senior state planners complain that the Reserve Bank has insulated itself from social and political pressures and that the Governor's policy paradigm is out of step with global thinking that has gone beyond an obsessive focus on inflation. Others think it is just a matter of improved coordination of the public 'messages' that are issued by the Reserve Bank and the Executive. But in light of recent suggestions by the Executive that Budget allocations be used to strengthen the Reserve Bank's balance sheet, there is more at stake than uncoordinated PR.

It remains to be seen where the current strategy will lead. The ideal scenario is therefore a combination of the following:

- state-led increases in total investment to at least 25% of GDP, even if this means initially taking public sector investment to a higher point than private sector investment – something that will not be achievable without cooperation between the Reserve Bank and the Executive;
- the breaking of white control of investment decision-making via even more aggressive BEE, BBEE and the Charter movement to increase private sector investment levels to at least the same level as public sector investment levels (including FDI) – BBEE has a greater potential to reduce inequalities and therefore trigger the virtuous cycle and should, therefore, have preference (but only if the BBEE board members and shareholders have real strategic value to add);
- rising levels of state supported less usurious community-based capital mobilisation so that this sector can contribute a few percentage points directly to total investment (and more indirectly), but more importantly foster an entrepreneurial revolution in the poorest communities via

reinforcement of social solidarities that prevent leakage of intra-community circular cash-flows into institutions (i.e. all the major banks) that reinvest savings in non-poor localities;

- increased FDI (following the now oft repeated slogan that foreign investment never leads, it 'follows growth');
- restrictions on speculative investments by foreign investors in short-term liquid assets (thus reducing the upward increase in values this creates which, in turn, sucks in local investors causing local investors to stay away from fixed investments as well);
- a focus on a decomposed conception of fixed asset investments which will have to include a judicious mix of investments in 'Blue IQ'-type industries (which require small quantities of highly skilled labour), mega-investments (with a high cost to labour absorption ratio) and a vast array of investments in SMMEs and middle sized listed companies (which absorb more labour at lower cost);
- a modified NSDF approach that factors in rural value chains and agriculture, rather than a crude urban bias that excludes these as viable investment locales;
- increased exports if global unfair trade can be broken via effective negotiating in the WTO and bi-lateral fora;
- bi-lateral agreements with organised labour and civil society with respect to key strategic issues such as wage levels, dual labour markets, training, state assets and job losses, in order to ensure that the global capitalist drive to reduce labour and environmental costs in so-called 'emerging markets' is fiercely resisted; and
- last but by no means least, investments that lead to the dematerialisation of the economy in order to enhance eco-system sustainability, e.g. renewable energy, urban efficiency, agricultural revival via reduced dependencies on chemical inputs, and biodiversity conservation.

If this all combines in mutually reinforcing ways, it could trigger the much dreamed about quantum shift from the vicious to a virtuous cycle of rising growth levels coupled to reduced inequalities and ultimately poverty eradication. At the political level, this might well mean shifting the centre of gravity leftwards which, in turn, could be misread by local and international investors who still cannot see beyond red threats (due to the survival of outdated c.20th Cold War perspectives), and black implosion (in which, for many white business leaders, is rooted inherent incompetence, corruption and irrationality that characterise black African elites). Ironically, the same investors who might hold back in South Africa are happy to

invest in state-controlled China or governance-weak Africa (where, of course, they get shielded by the army of 'risk analysts' and 'risk managers' that get hired to set up and insulate the deals from the context). State-led investment strategies may, therefore, need to be complemented by skilful footwork to either 'move left and speak right' or 'move left unilaterally with justification' or 'move left cooperatively' via corporatist negotiations. The most disastrous outcome would, of course, be to 'talk left, but move right'. For the cynics, this is what is happening. For these authors, the jury is still out.

4. Fiscal policy and social spending: an empirical analysis

4.1 Introduction

> The implications of GEAR for policy implementation and service delivery were twofold. First, attempts to reduce the budget deficit from about 5 percent to less than 3 percent within a five-year period entailed *severe restrictions on expenditure*, the impact of which was felt most forcefully in government's capital investment, and thus most noticeably in social and economic infrastructure development.[67]

Although there are many statements in the polemical, academic and policy literature that equate the adoption of neo-liberal economic policies with expenditure cutbacks, the above quote from the respected and renowned UNDP report captures a general consensus that spans a range of ideological perspectives, from those who think that cutbacks are evidence of state withdrawal in line with a commitment to 'sensible' market-based economics, right through to those who see withdrawal as evidence of the perpetuation of economic apartheid disguised as 'neo-liberalism'. The evidence presented in this section does not support this consensus[68].

4.2 A note on methods

The analysis provided in this section is based on a review captured in the tables that follow of standard data provided by the National Treasury. The following approach was adopted:

- All growth rates are real, unless indicated otherwise. The allocations listed in the tables are however in nominal terms. Inflation adjustments were calculated using the CPIX where available. For other years the CPI was used.

[67] United Nations Development Programme. 2000. 'UNDP South African Development Report 2000' (UNDP (SA)) (available at http://www.undp.org.za/sahdr2000/sadhr20002.html), Chapter 3, p. 3.
[68] The rest of this section draws entirely on commissioned research compiled by Albert van Zyl, Sociology Department, University of Stellenbosch.

- The data was compiled from official National Treasury documentation.
- Under national expenditure we classified the departments of Provincial and Local Government and Public Works to Social Services because of the poverty relief projects that they are involved in.
- The periods for which data are reflected in these tables vary according to the availability and reliability of data. Where data was obviously unreliable, we chose not to use it. To get the tables into a comparable base, we calculated average annual growth rates throughout.
- At the time of writing this particular section the National Budget had been released, enabling us to give national time-series up to 2004/05.

4.3 Macro-level fiscal expenditures

The reduction in the budget deficit is one of the key features of government finance over the last 10 years. Following Table 3, between 1994/95 and 2004/05 the budget deficit as a percentage of the GDP was reduced from 5.6% in 1994/95 to a low of 1% in 2002/03. After remaining at between 5% and 6% until 1997/8, it declined dramatically after the introduction of GEAR in 1997. After the 2002/03 low, it was allowed to move up in a controlled and purposeful manner in order to fund additional infrastructure investment.

During this same period revenue as a percentage of the GDP reached a high of 26.9% in 1997/8, after which it declined to a low of 24.6% in 2000/01. It was also allowed to drift upwards to reach a projected 25.7% of GDP in 2004/05. Since 1998/9, the reconstituted SA Revenue Service has consistently over-collected on its targets. This has allowed systematic reductions especially of personal income tax rates without affecting the levels of revenue collected. Over this same period expenditure reached a high of 31.7% of GDP in 1996/7, before declining to a low of 26.6% in 2000/01. Expenditure, too, was allowed to drift back up to 28.6% of GDP in 2004/05. As mentioned above, this increase in expenditure was largely applied to increased investment in infrastructure.

In summary, the general picture is of rising revenue, expenditure and deficit levels until roughly 1997/8. With the introduction of GEAR revenue and deficit levels showed rapid decline and remained at lower levels. Expenditure increased overall as a percentage of GDP from 1998/9 onwards. Over the period 2003/2005 expenditure and the deficit have shown further increases, while revenue has remained steadily below 26% of the GDP. It is therefore possible to conclude that, while the budget was generally less expansionary between 1994/5 and 2002/03, the deficit was not reduced by cutting expenditure, as is commonly believed.

Table 3: National fiscal framework 1994/05 – 2004/05

R million	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0	2000/1	2001/2	2002/3	2003/4	2004/5
Revenue	112200	126058	146519	163492	184328	207181	223687	257460	290500	314468	342356
Expenditure	137000	151831	176291	190607	201534	222645	242239	271157	301800	341606	381280
Deficit	-24800	-25773	-29772	-27115	-17206	-15464	-18552	-13697	-11300	-27138	-38924
GDP	444900	497295	556206	606973	754729	821144	910500	1007810	1124000	1223198	1331796
Deficit/ GDP	-5.6%	-5.2%	-5.4%	-4.5%	-2.3%	-1.9%	-2.0%	-1.4%	-1.0%	-2.2%	-2.9%
Expenditure/GDP	30.8%	30.5%	31.7%	31.4%	26.7%	27.1%	26.6%	26.9%	26.9%	27.9%	28.6%
Revenue/ GDP	25.2%	25.3%	26.3%	26.9%	24.4%	25.2%	24.6%	25.5%	25.8%	25.7%	25.7%

Source: National Treasury, Budget Review, various years

The 1997/98 moment is significant because it was also during this period that a number of new 'special funds' were initiated, as will be demonstrated in a companion paper. As is well known, the second quarter of 1996 marked a key turning point in macro-economic policy management when the RDP Office was closed and GEAR adopted as South Africa's 'macro-economic stabilisation' policy. This policy decision triggered the changes reflected in the figures for 1997/98. However, more significantly, it would appear that this decision bifurcated the policy process into 'macro-economic policy' managed by the Department of Finance, and sectoral initiatives that resulted in the creation of a new set of 'sectoral RDP-type funds' aimed at facilitating expenditures to realise a wide range of policy goals in the enterprise, infrastructure, human skills and social development fields. Unlike other countries where 'macro-economic stabilisation' resulted in reduced revenues, deficits and expenditures, in the South African case expenditures dropped briefly and then continued to rise. The struggle to find ways of institutionalising the structures and processes to manage these expenditures is a story of the search for appropriate ways of institutionalising developmental state institutions within national policy management that had decided to focus on 'macro-economic stabilisation', with 'development' left to the sectors, provinces and local governments.

4.4 Consolidated national and provincial expenditure

Table 4 below shows that allocations to social services in particular grew steadily over the period under review. While growth in this sector relented briefly in 1998/99 and 2000/01, it resumed after that. Similar patterns can be detected in the economic and protection service sectors, albeit from a lower base.

The decline of money spent on interest repayments is particularly striking. Table 4 shows that debt servicing costs declined by a total of 7.4% between 1995/96 and 2004/05. The real reason why expenditure could continue to grow strongly in the face of a declining deficit is this reduction in debt service costs. Payments on interest took up over 20% of expenditure in 1998/99, but dropped to 13.1% of expenditure by 2004/05 (Table 5).

Social services expenditure increased by an average of 6.4% over this period. In fact, real growth in this sector outstripped overall expenditure growth by 1.9 percentage points. The result of this trend is that the relative share that Social Services take of consolidated expenditure increased from 45.4% in 1995/96 to 50.9% in 2004/05 (Table 5). While all four social services functions benefited from these increases, increases to Education and Welfare account for more than two thirds (69%) of this growth.

Over the same period, allocations to Economic Services increased by an annual average of 7.9% in real terms. The main reasons for these increases are increases in the allocations to Transport and Communication and Other Economic Services. Together these two account for 63% of growth in expenditure on Economic Services. Expenditure growth on Economic Services also outstrips total real expenditure growth. As a result, its share of expenditure grows from 10.5% in 1995/96 to a projected 12.8% in 2004/05. It is, however, important to note that its share of expenditure only started increasing in 2001/02 after dropping to a low of 8% in 2000/01.

The only sector growing more slowly than overall expenditure is Protection Services which declined to a low of 14.5% in 1999/00 before recovering. Despite the decline in its share of expenditure, this sector still shows real growth.

Table 4: Consolidated national and provincial expenditure

R million	1995/6	1996/7	1997/8	1998/9	2001/02	2002/03	2003/04	2004/05	% Total real change	Average annual real change	Total change	% Shares of increase
	Actual	Actual	Actual	Actual	Actual	Actual	Revised Estimate	Budget				
Protection Services	**26673**	**27952**	**31214**	**34075**	**46893**	**53335**	**58327**	**63247**	**33.5%**	**3.7%**	**36574**	**15.80%**
Social Services	**70294**	**86650**	**99230**	**103168**	**129560**	**153341**	**177330**	**196685**	**57.5%**	**6.4%**	**126391**	**54.61%**
Education	34214	42140	44997	45348	55395	62757	69824	75862	24.8%	2.8%	41648	18.00%
Health	16078	24815	23001	24663	31713	34940	39677	42586	49.1%	5.5%	26508	11.45%
Welfare (incl Social Security)	14737	16089	23640	25418	34082	41966	51486	59936	128.9%	14.3%	45199	19.53%

Housing	5265	3606	7592	7739	8370	13678	16343	18301	95.6%	10.6%	13036	5.63%
Economic Services	**16218**	**18785**	**18123**	**19013**	**26993**	**36242**	**44999**	**49413**	71.5%	7.9%	33195	14.34%
Water Schemes and Related Services	1157	1968	2469	2894	3555	4540	5832	6150	199.2%	22.1%	4993	2.16%
Fuel and Energy	29	638	479	291	859	1508	2264	2461	4676.2%	519.6%	2432	1.05%
Agriculture, Fishing and Forestry	2975	2652	3682	3950	5292	5729	6636	7109	34.5%	3.8%	4134	1.79%
Mining, Manufacturing and Construction	1250	190	1087	1262	1358	1503	1506	2053	-7.6%	-0.8%	803	0.35%
Transport and Communication	7203	8706	7315	7789	10012	13825	16285	17329	35.4%	3.9%	10126	4.38%
Other economic services	3604	4631	3091	2827	5917	9137	12476	14311	123.5%	13.7%	10707	4.63%
General government services and unallocated expenditure	**10992**	**21952**	**17020**	**12290**	**20981**	**20063**	**23483**	**23987**	**22.8%**	**2.5%**	**12995**	**5.62%**
Total Allocated Expenditure	**124177**	**155339**	**165587**	**168546**	**224427**	**262981**	**304139**	**333332**	**51.1%**	**5.7%**	**209155**	**90.38%**
Interest	30661	33160	38820	42669	47515	47250	47326	50432	-7.4%	-0.8%	19771	8.54%
Unallocated							0	2500			2500	1.08%
Consolidated Expenditure	154838	188499	204407	211215	271942	310231	351465	386264	40.4%	4.5%	231426	100.00%

Source: National Treasury, Budget Review, various years

Table 5: Consolidated national and provincial expenditure as % shares of total

	1995/6	1996/7	1997/8	1998/9	1999/00	2000/2001	2001/02	2002/03	2003/04	2004/05
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Revised Estimate**	**Budget**
Protection Services	**17.2%**	**14.8%**	**15.3%**	**16.1%**	**14.5%**	**16.7%**	**17.2%**	**17.2%**	**16.6%**	**16.4%**
Social Services	**45.4%**	**46.0%**	**48.5%**	**48.8%**	**45.9%**	**47.5%**	**47.6%**	**49.4%**	**50.5%**	**50.9%**
Education	22.1%	22.4%	22.0%	21.5%	21.4%	21.5%	20.4%	20.2%	19.9%	19.6%
Health	10.4%	13.2%	11.3%	11.7%	13.4%	11.1%	11.7%	11.3%	11.3%	11.0%
Welfare (incl. Social Security)	9.5%	8.5%	11.6%	12.0%	8.8%	12.4%	12.5%	13.5%	14.6%	15.5%
Housing	3.4%	1.9%	3.7%	3.7%	2.3%	2.5%	3.1%	4.4%	4.6%	4.7%
Economic Services	**10.5%**	**10.0%**	**8.9%**	**9.0%**	**8.5%**	**8.0%**	**9.9%**	**11.7%**	**12.8%**	**12.8%**
Water Schemes and Related Services	0.7%	1.0%	1.2%	1.4%	1.0%	1.2%	1.3%	1.5%	1.7%	1.6%
Fuel and Energy	0.0%	0.3%	0.2%	0.1%	0.2%	0.1%	0.3%	0.5%	0.6%	0.6%
Agriculture, Fishing and Forestry	1.9%	1.4%	1.8%	1.9%	1.6%	1.8%	1.9%	1.8%	1.9%	1.8%
Mining, Manufacturing and Construction	0.8%	0.1%	0.5%	0.6%	0.1%	0.6%	0.5%	0.5%	0.4%	0.5%
Transport and Communication	4.7%	4.6%	3.6%	3.7%	4.1%	3.1%	3.7%	4.5%	4.6%	4.5%
Other economic services	2.3%	2.5%	1.5%	1.3%	1.5%	1.1%	2.2%	2.9%	3.5%	3.7%
General government services and unallocated expenditure	**7.1%**	**11.6%**	**8.3%**	**5.8%**	**11.1%**	**9.1%**	**7.7%**	**6.5%**	**6.7%**	**6.2%**
Total Allocated Expenditure	**80.2%**	**82.4%**	**81.0%**	**79.8%**	**80.1%**	**81.2%**	**82.5%**	**84.8%**	**86.5%**	**86.3%**
Interest	19.8%	17.6%	19.0%	20.2%	19.9%	18.8%	17.5%	15.2%	13.5%	13.1%

Unallocated	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
Consolidated Expenditure	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury, Budget Review, various years

The trends reflected in these tables contradict some of the original projections of neo-liberal economic modelling exercises that took place in government think tanks in the period leading up to the adoption of GEAR in 1996. For example, the highly influential Macro Economic Working Group comprising key experts from the Department of Finance, Reserve Bank, Development Bank of Southern Africa, CEAS, business and the World Bank, estimated that if the salary bill could be reduced by 10% (by service cutbacks, eliminating inefficiencies, and resisting wage/salary increases) in order to finance substantial increases in capital expenditure on infrastructure, the result would be rising levels of growth[69] – the infamous 'increase fixed investment by 1% and you get a 1% increase in the growth rate' formula. Instead, social and economic spending went up (including solid real growth in capital spending), without evidence of a substantial increase in capital spending as a percentage of total spending in these clusters (see section below). Even the phenomenal 95% real change in housing expenditures (most of which consists of capital subsidies for households) was dwarfed by the fact that Education (mainly teacher salaries) and Welfare (mainly transfers to households) accounted for 69% of all growth in the social services sectors. Overall over the period, social spending increased at a rate faster than the growth in total expenditure, whereas economic spending declined from what was already quite a low base before rising rapidly to reach a point where it also exceeded the overall rate of expenditure growth. Even if capital spending had increased more steeply, persistent under-spending raises doubt as to whether the capacity was in place to manage increases in spending.

4.5 National expenditure

The previous section described trends in consolidated national and provincial expenditure. Below is a reflection on the two components of this expenditure, namely national and provincial.

Table 6 shows that national expenditure increased by an annual average of 2.9% between 1996/7 and 2004/05. The main driver of these increases was again the social sector that grew by a real annual average of 19% over this period. It is, however, important to note that these figures are slightly inflated by changes in the

[69] RSA, 1995, pp. 9-12.

composition of the national Department of Social Development as a result of the establishment of the National Development Agency.

The result of these increases was that national social service expenditure grew from 5.84% of all expenditure in 1996/7 to 12.54% in 2004/05 (Table 7). The three main drivers of this increase were increased allocations to the Health, Education, Social Development and Local Government departments.

The economic sector increased by an annual average of 1.4% (Table 6), although this is reduced by R1.3 billion for water provision being removed from the Water Affairs budget and channelled through the Municipal Infrastructure Grant from 2004/05 onwards.

Table 6: Expenditure trends in national government

R'000	1996/7	1997/8	1999/00	2001/02	2002/03	2003/04	2004/05	% Total real change	Average annual real change
	Actual	Actual	Actual	Actual	Actual	Revised Estimate	Budgeted		
Arts and Culture	533200	671504	858050	1144336	1394711	1994445	2417790	173.24%	19.2%
Education	5319400	5974861	7111602	8616366	9314413	10584525	11344957	28.52%	3.2%
Health	656000	513062	5858821	6223921	7059188	7695750	8787865	707.24%	78.6%
Labour	649000	634358	865548	1396844	1283026	1054138	1191733	10.65%	1.2%
Social Development	66900	145013	499697	2327982	639424	2100233	4548410	3996.89%	444.1%
Sport and Recreation South Africa	54500	118352	128143	101093	171826	228439	286221	216.47%	24.1%
Public Works	2456600	2796501	3159209	3705202	4202187	4651985	4819923	18.23%	2.0%
Local Government	561700	1110442	3301521	4653066	6556760	9461921	12850768	1278.62%	142.1%
Total Social Services	**10297300**	**11964093**	**21782591**	**28168810**	**30621535**	**37771436**	**46247667**	**170.64%**	**19.0%**
Agriculture	820100	978271	675697	871134	917273	1234091	1306228	-4.02%	-0.4%
Communications	571600	464000	766939	1128338	884588	1634962	875200	-7.74%	-0.9%
Environmental Affairs and Tourism	356000	396505	505977	1064065	1363086	1465978	1623407	174.79%	19.4%
Housing	2070100	4520028	3494376	3721240	4213130	4523890	4848941	41.15%	4.6%
Land Affairs	276700	417250	684905	976156	1077196	1654997	1788152	289.42%	32.2%

Minerals and Energy	734300	825171	611456	1233396	1853208	1790680	1934494	58.75%	6.5%
Trade and Industry	3213800	2469958	1827025	2015888	2393327	2694583	2848423	-46.59%	-5.2%
Transport	3130300	3603731	4061621	4936928	5710025	6289435	6759044	30.11%	3.3%
Water Affairs and Forestry	2357500	2820337	2676297	3483055	3680625	4639180	3302144	-15.60%	-1.7%
Total Economic Services	**13530400**	**16495251**	**15304293**	**19430200**	**22092458**	**25927796**	**25286033**	**12.61%**	**1.4%**
Total National Expenditure	**176291000**	**190607000**	**222645000**	**262904548**	**291529069**	**331685179**	**368903926**	**26.10%**	**2.9%**

Source: National Treasury, Estimates of National Expenditure, various years

Table 7: Expenditure trends in national government as % shares

	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Arts and Culture	0.30%	0.35%	0.40%	0.39%	0.42%	0.44%	0.48%	0.60%	0.66%
Education	3.02%	3.13%	3.21%	3.19%	3.45%	3.28%	3.20%	3.19%	3.08%
Health	0.37%	0.27%	2.54%	2.63%	2.63%	2.37%	2.42%	2.32%	2.38%
Labour	0.37%	0.33%	0.36%	0.39%	0.31%	0.53%	0.44%	0.32%	0.32%
Social Development	0.04%	0.08%	0.07%	0.22%	0.20%	0.89%	0.22%	0.63%	1.23%
Sport and Recreation South Africa	0.03%	0.06%	0.04%	0.06%	0.03%	0.04%	0.06%	0.07%	0.08%
Public Works	1.39%	1.47%	1.42%	1.42%	1.53%	1.41%	1.44%	1.40%	1.31%
Local Government	0.32%	0.58%	1.53%	1.48%	1.56%	1.77%	2.25%	2.85%	3.48%
Total Social Services	**5.84%**	**6.28%**	**9.58%**	**9.78%**	**10.13%**	**10.71%**	**10.50%**	**11.39%**	**12.54%**
Agriculture	0.47%	0.51%	0.37%	0.30%	0.31%	0.33%	0.31%	0.37%	0.35%
Communications	0.32%	0.24%	0.42%	0.34%	0.19%	0.43%	0.30%	0.49%	0.24%
Environmental Affairs and Tourism	0.20%	0.21%	0.57%	0.23%	0.32%	0.40%	0.47%	0.44%	0.44%
Housing	1.17%	2.37%	1.86%	1.57%	1.42%	1.42%	1.45%	1.36%	1.31%
Land Affairs	0.16%	0.22%	0.36%	0.31%	0.33%	0.37%	0.37%	0.50%	0.48%
Minerals and Energy	0.42%	0.43%	0.33%	0.27%	0.25%	0.47%	0.64%	0.54%	0.52%

Trade and Industry	1.82%	1.30%	0.95%	0.82%	0.92%	0.77%	0.82%	0.81%	0.77%
Transport	1.78%	1.89%	1.76%	1.82%	1.75%	1.88%	1.96%	1.90%	1.83%
Water Affairs and Forestry	1.34%	1.48%	1.42%	1.20%	1.30%	1.32%	1.26%	1.40%	0.90%
Total Economic Services	**7.68%**	**8.65%**	**8.04%**	**6.87%**	**6.80%**	**7.39%**	**7.58%**	**7.82%**	**6.85%**
Total National Expenditure	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Source: National Treasury, Estimates of National Expenditure, various years

Any comparison of pre and post 2000/01 budgetary data organised by economic classification is perilous, given the major reclassification of government expenditure that resulted in the new Standard Chart of Accounts in 2000. Capital expenditure is a case in point. For this reason we present data from 1995/6 to date, but only analyse the data for the period from 2000/01 to 2004/05.

National capital expenditure shows solid growth in both the social and economic sectors over the period from 2000/01 to 2004/05 (Table 8). In the social sector capital expenditure grew by an annual average of 16.7% per year over this period, with strong growth in the Department of Arts, Culture, Science and Technology (DACST), Labour, Health and Public Works being the main drivers of growth. The result of this steady growth is that capital expenditure remained at around 2% of total Social Service expenditure over this period (Table 9).

Over this period, capital expenditure in economic services grew by an annual average of 6.5% (Table 8). The main growth driver in this case is Water Affairs and Forestry, and Environmental Affairs and Tourism. These increases resulted in the share of capital expenditure in Economic Services also remaining at between 2% and 3% (Table 9).

Table 8: Actual capital expenditure in national departments

R'000	1995/6	1996/7	1997/8	1999/00	2000/01	2002/03	2003/04	2004/05	Change 2000/01 to date	Ann Average since 2000/01
Arts and Culture	12600	11600	29114	24527	2621	6722	7489	3712	119.1%	29.8%
Education	507300	453600	604095	240107	16831	12679	48073	5273	-24.7%	-6.2%
Health	34900	156000	112827	406267	17805	20874	31159	36107	17.2%	4.3%
Labour	10200	40000	12919	48367	38110	119949	79399	68341	214.7%	53.7%

Social Development	300	400	1957	9826	1611	4481	4930	3416	178.2%	44.5%
Sport and Recreation South Africa	8000	13400	60021	7773	792	466	1097	2328	-41.2%	-10.3%
Public Works	672800	443600	454243	571343	351728	553447	767212	674676	57.4%	14.3%
Local Government	1600	3100	848142	709638	4400	5842	7359	5407	32.8%	8.2%
Total Social Services	**1247700**	**1121700**	**2123318**	**2017848**	**433898**	**724460**	**946718**	**799260**	**66.7%**	**16.7%**
Agriculture	115200	64000	93097	68377	9487	39866	35970	33221	320.2%	80.1%
Communications		0	0	8183	19618	51312	16105	25513	161.6%	40.4%
Environmental Affairs and Tourism	27100	33100	43790	26777	7907	10195	71956	44545	28.9%	7.2%
Housing	803000	1941700	4361865	3081823	2585	1901	1598	2954	-26.5%	-6.6%
Land Affairs	18100	92300	179601	343648	25447	14936	17792	16067	-41.3%	-10.3%
Minerals and Energy	155900	51900	210474	48573	3778	7677	20824	5390	103.2%	25.8%
Trade and Industry	38100	56600	68916	18293	8582	9741	8150	13669	13.5%	3.4%
Transport	547800	640800	1042125	367617	2080	1762	33849	21433	-15.3%	-3.8%
Water Affairs and Forestry	906500	901700	2221687	1044366	286417	323856	375804	385278	13.1%	3.3%
Total Economic Services	**2611700**	**3782100**	**8221555**	**5007657**	**365901**	**461246**	**582048**	**548070**	**26.1%**	**6.5%**

Source: National Treasury, Estimates of National Expenditure, various years

Table 9: Actual capital expenditure in national departments as % share

	1995/6	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Arts and Culture	2.49%	2.18%	4.34%	3.01%	2.86%	0.27%	0.50%	0.48%	0.38%	0.15%
Education	12.18%	8.53%	10.11%	3.97%	3.38%	0.21%	0.14%	0.14%	0.45%	0.05%
Health	2.70%	23.78%	21.99%	4.33%	6.93%	0.29%	0.38%	0.30%	0.40%	0.41%
Labour	2.03%	6.16%	2.04%	4.52%	5.59%	5.21%	2.88%	9.35%	7.53%	5.73%
Social Development	0.45%	0.60%	1.35%	0.98%	1.97%	0.34%	0.12%	0.70%	0.23%	0.08%
Sport and Recreation South Africa	12.66%	24.59%	50.71%	28.99%	6.07%	1.12%	0.42%	0.27%	0.48%	0.81%
Public Works	26.59%	18.06%	16.24%	13.74%	18.09%	9.85%	14.15%	13.17%	16.49%	14.00%
Local Government	0.13%	0.55%	76.38%	22.83%	21.49%	0.12%	0.14%	0.09%	0.08%	0.04%

Total Social Services	**12.10%**	**10.89%**	**17.75%**	**8.60%**	**9.26%**	**1.83%**	**2.19%**	**2.37%**	**2.51%**	**1.73%**
Agriculture	14.19%	7.8%	9.52%	8.14%	10.12%	1.31%	2.20%	4.35%	2.91%	2.54%
Communications		0.00%	0.00%	0.25%	1.07%	4.30%	2.16%	5.80%	0.99%	2.92%
Environmental Affairs and Tourism	8.32%	9.30%	11.04%	17.22%	5.29%	1.06%	0.87%	0.75%	4.91%	2.74%
Housing	81.35%	93.80%	96.50%	95.81%	88.19%	0.08%	0.10%	0.05%	0.04%	0.06%
Land Affairs	11.26%	33.36%	43.04%	58.09%	50.17%	3.30%	1.53%	1.39%	1.08%	0.90%
Minerals and Energy	20.97%	7.07%	25.51%	12.02%	7.94%	0.64%	0.38%	0.41%	1.16%	0.28%
Trade and Industry	1.29%	1.76%	2.79%	0.58%	1.00%	0.40%	0.49%	0.41%	0.30%	0.48%
Transport	18.27%	20.47%	28.92%	21.05%	9.05%	0.05%	0.08%	0.03%	0.54%	0.32%
Water Affairs and Forestry	75.52%	38.25%	78.77%	73.03%	39.02%	9.42%	14.47%	8.80%	8.10%	11.67%
Total Economic Services	**25.64%**	**27.95%**	**49.84%**	**44.45%**	**32.72%**	**2.30%**	**3.06%**	**2.09%**	**2.24%**	**2.17%**

Source: National Treasury, Estimates of National Expenditure, various years

Table 10 shows the share of budgeted expenditure that was actually spent in national budgets since 2001/02. National government has generally spent quite high percentages of its budgets. The common trend of governments being less able to spend capital than current expenditure is present here, but not nearly as pronounced as is the case in the provinces (see Table 18, page 70).

Table 10: National divergence between budgeted and actual expenditure

	2001/02			2002/03			2003/04		
	Current	**Capital**	**Total**	**Current**	**Capital**	**Total**	**Current**	**Capital**	**Total**
Central government Services	100.6%	89.1%	98.3%	99.6%	96.6%	98.9%	99.2%	90.5%	97.3%
Financial and Administrative Services	96.5%	100.6%	97.2%	94.0%	99.1%	95.2%	95.4%	97.7%	96.0%
Social Services	98.4%	101.4%	99.0%	98.9%	98.3%	98.7%	98.3%	97.0%	98.2%
Justice and Protection Services	100.3%	82.9%	99.4%	100.6%	86.2%	99.9%	100.4%	77.6%	99.4%

Economic and Infrastructure Development	97.0%	94.3%	96.3%	94.8%	102.6%	97.1%	94.1%	101.3%	96.7%
Total	**99.0%**	**94.9%**	**98.4%**	**98.8%**	**97.9%**	**98.6%**	**98.5%**	**95.4%**	**98.0%**

Source: National Treasury Press Releases, various Years
Note: These percentages express actual expenditure as a share of the budget as adjusted in the Adjustments Estimates of the relevant year.

4.6 Extra governmental transfers from national departments

Given the overall goal and focus of the Social Giving study, a significant question that needs to be answered in order to contextualise the magnitude of giving by non-state institutions, households and individuals will be as follows: How much money does the state transfer directly into dedicated independent agencies/accounts (that are not directly controlled by National, Provincial or Local Governments), non-profit organisations and households to promote development and eradicate poverty? Fortunately, it has been possible to calculate this, but only for the past five years due to the introduction of the Standard Chart of Accounts. National Treasury now provides a breakdown of these so-called 'extra-governmental transfers' in terms of both destination (i.e. Agencies/Accounts, Universities/Technikons, Foreign Governments and International Organisations, Public Corporations and Private Enterprises, Non-profits and Households) and sources (i.e. the national departments themselves and the clusters they fall into). For the purposes of this study, the transfers to sectoral Agencies/Accounts, Non-profits and Households are of particular interest. The direct transfers to Households are of greatest interest because it is possible to assume that these represent actual amounts transferred to Households without deductions for overhead costs.

Before proceeding, it is important to provide a summary and definitions of these transfer categories:

Summary explanation of transfer categories

Departmental Agencies and Accounts	Includes public entities listed in the PFMA, such as social security funds, unemployment insurance funds and other funds and accounts. Taking the example of the DTI, such transfers would include transfers to Khula, Ntsika and the National Empowerment Fund.
Universities and Technikons	Routine transfers.
Foreign governments and international organisations	Again taking the DTI example this would include the RSA contribution to UNIDO.
Public Corporations and Private Enterprises	Subsidies on production and other transfers to public corporations and private enterprises. DTI examples would include transfers to the IDC.

Non-profits	Including privately owned educational institutions. A DTI example would be transfers to the Proudly South Africa campaign.
Households	Social benefits and other transfers to households.

It is worth quoting extensively from the National Treasury's 'Economic Reporting Format Guide' to clarify the detailed definition of these categories:

Definitions for transfers and subsidies

Transfers and subsidies include all unrequited payments made by the government unit. A payment is unrequited provided that the government unit does not receive anything directly in return for the transfer to the other party.

Both current and capital transfers are included in this item. The main reason for including both current and capital transfers under the same heading is that in practice it is often difficult to differentiate between these two categories. In addition, both have the same effect on net worth of government. Capital transfers should be accounted for as a note to the budget statement.

Examples of current transfers are social security benefits paid to households, fines, penalties, compulsory fees and compensation for injuries or damages paid to another unit.

An example of a capital transfer is a payment that is conditional on the recipient unit using the funds to acquire capital assets. Another example is a transfer to enterprises (publicly or privately owned) to cover large operating deficits accumulated over at least two years or to finance their cost of purchasing capital assets. Debt forgiveness extended to others is also considered a capital transfer.

Capital transfers can also lake the form of capital taxes payable to other government units.

Government units need to distinguish between the following transfer categories:

- Transfers to provinces (including the Provincial Revenue Fund; provincially owned entities, like hospitals, clinics and other entities engaged in providing health services; as well as provincially owned development organisations, but excluding universities and technikons)

- Transfers to municipalities (including development organisations owned by municipalities and other municipal entities)

- Transfers to departmental agencies and accounts (including national public entities listed in the PFMA, such as social security funds, unemployment insurance funds and other funds and accounts)

- Transfers to universities and technikons

- Transfers to public corporations and private enterprises:

  -Subsidies on production

  -Other transfers to public corporations and private enterprises

- Transfers to foreign governments and international organisations

- Transfers to non-profit institutions (including privately owned educational institutions)

- Transfers to households:

  -Social benefits

  -Other transfers to households. All these transfer categories are self-explanatory, except subsidies on production, other transfers to public corporations and private enterprises, social benefits, and other transfers to households.

Social benefits

Social benefits are current transfers to households, but not all transfers to households are included under this category. Included are the transfers made to households to protect them against events that may adversely affect their social welfare. Examples include the child support grant; payments for medical, convalescent and dental care and home care. Social benefits also encompass the cost to provide free housing and housing below market prices.

Other government units can also pay social benefits, like the Unemployment Insurance Fund.

Other transfers to households

Other transfers to households consist of all other transfers to households. All capital transfers to households are included here. This category also includes payments of bursaries (but excluding bursaries to government employees, which are recorded under goods and services), fines and penalties paid to households. It also includes compensation for injuries and damages caused by natural disasters or government units if paid to households.

Table 11 shows that transfer payments from national government to entities other than provincial and local government has increased by a real annual average rate of 7.4% from 2000/01 and 2004/05. While all six categories of transfer have increased, the largest single contributors to this increase are transfers to Departmental Agencies and Accounts (62.8% of the increase), transfers to Universities and Technikons (13.5%) and transfers to Public Corporations and Private Enterprises (15% of the increase). Other categories of transfer, such as transfers to Non-profits, show large percentage increases, but these all came from much lower bases.

Social Services as a whole accounts for about 37.5% of the total increase in such transfers. Within the Social Services category the largest beneficiaries of this growth in transfers were transfers to Departmental Agencies and Accounts as well as the above-mentioned increase in transfers to Universities and Technikons (Table 12). The two key departments in this regard were Education and Health.

Economic Services transfers grew by an annual average of 6.1% over this period. Increased transfers to Public Corporations and Private Enterprises drive the increase in the Economic Sector. Table 12 shows that the Economic Service Departments benefiting from this increase are largely the Departments of Transport, Land Affairs, Mineral and Energy Affairs, and Environmental Affairs and Tourism.

According to Table 11, the total value of transfers to Agencies/Accounts, Non-profits and Households for the five year period under review is R58.7 billion. A significant figure in Table 11 is the National Treasury's estimate of the total funds transferred to households[70]. For the five years 2000/01 to 2004/05, the total value of transfers to households over this period was estimated to be R6.7 billion comprising R1.5 billion from the Social Services cluster and R5.2 billion from the Economic Services cluster. However, an equally significant figure for the purposes of this paper, is the increase in transfers to Departmental Agencies and Accounts from R6.6 billion in 2000/01 to R12.4 billion in 2004/05, with the transfers in the Social Services cluster to these Agencies and Accounts rocketing up by 97.3%. Total funds transferred to Agencies/Accounts for this five year period was R50 billion. Although proceeding from a very low base, the transfers to Non-profits also increased substantially from just below R120 million in 2000/01 to just below R250 million. The total transferred for the five year period was R2 billion. However, this figure is misleading because these are direct transfers from National Government

[70] It is important to note that the total amount transferred from National Departments is greater than the totals for Economic Services and Social Services. The reason for this is that this table was compiled to only reflect financial transfers from the economic and social service categories, and none of the other categories. The gap between the total amounts transferred from national departments and the amounts transferred from the 'economic' and 'social' clusters would, therefore, be the transfers from other clusters.

Departments to Non-profits which is not the level of Government directly involved in transfers to Non-profits.

The rapid rise in the size of transfers to Sectoral Agencies and Accounts provides the empirical context for the discussion in the companion paper about the way the South African state has tried to institutionalise its developmental mandate via a wide range of transfers into special purpose institutions.

Table 11: Extra governmental transfers from national departments by destination

R'000	2000/01	2001/02	2002/03	2003/04	2004/05	% Total real change	Average annual real change
	Audited	Audited	Prelim Outcome	Adj. Appropriation	Budgeted		
Departmental Agencies and Accounts	2965282	5190956	5873627	6525531	7594633	97.3%	24.3%
Universities and Technikons	6628773	7078591	7520276	8380752	9300504	8.1%	2.0%
Foreign Governments and International Organisations	23095	33792	39809	34920	38787	29.4%	7.4%
Public Corporations and Private Enterprises	0	0	0	0	0	0	0
Non-profits	80736	86583	102130	142776	131895	25.9%	6.5%
Households	245394	188709	478122	326666	306483	-3.8%	-0.9%
Total Social Services	**9943280**	**12578631**	**14013964**	**15410645**	**17372302**	**34.6%**	**8.7%**
Departmental Agencies and Accounts	3647136	4325385	4479313	4611372	4857693	2.6%	0.7%
Universities and Technikons	5942	12973	8253	9475	6306	-18.2%	-4.6%
Foreign governments and international organisations	24522	26569	46557	48392	20820	-34.6%	-8.6%
Public Corporations and Private Enterprises	4141553	5738963	6263380	7342043	7084999	31.8%	8.0%
Non-profits	36641	54749	172903	146259	117917	148.0%	37.0%
Households	502119	841432	936899	1547630	1425153	118.7%	29.7%

Total Economic Services	**8357913**	**11000071**	**11907305**	**13705171**	**13512888**	**24.6%**	**6.1%**
Departmental Agencies and Accounts	16203526	20238428	24367390	26438474	28666107	36.3%	9.1%
Universities and Technikons	6634715	7091564	7528529	8390227	9306810	8.1%	2.0%
Foreign governments and international organisations	407371	333396	698596	841283	706590	33.6%	8.4%
Public Corporations and Private Enterprises	4141553	5738963	6263380	7382417	7125000	32.6%	8.1%
Non-profits	170800	201146	341086	374102	329775	48.8%	12.2%
Households	1492715	2042582	2378486	3068194	2746899	41.8%	10.4%
Total: National Departments	**29050680**	**35646079**	**41577467**	**46494697**	**48881181**	**29.6%**	**7.4%**

Source: National Treasury, Estimates of National Expenditure, various years

Table 12: Extra governmental transfers from national departments by source

R'000	2000/01	2001/02	2002/03	2003/04	2004/05	% Total real change	Average annual real change
	Audited	Audited	Preliminary Outcome	Adjusted Appropriation	Budgeted		
Arts and Culture	339665	373882	505054	744723	946009	114.6%	28.6%
Education	7094219	7554366	8056942	8972816	9935074	7.9%	2.0%
Health	160646	265739	280762	312561	398084	90.9%	22.7%
Labour	1220173	3423062	3874224	3995991	4623346	192.0%	48.0%
Science and Technology	548516	655459	719621	967753	1165742	63.8%	15.9%
Social Development	301663	206391	447995	256207	130722	-66.6%	-16.7%
Sport and Recreation South Africa	54391	43100	60407	67637	73977	4.8%	1.2%
Public Works	170638	18635	28289	38577	43422	-80.4%	-20.1%
Local Government	53369	37997	40670	54380	55926	-19.3%	-4.8%
All Social Services	**9943280**	**12578631**	**14013964**	**15410645**	**17372302**	**34.6%**	**8.7%**
Agriculture	307256	396155	392639	573713	366419	-8.1%	-2.0%
Communications	334015	945117	655215	1403564	647024	49.3%	12.3%

Environmental Affairs and Tourism	491698	823850	1098395	1084102	1207479	89.2%	22.3%
Housing	195604	295634	191758	69562	59842	-76.4%	-19.1%
Land Affairs	362820	558443	624204	1012889	1085465	130.5%	32.6%
Minerals and Energy	405566	1010025	1358922	1224627	1282302	143.6%	35.9%
Trade and Industry	1824783	1567865	1827550	1908927	2075064	-12.4%	-3.1%
Transport	3927139	4715057	5355018	5854692	6238512	22.4%	5.6%
Water Affairs and Forestry	509032	687925	403604	573095	550781	-16.6%	-4.2%
Total Economic Services	**8357913**	**11000071**	**11907305**	**13705171**	**13512888**	**24.6%**	**6.1%**
Total: National Departments	**29050680**	**35646079**	**41577467**	**46494697**	**48881181**	**29.6%**	**7.4%**

Source: National Treasury, Estimates of National Expenditure, various years

4.7 Poverty alleviation and job creation fund allocations

Table 11 shows that allocations to the Poverty Alleviation and Jobs Summit Fund grew from R1 billion in 1999/00 to R1.567 billion in 2003/04. There were significant shifts between departments over this period. While allocations to the Departments of Public Works and Water Affairs remained at relatively high levels throughout, the largest increases came in allocations to the Department of Environment and Tourism (DEAT). By 2003/04 these three departments accounted for almost 60% of all allocations from this fund. After initial high allocations to the Department of Social Development, a litany of under-spending resulted in a significant scale back.

The Poverty Alleviation and Jobs Summit Fund ceased to exist at the end of the 2003/04 financial year. While some of the associated programmes were still funded, this was incorporated into their core funding. The balance of the fund was divided between allocations to the Provincial and Municipal Infrastructure Grants and the Extended Public Works Programmes. In Table 11 we indicate the funding for 'remaining programmes' for the 2004/05 financial year, but could not re-construct the Fund as a whole.

Table 13: Poverty alleviation and job-creation fund transfers

R million	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Agriculture	20	25	35	35	50	60
DACST			55	48	64	120
Education			73	74	114	
DEAT	70		175	240	300	356
Health	23	28	10	12	15	
Housing	75		75	75	0	
Labour	50		10			
DPLG	45	3	79	102	120	
Public Works	377	274	274	274	274	
Social Development	40	203	50	100	71	
Sport and Recreation			40	90	129.5	137
Transport	100		94	100	100	
Short-term funding			120			
DWAF	200	120	410	350	330	400
Unallocated		547				
Total	**1000**	**1200**	**1500**	**1500**	**1567.5**	**NA**

Source: National Treasury, Budget Review, various years

4.8 Provincial expenditure

Total expenditure by provinces increased by an annual average of 4.2% between 1995/6 and 2003/04 (Table 14). Table 15 shows that by 2003/04 provincial departments of Education, Health and Social Development accounted for 81% of all provincial expenditure.

Of these three, the largest beneficiary of additional expenditure was Social Development that grew at an annual average of 6.8% (Table 14). While both other functions show solid average growth over this period, they grew at the substantially slower rates of 2.1% (Education) and 4.3% (Health) respectively. Table 15 shows that, as a result, the relative share of Social Development grew over this period, while that of Education and Health declined. Table 15 also shows a stabilisation in the share of 'Other' provincial expenses since 2000/01 at around 18% of provincial budgets.

Table 14: Provincial expenditure by department

R million	1995/6	1996/7	1997/8	1998/9	2000/01	2002/03	2003/04	% Total real change	Average annual real change
	Actual	Actual	Actual	Actual	Actual	Actual	Budgeted		
Education	29671	36606	38570	22949	43223	53102	58897	17%	2.1%
Health	16098	20640	22376	22949	26403	33238	36852	35%	4.3%
Social Development	14400	15938	17669	18440	20897	31247	37808	54%	6.8%
Other	12585	14391	14632	31663	19884	27300	31652	48%	6.0%
Total	**72754**	**87575**	**93247**	**96001**	**110407**	**144887**	**165209**	**34%**	**4.2%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

Table 15: Provincial expenditure by department (% share)

Total Shares	1995/6	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budgeted
Education	40.8%	41.8%	41.4%	23.9%	39.8%	39.1%	38.3%	36.7%	35.6%
Health	22.1%	23.6%	24.0%	23.9%	24.1%	23.9%	24.3%	22.9%	22.3%
Social Development	19.8%	18.2%	18.9%	19.2%	19.4%	18.9%	19.4%	21.6%	22.9%
Other	17.3%	16.4%	15.7%	33.0%	16.8%	18.0%	18.0%	18.8%	19.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

Table 16 shows healthy growth in provincial capital expenditure between 1995/96 and 2003/04 of over 25% annually. This increase was mostly driven by large increases outside of the social services. In the social sector Education saw large increases, while provincial capital expenditure in Health also grew substantially. Non-social sector capital expenditure, however, accounts for 63% of all growth in provincial capital expenditure between 1995/6 and 2002/03.

Table 16: Provincial capital expenditure by department

R million	1995/6	1996/7	1997/8	1998/9	2000/01	2002/03	2003/04	% Total real change	Average annual real change
	Actual	Actual	Actual	Actual	Actual	Actual	Budgeted		
Education	381	999	507	801	672	1851	3167	389%	48.6%
Health	479	802	840	801	1315	2431	3029	272%	34.0%
Social Development	35	51	25	52	59	147	185	211%	26.4%
Other	2737	2783	3420	4564	6208	9336	12225	163%	20.3%
Total	**3632**	**4635**	**4792**	**6218**	**8254**	**13765**	**18606**	**201%**	**25.2%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

Table 17 shows that capital expenditure as a share of total expenditure has been growing impressively from 1999/00 (16.1% of total) to 2003/04 (31.6%). By 2003/04 over 20% of all non-social service expenditure was committed to capital expenditure. Health and Education committed about 5% each while, by the nature of its function, Social Development spent substantially less on capital projects.

Table 17: Provincial capital expenditure (% of total expenditure)

	1995/6	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04
Education	1.3%	2.7%	1.3%	3.5%	1.2%	1.6%	2.9%	3.5%	5.4%
Health	1.6%	2.2%	2.2%	3.5%	2.5%	3.0%	4.8%	4.6%	5.1%
Social Development	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.2%	0.3%	0.3%
Other	9.2%	7.6%	8.9%	19.9%	12.3%	14.4%	16.2%	17.6%	20.8%
Total	**12.2%**	**12.7%**	**12.4%**	**27.1%**	**16.1%**	**19.1%**	**24.2%**	**25.9%**	**31.6%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

Table 18 shows that provinces have significantly improved their ability to spend since the late 1990s. Provinces are, however, still unable to spend significant amounts of money allocated for capital expenditure, with a number of provinces not spending more than 75%. The main culprit in this regard is generally provincial Departments of Housing where a variety of coordination challenges with both national and local government continue to hamper implementation.

Table 18: Provincial divergence between budgeted and actual expenditure

	2001/02			2002/03			2003/04		
	Current	**Capital**	**Total**	**Current**	**Capital**	**Total**	**Current**	**Capital**	**Total**
Eastern Cape	91.3%	61.3%	88.8%	103.1%	66.2%	99.0%	103.2%	94.2%	102.1%
Free State	96.0%	74.3%	93.9%	96.2%	69.9%	93.5%	99.0%	97.3%	98.9%
Gauteng	100.3%	86.8%	98.5%	101.9%	89.6%	100.0%	102.4%	86.1%	99.7%
KZN	100.4%	97.3%	100.0%	101.6%	85.9%	99.9%	101.3%	95.5%	100.6%
Limpopo	98.1%	95.6%	97.9%	98.7%	93.6%	98.3%	97.7%	95.7%	97.5%
Mpumalanga	96.9%	86.4%	95.5%	98.3%	92.9%	97.7%	99.1%	84.7%	97.5%
Northern Cape	98.2%	95.7%	98.0%	101.4%	86.9%	99.9%	104.4%	76.7%	101.5%
North West	100.8%	74.9%	98.5%	100.8%	91.1%	100.0%	99.0%	83.3%	97.7%
Western Cape	97.8%	93.0%	97.4%	98.6%	90.1%	97.7%	98.3%	89.2%	97.5%
TOTAL	**97.7%**	**85.4%**	**96.4%**	**100.5%**	**84.3%**	**98.7%**	100.6%	90.8%	99.5%

Source: National Treasury Press Releases, various years
Note: These percentages express actual expenditure as a share of the budget as adjusted in the Adjustments Estimates of the relevant year.

4.9 Provincial transfers to public entities

Table 19 shows that provinces transferred around 2% of their budgets to Provincial Public Enterprises between 2002/03 and 2003/04. Table 19 shows significant variance between provinces, with Limpopo, North West and the Eastern Cape committing around 3% of their budgets in this manner, while the Northern Cape and Gauteng transferred less than 1% of their budgets to such entities.

Table 19: Transfers to provincial public entities

R'000	2002/03	2003/04	2002/03	2003/04
	Estimated Act	**Budgeted**	**Share of Budget**	
Eastern Cape	600308	762278	2.50%	2.73%
Free State	173524	154423	1.73%	1.40%
Gauteng	114981	75935	0.48%	0.28%
KZN	341066	352110	1.17%	1.07%
Limpopo	646909	706210	3.51%	3.30%
Mpumalanga	191697	265189	1.96%	2.33%
Northern Cape	3150	5533	0.09%	0.14%

North West	411653	379374	3.63%	2.87%
Western Cape	480044	105349	3.29%	0.64%
Totals	**2963332**	**2806401**	**2.05%**	**1.70%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

4.10 Local government expenditure

A key trend over the last five years has been the rapid growth in national and provincial transfers to local government. This reflects the increasing role of local government in the delivery of developmental services to combat poverty as a result of a decade of fundamental reforms to the local government system, as well as a desire by the state in general to improve the fiscal capacity of this sphere. In 2002/03 the total capital budget for all local governments was R13.2 billion. A significant portion of this was covered by transfers from non-local governments. Table 22 reveals that in the short three year period 2001/02 to 2003/04, total transfers from national and provincial governments to local government increased in real terms from R7.7 billion in 2001/02 to R14.4 billion in 2003/04. However, unlike most other countries in the world, South African local governments are still largely dependent on their own municipal tax bases. For example, the transfers to local government from provincial and national government in 2002/03 was just over R11 billion (Table 22), whereas the total combined operating and capital budgets of all South African local governments in this year was R77.5 billion[71], i.e. transfers from non-local governments was 14% of total local government revenue in 2002/03.

Table 20 shows that, while spread fairly evenly, the single largest share of local governments' capital budgets in 2002/03 was committed to housing provision. Metropolitan councils spent over a quarter of their capital budgets on housing related infrastructure and services in 2002/03, while the largest capital expenditure item in other local authorities was Water, Reservoirs and Reticulation. Metros only committed about half their budgets to the latter, but committed a much smaller share of their budgets to Electricity reticulation.

[71] South African Cities Network. 2004. *State of the Cities Report*. Johannesburg: South African Cities Network. Chapter 2.

Table 20: Local government 2002/03 capital expenditure by main function

	Roads, Pavements, bridges	Water Reservoirs and Reticulation	Electricity reticulation	Housing	Other Infrastructure	Community Projects	Other Assets	Specialised Vehicles	Other	Total
Metros	12.7%	10.1%	15.6%	26.0%	7.7%	4.4%	11.7%	0.9%	10.9%	100.0%
Other	14.7%	20.8%	7.5%	9.5%	10.1%	7.3%	10.2%	1.5%	18.4%	100.0%
Total	**13.6%**	**15.1%**	**11.9%**	**18.3%**	**8.8%**	**5.8%**	**11.0%**	**1.2%**	**14.4%**	**100.0%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

Table 21 shows percentage shares of local authorities' operational budgets. Salaries and associated expenses take up about 31%, while electricity bulk services accounts for about 17% of operational budgets. Unlike capital budgets, there is less significant deviation between metropolitan and other local authorities in the composition of their operational budgets.

Table 21: Local government 2002/03 operational expenditure by main function

	Salaries, Wages and Allowances	Electricity Bulk purchases	Water Bulk Purchases	Repairs and Maintenance	Other	Total
Metros	29.7%	17.9%	7.7%	7.3%	37.4%	100.0%
Other	32.6%	16.0%	5.1%	6.2%	40.1%	100.0%
Total	30.8%	17.2%	6.7%	6.9%	38.4%	**100.0%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

Table 22 shows total transfers to local government from national and provincial government. The table shows that these transfers grew by an annual average of 29% between 2001/02 and 2003/04.

The two largest increases have occurred in the size of the local government equitable share and the CMIP transfer, each of which almost doubled in this period. Although the consolidation of transfers took place in parallel to the growth of CMIP transfers, the equitable share and CMIP transfers remain the single largest drivers behind growth in municipal transfers. Finally, it is also significant that transfers from provincial to local government grew by almost 70% over this period. This confirms the trend articulated in policy which assigned increasingly important roles to a level of government that tended to receive very little attention during the first years of democracy.

Table 22: Transfers to local government from national and provincial government

R MILLION	2001/02	2002/03	2003/04	% Total real change	Average annual real change
Equitable Share	2618	3964	6343	106.4%	53.2%
Transition Grant	250	223		-100.0%	-50.0%
Water and Sanitation operating	692	700	836	2.9%	1.5%
Subtotal Equitable share and related	**3560**	**4887**	**7179**	**71.8%**	**35.9%**
CMIP	994	1671	2246	92.5%	46.2%
Water Services Project	822	999	1102	14.2%	7.1%
CBPWP	374	260	260	-40.8%	-20.4%
LED Fund	76	111	117	31.1%	15.6%
Sport and Recreation Facilities	40	76	123	161.9%	81.0%
NEF		228	240		
Urban Transport Fund	81	40	9	-90.5%	-45.3%
iSRDP		32	0		
MiG		0	47		
Unallocated		0	0		
Subtotal Capital	**2387**	**3417**	**4144**	**47.9%**	**23.9%**
Restructuring Grant	350	250	315	-23.3%	-11.7%
Financial Management Grant	60	154	212	201.0%	100.5%
LG Support Grant	160			-100.0%	-50.0%
Municipal Systems Improvement	30	94	150	325.9%	163.0%
Subtotal capacity building and restructuring	**600**	**498**	**677**	**-3.9%**	**-1.9%**
Provincial Transfers	**1210**	**2277**	**2410**	**69.6%**	**34.8%**
Total	**7757**	**11079**	**14410**	**58.2%**	**29.1%**

Source: National Treasury, Intergovernmental Fiscal Review, various years

5. Summary and conclusion

Due to contextual changes, there should be a conceptual and empirical difference between the 'classical developmental state' and what we have called the 'new pragmatic developmental state'. Whereas the classic developmental state enjoyed high degrees of control over both public and private sector investment within

nationally circumscribed economies, the pragmatic developmental state must achieve economic and developmental goals within a context where capital investments are globally mobile and centralised bureaucratic hierarchies are no longer the only way to deliver public services. The pragmatic developmental state has to combine the resources it does control with leadership strategies aimed at building coalitions, partnerships, alliances and institutional inducements to win consensual hegemony for a progressive developmental pro-poor growth path. The prescriptions for how to do this new kind of state-craft have not been written; instead they get written as policy-makers and leaders 'muddle through' highly complex non-linear dynamics. It may well take another half decade before state-craft for a progressive developmental state within a globalised economy starts to emerge.

The South African state after 1994 cannot be simplistically characterised as a neo-liberal state. The left critique that depicts the state in this way effectively declares victory on behalf of those national and global economic interests that favour the neo-liberal model. Instead, the South African state adopted various contradictory economic and developmental policies that can be roughly periodised into three phases:

1) During 1994-1998, a reckless mix of capital flow liberalisation, exchange rate management, inflation targeting and fiscal planning took place that presumed much higher FDI than actually materialised. This occurred in parallel to the initiation of developmental policies and implementation plans that resulted in systematic increases in social spending.
2) Between 1998 and 2003/4, spending on social and economic services continued to rise as a percentage of total spending, while in the macro-economic sphere exchange rate management was dropped in favour of inflation targeting, but without addressing the problem of declining investment levels.
3) From 2004 onwards, there is a return to the notion of the developmental state as a means of leading increased levels of public, private and community-based investment, coupled, for the first time, in a more coherent way to further increases in expenditure on social and economic services. It remains to be seen whether BBEE and BEE strategies, coupled to state-funded investment strategies, will manage to break white control of investment decision-making quickly enough to ensure that private sector investment levels climb back up over the 15% of GDP mark.

Unlike other countries where neo-liberal economic policies resulted in fiscal restraint, the evidence suggests that since 1994 state expenditure on social and economic services has substantially increased as a percentage of total spending. This is not to

suggest that enough was spent to reduce poverty levels, because it is clear that needs grew faster than the fiscal capacity of the state; nor does this say anything about how the money was spent in order to ensure lasting developmental impacts. What is clear, though, is that fiscal policy may shape direct state-controlled expenditures and investments, but unless these are reinforced by rising levels of public, private and community-based investment in fixed assets, the core problem of household incomes will remain unresolved.

Since 1994, the South African state has experimented with a wide range of innovative institutional models aimed at building capacity for spending money in various ways to address poverty and stimulate development processes. The bulk of the funds that these institutions deployed went into infrastructure, with project assessment criteria that should have generated more significant developmental spin-offs. The results have been mixed, with disappointingly low levels of expenditure, due mainly to a failure to adequately manage the institutionalisation of these various strategies and approaches. A shortage of funds was never the problem. Nevertheless, this has generated lessons that should inform the practice of the next generation of mega-funds aimed at managing investment in infrastructure, investments, HRD, and those that strengthen BBEE and BEE positions in private sector institutions.

These conclusions should provide the contextual framework that is required to understand the significance of investments in development and poverty reduction by individuals, communities, corporates, donors, and faith-based institutions that have been the focus of the related studies in this project. The strategic question this raises for the overall project is as follows: What are the relationships between social giving in general, rising state expenditure on social and economic services, and deepening poverty due in large part to the failure to increase public, private and community-based investments to levels that could substantially improve financial flows into the poorest 40% of South African households?

INSTITUTIONALISING THE DEVELOPMENTAL STATE: THE CASE OF THE 'SPECIAL FUNDS'

Mark Swilling and John van Breda

1. Introduction and research methodology

The aim of this paper is to provide an insight into the complex challenges involved in the building of developmental state institutions. For this purpose, a selection of so-called 'special funds' have been analysed in order to demonstrate how much effort has gone into building developmental institutions over the years, how much they have spent and on what. This story starts with the RDP Fund, proceeds through its demise and reincarnation via the construction of a multiplicity of 'special funds' in the late 1990s (with special reference to the Special Poverty Relief Allocation), and ends with reflections on the present focus on massive investments in human capital and infrastructure via two rising giants in the 'special fund' world, namely the National Skills Fund (plus the SETAs), and the Municipal Infrastructure Grant Fund. This will lead to a hypothesis that the problem to be addressed in the developmental process in South Africa is not lack of development finance, but rather too much relative to the capacity required to deploy (i.e. not just spend) the funds available. 'Capacity' here will refer to both state capacity and the capacity within the developmental sector to acquire and deploy funds for development projects. This, in turn, relates to an inadequate understanding by many government officials of development practice and the role that development institutions – both state- and civil society-based – play in the process of developmental work on the ground.

A remarkable feature of the post-1994 era has been the way the state has promoted the proliferation of 'special funds' and institutions that in some way target poverty and development. The purpose of this section is to review some of these initiatives in order to ascertain the magnitude of funds that were channelled through these various funds, agencies and institutions.

Fourteen different institutional configurations were selected for analysis, namely:

- Special Poverty Relief Account (SPRA)
- Independent Development Trust (IDT)
- Isibaya Fund
- Khula

- National Development Agency (NDA)
- National Lottery Board (NLB)
- National Skills Fund (NSF)
- Operation Jumpstart Association (OJA)
- Ntsika
- South African Women's Entrepreneur Network (SAWEN)
- Umsobomvu Youth Fund (OYF)
- National Empowerment Fund (NEF)
- Local Economic Development Fund (LED Fund)
- uTshani Fund

The Industrial Development Corporation (IDC) is a fascinating state structure that is probably one of the most important state-controlled institutions for driving up investment levels in the South African economy. However, given that it was established over 50 years ago and that it does not get state funding on an annual basis (in fact, it is now a net contributor of funds to the Treasury), means that it does not have the same character as all the other 'special funds' that we have looked it. According to this logic, the Development Bank of Southern Africa (DBSA) has also been excluded from this study despite the fact that it is also as important and interesting as the IDC.

The rest of this report will refer to the fourteen institutions as 'special funds'. Strictly speaking they are not all 'special funds'. Instead, this is short-hand for a wide range of institutional arrangements that have in one way or another been configured to serve some kind of 'special purpose' within the wider developmental process and, in some cases, explicitly established to fight poverty. Not all the 'special purpose' funds have been selected for analysis, nor is it possible to defend this list on the grounds that they are in any way institutionally similar. They differ enormously, but what is common is that they were *created – and in some cases re-created - by the post-1994 state to serve a clear public purpose to promote development, increase investment and contribute to the alleviation/reduction/eradication of poverty.* They are not all institutions as such because some are just 'special funds' or 'accounts' within state structures (e.g. the SPRA), while others operate completely autonomously (e.g. IDT, uTshani).

In order to create a template for understanding this group of institutions, it was necessary to impose a framework of analysis that makes it possible to understand revenue and expenditure flows via a standard set of categories. Obviously each institution uses its own categories to define expenditure targets and beneficiaries. After some deliberation, it was decided to use more or less the same

categories that the HSRC used to prepare the background documents for the Presidency's 'Ten Year Review'. The result is as follows:

Table 1: Categories used to define specials funds' expenditure targets

Agriculture	Promotion of, capacity building for, project establishment, support for post-settlement land reform, etc.
Health	Normally primary health care, HIV/AIDS projects, community-based health initiatives, etc.
Human Resource Development	Investments in large-scale generalised skills training, plus targeted capacity building for SMMEs and smaller scale capacity building for CBOs and NGOs
Infrastructure and assets	Investments in fixed assets of various kinds with the main purpose to create the asset (e.g. schools, clinics, business centres, roads, cultural centres, etc), but also in the process to achieve other development targets such as skills, local economic development, empowerment of women, rural development, etc.
Job creation	Direct investments in localised job creation projects, plus indirect investments in small and large businesses with one of the outcomes being job creation, plus also investments in institutional strengthening of promotion and job creation agencies
Poverty relief	Normally refers to grants for local projects that provide relief and welfare services for very poor communities
SMMEs	Promotion of SMMEs, capacity building to support the establishment and strengthening of SMMEs, investments and loans for SMMEs, strategic support and guidance
Youth devment	Grants, investments and loans to projects aimed explicitly at economic and business developments that benefit the youth

The 'Ten Year Review' methodology included categories for Social Security, Policing/Security, and Tourism, but these have been left out here because we did not find it necessary to allocate to these categories expenditures by the funds we analysed.

The expenditures for each 'special fund' were analysed and categorised according to the above categories. It was on this basis that it was possible to calculate the total amounts spent on each of the above categories by all the 'special funds' (see Appendix A, page 133). The results of these calculations are presented below. This task was difficult, not only because all these institutions/funds are very different, but they present financial data in vastly different ways. There is also no uniform set of indicators for performance assessment or impact assessment. For example, there are institutions such as Khula and NEF that use their resources as investments and

loans, while others, such as NDA, are in the grant-making business. These differences make it difficult to use a category such as 'expenditure' to include both a grant to an NGO and a loan guarantee for a for-profit business. However, this is in effect what we have had to do in practice. Our tables and narrative will refer to 'revenues' and 'expenditures' for the sake of the analysis, but in reality it would be technically more precise to talk about '*total resources at the disposal of the institution/fund in a given year*' and '*total resources deployed for various purposes as investments (both in target organisations to achieve strategic goals and in market instruments to build own reserves, etc), loans, grants, loan guarantees and various mixtures of these mechanisms*'. Furthermore, allocating these 'expenditures' to the above 12 categories proved in some cases to be quite arbitrary because some information was not available. Where precise information on the expenditures was unavailable, it was necessary to extrapolate expenditure categories from the overall policy intentions of the institution/fund. For example, the bulk of the expenditure for the Umsobomvu Youth Fund was allocated to Youth Development even though it could have been allocated to HRD or SMMEs. In some cases we have allocated the same amount to more than one category, which makes the total sum for all categories meaningless. The meaningful figures are the total amount spent by all the institutions/funds and the estimated total for each expenditure category. A further qualification that is needed is that the quality of the information from the different institutions/funds for the period 1994/05-2003/04 was not always adequate, with some only having available the most limited audited reports.

Ideally, once the exercise described above had been done, the next step should have been to analyse actual impacts of these expenditures in order to assess whether expenditures resulted in the desired outcomes. This is a mammoth and necessary task, but it was not possible given the resources available to this project. Instead, this discussion is based on policy intentions and anecdotal evidence about implementation.

2. Overview of 'special funds'

According to the tables in Appendix A (see page 133), it is our estimate that the total revenue of the fourteen funds that we analysed was R33.8 billion for the period 1994-2003. Between them they invested, using various mechanisms, a total of R10.5 billion for the same period. Direct transfers from Government to these funds accounts for R27.5 billion of the total funds received. The rest came from donors (R489 million), loans (R152 million), returns on investments (R135.3 million), interest (R1.2 billion) and various other sources (e.g. the ticket sales for the National Lottery) (R4.2 billion). The bulk of the difference between revenue and expenditure consists of interest bearing savings and investments of various kinds, minus overheads (which in some cases are considerable), and minus funds allocated but not

transferred from Treasury to the 'fund'. The Isibaya Fund alone accounts for a large chunk of the variation.

It should be clear from Appendix A that, although transfers to the 'special funds' have been taking place since 1994, there is a substantial increase from 1999/2000 onwards (even if one excludes the R11 billion allocated to the Isibaya Fund). A similar pattern is evident with respect to expenditure. This confirms our argument in the general analytical paper that precedes this that 1998/99 marks a key watershed when the state triggered the proliferation of strategic funds to balance out the impact of macro-economic stabilisation measures.

The large proportion of total expenditure on infrastructure is a significant indicator of the purpose of these funds. According to the tables in Appendix A, of the total spent, just over R5 billion was spent on infrastructure (which includes assets such as housing, schools, clinics, etc. as well as the more traditional meaning of infrastructure such as roads, water and sanitation services, energy, etc.). This is followed by human resource development at R2.7 billion, and SMMEs at R1.38 billion. Expenditures on poverty relief at R661 million and job creation at R253 million may appear to indicate a lower priority for these issues, but in reality this has probably got to do with the difficulty of increasing expenditures in small projects with limited capacity to take delivery of funds and/or the limited capacity within the funds to identify and process a sufficient number of small-scale projects. The fact that asset building and human resource development are the largest items, confirms the general argument in this paper that these reflect the state's two most important areas of intervention in general and constitute the 'twin pillars' of the developmental state. However, all this needs to be qualified by the statement that the expenditure priorities of the 'special funds' is not a good indicator of government priorities as a whole because it is expenditure by government departments that is the best indicator of priorities. Instead, the 'special funds' reflect expenditures that have a special purpose that could not be easily achieved by government departments.

When put into context, an amount of nearly R35 billion available to these 'special funds' for the whole period seems relatively insignificant. For example, it has been estimated that total transfers from government to independent non-profit organisations in **1998 alone** was equal to R5.3 billion and contributions from the private sector to non-profits for the same year were equal to just below R3 billion (Swilling and Russel). The IDC invested just over R38 billion for the period 1994-2003, and this was entirely in for-profit businesses across numerous sectors. Another useful contextual comparison might be the fact that, as demonstrated in Table 11 in the first paper in this study, the total value of transfers to 'Agencies/Accounts, Non-Profits and Households' for the five year period ending 2003/4 was R58.7 billion. We can only assume that a large part of this figure includes the funds that were transferred to the special funds. However, it would be a grave mistake to conflate

this figure with the R35 billion allocated by Government to the special funds. The point being made here is simple: given the hype that surrounded these special funds and the amount of energy that went into them, compared to related expenditures this R35 billion does not represent a large amount of money. There is not much evidence to support the notion that this was because of a shortage of funds. Instead, the evidence suggests that additional funds were held back in many cases because what was allocated was spent more slowly than initially expected. This, in turn, provides indirect confirmation for the 'weak capacity to spend' argument. Where, precisely, this weakness lies is difficult to locate, i.e. within the administrations charged with spending the funds, decision-making bodies or recipients - most likely a mix of all three, but differing in the balance from case to case.

3. Mother of the 'special funds': the rise and fall of the RDP Fund

When the ANC (as part of a Government of National Unity [GNU]) took over the 'ship of state' in 1994, it was caught in the classic dilemma that faces any left-of-centre political movement that comes into power with a mandate to secure rapid change: the necessity to use the state to change the lives of poor people as quickly as possible, and the length of time it takes to change a complex system, in particular budgets and budget allocations. The GNU set up the RDP Office in the Presidency to articulate the new strategic direction, established the Presidential Lead Projects (PLPs) and created the RDP Fund. The RDP Fund was designed as a 'mega-fund' with a pooled resource for financing 'delivery' that was not controlled by the line departments that were still the target of 'transformation'[1]. In other words, the notion that a 'special fund' was needed to give expression to the priorities of a 'developmental state' was so deeply embedded in the minds of key decision-makers that it became the first major action of the developmental state on the morrow of the 1994 election. Not only did this set a precedent for what it means to institutionalise the developmental state, it also reflected a naiveté about the complexities (and impossibility) of pumping large quantities of cash through a single pipeline.

The RDP Fund was created in terms of the RDP Fund Act of 1994. In reality, it was an account controlled by the Ministry of Finance but with fund allocation authority granted to the RDP Office. The sources of revenue were supposed to be budget allocations, international aid and other sources of revenue (such as from the Lottery, etc.). The 1994/95 budget allocated R2.5 billion to the RDP Fund, which was part of a plan to progressively increase this allocation to R10 billion by 1997/8, and

[1] The analysis of the RDP Fund in this section is derived from a PhD examined by Mark Swilling: Wentzel, P. 'The Implementation of the Reconstruction and Development Programme: A Study on Public Policy and Public Sector Reform in South Africa'. PhD thesis, University of the Witwatersrand, February 2002.

to R12.5 billion thereafter. It was allocated a total of R7.5 billion for the two years 1994/95 and 1995/96, but unsurprisingly failed to establish the capacity and systems to spend these funds before the fund was effective closed down. This happened in April 1996 when the so-called 'RDP Office', which controlled the RDP Fund, was closed down by the Presidency with Cabinet support.

The fundamental tension that the RDP Fund failed to resolve can be succinctly (and possibly too crudely) stated as follows: On the one hand, as expressed in a Cabinet Memorandum considered by cabinet towards the end of 1995, the RDP Fund was to be used to drive budget reprioritisation leading to a completely RDP-aligned budget by 1999. The RDP Fund was supposed to achieve this via funds allocated to departments and provinces to match and incentivise RDP-aligned projects developed by departments and provinces. In reality, however, from the perspective of departments and provinces, the RDP Fund came to be seen as a source of funds for 'financing RDP projects' as extras so that substantive budget reprioritisation could be avoided or delayed. It was easy enough for seasoned bureaucrats to disguise the latter to look like the former, and there was a built-in incentive in the RDP Office to spend as quickly as possible to demonstrate delivery and thus avoid or delay close scrutiny of applications coming in from departments and provinces. (The mere fact that it was an application-screening-allocation procedure is in itself significant – note how the more recently established Municipal Infrastructure Grant (MIG) Fund is configured differently today to avoid the bottleneck consequences of the RDP Fund's application procedure.) In reality, the RDP Fund as driver of budget reprioritisation failed and it was Lead Projects initiated by the RDP Office and not by departments/provinces that became the most enduring legacy of this short-lived but pioneering special 'mega-fund'.

The RDP Fund was, therefore, a pale reflection of grand vision of the Reconstruction Fund envisaged in the original RDP Base Document. This original vision provided for the creation of a highly centralised 'mega-fund' that would control all the development finance required for the major delivery programmes, such as electrification, health, education, water supply and housing programmes, and also have a large-scale revenue stream from sources such as levies on capital transfers, land and luxury goods, plus an RDP Bond.

As far as funding for civil society formations was concerned, the RDP Office made it clear from the start that this was not what the RDF Fund was about. Instead, while pressurising international aid agencies to re-channel funds via the RDP Fund that had hitherto gone directly to NGOs, the RDP Office encouraged efforts to set up what eventually became another 'special fund', namely the NDA. In so doing, the RDP Fund triggered the collapse of delivery capacity on the ground in a number of sectors – by the time the chickens came home to roost, it was too late to reverse this process.

As 1995 wore on and the much-hoped-for stream of proposals from departments did not materialise, and as frustration mounted in response to demands for delivery made worse by signs that billions would go unspent by the end of the financial year, the RDP Fund started making large allocations to big, high-profile projects. On 3 February 1995, Minister without Portfolio responsible for the RDP Fund, Jay Naidoo, told the Inter-Governmental Forum that lump-sum transfers from the RDP Fund would commence, coupled to reporting requirements on how the funds were spent against RDP criteria – this was the first evidence of a move away from the traditional approach ('application-screening-allocation-reporting' cycle – most strictly applied via the LOGFRAME methodology) that most of the personnel in the RDP Office had been used to when dealing with donors when they were running NGOs or trade unions.

The RDP Office as a mini-'state-within-a-state' was doomed to failure. Once the emphasis shifted to lump sum allocations, it was doing the job of the Department of Finance. When it tried to write a National Strategy for Growth and Development, it was doing the job that many econocrats in the Reserve Bank, Treasury, Deputy-President's office and elsewhere thought was rightfully theirs. When it planned a conference to link industrial investment and infrastructure investment, the DTI took it over and shifted the dates and agenda. As the much-hoped-for FDI failed to roll in, and as the currency started to plummet, and as the much-vaunted Lead Projects took longer than planned to materialise (unsurprisingly), the complex developmental language of the development apparatchiks in the RDP Office and their failure to explain why reprioritisation was failing in simple terms, made it easy to blame them for the failures and to replace their fancy plans with the brutal, quantitatively expressed simplifications of the GEAR framework. By April 1996 the party was over.

Before moving on, it may be worth listing the Presidential Lead Projects – they reveal the basic needs paradigm that underpinned the strategic thinking of the RDP Office. It was a paradigm which both expressed a laudable vision of what the developmental state was all about, but also a staggering naiveté about the linkages to underlying macro-economic and investment trends. They were by 1995 listed as follows:

- Land Restitution: 10 pilot projects, 4000 families – Department of Land Affairs;
- Land Redistribution: 7 pilot projects, 2400 families – Department of Land Affairs;
- Land Reform Programme: support to Provinces to set up structures;

- Urban Infrastructure Investment Planning Team: early work to plan municipal infrastructure investment plan;
- NURCHA; establishment of the National Urban Reconstruction and Housing Agency – Department of Housing;
- Special Presidential Urban Renewal Projects: 6 in operation by 1995, 14 in planning by 1996;
- Rural Water Supply and Sanitation: 12 initial projects, Department of Water Affairs;
- Extension/Upgrading of Municipal Services: various infrastructure development projects – Department of Constitutional Development;
- Electricification: ESKOM's national electrification programme – 25 000 houses electrified per month;
- Upgrading of rural roads: various projects, Department of Transport;
- Primary School Nutrition Programme: 120 000 schools, managed by Provinces;
- Clinic Building Programme: 172 clinics, many more upgraded – Department of Health;
- Free Health Services: free health care for pregnant mothers and children under six – Department of Health;
- AIDS Awareness: strategy and planning process;
- Changing from tertiary to primary health care orientation: strategy development – Department of Health;
- National Public Works Programme: delivery via the IDT under the auspices of the Department of Public Works;
- Culture of Learning: building a culture of learning in schools – Department of Education;
- National Capacity Building Programme: project planning and delivery capacity – Department of Constitutional Development;
- Gauteng Pilot Youth College: youth educations and skills development college – Department of Education;
- October Household Survey: revamp to secure reliable data;
- Statistics Council: restructuring;
- National E-Mail System: IT-systems for government;
- National Information Project: integration of government data sources;
- Development Facilitation Act: reorganisation of land-use planning to secure conditions for rapid housing delivery – Department of Land Affairs;
- Managing and Monitoring PLPs: capacity to manage the business planning process.

The list is impressive and under the circumstances were tangible achievements that affected the lives of millions. However, within the larger scheme of things, it was what was possible given the way the RDP Office and Fund were institutionally configured, but by trying to do too much with too little, it all became a useful scapegoat for others in the Vice-Presidency, Department of Finance, Reserve Bank, Development Bank and DTI, who had by 1996 securely grabbed the handles of state power and were prepared to think simplistically across a much wider spectrum of state interventions at the national and global levels. Ironically, however, the RDP Fund had set a precedent, and despite centralising tendencies at various points, it has become a style of governing that has remained central to strategic thinking about how to implement a new developmental state intervention.

4. Strategic significance of the 'special funds'

The significance of the Specials Funds lies in the stories they tell us about the different kinds of funding strategies available, and how enormously difficult it is to spend money quickly enough on viable projects that will make an impact. Policy-making and budgeting are relatively simple and quick compared to the long slow processes of project design and implementation where all the challenges of institutionalisation exist. This says something about the problem of institutional capacity and skills.

Table 2: Summary profile of the 'special funds'

Fund	Year established	Total spent, 1994-2003	Primary type of funding	Largest expenditure category
SPRA	1997	R3,17 billion	Grants for CBOs, NGOs and government departments	Infrastructure
Isibaya	1999	R150 million	Investment in businesses	Infrastructure
Khula	1996	R1,1 billion	Investment and loans for SMMEs	Job creation/SMME
LED Fund	1999	R162 million	Grants to municipalities to support LED initiatives	Job creation
NDA	Act passed in 1998, established in 2001	R378 million	Grants for CBOs and NGOs	HRD and social capital
NLB	1998	R962 million	Grants for CBOs and NGOs	HRD and social capital
Ntsika	1998	R195 million	Capacity building	SMMEs
NSF	1998	R908 million	Grants for capacity	HRD and social capital

			building to public, private and non-profit sectors	
OJA	Lottery operation: 1991-2000, funding only: 2000 onwards	R235 million	Grants for CBOs and NGOs	Infrastructure and assets
UYF	2001, announced in 1998	R186 million	Grants and investments for SMMEs, CBOs, NGOs and businesses	Youth development
SAWEN		Info unavailable	Businesses	Networking and events
IDT	1990	R2.8 billion	Grants to NGOs and CBOs	Infrastructure
NEF	1998	R179 million	Investments for businesses	Investments
uTshani	1994	R78 million	Investments in community-based savings schemes for house building	Infrastructure and assets

The significance of Table 2 is that it reveals how recent most of these 'special funds' really are. This is reflected in Table 3 which represents a sectoral breakdown of the investments made by the 'special funds' over the time period under review. It is clear that over this period, but in particular from the late 1990s onwards, the state either committed Treasury funds directly or (as in the case of the UYF) ensured that funds were directed into an interesting range of 'special fund' initiatives.

Table 3: Sectoral breakdown 1994-2003

TOTALS SPENT PER SECTOR R'millions								
Categories	**Agric**	**Health**	**HRD**	**Infra and assets**	**Job creation**	**Poverty relief**	**SMMEs**	**Youth devment**
Total Allocated/Spent	62.1	74.30	2.745	5.022	253	661	1.389	186

If we correlate the pattern that emerges in Table 3 with the periodisation of the economic policy approaches referred to in Section 3 (namely 1994-1998; 1998-2003/4; and 2004 to the present), then it may be possible to suggest a general pattern that could be described as follows:

1) In the first 'wishful thinking' period (1994-1998), the state ran a parallel strategy: a belief that the establishment of the 'correct neo-liberal macro-

economic policy framework' would attract FDI, coupled to the establishment of the RDP Fund as a kind of general purpose mega-strategic fund for kick-starting high-impact, high-visibility, large-scale development projects.

2) After the closure of the RDP Office and the transformation of the RDP Funds into the SPRA (more on this below), we witness during the 1998-2003/4 period the breakout - across various sectors of the state - of a diverse range of 'special funds'. There is sufficient evidence to suggest that this was no accident or coincidence. Instead, given that this period is characterised by the ascendance of 'high monetarism' as exchange rate targeting is dropped from macro-economic policy-making and fiscal policy is firmly tucked in underneath monetary policy for the sake of 'macro-economic stabilisation', then the purpose of the proliferation of 'special funds' may reflect a desire to 'ring fence' potentially uncontrollable fiscal expenditures by allocating chunks of cash to a range of special accounts and stand alone institutions. This achieves two purposes: it makes it possible to be seen to be 'spending on development' to satisfy Alliance constituencies and various Job Summits that needed evidence of state actions to address poverty, but it also imposes neat management control mechanisms to satisfy anybody watching from the right wing of the spectrum for the smallest sign of 'fiscal populism' in a newly democratic state presiding over a highly unequal society with a well organised civil society.

3) By the time we get to the 'developmental state' period that is formalised from 2004 onwards, there is clear evidence of a rising disillusionment with the proliferation approach. The SPRA is closed down, a range of funds gets consolidated into the MIG Fund (e.g. the LED Fund), and in both the Legislature and Executive there are disgruntled noises about Khula, Ntsika, NEF, Isibaya, NDA, and even the NLB. What may well be emerging is a return to the mega-strategic fund approach of the 1994-98 period, but less politicised, more firmly under the control of professional public servants, and with vast recurring funds for spending via state structures (rather than parallel quasi- or non-state structures) that have benefited from ten years of public sector transformation. We are referring here, of course, to the MIG Fund and the National Skills Fund (NSF) (plus the various Sector Education and Training Authorities [SETAs], and their various related structures): the first for streamlining the much vaunted public sector infrastructure investment programme to meet social needs and trigger economic growth, and the second to channel the skills levy paid by businesses into large-scale human resource development.

In short, the first ten years of the South African 'developmental state' is clearly characterised by a constant and repeated investment in innovative institutional experiments aimed at capturing and directing funds into developmental and anti-poverty programmes. This was driven by the need to find ways of spending while mainstream public sector institutions were being transformed, and to ring fence potentially 'runaway' fiscal expenditures. However, the most important contribution that many of these experiments may have made is to institutional learning about what it takes to build institutions that can make a lasting developmental impact on the ground. The almost endless litany of classic stories of failed interventions is often used as proof to justify the return to a streamlined 'mega-fund' approach plus 'delivery' via sectoral departments and local governments. But this perspective runs the danger of missing the point, namely that in the failures lie clues as to how to configure state and non-state institutions whose purpose is to channel funding into developmental projects with an authentic anti-poverty focus.

In order to further refine the analysis of the 'special funds', we have clustered them according to the following themes:

- *Funds that support 'welfarist interventions'*: although it has become fashionable in development circles over the last decade and a half to discredit 'welfarism' because it only alleviates poverty without 'eradicating' poverty, in reality what can be referred to as 'welfarist interventions' continued and escalated after 1994. The reasons for this are complex and relate inter alia to the perceptions of board members and staff of many of these state-funded organisations, the way CBOs and NGOs formulated their proposals, the impact of the social welfare profession and its educational history, and the prevalent approach in the CSR sector. This is not to suggest that 'welfarism' is wrong or anti-developmental, as some critics often suggest. What is being suggested here, rather, is that it is difficult to pigeon-hole any fund these days as purely welfarist in the classical sense because of the impact of developmental approaches that emphasise poverty reduction via a basic needs focus or poverty eradication via an empowerment approach. Welfarist funds tend to be grant-making, responsive to CBO/NGO applications, and focused on poverty of various kinds. However, in many cases grant-making for welfarist poverty alleviation projects was conducted by people who were trying to find ways of connecting their practice to a 'developmental approach' which is often assumed to mean an approach that 'builds the capacity of the grantee to become self-financing' and/or an approach that 'builds the capacity of beneficiaries to become less dependent on hand-outs' – the famous 'teach people to fish' metaphor.

- *Funds that focus mainly on employment creation via investments in businesses*: this approach is premised on two assumptions, namely (a) that people will find ways of meeting their own needs if they have an income and the best way to ensure they have an income is to grow the SMME sector which has, it was commonly assumed (often mistakenly), the lowest cost to labour absorption ratio; and (b) that the SMME sector builds an entrepreneurial business class that will be more expansive and willing to re-invest than white businesses and that they will be financially viable after benefiting from an initial set of state-funded investments. Invariably these funds use a combination of loans, equity, grants, and guarantees. This is an approach that is inspired by a market-oriented individualist interpretation of the community-based approach to capital mobilisation, i.e. the depiction of the feisty individual entrepreneur as the heroic centre-piece of the development process. However, this should not be over-emphasised, because both within these institutions and amongst the beneficiaries, there were more collectivist-oriented strategies, especially when women were playing a leading role in initiatives, that assumed significant relational solidarities.
- *Funds with a more 'developmental' approach*: funds with a more 'developmental approach' are those funds that have mandates, Boards, staff and financial instruments that allow them to couple purely financial interventions to capacity/institution building interventions that are explicitly informed by a poverty reduction and poverty eradication agenda. Inspired in the main by the empowerment paradigm which is critical of the basic needs and welfarist approaches to development, this approach emphasises investments that will trigger what is often referred to (misleadingly) as 'sustainable development', i.e. development interventions that do not terminate when the funding stops or when the development agency withdraws. The aim, in particular, is to make sure that a combination of personal empowerment, community solidarity ('social capital') and institutional capacity has been put in place during the lifespan of the project/programme that will result in an ongoing 'financially sustainable' developmental process.
- *Funds that focus on human resource development (HRD)*: whereas a developmental approach is multifaceted because it focuses on human, social and institutional capital (often collapsed into the notion of 'social capital'), a HRD focus is limited to building 'human capital', i.e. an individual learner-centred approach. The underlying assumption of this approach is more macro-economic in nature, in that the point of departure is that employment growth is limited by the low level and/or inappropriate skills base within the labour force. It follows that skills development will increase labour

absorption and in that way contribute to growth and a reduction in unemployment levels. The focus is, of course, on formal sector employment, but in theory there is no reason why these interventions should be limited to the formal sector.

5. Case studies

5.1 Welfarist approaches

5.1.1 Special Poverty Relief Account (SPRA)

The SPRA has its origins in the Reconstruction and Development Programme (RDP). With the establishment of the RDP in 1994, predominantly as a *poverty alleviation* and *reduction* programme, that would be capable of delivering concrete and demonstrable developmental outcomes by circumventing state bureaucracy, an important precedent and framework was created for its eventual replacement, the SPRA (Palmer Development Group, 2003). Originally, the SPRA was set up as the financial vehicle to run the old RDP projects and some of its early programmes can be traced right back to the RDP Office.

The SPRA, as it became known, was triggered in 1997 with a R300 million allocation for three departments based on the assumption that these departments could use these funds for labour absorption projects. Eventually, a special committee was established that reviewed project applications from departments against an agreed set of cabinet-approved criteria. Significantly, the rationale for the SPRA that was adopted by cabinet was threefold: (a) it was a fast track route for securing funds for special poverty alleviation projects; (b) existing departments did not always target expenditure on the poor and therefore this was a fund they could access for this purpose; (c) it was a short-term intervention to mitigate the detrimental impact of macro-economic stabilisation measures. The SPRA was discontinued in 2004.

Almost R6 billion was allocated to the SPRA during its lifespan, of which only R3.1 billion was actually spent. Almost all these funds were spent by departments on infrastructure and asset creation projects. However, the criteria that were used for project selection read like 'best practice' developmental approach criteria, i.e. benefit the poor, leading role for women, scalability, community participation, empowerment, labour intensive and, inevitably, institutional and financial 'sustainability'. However, the Palmer Development Group Report concluded that the accountability for expenditure on the tangibles became more significant than accountability for project performance in terms of the project selection criteria.

As far as the underspending problem is concerned, in a candid assessment of the performance of the Fund, the Coordinator Julia de Bruyn referred to the following:

- Under-spending of allocations leading to successive roll-over of funds;
- Overlap between and duplication of activities between different line departments, indicative of poor coordination and integration;
- Leakage of resources of the fund as consultants are drawn in to fast-track delivery and complement the capacity within departments;
- Investment in projects that cause unintended maintenance costs for other departments and spheres of government, reflecting again poor coordination and integration.

In general, the main conclusion that can be reached about the SPRA experience is the important example this provides of the enormous difficulties involved in institutionalising the capacity to get money spent on projects that have a developmental impact that goes beyond the core service rendered, especially if the expenditure is grant-based and project focused. The end result is at best poverty alleviation.

5.1.2 National Development Agency (NDA)

In early 1995, senior representatives of Kagiso Trust, IDT and government met to discuss the need for a new state-created funding agency to channel funds into CBOs and NGOs. It was agreed to establish the Transitional National Development Trust (TNDT) for an interim period until such time as a new regulatory framework had been put in place that would result in the creation of what eventually came to be known as the NDA. This took much longer than originally planned, resulting in the passing of the NDA Bill in November 1998 followed by the establishment of the NDA in 2001. Responsibility for the NDA was transferred to the Ministry of Social Development. Needless to say, in the period between 1994 and 2001, many CBOs and NGOs that had in the pre-1994 period depended on foreign funding found themselves without an alternative source of donor funding. This created severe anxieties and tensions in the NGO sector.

The NDA set itself the following vision which was derived in the main from the legislation that led to its establishment: 'The NDA aims to be the premier partner to civil society, donor community and government in eradicating poverty and its causes in South Africa'. The purpose of the NDA was twofold: to access state and donor funding for onward distribution to CBOs and NGOs for anti-poverty projects and programmes, and to facilitate research and dialogue around state-civil society

relations. From an international perspective, this was a progressive move because it effectively meant indirect state controls over allocations to civil society organisations of public funds. In reality, however, the NDA's highly publicised leadership and institutional failures compromised this grand vision pointing, once again, to the enormous difficulties involved in institutionalising the capacity to spend large quantities of funds for anti-poverty work.

The initial areas identified by the TNDT as priority areas, namely education and training, health, rural development, urban development and SMME development were reduced by the NDA over the last couple of years to fundamentally three main focus areas, i.e. economic development, education (excluding 'training') and health. The NDA has attempted to manage the problem of capacity by dropping the vision of being a 'generalist funder' with a general poverty eradication focus. Furthermore, following the trendy and largely impractical thinking of the time, it also decided to fund CBOs directly rather than NGOs who it perceived as operating more 'directly' in these focus areas. Although this approach wins political favour because of perceived professional bias in NGOs 'out of touch' with community needs (often a euphemism for racial divides), it further constricted the capacity for rapid and large transfers of funds in projects at scale.

The most interesting aspect of the NDA experience is the failure of the initial vision to create a three-way partnership between government, civil society and the NDA. There is little doubt that if the NDA could have been led from the start by the kind of competent leadership with an inspiring vision supported by effective institutional capacity that characterised the history of both the Kagiso Trust and the IDT, this would have resulted in the NDA becoming a dynamic animator of civil society-based development approaches, programmes and projects. Via effective performance, it could have earned the right to be increasingly independent of the state by just being good at the job. Instead, it rapidly lost credibility with both government and civil society and is now just another funding agency worth lobbying for cash. For government – and the Minster of Social Development in particular – it has become a useful rapid response team in politicised poverty-stricken hotspots.

Since inception, the NDA has had two main sources of income, namely the government and the European Union. Of the over R700 million received over the years, only R378m was actually spent or disbursed.

Of the amounts actually disbursed, the NDA spent close on R58m (15%) on Health, R188m (50%) on Human Resource Development and social capital, and R133m (35%) on Infrastructure and assets.

In conclusion, the main lesson from the NDA experience is, like the SPRA experience, the challenge of institutionalising the capacity to spend money in a developmental way. However, unlike the SPRA, the NDA is a separate legal entity

that was envisaged to last for a long time. The lesson here is it was probably the best design possible under the circumstances, but government probably erred when it came to board selection and the board erred when it came to management selection. The strategic opportunity costs are incalculable. This was *the agency* that could have changed the course of developmental history in South Africa.

5.1.3 National Lottery Board (NLB)

The National Lotteries Act (No 57 of 1997) established the National Lottery. The Board was appointed in 1998. The first national lottery was launched on 2 March 1999. A Consortium called Uthingo, Chaired by Professor Barney Pityana, won the contract to operate the Lottery. This consortium includes the following:

- The Disability Employment Concerns Trust;
- Motswedi Technology Group Ltd.;
- NAFCOC Investment Ltd.;
- Black Management Forum Investments Ltd.;
- Women's Development Bank Investment Holdings Ltd.;
- the National Union of Manufacturers Investment Trust;
- the National Empowerment Fund; and
- the South African Post Office.

The three international partners from the lottery industry are:

- CISL Ltd., the sister company to Camelot, the operator of the UK National Lottery;
- Tattersalls, Australia's premier lottery and gaming operator; and
- GTECH, the world's leading online lottery equipment and services provider.

The Lotteries Act identified as beneficiaries of funds accumulated for good causes, the following five broad categories:

- Reconstruction and Development Programme;
- charities;
- Arts, Culture and National Heritage;
- Sport and Recreation;
- miscellaneous purposes.

In terms of Regulations promulgated on 31 May 2002 in Government Gazette No. 23465, the funds in the NLDTF allocated for good causes will be distributed as follows:

- Reconstruction and Development Programme: 15%;
- charities: 36%;
- Arts, Culture and National Heritage: 22%;
- Sport and Recreation: 22%;
- miscellaneous purposes: 5%.

The inclusion of the RDP Fund is a sign of the times. In the end, no mechanism was eventually found to effect this transfer and so the 15% designated for the RDP Fund never materialised.

The following sectors/areas were selected for fund allocations:

Arts and Culture
The focus for Arts and Culture has been on organisations whose activities addressed the production and promotion of cultural products and/or performance; education, training and skills transfer; and the building of new audiences and increasing public access to the arts.

National Heritage and Environment
This sector invited applications from community, youth, women's, faith and school groups from different socio-economic backgrounds involved in the areas of cleanup operations, especially in densely populated areas; planting of indigenous plants and trees; youth environmental education; and youth activities that encouraged partnerships for sharing experiences and resources between the more and the less advantaged groups.

Charities
This sector called for applications from organisations serving the needs of children, the youth, socially vulnerable groups (e.g. elderly, women, and disabled) and people living with HIV/AIDS. The focus was also on community and residential programmes; capacity building and poverty alleviation in areas that are under-resourced and under-served. Once again, organisations without registration or audited financial statements were allowed to apply in partnership. Registered and established organisations were requested to assist these organisations with their applications and enter into a formal working agreement with them.

Sport and Recreation
This sector identifies as their priority areas, existing sports facilities/clubs that lacked sports equipment; the upgrading and/or renovation of existing sports facilities; and

training institutions/organisations running training programmes for capacity building for sport, i.e. managers, coaches, administrators, technical officials. Special consideration is given where the activities of organisations applying for funding will benefit people in rural areas and vulnerable groups such as women, the youth, people with disabilities and the elderly.

Although there have been times when the National Lottery Board has been criticised for slow disbursement of funds, in general the Lottery has managed to become both a long-term fund raising mechanism and an effective distributor of funds to a wide range of non-profit organisations involved in the sectors referred to above. Of all the funds reviewed, the NLB is probably the least 'political' and the most 'welfarist' in orientation. This is reflected in the fact that the vast majority of funding was channelled into 'charities'. A close analysis of these 'charities', however, contradicts a general criticism of the NLB that emanates from the 'left' which asserts that the NLB only funds 'charities' that are consciously a-political or politically naïve. Although this is true of the majority of recipients, there are a significant number of recipients that have a poverty eradication agenda and/or an empowerment approach towards development. Just because an organisation gets NLB funds does not make it possible to automatically brand it as 'welfarist'. Nevertheless, it is safe to say that in general the NLB comes closest to being a traditional 'welfarist' funder with a poverty alleviation rather than an explicit poverty eradication agenda. In other words, its conception of development has the least to say about the underlying power inequalities that cause poverty, and its funding strategy tends to be the closest to an a-political 'welfarist' agenda.

Table 4: Amounts allocated and number of beneficiaries

	2004		2003		2002		2001			
Sector									**Totals**	
	Rands	**Recs**	**Rands**	**Recs**	**Rands**	**Recs**	**Rands**	**Recs**	**Rands**	**Recs**
Arts, Culture and Heritage	375 383 838	287	170 690 391	220	48 096 414	139			594 170,643	646
Charities	613 121 706	1 142	344 164 022	1 325	102 781 275	850			1 060 067,003	3,317
Sport and Rec	252 389 841	389	211 136 311	407	71 661 538	251			535 187,690	1,047
	0	0	0	0	0	0			0	0
Miscellaneous	17 420 370	1	9 600 000	2	0	0	4 082 000	79	31 102 370	82
Total	**1 258 315 755**	**1 819**	**735 590 724**	**1 954**	**222 539 227**	**1 240**	**4 082 000**	**79**	**2 220 527,706**	**5,092**

5.1.4 Operation Jumpstart Association (OJA)

The Operation Jumpstart Association (OJA) is the Section 21 company that owned and managed the old KZN Lotto successfully for over seven years, between 1992 and 2000. During that period, R345 million was raised for good causes in the province, the bulk of which was used to fund the building of nearly 4,400 classrooms, pre-schools and school/community halls, plus toilets and water tanks, in poor rural areas of the province and to assist charitable causes in KZN[2].

When KZN Lotto was forced to close in February 2000 to make way for the National Lottery, the remaining funds were invested and the income, amounting to approximately R1.5 million per month, is still being used to help alleviate suffering throughout KZN[3]. To date, more than 250 charitable projects have been funded, at a cost of R63 million.[4]

All funding operations are now conducted in the name of 'Community Care Centres' (CCC), a non-profit organisation formed initially by OJA to establish or develop trauma centres in KZN, to relieve the plight of abused women and children. CCC, which has its own Advisory Board, has since been expanded to include the funding of organisations that care for the aged, the terminally ill, abandoned or orphaned children and people suffering from physical or mental disability. Funds are granted for capital projects only[5].

Although OJA is not your classical state-created special fund, it is an example of a non-profit initiative that required a statutory regulatory framework to raise funds from the public for the purpose of poverty alleviation. The underlying assumptions about poverty were heavily informed by a welfarist perspective which regarded the most vulnerable members of society as the primary beneficiaries of welfare funding. This, in turn, was coupled to a focus on capital infrastructure with direct benefits for the most vulnerable.

The key lesson of OJA was twofold. First, it managed from the start to establish itself as totally independent of government. Second, it is a positive example of rapid and effective institutionalisation of capacity for spending. However, from the perspective of this paper, it is questionable whether the poverty alleviation focus will translate into a more developmental poverty eradication focus.

---

[2] Operation Jump Start Association Financial Report, 2003.

[3] Ibid.

[4] Ibid.

[5] Ibid.

5.2 Employment creation via investments

5.2.1 Isibaya

Isibaya Fund ('Isibaya') is a unit within the Public Investment Commission (PIC) which manages 3.5% of the PIC's total assets under management[6]. Isibaya was established in 1999 as a result of a policy decision to diversify the PIC's assets to include investments that provide infrastructure development and social responsibility.

The strategic objective of Isibaya is to pursue the transformation of the economic landscape of the country and to contribute to the development of the economy, whilst ensuring the required return for its beneficiaries, i.e. public sector pensioners, and its guarantor, the Government of the Republic of South Africa.

The main thrust of Isibaya's operations is Socially Responsible Investing (SRI). In pursuit of SRI, Isibaya states that it intends to participate in projects that will promote job creation, poverty alleviation and redistribution of wealth.

With an allocation of approximately R11 billion[7], Isibaya says that it is poised to implement its strategies in a manner that will contribute to 'sustainable economic development', a notion that refers predominantly to creating 'sustainable' new jobs and maintaining existing ones.

Isibaya representatives admit that to date its investment approach has been a passive one in terms of seeking, investing, managing and/or communicating investment opportunities. But, looking forward, they state that it will adopt a more active management approach in seeking and managing investments to ensure achievement of the set objectives.

The investment mechanisms that Isibaya has in mind are intriguing and, if correctly deployed, this is a fund that could have a substantial impact on both public sector investment levels and on the promotion of businesses with a developmental focus. The underlying development approach can be depicted using the following mathematical image: development = BEE plus 'trickle down' plus job creation via investments to create new or grow existing BEE-controlled businesses. In other words, this is an example of how state funds can be used to dislodge the white monopoly on investment decisions. To this extent, it is potentially a critically important intervention.

Isibaya sees itself investing in three ways: a private equity role via direct investments in businesses (across a wide range of sectors) with a significant BEE

[6] Isibaya Fund Communication Document, 2004.

[7] Ibid.

profile; as a funder of other funds that have been set up to fund BEE investments (of between R5 million and R300 million) in new or existing businesses (again across a wide range of sectors); and as a direct investor in large-scale infrastructure projects (dams, airports, harbours, toll roads, privatised municipal services, etc). Although there are a range of investment criteria, the most important seem to be BEE (including BBEE), long-term investment in fixed assets, and job creation. To this extent, Isibaya is an excellent example of the way the state can use its own funds to lead investment in sectors that traditional fund managers regard as too risky (often, as already argued, for 'red' and 'black' reasons).

Despite extensive efforts, it has been impossible to determine whether the Isibaya Fund has in fact invested a significant portion of its enormous fund. All that we could ascertain was that a total of R150 million has been invested in the Futuregrowth Community Property Fund which has to date invested almost entirely in 15 shopping centres in non-metropolitan areas where retail space was in short supply. There is no evidence that these investments were positioned with a strategic pro-poor 'LED approach' aimed at capturing and holding new investment flows within the local economies, or whether these spaces helped facilitate increased levels of extraction out of the local economies via the opening up of national retail chain outlets with limited backward and forward linkages in each local economy. There is also no evidence that anyone in Isibaya has the knowledge base to even ask a question of this nature. It is therefore possible that these investments may have very little – and even possibly negative – developmental spin-offs. This is not a positive sign of future potential.

In conclusion, the lesson to be drawn from the Isibaya Fund is that it is possible to use state funds to lead the way into investment opportunities that traditional investors avoid, but that it is unclear whether the Isibaya Fund has developed the analytical tools for determining whether the investments they make do have the developmental potential they hope for, despite their up front commitment to being a 'socially responsible investor'. Furthermore, by committing R11 billion, government has clearly signalled to the private sector that it no longer regards the private sector as the exclusive source of venture and development capital. Unfortunately, there is very little evidence that sufficient care has been taken to put in place staff or strategic advisors with the kind of entrepreneurial flare and networks that would be required to position the Isibaya Fund as a lead player in the rapidly expanding 'socially responsible investment' world, where remarkably creative high impact investments are possible in new sectors such as renewable energy, manufacturing in the plastics sector, property development in the low income markets, micro-finance and new modes of transportation, etc.

5.2.2 Khula

Khula Enterprise Finance Limited is an agency of the Department of Trade and Industry established in 1996[8] as an independent, limited liability company with its own board of directors[9]. The government's White Paper in 1995, together with the National Small Business Development Act (1996), created the necessary legislative framework to create a series of institutions and initiatives, one of which was Khula.

As the name 'Khula Enterprise Finance' implies, Khula was established by government predominantly as a finance institution which would not deal directly with entrepreneurs on the ground, but would rather do so via interacting with a variety of retail finance intermediaries (RFIs). If Khula was to be responsible for providing the necessary financial support to entrepreneurs via the RFIs, then it was up to Ntsika Enterprise Promotion Agency, the second important institution created by government, to account for the provision of non-financial or business development services to entrepreneurs in the field. Khula, alongside Ntsika, was to form the main delivery vehicles of the institutional support network created by government in 1995. Together, these two organisations' support to the SMME economy was intended to focus on 'improved and decentralised access to information, training, markets, finance and technology, improvements in business infrastructure and the market environment, and the strengthening of networks between enterprises'[10].

Unlike the late 1990s/early 2000s generation of 'special funds', Khula was established in 1996 with roots in the pre-GEAR era when there was enormous optimism that the SMME sector could achieve two policy objectives – job creation for the poor and wealth creation for upwardly mobile entrepreneurs (and their support networks of BEE-ish law, accounting, and other professional firms). The managing director of Khula, Sizwe Tatai, has explicitly made the connection between creating SMMEs, combating poverty, and job creation. This can be seen clearly from the way the role and purpose of Khula has been expressed as follows:

> Our mandate is to ensure the people of our country, especially the poor, have ready access to the tools and resources that will allow them to create jobs and wealth for themselves by forming small, medium and micro enterprises (SMME). That means disbursing our funds, via the portfolio of products and services we have developed,

[8] Information Services Research. From:
http://www.pmg.org.za/docs/2002/appendices/020320jmc1.htm

[9] Khula Enterprise Finance Limited: 'Annual Report 2002'.

[10] Rogerson, C. 2003. *HSRC Ten Year Review Research Programme – Small, Medium and Micro Enterprises.* Pretoria: Human Sciences Research Council, unpublished. p.3.

whilst defending our capital base against erosion through a policy of prudent investment and lending practice.[11]

Furthermore, the role and function of Khula has been refined, not only in terms of having to provide general support to SMMEs, but also in terms of (i) ensuring access to adequate funding[12] for these SMMEs, (ii) facilitating the creation of a network[13] of intermediaries (RFIs) and (iii) giving support to the youth, the disabled and women, especially in rural areas[14].

The problem with these founding statements is that from the start, at both the strategic conceptual and institutional design levels, insufficient attention was given to the differences between 'medium' and 'micro' enterprises and therefore to the different responses that were required to support both. Although both Ms were captured by the acronym 'SMME', in reality subsequent research and practice has revealed that there is a vast difference between the needs of medium-sized and micro enterprises, with the former more formal and established and the latter being highly informal, survivalist and rooted in the poorest of poor communities. The absence of this conceptual and strategic distinction meant that support programmes were designed that catered for the medium-sized businesses in the main. The end result has been more about wealth creation for the upwardly mobile and less about poverty reduction for the very poor.

Khula received from Government a total of R1.6 billion plus an additional R223 million from a range of international donors. This, plus various additional amounts from interest, premiums and fees, brings the total available to over R2 billion. It was decided that to maximise impact, Khula would work primarily through intermediaries rather than acting directly as an investment fund. The result is that it deployed its funds as follows:

- R648.4 million was allocated to so-called 'Retail Financial Intermediaries' who in turn on-lend to SMMEs, of which R504.8 million was actually disbursed across 259 495 loans;
- R42.6 million was allocated and disbursed across 59 972 loans to organisations that applied to set up Micro-Credit Organisations (MCOs) in

[11] Khula 'Annual Report 2002', p.9.

[12] Ibid. p.4.

[13] Ibid.

[14] Ibid.

rural and peri-urban areas – this was called Khula's Start-Up programme and it was motivated by a desire to mobilise community-based capital;
- Just over a R1 billion was allocated for Credit Guarantees for institutions to use to back up loan applications by SMMEs from financial institutions, of which R343.7 was disbursed – this involved 1565 transactions;
- R37.6 million was invested as equity in various ventures;
- R134.2 million was invested in the Thuso Mentor programme which involved the provision of an advisory service to individual SMMEs who needed help to formulate business plans and to apply for and acquire a loan;
- R85.4 million was allocated and disbursed to the Land Reform Credit Facility for the purpose of making loans available to land reform-based businesses.

The 2004 *Annual Report* suggests that Khula's various interventions resulted in the creation of over 1 million jobs during the period 1996 to 2002. This was calculated as follows: 959 926 jobs created as a result of loans disbursed to SMMEs by the RFIs; 69 009 jobs created by businesses that benefited from the Credit Guarantee scheme; 112 jobs created as a result of the Equity Fund investments; 47 765 jobs created via the Micro-Credit Organisations; 408 jobs created via the Land Reform Credit Facility loans; and 3 098 created via the Thuso Mentorship Programme. Although it is not clear exactly how these figures were derived, research has raised doubts about the job creation impact of SMMEs, especially given the fact that the bulk of the loans went into medium-sized businesses which are a small proportion of the total SMME market.

5.2.3 Ntsika

The Ntsika Enterprise Promotion Agency is an agency of the Department of Trade and Industry established in 1996. In that year, Ntsika assumed the status of a statutory body through the National Small Business Act. In March 2001 the Agency was deregistered as a Section 21 Company (not for gain). Ntsika was officially listed as a Schedule 3B Public Entity on the 1 April 2000[15]. Ntsika and Khula have always been conceived by policy makers and the public as twin sisters, with Khula doing the hard finance work and Ntsika the institutional and capacity building work. Together, these two organisations' support to the SMME economy was intended to focus on 'improved and decentralised access to information, training, markets,

[15] Ntsika 'Annual Report 2002', p. 6.

finance and technology, improvements in business infrastructure and the market environment, and the strengthening of networks between enterprises'[16].

The table below provides a summary of the basic non-financial services and their respective institutional arrangements that Ntsika offers.

Table 5: Non-financial support services offered by Ntsika

Institution	Support services
Local Business Service Centres (LBSCs)[17]	• Business information; • General business management advice; • Counselling and aftercare; • Business networking and linking into local economic development (LED) initiatives.
Tender Advice Centres (TACs)[18]	• Giving advice on procurement for public and private contracts.
Manufacturing Advice Centres (MACs)[19]	Identifying obstacles to and giving advice on improving global competitiveness of industrial and manufacturing type of SMMEs.

Ntsika, together with Khula, the LBSCs, TACs and MACs, thus constitute, in the main, the institutional support network created by government to provide the necessary services and access to funding and information to the SMME economy, which in turn, should contribute significantly to combating poverty and creating jobs, whilst ensuring the overall global competitiveness of the SMME economy. However, on its own such an institutional framework cannot deliver on these goals. Capacitating, resourcing and funding the institutions in question are of equally critical importance in ensuring the success of a vibrant SMME economy.

Reflecting the ideological impact of 'high neo-liberalism' that was so dominant in the late 1990s, Ntsika's representatives and media depicted South Africa as being part of a globally *competitive* environment making access to global and foreign markets of utmost importance to SMMEs. 'In line with Vision 2014, Ntsika is proactively streamlining its services and has identified Market Access as

[16] Rogerson, C. *HSRC Ten Year Review Research Programme – Small, Medium and Micro Enterprises*. Pretoria: Human Sciences Research Council, unpublished report.

[17] Ibid.

[18] Ibid.

[19] Ibid.

the driving force behind its contribution to the accelerated development of SMMEs' And, 'in facilitating access to markets to SMMEs, and by conducting comprehensive company audits, Ntsika can better refer SMMEs to appropriate institutions for various interventions such as finance, technology, skills, infrastructure whilst, at the same time, not losing sight of the intended impact of these interventions, which are sales, profitability, growth and, ultimately, job creation'[20].

Equating *competitiveness* with *growth* and *job creation*, therefore, not only constitutes the economic rationale underlying Ntsika's corporate thinking, but also appears to be the prime motivator for its actions – i.e. formulating, refining and offering a range of non-financial support programmes targeted at those relatively well-organised, medium-sized SMMEs that needed further assistance to become competitive by accessing national and international markets.

Ntsika uses the following criteria to define its services:

Table 6: Criteria used by Ntsika for non-financial support services

Service	Criteria
SMME promotion Promotion of SMMEs as well as their products and services. Ntsika organises and participates in SMME promotional activities such as exhibitions, inward and outward trade missions. This would include preparation of SMMEs to participate in such events, production of a joint catalogue for participating companies.	Established businesses that seek to promote their companies as well as products and services to the private and public sector
Business linkage programme The objective is to enhance the capacity of SMME to access markets through Strategic Alliances. The programme assists SMMEs to increase their capacity to expand into other markets by finding them partners and brokering the partnership deal.	Established businesses that wish to expand their market base nationally and internationally
Market opportunities The objective is to provide information to SMMEs on national and international market opportunities. It covers the publication of opportunities nationally, in the continent and internationally through Trade Points.	SMMEs that are newly established or existing, that wish to access market opportunities
Tender Advice Centres (TACs) The purpose of this programme is to assist SMMEs to become successful in their attempts to win both the public and private sector tenders through TACs.	SMMEs that wish to access tender opportunities, especially historically disadvantaged SMMEs

[20] Ntsika 'Annual Report 2003', p. 20.

Services provided through the TAC organisations to SMMEs are: - provide information on business opportunities and information on procurement in general; - assist to complete tender documents (including costing and pricing support and training); - facilitate sub-contracts and joint ventures; - provide or link to project management services (to assist with delivery on contracts won).	
Local Business Service Centres (LBSCs) Description: To ensure that SMMEs receive effective business development services from a network of LBSCs that have been identified, selected, developed and supported for this purpose. Areas of support include: - business plan formulation; - business start-up training; - short training courses such as financial, management, record keeping, marketing, etc.; - business counselling; - tender advice; - information; - technical assistance; - incubation support.	Service providers that have the capacity to give quality service to SMMEs
Capacity building service providers Description: The objective of this programme is to enhance the capacity of service providers to deliver relevant SMME business development services effectively and efficiently. Areas of support include: - financial support; - board development; - training of trainers; - training of counsellors; - training of information officers.	Service providers that have been accredited by Ntsika
Materials development Description: The objective of this programme is to facilitate the design and development of sector-specific training materials for SMMEs. The development of material: - addresses the gaps in SMME training - in keeping with SAQA requirements - in collaboration/partnership.	Service providers that need development of training materials for SMMEs
Innovative Disabled Entrepreneur Awards Scheme (IDEAS Awards) Description: The objective is to affirm excellence and	Entrepreneurs with disabilities who have businesses older than six months

innovation of entrepreneurs with disabilities. This is preceded by ensuring that business interventions are provided to these targeted groups.	
SMME Excellence Awards Description: The awards seek to recognise the pivotal role of private sector companies, the banking sector, and academic institutions in small business promotion and entrepreneurship development in South Africa.	Institutions outside of government that have used their own resources to promote and support SMME development, especially the private sector, banking sector, and academic institutions

(Source: www.ntsika.org.za)

Ntsika has two major sources of income, the bulk coming from the Department of Trade and Industry (the DTI) and the rest from international donors. Of the ± R300m received between 1997 and 2003, the DTI has contributed almost R260m with the rest provided by a variety of international donor organisations in the form of grants.

Of the R300m received, it would appear that ±R196m was allocated and ± R140m actually spent on: (i) Human Resource Development = R18m, (ii) Infrastructure and Assets = R68m and (iii) SMME development = R110m. It should be noted however that the latter amount was not spent 'directly' on SMMEs on the ground. Instead, the monies appear to have been spent on establishing and promoting the network of intermediaries, most notably the LBSCs and TACs, gearing them up to service those SMMEs already active in the 'first economy'.

Ntsika claims to have achieved the following results during the 1996-2002 period:

- assisted over 100 000 entrepreneurs in over 79 000 enterprises thus creating over 98 000 jobs;
- provided training for 38 000 SMMEs;
- facilitated the winning of tenders worth R350 million since 1998;
- established 54 LBSCs.

It has not been possible to find out from Ntsika how it calculated these figures, in particular the figure of 98 000 jobs created. However, the evidence suggests that this is not the actual figure, but rather an extrapolation from the number of known SMMEs multiplied by an assumed average number of employees per SMME. Although it has long been commonly believed that SMMEs are key job creators, there is not much case study evidence to support the notion that SMMEs are particularly effective job creators.

When looking at the future, Ntsika's 2003 *Annual Report* formulates its plans as follows:

> The Government's Vision 2014, the Micro-economic Reform Strategy (MRS), the Integrated Manufacturing Strategy (IMS) objectives, the Integrated Support to SMME Development (ISS), as well as the policy-review process of the DTI, influenced the changes in the environment that led to the proposed strategic direction of Ntsika.
>
> In line with Vision 2014, Ntsika is actively streamlining its services and has identified *market access as the driving force behind its contribution to the accelerated business development of SMMEs*, thus focusing the support to SMMEs within the ambit of the scarcity of resources.
>
> The Institutional Support Division is to focus its activities on business development for entrepreneurs, … In addition, the notion of assessing and enhancing the 'market access readiness' of entrepreneurs constitutes a new thrust for the institutional support function.[21] (emphasis added)

Although riddled with jargon, this statement of strategic intent is clearly heavily influenced by an 'Asian Tiger' approach, namely state-facilitated manipulation of 'market access' to build the capacity and strategically position a specific category of businesses whose identity is captured by the euphemism 'SMME'. The key focus is the individual entrepreneur and his/her medium-sized business operation that has potential to grow. The focus is not the small-scale less formal business led by less capacitated people whose main interest is to stay alive on the edge of poverty. Poverty, it is assumed by this paradigm, will be reduced as labour is absorbed by the medium-sized state-supported SMMEs as they expand in response to increased access to local and export markets.

5.2.4 National Empowerment Fund (NEF)

After three years of policy formulation and inter-departmental wrangling, the DTI managed to get Parliament to pass the National Empowerment Fund Act in 1998 (Act 105 of 1998). With great fanfare and high optimism, government ministers applauded it as the next great economic force in the country. Finance Minister Trevor Manuel announced in his budget speech that R10 billion would be allocated to it, and Trade and Industry Minister Alec Erwin claimed that this allocation would put 'the fund into the ranks of the top four banks of the country'[22]. The public was further led to believe through newspapers and magazine reports that the transfer of R10 billion was an accomplished fact. The Professional Management Review (May

[21] Ibid. p. 10.

[22] 'BUA News' 11th April 2003.

2003) stated that R10 billion 'sits in the DTI's National Empowerment Fund'[23]. However, according to Chief Operations Officer, Khomo Mokhobo, this never happened.

By late-2003, the only investment the NEF had made was R5 million worth of shares in MTN and had yet to publish an annual report. As COO Khomo Mokhobo said in an interview about the R5 million stake in MTN: 'not something to write an annual report about'. He blamed the failure of the NEF initiative on dependence on hand-outs from DTI under supervision of a dysfunctional board dominated by DTI supremo Alistair Ruiters who, Mokhobo said, was more interested in furthering the strategic interests of DTI than building the NEF.

Quite what is going on here is difficult to figure out. The reports submitted to the Trade and Industry Parliamentary Portfolio Committees in 2002 and 2003 were identical, and both were distinguished by a spectacular lack of information and by strategic obfuscation. Interviews were off-the-record, and even then little was divulged other than the fact that nothing has happened to realise the original vision.

However, there are some clues that give an insight into strategic economic thinking at the time and the role state structures like the NEF could play. The first clues lie in the stated goals of the NEF as embodied in the Act, namely:

- to encourage and promote savings, investments and meaningful economic participation by historically disadvantaged persons (HDPs);
- to provide HDPs with the opportunity of, directly or indirectly, acquiring shares or interests in *state owned commercial enterprises that are being restructured* or in private business enterprises;
- to promote and support business ventures pioneered and run by HDPs;
- to promote the universal understanding of equity ownership among HDPs;
- to contribute to job creation and facilitate economic opportunities for 'historically disadvantaged persons' (HDPs). (emphasis added)

Given the late 1990s context of 'high neo-liberalism', the state was committed to privatisation, partly to raise state funds for development, partly as a carrot to increase FDI, but also for ideological reasons. However, this was highly contested by the ANC's Alliance partners for obvious reasons. To fudge the issue, state discourse emphasised 'restructuring of state assets' and not 'privatisation'. It is now clear that the NEF emerged as one of the mechanisms to achieve this strategic finesse because it created for the state a vehicle into which the shares of public enterprises could be

[23] http://www.pmr.co.za/magazines/May2003/regParliamentUpdate.htm

transferred. In other words, state ownership remained intact, but in the small print the NEF was in theory mandated to act like a venture capital fund, i.e. it could start trading these assets in the marketplace. The notion that the NEF was a vehicle for managing privatisation by stealth is really the only way of making sense of the second objective of the NEF referred to in emphasis above. Obviously this was coupled to the first objective, which was to break white control of the economy by increasing HDP stakes in the economy (now the BEE and BBEE strategies). The coupling of the two objectives was an obvious strategy: privatise by stealth to pacify the unions, sell shares in public enterprises at a discount to HDPs to build a black middle class, and use the proceeds to build Alec Erwin's dream of a 'fifth big bank' to finance further HDP acquisitions.

It is unclear precisely why the strategy never worked. However, there is evidence that the following factors played a role:

- The 'fifth bank' idea crumbled when it was conceded that the IDC played this role and that more could be achieved by restructuring the IDC than trying to build a new IDC;
- By the time all the institutional structures were in place and managers appointed (around 2003), the strategic context at the policy level had begun to shift away from privatisation thus removing the NEF's key potential resource;
- The Isibaya initiative emerged out of the PIC which was far more viable in theory because it could start with real cash in hand and was easier to operate and control because it was constituted as a unit within the PIC without all the hassle of a separate Act, reporting to parliament, and all the complexities of share transfers and discounted prices;
- Inter- and intra-departmental squabbling and personality clashes;
- Strategic and ideological disagreements about BEE – Mokhomo himself seems to have swallowed the neo-liberal 'unfettered market forces' line when he remarked: 'This BEE and HDP stuff doesn't make economic sense'. (This is usually the discourse of mainstream economists who are actually saying 'leave white control of the economy alone and focus on the benefits of growth for the black majority, namely job creation – black ownership will be achieved not by giving HDPs special breaks, but when HDPs prove their entrepreneurial acumen within the normal rules of the market', etc., etc.).

The NEF continues to operate, although it is rarely mentioned, and information remains hard to come by. According to its first *Annual Report* published in 2004, the

NEF did receive quite substantial funds from the state over the three years 2001 to 2004, namely R25 million in grants from various sources, and R18.6 million from DTI. It also held MTN shares worth R171 million by 2004. Besides expensive offices in Melrose Arch and a costly array of highly qualified professionals with limited hard business experience, it is unclear what role the NEF is going to play in the new era of state-driven investment. On 28th June 2005 the *Mail and Guardian* reported that whiz-kid Philisiwe Buthelezi would be resigning her post in the Department of Trade and Industry, where she played a key role in implementing government's BBEE policy, to take over as CEO of the NEF. As the *Mail and Guardian* put it, this may be 'just what the tainted and beleaguered funder needs'.

There is probably no better example than this case of the limits of vision-driven strategy that ignores the black box of institutionalisation. We can dream, but we have to implement using institutions, laws and people to turn dreams into reality. The NEF is an example of how not to build the developmental state.

5.2.4 South African Women's Entrepreneur Network (SAWEN)

The Trade and Industry Deputy Minister Lindiwe Hendricks announced during her budget vote in the National Assembly on Monday 14th April 2003 that the government has allocated R2 million to the South African Women Entrepreneurs Network (SAWEN) to boost women's efforts in running their own businesses[24]. SAWEN was supposed to assist women entrepreneurs in the small business sector to overcome gender related obstacles affecting their business. It would address constraints by advocating appropriate policy changes, building capacity and facilitating the access of women to business resources and information[25].

According to information posted on the DTI website, the establishment of SAWEN was a reaction to the fact that women entrepreneurs in South Africa continue to face a wide array of obstacles and barriers in their business operations. The SAWEN concept was supposed to provide women entrepreneurs with solutions to these challenges by addressing the constraining factors. It was acknowledged that the unstable condition of the South African economy has a negative impact on women entrepreneurs, who find themselves left behind their male counterparts in the current drive for Black Economic Empowerment (BEE)[26].

---

[24] 'Bua News' from: http://www.safrica.info/what_happening/news/business_150403.htm on 19th June 2003.

[25] Ibid.

[26] 'SAWEN Proposed Business Plan' from: http://www2.dti.gov.za/SAWEN/ (accessed 4th November 2003).

The following vision statement was articulated[27]:

> SAWEN will represent and articulate the aspirations of all women entrepreneurs (potential and existing) that operate within the South African SMME sector; and lead by excellence in service delivery, as well as champion the socio-economic development of women entrepreneurs.

To make this happen, SAWEN was envisaged as a network that would service women entrepreneurs via capacity building, information sharing, facilitation of market access, and lobbying[28].

It has not been possible to obtain information on whether any of the funds were spent. However, what is interesting is that this represents the only explicit example of an intervention in the business promotion field that is informed by a gender perspective. Although this was a small amount of money which we can assume was supposed to be used to connect a limited network of lobbyists to the office of the Deputy Minister, it does provide another (more recent example) of how special initiatives are transformed into an extra-state institutional form seeded by state funds.

5.3 Developmental investments (mix of capacity building and cash injections)

5.3.1 Independent Development Trust (IDT)

In 1990, the apartheid state allocated R2 billion (in the form of treasury bills and RSA bonds which were later sold to create a cash reserve) to a newly created body called the IDT, which was established under the joint Chairpersonship of Jan Steyn and Wiseman Nkuhlu. Included in the board were members that spanned the political spectrum, including people associated with the Mass Democratic Movement, who were mandated to trigger a community-based development process. Mired in controversy, the board appointed a capable management that proceeded regardless to implement development programmes within a developmental paradigm associated most closely with the thinking of the Urban Foundation, a business funded policy think tank. The IDT had weak links with the established NGO movement that had hitherto worked for years with communities on the ground.

As the official history of the IDT put it:

[27] Ibid.

[28] Ibid.

> The IDT was established in 1990 as an independent, temporary grant-making agency with a R2 billion government grant. At the time government had neither the commitment to development nor credible structures to represent and articulate the interests and the needs of the poor, and even to respond to the growing development crisis in the country. The IDT was created in this hiatus.[29]

The most controversial and long-lasting impact of the IDT was its decision to allocate a substantial portion of its funds to a capital subsidy for funding land acquisition and services for the urban poor. Although articulated in the highly romantic and naive 'basic needs' language of the time (which is how it managed to win legitimacy), by factoring the land cost into the subsidy and then fixing the subsidy to fit all contexts irrespective of land cost, it effectively resulted in the establishment of new urban towns on the peripheries of the cities, where land was cheapest. Land owners and civil contractors were the primary beneficiaries.

However, by 1993/94 it was clear that the IDT's role would need to adjust to the new realities, and in particular make sure it did not compete with legitimate state structures. After a review by a special cabinet committee, it was decided that the IDT should become a support structure to the state's community-based development programmes. According to the official history, the new IDT's role was defined as follows, namely to:

> Influence, support and add value to the *government's development agenda*. The IDT, on behalf of government, and together with partners, will facilitate the implementation and management of innovative and sustainable development interventions in the poorest and most marginalised communities, so as to make a measurable difference in the levels of poverty, inequality and underdevelopment.[30] (emphasis added)

In the first seven years of its existence, the IDT disbursed R2.7 billion to 8 800 projects. In most cases, these funds were invested in community-based development vehicles of various kinds which were either established de novo by the IDT for the project, or were already in existence.

In 1999, the IDT was established as a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA) and reports to Parliament through the Minister of Public Works as its Executive Authority. The IDT is audited by the Auditor-General and, in compliance with the PFMA, submits a corporate plan and

[29] IDT Information Brochure, p. 3.

[30] Ibid.

budget, and also enters into a Shareholders Compact Agreement with the Executive Authority.

In essence, the deal with the state was that the IDT would invest its remaining resources and use the interest to establish a permanent, well-funded, nationally distributed development organisation that would have the staff and capacity to help all levels of the state to design and implement development programmes and projects. In other words, national departments, and provincial and local governments can draw on the support of the IDT without having to pay for the core overhead costs of IDT staff. Given the severe shortages of staff capacity and intellectual capital within state structures charged with implementing development programmes and projects, this is clearly a most attractive arrangement for the government. It was this arrangement that allowed the IDT to claim that in 2003 it directly participated in programmes and projects amounting to R650 000, without any of these funds coming from IDT resources.

The obvious problem with the new role of the IDT for the purpose of this analysis is that its developmental impact can no longer be measured in purely financial terms. The IDT's role is critical for *increasing* both state capacity to spend and community capacities to receive and implement, but it does not spend any new development funding as such. To reflect this, we have allocated their annual expenditure across the different sectors based on an estimate of their sectoral involvement.

In conclusion, there is no doubt that the IDT's transformation from a grant-making agency supporting community-based organisations into an agency that boosts the state's capacity to design and implement programmes and projects, will provide the developmental state with two crucial long-term resources: largely free on-the-ground capacity to assist all levels of government, and a key source of intellectual capital and long-term institutional memory with respect to developmental practice. However, the inherent danger is that it may ossify due to the comfort zone that a secure source of funding makes possible.

5.3.2 Umsobomvu Youth Fund (OYF)

In 1998, Trevor Manuel announced in his budget speech that R1 billion would be set aside for the creation of the Umsobomvu Trust Fund[31]. R855 million of this was

[31] http://www.uyf.org.za (accessed 3rd November 2003).

raised from a 2.5% levy on the demutualisation of SANLAM and Old Mutual. The Umsobomvu Youth Fund (UYF) started operating in 2001[32].

The role and purpose of UYF was to develop the youth, job creation for the youth, and skills development and transfer for young people.

Umsobomvu is probably one of the most interesting and potentially significant in the long run of the 'special funds'. Not only does the source and extent of its capital base make it independent of government, it has been set up to facilitate both grant-making and investment in business initiatives. Below is a summary of its structure and activities:

Table 7: Summary of Umsobomvu structure and activities

Fund	Investments up to	Target
1. Business Linkage Fund also called Progress Fund	R 5 million	Businesses that win government contracts
2. Franchising Fund	R 3 million	Businesses that want to buy a franchise or to expand an existing one
3. General Equity Fund	R 5 million	Opportunities outside franchising and procurement.
4. Private Equity Fund	The size of the Fund is R100 million	Management support for young people
5. Micro-finance pilot programme		Finance for smaller enterprises

[32] Abdul Milazi. *Financial Mail* 29th August 2003.

To provide a sense of the kinds of projects the UYF funds, it may be worth referring to what it calls their 'flagship' projects:

Table 8: Umsobomvu's 'flagship' projects

Name of youth co-operative	Province	Sector
1. Sbizundlombane Youth Co-operative	KZN	Urban agriculture (poultry, veg and flowers)
2. Sakhisizwe Youth Workers Co-operative Ltd	KZN	Bakery and Catering
3. Kwa-Dlamini Youth Co-operative	KZN	Agriculture (veg and poultry)
4. MV Youth Programme	KZN	Manufacturing (toilet paper, nappies etc.)
5. Mbonambi	KZN	Manufacturing (building blocks)
6. Marang Cake and Bread Co-operative	NW	Baking
7. Gatlang Matheka Sewing and Leather Craft	NW	Sewing of clothes and leather craft
8. Mailane Multi-Purpose	NW	Multi-purpose co-op
9.Rabulasi Youth Co-operative	Limpopo	Agriculture and Farming
10. Temogo Community Development Project	Limpopo	Agriculture (tomatoes and spinach)
11. Mogoto Youth Organisation	Limpopo	Poultry farm
12. Aganang Youth Club	Gauteng	Vegetable production
13. South African Building Construction Co-operative	Gauteng	Construction
14. Tshwarisanang Youth Co-operative	OFS	Multi-purpose (sewing, knitting, poultry, roses, welding)
15. Port Elizabeth Mental Health	EC	Disabled sector (sewing, garden services and manufacturing)

The UYF defined its key partners as follows: National Youth Commission; South African Youth Council; Government Ministries, e.g. Education, Labour and Trade and Industry; other civil society organisations.

Between 2001 and 2003, UYF committed R470m to 61 projects, trained a number of emerging entrepreneurs from previously disadvantaged communities and, according to its own reports, created more than 13 000 jobs[33].

As far as future challenges are concerned, the official UYF website articulates this as follows:

> There are approximately 19 million young people in South Africa and approximately 7.8 million of them are unemployed. Absolute numbers of young people increase by approximately 400,000 each year. 7 out of every 10 black youth unemployed and 1 in 5 unemployed believe they will never get a job. Between 1995 and 1999 the absolute numbers of the unemployed increased by 2 million.
>
> Many do not have skills and have limited opportunities to participate in the formal job market. Young people are hardest hit by growing rates of HIV infections and disproportionately affected by social problems such as violence and crime. Umsobomvu is one of a range of responses needed to support young people, in spite of these odds.[34]

The R100 million Progress Fund is worth looking at a little more closely. Set up by First National Bank and the Momentum Group, the aim is to invest in SMMEs that are owned and managed by 'black youth'. Duncan Randall of Enterprise Equity Partners (a division of FNB), the Fund Manager that has been contracted to manage the funds, said that the Fund will 'make equity and quasi-equity based investments in viable, youth-empowered companies which have secured significant medium to long-term contracts from Government or the private sector'[35]. The investments will range from R100 000 to R5 million and the Fund will take a minority stake and provide business and strategic support.

It is much too early to judge the success of the UYF, and in particular its heavy dependence on the formal financial institutions for skills to manage the equity investment strategy. However, one cannot help wondering why the fund has not plugged into the wide range of less formal, more innovative grassroots financial institutions and community-based development structures. Nor does it seem that the UYF has a leadership that is connected into the development sector networks, nor is there evidence of awareness about the more politically conscious empowerment

[33] Ibid.

[34] http://www.uyf.org.za.(accessed 3rd November 2003).

[35] https://www.fnb.co.za/FNB/content/aboutUs/newsRoom/articles/20030305fnbMomentum.scml

approaches to poverty eradication. Instead, the general tone and strategy appears to be an idiosyncratic mix of traditional (largely limited impact) capacity building plus traditional funding strategies for SMMEs.

5.3.3 Local Economic Development Fund (LED Fund)

The Department of Constitutional Development (now the Department of Provincial and Local Government) launched its local economic development programme in 1999. The conceptual impetus for this programme was rooted in a growing academic literature on LED that filtered into the policy arena during the course of the 1990s. It is possible to track this as follows:

- 1994 ~ The Reconstruction and Development Programme (RDP)
  The RDP specifically mandates local economic development. The RDP suggests that for growth of local economies to occur, broad-based representative institutions must be established to address the requirements of local development. These should generate strategies for job creation and community development. The government should provide the subsidies/grants to facilitate these strategies. Although the RDP was partially superceded by GEAR and other sectoral programmes, the February 2002 Local Economic Development Policy Paper refers to the principles of the RDP in guiding LED.
- 1996 ~ The Constitution Act No. 108
  This Act provides the framework for municipal government. Its express objective for local government is to promote social and economic development. This is the foundation of local economic development. Developmental local government is therefore rooted in the Constitution.
- 1998 ~ The White Paper on Local Government
  This paper places LED in the realm of local government. According to this paper, the central responsibility of municipalities is to find sustainable ways to meet the needs and improve the quality of the lives of their communities. Integrated Development plans and District Integrated Development Plans are emphasised here.
- 2000 ~ The Municipal Structures Act No. 33
  The responsibility of the municipality is to ensure the delivery of services and the development of the local economy.

- 2001 ~ The Division of Revenue Act No. 1
  This act provides a framework for the allocation of funding from national government to assist municipalities in development initiatives. It makes

provision for the allocation of funding to the LEDF and Social Plan Measures Grants under the guidance of the DPLG.

- 2002 ~ The Municipal Systems Act No. 32
  This act identifies local economic development as a critical object of the municipalities development priorities and the IDP.
- The contribution of an Integrated Manufacturing Strategy
  The DTI strategies on Integrated Manufacturing and Integrated Support to Small Business Development incorporate in their range of development strategies local economic development as an approach for growth and development. Included in these strategies is the idea of 'local industrial parks' or 'small business hives'.

The Local Economic Development (LED) programme is located the Department of Provincial and Local Government and provides support to municipalities in their efforts to promote social and economic development. **LED** programmes are designed to create employment and economic growth in a particular local area with the aim of alleviating poverty through municipality-led initiatives and projects. It is a way of improving linkages with other household, social and economic infrastructure programmes of Government[36].

Key components of the LED strategy are as follows:

- Development of policy that is supportive and responsive to the role of municipalities in generating LED.
- The Social Fund Plan provides funds for local economic regeneration studies by targeting localities impacted by large-scale retrenchment and identifying employment-generating projects; it may also be used by the municipalities to implement LED projects.
- The LED Fund (LEDF) provides financial support to municipalities engaging in initiatives that will create job opportunities and alleviate poverty. It may also be used by the municipalities to implement LED projects. The LEDF supports partnerships that generate sufficient innovation and energy to build a strong and sustainable national economy based on thriving and diversified local economies. The LEDF provides financial support to municipalities engaging in projects that achieve the desired developmental outcomes of redistribution of income, poverty eradication and employment generation.

[36] http://www.led.gov.za (accessed 13th December 2003).

Besides the 'Guideline Document for the LED Programme and LED Fund' that was published in 1999, the DPLG also published five manuals on LED. These comprehensive manuals written from a classic rational planning perspective, provided municipalities with guidance relating to the following aspects of LED implementation at local level:

- institutional arrangements;
- strategies and instruments;
- transforming localities;
- performance management and measurement techniques;
- case study experiences in both declining and thriving municipalities;
- guidelines for municipalities to government programmes.

In February 2002, the DPLG published its Local Economic Development Policy Paper: 'Refocusing Development on the Poor'. This paper provided a detailed and complex analysis and description of LED approaches to job creation, sustainable urban and rural development, and what a 'pro-poor' approach to 'holistic' LED strategies are all about. This paper envisages the broadening of LED to meet, first and foremost, the following needs:

- the needs of the poor,
- women,
- children,
- disabled and
- people living with HIV/AIDS

Furthermore, a distinction is made between developmental and non-developmental local economic development in which social objectives are placed second to investment attraction. However, it expressly states that Government support will be in favour of developmental local economic development.

In summary, the DPLG would like the LED programme and the LEDF to achieve the following goals:

- to support municipalities in facilitating job creation and job retention within localities;
- to support the creation of sustainable local economies through pro-actively addressing issues of economic decline and dependency;

- to ensure that local economic growth actively benefits the poor and disadvantaged;
- to support rural development, particularly in areas that are affected by backward migration from urban areas;
- to support projects that target both sectors and geographic spaces addressing urban renewal;
- to ensure that women participate at all levels of project planning and implementation, and benefit directly and indirectly from projects; and
- to build institutions and delivery mechanisms that promote and enhance co-operative governance.

The total capital investment of the LED Fund from 1999 – 2002 was R 187.5 million. This catered for 176 projects and created employment for 8 459 people. There is a close correlation between LEDF distribution and population distribution. Also, more funds went to the 'poorer' provinces. The attached spreadsheets provide a provincial breakdown of the projects and their funding[37].

The following represents a summary of the investments made from 1999 to 2000:

Table 9: Summary of LED Fund investments (1999-2000)

	R mill	No. projects	No. employed
SMME[38]		124	1 397

[37] All information from: http://www.led.gov.za (accessed 13th December 2003).

[38] SMME development is a component of all the provincial reports with the assistance by existing SMME and the development of new SMMEs via the various LEDF projects. The type of SMME developed was dependent on the nature of the LEDF project and varied amongst projects and provinces (p. 24).

The LED guidelines outline four LED strategies of which SMMEs have been identified as one of the strategies and is used as a tool for employment generation. It is therefore incumbent on LED projects to develop SMMEs as strategies for poverty alleviation and employment generation. A significant criticism with regards to SMME development is the financial and institutional unsustainability of the projects.

The provincial evaluation reports suggest that LED projects aim to contribute to their local economy by creating entrepreneurship and SMME development. It is reported that almost every LED project developed SMMEs and provided a breakdown of the funding allocated to the development of SMMEs.

The evaluation reports suggest that, although most of the projects have been able to stimulate SMME development, there are existing SMMEs that are not linked to the projects. Some projects indicate that there was no specific focus on the development of SMMEs due to the community based nature of some of the LED projects.

Tourism[39]	55.1	32	2 426
Agriculture[40]	23.7	63	2 007
Infrastructure development	41	32	2 169
TOTAL	187.5	176	8 459

It is the opinion of the researchers who compiled the 'National Consolidated Evaluation of the LEDF and the LED programme' that, in terms of policy and legislative instruments, the programme is not seen as a first order development programme[41]. There is not a comprehensive policy paper directing municipalities on how to address local economic development. The first policy document was drawn up in February 2002, but that was about how to address poverty rather than about economic development. However, this has been identified as important issue and has been given some attention.

The DPLG has distributed funding on a provincial level in terms of the needs and population of the provinces. However, the filtering down of the LED funding from the DPLG to LED programmes and projects is an area of concern.

The DTI Portfolio Committee meeting of 2002 assessed the LEDF. The presenter said: 'Taking into account the many challenges at the local level moneys have been allocated but the realisation of actual projects is slow'[42]. In the DPLG's presentation at DTI's Portfolio Committee Meeting in 2003 the presenter identified lack of capacity and weak developmental plans at the local ward level as a challenge facing local economic development[43].

---

[39] The category of tourism includes projects classified under:
1. Tourism (31 projects with an investment of R53.1 million and 1366 people employed); plus
2. Business and Tourism (one project with an investment of R2 million and 60 people employed.)

[40] The category of agriculture includes projects categorised in the following ways:
1. Agriculture, mining, tourism, infrastructure, environmental, manufacturing (one project with an investment of R5.6 million and 39 people employed).
2. Agriculture (59 projects with an investment of R 12.4 million and 1696 employed).
3. Agriculture and Manufacturing (2 projects with an investment of R3 million and 206 employed).
4. Agriculture and Retail (one project with an investment of R2.7 million and 66 employed).

[41] p. 55.

[42] 'Parliamentary Public hearings on Development Funding for State Institutions and NGOs hosted by the Trade and Industry Portfolio Committee', 10 – 12 March 2002.

[43] 'Report of the Portfolio Committee on Trade and Industry', dated 16 April 2003.

The evaluation report also argued that the DPLG does not monitor the funds after they have been allocated to the provinces. Funding is also not released in line with the project's needs and this causes delays. The municipalities then allocate funds to various LED projects or programmes, but they do not adequately monitor or control the funds.

The report cites the following five recommendations, which are intended to sum up their findings:[44]

1) Urgent attention must be given to the business plans and the thoroughness with which market assessments are conducted.
2) It must be recognised that the capacity of officials and project members alike is low and that specific attention should be given to the development of after-care programmes and technical advice systems. Strict adherence to the project monitoring and evaluation programmes should be maintained.
3) It seems that provincial departments are being by-passed in the implementation and the monitoring and review of projects. The provincial departments can play an important supporting role and assist in the co-ordination and integration of the projects with other supporting programmes and initiatives such as that of the LBSCs.
4) The need to create a comprehensive policy framework for LED implementation through municipalities seems to be critically important. The provision of concise yet comprehensive objectives and standards of operation for the LED projects would assist municipalities in planning and focussing their interventionist actions better. The development of dedicated legislation to structure the special relationships and responsibilities that exists between the LEDF, municipalities and the project structures should be considered.
5) Attention should be given to a multi-year planning programme for the identification and implementation of projects. One of the biggest problems was that most of the projects were conceptualised only when the call for funding applications were made. A multi-year planning programme should allow scope for entrepreneurs/communities to approach the LEDF on a more structured basis.

In 2004, the LED Fund was absorbed into the MIG Fund. According to informants, this reflects a shift away from an LED approach focussed on small-scale job creation projects, to large-scale infrastructure-driven public investments that link

[44] p. 60.

infrastructure to local economic development via project application and approval criteria. This certainly makes logical sense, but there is a danger that the entrepreneurialism that pro-poor LED should involve might get lost beneath the rational planning and engineering logic of infrastructure projects.

5.3.4 uTshani Fund

The uTshani Fund is one of the more remarkable 'special funds' created after 1994, and offers many lessons. Unfortunately, it has received no attention by the research community, has no public profile and is hardly ever considered as a development fund in the development finance community. And yet it is a courageous visionary NGO-based initiative that managed to deliver housing on scale to the poorest members of society using a mix of state funds, donor funds, and savings from women's groups. It comes closest to institutionalising a conception of development that goes way beyond a basic needs approach, because the approach is rooted in the assumption that poverty does not equate to absence of physical things. Instead, uTshani and the alliance it was part of implemented in practice the notion that authentic and deep development is about personal and collective empowerment to understand and act in ways that transform the power relations that keep the poor in state of poverty.

The uTshani Fund was the third member of the 'Alliance' between the Fund, an alliance of local CBOs called the South African Homeless People's Federation (commonly just known as 'The Federation'), and a support NGO called People's Dialogue (PD). Started in the early 1990s, the Federation formalised indigenous savings practices by organising groups of women into self-managed savings clubs that linked savings with access to external loan finance and government housing subsidies in order to facilitate self-help housing construction amongst the poorest of the urban poor. PD provided the professional support services that these complex processes required.

By 2003, the uTshani Fund had managed to secure grants worth R38.4 million from various local and international donors (including from the National Department of Housing) and had taken delivery of R53 million worth of housing subsidies. This fund of R91.5 million resulted in the construction of over 10 300 houses. 4 050 subsidies were disbursed and 6 257 loans. The market value of the houses built by 2003 was valued at R410 million.

UTshani Fund was initially set up as a financial tool to assist the Federation to attract and leverage resources from the State and other actors in development. Its mandate was recently expanded to include creating assets. Based on this mandate, uTshani Fund, on behalf of the Federation:

- receives grant funds;

- provides project preparation services for land and housing development projects;
- administers revolving funds. These revolving funds aimed to bridge-finance government housing subsidies, to provide top-up loans for housing improvements, to enable savings schemes to purchase land, to facilitate demonstration projects in community-led infrastructure, and to capitalise regionally-managed income generation activities;
- administers trust funds. These trust funds include housing grants entrusted to uTshani for distribution to Federation members;
- administers the collectively held assets of the Federation, such as land and community buildings; and
- is a signatory on behalf of the Federation in contracts with others.

UTshani has been capitalised by Misereor, Cordaid, Homeless International, IEPALA and the South African government.

The German funder, Misereor, provided the first R4 million that resulted in the establishment of the Fund. The late Joe Slovo in his capacity as Minister of Housing allocated R10 million to the Fund. Other state funders included the Department of Land Affairs and Agriculture and the Department of Social Development. The tables below summarise the state of play as of 2003:

Table 10: Summary of grants received by UTshani Fund up to 2003

Capitalisation of loan funds by means of grants	**38 471 747**
Housing, land and infrastructure	33 916 747
Bilance/Cordaid	8 705 320
Fr Anzorena	253 513
Homeless international	929 463
Hotels Housing Trust	654 685
IEPALA	252 656
Misereor and KZE	9 928 056
Rausing	410 940
Sundry donations	31 470
USAID	1 650 644
National Housing Dept via uTshani Trust	10 000 000
Western Cape Community Housing Trust	1 100 000

Income generation	4 555 000
National Dept of Social Development	4 000 000
Dept of Social Development Western Cape	330 000
Siyabhabha Trust	225 000

Table 11: Housing subsidies administered and disbursed by uTshani Fund on behalf of government

	Total received	Disbursed	On hand
	53 052 447	**40 502 920**	**12 549 527**
Western Cape	28 821 909	22 271 125	6 550 784
KwaZulu-Natal	12 221 500	7 270 000	4 951 500
Free State	843 182	407 538	435 644
North West	928 500	666 000	262 500
Southern Cape	2 345 357	2 099 803	245 555
Eastern Cape	7 891 999	7 788 454	103 545
Gauteng	0	0	0
Limpopo	0	0	0
Mpumalanga	0	0	0
Northern Cape	0	0	0

Unfortunately, for highly complex reasons, by 2002/3 the Fund ran into difficulties that resulted in a decline in loan repayments. People's Dialogue was closed in 2005, the Federation split up into two main factions and funders began to ask questions. However, in 2005 the uTshani Fund Board was reconstituted and a new management structure put in place. The Fund was realigned with one of the Federation factions plus a new set of Cape-based movements known as the Coalition of the Urban Poor.

The significance of the uTshani Fund is that it is the only example of the 'special funds' reviewed in this study that managed to combine state funds, donor grants and grassroots savings to finance a bottom-up developmental process inspired by a collectivist approach to community-based capital mobilization. Similar models exist in many other parts of the world. It is a model that has been tried and tested, and deserves more state support.

5.4 Human resource development

5.4.1 National Skills Fund (NSF)[45]

The idea of a state-driven national skills programme originates in the RDP Ministry during the heady days after the 1994 election, but gets carried through into implementation by the Department of Labour. The motivation for such a programme came from the early realisation that employers cannot be relied upon to invest in employee skills development. The reason for this is that, although skills development is clearly in the long-term interest of employers, short-term profit seeking coupled to the difficulties of retaining newly trained staff by individual companies (who experience this phenomenon as an investment loss) makes in-house voluntary skills training extremely difficult. The result has been the creation of a hugely complex, institutionally elaborate structure for managing the spending of funds on training that flow from the implementation of the Skills Levy that is now imposed on all employers.

The significance of the NSF plus the SETAs for this report is that it they are highly sophisticated *'special funds'* with a long-term sustainable source of funding. They have a clear strategic purpose (to invest in human resource development on scale) and the rationale is poverty eradication via labour absorption into the formal economy. The magnitude of the funding flows involved and the singular focus on human capacity would suggest that, like the MIG fund, the NSF is emerging as a another 'mega-fund' in the development and poverty eradication game.

The National Skills Authority was established in terms of the Skills Development Act (1998) and the Skills Development Levies Act (1999). The National Skills Authority advises the Minister of Labour on the development of the National Skills Development Strategy. The vision of the National Skills Development Strategy is: 'Skills for Productive Citizenship for All.'

The implementation of the National Skills Development Strategy is the responsibility of the National Skills Fund, Provincial Offices of the NSF and the SETAs.

The National Skills Fund is managed by the Department of Labour and guided by advice from the National Skills Authority. It is funded through receiving a portion of the levy paid by employers. All employers pay a 1% tax on their payroll to SARS.

---

[45] Unless otherwise noted, all information is from the 'National Skills Development Strategy Implementation Report April 2002 – March 2003' made available by the Department of Labour on their website: http://www.labour.gov.za

From this levy, 80% is transferred directly to the relevant SETA with which that employer is registered and 20% to the National Skills Fund. The National Skills Fund was created to provide funding to address issues of national importance, including unemployment, small business development and special assistance to women, youth, rural people and people with disabilities. The Department of Labour's Provincial Offices and Labour Centres, SETAs as well as other disbursing agencies can draw on funding from the NSF for specific projects that meet the objectives of the NSF. According our calculations, the NSF has received R1.8 billion and disbursed nearly R1 billion.

On 18th February 2003 the Minister of Labour, Membathisi Mdladana, said in Parliament that the R214.7 million allocated from the NSF to social projects has helped to provide valuable skills to thousands (93 894 since they were made available in 2002) of South Africans. He also said that the Department of Labour has set aside R1.2 billion from the NSF for various skills development projects over the next three years[46].

The National Skills Development Strategy Implementation Report April 2002 – March 2003 assesses the performance of the National Skills Strategy and therefore also the effectiveness of the NSF in terms of 5 objectives each with specific success indicators, namely:

- developing a culture of high quality lifelong learning;
- fostering skills development in the formal economy for productivity and employment growth;
- stimulating and supporting skills development in small businesses;
- promoting skills development for employability and sustainable livelihoods through social development initiatives;
- assisting new entrants into employment.

The Department of Labour recorded that by 2003 the following targets had been achieved:

- 15% of workers in structured learning programmes (target 1.2);
- 40% of medium sized firms receiving skills grants (target 2.2);
- availability of learnerships in all sectors of the economy (target 2.3);
- placement rates for learners in social development projects (target 4.2).

[46] 'Mantshele wa ga Tau: Skills training projects on course'.
http://www.sainfo/what_happening/news/skillproject_190203.htm (24th June 2003).

Academic analyses and press reports, however, have raised questions about the effectiveness of the training programmes. In other words, enrolments are high, but throughput levels are extremely low. Furthermore, the SETAs have been plagued by capacity problems, governance crises and corruption.

The targets for 2005 are as follows:

- national standards for people development in the workplace;
- collection of levies and reciprocal grant-making for training for all large employers;
- assistance to small and emerging firms to take advantage of the system.

There is no doubt that much has been achieved in a short period of time. Due to the fact that the NSF and the SETAs are funded by a permanent tax collected by SARS, the steady build-up of funds will relentlessly drive skills development across all sectors of the economy. However, what is interesting is that the impact may well bifurcate along two parallel lines of development. The first is the original vision of skills development to enable people to access the formal economy and to ensure that skills shortages do not constrain future growth. This orientation involves formal contracts between middle and large employers and SETAs. The second orientation, however, could involve a plethora of SMMEs, NGOs, CBOs and local governments who could access learnerships and funds for skills development initiatives that equip people for community-based forms of capital mobilisation, rather than formal employment by the public sector or the formal business sector. Examples include business training for individual entrepreneurs right through to developmental skills initiatives aimed at the more collectivist end of the community-based development sector. NGOs and CBOs are gradually realising that SETAs (in particular the Education and Training SETA) might provide a permanent source of training to strengthen civil society-based initiatives. An example of this has emerged in Cape Town, where the Coalition of the Urban Poor has started working with NGOs to design Unit Standards and Learnerships that will make it possible to access SETA funding for training programmes that reinforce self-help savings networks and People's Housing Process initiatives. As Joel Bolnick put it, this approach is a way of 'hard wiring the social movements for development'. The irony is that civil society funds its own capacity building by accessing funds from the state that originate in a levy on businesses. If there ever was an example of progressive corporatist developmentalism in practice, this must be it.

6. MIG: the new 'mega-fund'?

On 5th March 2003 the South African Cabinet approved the Municipal Infrastructure Grant (MIG). This decision included the collapse of the following funds into the new MIG: Consolidated Municipal Infrastructure Programme; Water Services Projects; Community-Based Public Works Programme; Local Economic Development Fund; Building for Sports and Recreation Programme; Integrated National Electrificication Programme to Local Government (including the Integrated National Electrification Programme implemented by ESKOM); and the Urban Transport Fund. Responsibility for managing the MIG was allocated to the Department of Provincial and Local Government (DPLG). Inter-departmental cooperation will be facilitated by the Municipal Infrastructure Task Team (MITT). The basic vision of the MIG 'is to provide all South Africans with at least a basic level of service by the year 2013 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor'[47].

Based on a critique of the ad hoc nature of grant-making for infrastructure by national government departments, the MIG's mandate is to resolve this by integrating all infrastructure grants into 'one'; programme coordination via the MIG Unit; linking grants to IDPs; more community participation; devolving infrastructure planning to Local Governments; and creating a predictable flow of capital grant allocations. The MIG Unit has been set up to manage the funds and set decision-making frameworks in accordance with policy agreed to by the MITT. However, it must also help local governments build capacity to apply for and spend grants, and it must monitor performance.

According to the 2004 Division of Revenue Bill, the National Budget allocations for municipal infrastructure will be R4.1 billion in 2003/4, R4.9 billion in 2004/5, R5.5 billion in 2005/6 and R5.9 billion in 2006/7. The funding is allocated as follows:

- residential services and related institutions (e.g. schools, clinics, etc.): electricity, storm-water management, water supply, sanitation, municipal roads, refuse removal and street lighting;
- municipal services: transport, emergency services, community services, etc.;
- services for business premises.

Significantly, there is no application procedure for MIG funds. Instead, MIG funds are automatically transferred into the accounts of local governments according to a set formula. However, performance requirements are attached to these allocations. The grants can be reduced or withdrawn if the MIG Unit concludes that a given local government is underperforming.

[47] Official manual of the MIG Fund. Drawn down from www.win-sa.org.za on 29th October 2005.

According to the 'Introductory Guide to the MIG', '[o]ne of the key conditions of the MIG grant is that it must be used to *maximise employment generation* and promote small, medium and micro enterprises. At a national scale the MIG programme is seen as a central part of government's Expanded Public Works Programme. Locally, the MIG programme should be integrated into the municipality's local economic development programme' (p.15, our emphasis). This makes explicit the linkage between infrastructure investment, job creation and growth.

In line with the new approach to state-led growth initiatives via infrastructure investments, the Minister of Housing signed a Memorandum of Understanding (MOU) with the four major banks on 31st March 2005 which committed the banks to the following:

> Ensure the delivery of a minimum of R42bn in targeted investment for new affordable housing finance in theR1 500 to R7 500 income households by 31st December 2008, as per the Financial Sector Charter, and prior to this date determine a target for 2014 in conjunction with the Financial Sector Charter Council. (p.19 of the MOU)

Although the banks may well once again renege on their commitments, as has happened in the past, this does signal evidence that state-led infrastructure commitments do elicit follow-on responses from the financial services industry in line with current macro-economic thinking.

There are a number of significant aspects of the MIG fund that are worth highlighting for the purposes of this paper:

- the sheer size of the fund is significant – potentially the largest yet created by government with extensive poverty eradication possibilities;
- the awareness of capacity is present across the initiative, which signals a learning from past mistakes – this is reflected in the desire to rationalise a multiplicity of national funds into one, the focus on automatic transfers rather than capacity draining application and assessment procedures, and the explicit mandate of the MIG Unit to build local government capacity;
- the desire to avoid institutionalising funding flows outside formal government structures via 'special funds', or NGOs or business contractors – hence the focus on departments and local governments, with special emphasis on the latter; and
- the explicit linkage to job creation and growth (with spin-offs like the R42 billion banking sector commitment referred to above).

Two key criticisms are worth citing:

- Although there is reference to community participation, the way this is articulated tends to reinforce the legitimation approach to project design. It is now conventional wisdom that funding infrastructure to meet basic needs does not automatically result in poverty eradication. The reason for this is that poverty is not reducible to an absence of basic services. It also has causes related to the personal human capacity of poor people and the social relational dynamics of communities. So, unless funds for infrastructure are spent via structures and processes that make it possible for people and communities to build their personal skills and communal solidarities, poverty eradication may not flow from the physical construction of basic services.
- Secondly, the technical specifications that inform what kind of infrastructure will be built seem to be uninformed by sustainability criteria that take into account ecological threats such as rising oil prices, rising water and food prices, and the need for energy efficiencies such as public transportation, reduced distances between home and work, recycling of all liquid and solid wastes, and urban agriculture. This could result in the infrastructure investment programme reinforcing the extremely inefficient resource use patterns that pervade the South African economy.

In general, there is no doubt that the funding flows that the MIG Fund will trigger, will shape the spatial, fiscal and developmental terrain for many other funding flows into poverty eradication and development in the coming years.

7. Conclusions and reflections

In conclusion, these stories have been about the many ways of institutionalising the developmental state and the challenges involved. Some significant trends include:

- the role played by politically high profile 'special funds' at different times and how these reflect the changing focus of 'developmental policy' priorities: the key story in this regard is the rise and fall of the RDP and the RDP Fund ('lead projects' and 'transformation'), the rise and fall of the SPRA ('poverty alleviation' to ameliorate 'macro-economic stabilisation'), and the rise of the NSF/SETAs ('human resource development' as 'solution to unemployment') and the MIG Fund ('growth stimulation plus asset-based poverty eradication via infrastructure investments');

- the difference between the facilitators (Khula/Ntsika) and the grant-makers (Lottery, NDA, LED Fund);
- the rise of the hybrids, namely IDT and Umsobomvu, that have captured public resources to establish themselves as mega development agencies using a creative mix of instruments ('capacity for implementation' in the case of the IDT, and grant-making plus investing in the case of Umsobumvu);
- the challenge of the new giants and what this says about the focus of developmental state interventions at the start of the second decade – NSF/SETAs that focus on human resource development, and the MIG Fund's focus on municipal infrastructure investments channelled via formula directly into local governments; and
- the re-emergence of the financial capacity for supporting an authentic community-based approach via the restructured uTshani Fund and, hopefully, the NDA (if it manages once and for all to become a viable uncorrupt developmental agency), especially if the 'sustainable human settlement' approach that lies at the centre of the new national housing policy breaks from statist interpretations of what this means in practice.

There are other trends that could be addressed, but these are the ones that we believe shed light on this challenge of institutionalising developmental state institutions.

One cannot help wondering whether the effort and strategic resources that have gone into the 'special funds' may appear much greater than the benefits if these benefits are measured purely in terms of expenditure. However, there are three non-financial benefits that may have resulted but further research is needed, namely (a) the learning that has taken place about the challenge of institutionalising capacity for managing development funding; (b) comparative analysis of the difficulties of institutionalising welfarist versus developmental institutions; and (c) the learning and capacity generated in the large number of projects that benefited from the funds (including, and possibly especially, the learning that has been generated by projects that have failed).

APPENDIX A
Overview of 'special funds' expenditures

Definitions

Agriculture: promotion of, capacity building for, project establishment, support for post-settlement land reform

Health: primary health care, HIV/Aids projects and community-based health initiatives

HRD: investments in large-scale generalised skills training, plus targeted capacity building for SMMEs and smaller scale capacity building for CBOs and NGOs

Infrastructure & Assets: investments in fixed assets of various kinds with the main purpose to create the asset (e.g. schools, clinics, business centres, roads, cultural centres etc.) but also in the process to achieve other developmental targets such as skills, local economic development, empowerment of women, rural development etc.

Poverty Relief: grants for local projects that provide relief and welfare services for very poor communities

SMMEs: promotion of, capacity building to support the establishment and strengthening of SMMEs, investments and loans for SMMEs as well as strategic guidance and support

Youth Development: grants, investments and loans in projects aimed explicitly at economic and business developments that benefit the Youth

SECTORAL OVERVIEW	1994 - 2003															
	SPRA	IDT	IDC	Isibaya	Khula	LED	NDA	NEF	NLB	NSF	OJA	Ntsika	SAWEN	uTshani	UYF	Totals: 1994 - 2003
Revenue																
Govtment transfers	5,904,400,000	3,607,771,000	0	11,000,000,000	1,623,354,412	234,082,345	529,435,000	2,000,000,000	4,500,000	304,763,195	648,811,609	258,830,064	2,000,000	67,382,447	3,361,950,030	27,547,280,102
Donor grants	0	0	0		223,382,160		141,104,404	58,191,167				42,417,241		24,141,747	0	489,236,719
Loans	0	0	0		143,359,691					8,712,167		0		0	0	152,071,858
ROI (Capital)	0	97,593,000	0		27,996,294							0		0	9,754,861	135,344,155
Interest (Invest)	0	0	0		158,178,687			3,744,700	336,407,953	220,914,269	107,512,271	0		0	386,369,833	1,213,127,713
Other					12,295,005		58,000,000	234,000,000	2,303,644,778	1,365,254,605	297,939,896	277,025		0	2,641,902	4,274,053,211
Total	5,904,400,000	3,705,364,000	0	11,000,000,000	2,188,566,249	234,082,345	728,539,404	295,935,867	2,644,552,731	1,899,644,236	1,054,263,776	301,524,330	2,000,000	91,524,194	3,760,716,626	33,811,113,758
Expenditure																
Grant funding																
Agriculture	47,000,000	15,100,000	0	0			0	0			0			0		62,100,000
Environ & Biodiv	0	0	0	0			0	0			0			0		0
Health	17,100,000	0	0	0			57,207,423	0			0			0		74,307,423
HRD & Social Capital	3,200,000	1,116,500,000	0	0			188,623,294	0	511,134,654	908,447,990	0	17,309,335		0		2,745,215,273
Infra & assets	3,112,630,000	1,353,250,000	0	150,000,000			132,955,605	0			195,520,436	68,212,066		40,502,920		5,053,071,027
Job creation	0	90,800,000	0	0		162,802,793	0	0			0			0		253,602,793

Police/Security	0	0	0	0			0	0			0			0		0
Poverty relief	0	170,000,000	0	0			0	0	451,027,297		40,189,950			0		661,217,247
SMMEs	0	122,500,000	0	0	1,148,370,000		0	8,225,709			0	110,384,398		0		1,389,480,107
Social security	0	0	0	0			0	0			0			0		0
Toursim	0	0	0	0			0	0			0			0		0
Youth devment	0	0	0	0			0	0			0			0	186,015,117	186,015,117
Sub Tot	**3,179,930,000**	**2,868,150,000**	**0**	**150,000,000**	**1,148,370,000**	**162,802,793**	**378,786,322**	**8,225,709**	**962,161,951**	**908,447,990**	**235,710,386**	**195,905,799**	**0**	**40,502,920**	**186,015,117**	**10,425,008,988**
Investments	0	0	0					171,000,000								171,000,000
Guarantees (Invest)	0	0	0					0								0
Loans	0	0	0					0								0
Sub Tot	0	0	0					171,000,000								171,000,000
Total	**3,179,930,000**	**2,868,150,000**	**0**	**150,000,000**	**1,148,370,000**	**162,802,793**	**378,786,322**	**179,225,709**	**962,161,951**	**908,447,990**	**235,710,386**	**195,905,799**	**0**		**186,015,117**	**10,555,506,068**
Var: Rec - Spent	**-2,724,470,000**	**-837,214,000**	**0**		**-1,040,196,249**	**-71,279,552**	**-349,753,082**	**-116,710,158**	**-1,682,390,780**	**-991,196,246**	**-818,553,390**	**-105,618,531**			**-3,574,701,509**	
% Spent	**54%**	**77%**	**0%**		**52%**	**70%**	**52%**	**61%**	**36%**	**48%**	**22%**	**65%**			**5%**	
																48% Infra: % of allocated/spent
																15% Infra: % of received

SECTORAL OVERVIEW					2003/2002											
	SPRA	IDT	IDC	Isibaya	Khula	LED	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 2003/02
Revenue																
Govtment transfers	1,500,000,000	1,381,521,000	0		593,862,514	19,926,742	96,745,000	2,000,000,000		31,360,000	40,000,000	171,723,888	2,000,000	0	801,810,957	6,638,950,101
Donor grants	0	0			61,272,745			33,500,000			15,675,576			478,513		110,926,834
Loans	0	0			41,225,912			0		2,281,000	0			0		43,506,912
ROI (Capital)	0	104,316,000			8,744,415			0			0			0	9,754,861	122,815,276
Interest (Invest)	0				66,648,412			1,437,313	219,133,320	117,540,000	0	21,761,658		0	93,225,891	519,746,594
Other	0				1,018,619		38,500,000	220,000,000	1,030,379,875	651,663,000	180,225	1,962		0	2,641,902	1,944,385,583
Total	1,500,000,000	1,485,837,000	0	0	772,772,617	19,926,742	135,245,000	254,937,313	1,249,513,195	802,844,000	55,855,801	193,487,508	2,000,000	478,513	907,433,611	7,380,331,300
Expenditure																
Grant funding																
Agriculture	10,000,000	15,100,000						0						0		**25,100,000**
Environ & Biodiv	0	0						0						0		**0**
Health	12,000,000	0					9,433,000	0						0		**21,433,000**
HRD & Social Capital	2,400,000	0					22,009,000	0	391,426,702	476,475,000	0			0		**892,310,702**
Infra & assets	1,220,700,000	451,000,000	0	105,000,000			31,442,000	0			10,899,050	32,753,068		0		**1,851,794,118**
Job creation		5,800,000				22,376,742		0						0		**28,176,742**

Police/Security		0						0						0		**0**
Poverty relief		170,000,000						0	344,164,022			284,000		0		**514,448,022**
SMMEs		0	0		143,546,250			5,675,709			26,496,187			0		**175,718,146**
Social security		0						0						0		**0**
Toursim		0						0						0		**0**
Youth devment		0						0						0	126,233,626	**126,233,626**
Sub Tot	**1,245,100,000**	**641,900,000**	**0**	**105,000,000**	**143,546,250**	**22,376,742**	**62,884,000**	**5,675,709**	**735,590,724**	**476,475,000**	**37,395,237**	**33,037,068**	**0**	**0**	**126,233,626**	**3,635,214,356**
Investments	0	0						0			0					**0**
Guarantees (Invest)	0	0						0			0					**0**
Loans	0	0						0			0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**1,245,100,000**	**641,900,000**	**0**	**105,000,000**	**143,546,250**	**22,376,742**	**62,884,000**	**5,675,709**	**735,590,724**	**476,475,000**	**37,395,237**	**33,037,068**	**0**		**126,233,626**	**3,635,214,356**
																51% Infra: % of allocated/spent
																25% Infra: % of received

SECTORAL OVERVIEW	2002/2001																
	SPRA	IDT	IDC	Isibaya	Khula	LED	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	SRF	uTshani	UYF	Totals: 2002/01
Revenue																	
Govtment transfers	1,353,000,000	1,316,665,000	0		572,417,816	84,939,829	92,690,000	0		20,000,000	35,050,000	163,812,391			0	849,251,171	3,171,161,207
Donor grants	0				65,725,123			13,562,500			8,611,212				0		87,898,835
Loans	0				51,316,388			0		2,226,832	0				0		53,543,220
ROI (Capital)	0	64,856,000			7,351,542			0			0				0		72,207,542
Interest (Invest)	0				51,193,361			2,116,767	91,329,888	54,359,025	0	17,196,782			0	91,476,077	307,671,900
Other	0				525,941		19,500,000	185,000,000	834,459,258	512,756,552	0	13,966			0		1,552,255,717
Total	1,353,000,000	1,381,521,000	0	0	748,530,171	84,939,829	112,190,000	200,679,267	925,789,146	589,342,409	43,661,212	181,023,139	0	0	0	940,727,248	5,179,882,421
Expenditure																	
Grant funding																	
Agriculture	8,000,000							0			0				0		8,000,000
Environ & Biodiv	0							0			0				0		0
Health	5,100,000						2,000,287	0			0				0		7,100,287
HRD & Social Capital	800,000						6,304,954	0	119,707,952	205,913,375	0				0		332,726,281
Infra & assets	1,035,430,000		0	45,000,000			6,024,207	0			8,640,731	6,162,586			8,100,584		1,109,358,108
Job creation	0					64,665,625		0			0				0		64,665,625

Police/Security	0							0			0				0		0
Poverty relief	0							0	102,781,275		0	2,612,753			0		105,394,028
SMMEs	0		0		143,546,250			2,550,000			18,913,085				0		165,009,335
Social security	0							0			0				0		0
Toursim	0							0			0				0		0
Youth devment	0							0			0				0	53,588,711	53,588,711
Sub Tot	**1,049,330,000**	**0**	**0**	**45,000,000**	**143,546,250**	**64,665,625**	**14,329,448**	**2,550,000**	**222,489,227**	**205,913,375**	**27,553,816**	**8,775,339**	**0**	**0**	**######**	**53,588,711**	**1,845,842,376**
Investments	0							0			0						0
Guarantees (Invest)	0							0			0						0
Loans	0							0			0						0
Sub Tot	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**1,049,330,000**	**0**	**0**	**45,000,000**	**143,546,250**	**64,665,625**	**14,329,448**	**2,550,000**	**222,489,227**	**205,913,375**	**27,553,816**	**8,775,339**	**0**	**0**		**53,588,711**	**1,837,741,792**
																	60% Infra: % of allocated/spent
																	21% Infra: % of received

SECTORAL OVERVIEW	2001/2000															
	SPRA	IDT	IDC	Isibaya	Khula	LED	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 2001/00
Revenue																
Govtment transfers	951,400,000	1,388,244,000	0	11,000,000,000	457,074,082	93,843,265	190,000,000	0		100,000,000	50,000,000	152,328,422		14,610,489	855,443,951	13,864,700,209
Donor grants	0				96,384,292		48,328,570	11,128,667			5,352,890			2,029,463		163,223,882
Loans	0				50,817,391			0		2,780,921	0			0		53,598,312
ROI (Capital)	0	-71,579,000			11,900,337			0			0			0		-59,678,663
Interest (Invest)	0				40,336,914			190,620	25,929,797	30,695,964	0	17,439,545		0	92,005,959	206,598,799
Other	0				358,532			185,000,000	428,524,367	180,707,314	52,000	876,477		0		795,518,690
Total	951,400,000	1,316,665,000	0	11,000,000,000	656,871,548	93,843,265	238,328,570	196,319,287	454,454,164	314,184,199	55,404,890	170,644,444	0	16,639,952	947,449,910	15,095,540,229
Expenditure																
Grant funding																
Agriculture	29,000,000							0			0			0		**29,000,000**
Environ & Biodiv	0							0			0			0		**0**
Health	0						18,553,693	0			0			0		**18,553,693**
HRD & Social Capital	0						59,400,752	0		141,494,909	1,420,206			0		**202,315,867**
Infra & assets	856,500,000		0				35,319,216	0			14,586,867	1,601,022		8,100,584		**916,107,689**
Job creation	0					67,115,591		0			0			0		**67,115,591**

Police/Security	0							0			0			0		**0**
Poverty relief	0							0	4,082,000		0	4,524,544		0		**8,606,544**
SMMEs	0		0		143,546,250			0			11,430,281			0		**154,976,531**
Social security	0							0			0			0		**0**
Toursim	0							0			0			0		**0**
Youth devment	0							0			0			0	6,192,780	**6,192,780**
Sub Tot	**885,500,000**	**0**	**0**	**0**	**143,546,250**	**67,115,591**	**113,273,661**	**0**	**4,082,000**	**141,494,909**	**27,437,354**	**6,125,566**	**0**	**8,100,584**	**6,192,780**	**1,402,868,695**
Investments								171,000,000			0					**171,000,000**
Guarantees (Invest)								0			0					**0**
Loans								0			0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**		**0**	**171,000,000**	**0**	**0**	**0**	**0**	**0**		**0**	**171,000,000**
Total	**885,500,000**	**0**	**0**	**0**	**143,546,250**	**67,115,591**	**113,273,661**	**171,000,000**	**4,082,000**	**141,494,909**	**27,437,354**	**6,125,566**	**0**		**6,192,780**	**1,565,768,111**
																65% Infra: % of allocated/spent
																6% Infra: % of received

SECTORAL OVERVIEW	2000/1999															
	SPRA	IDT	IDC	Isibaya	Khula	LED	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 2000/1999
Revenue																
Govtment transfers	1,000,000,000		0			35,372,509		0	1,500,000	153,403,195	57,940,000	82,734,964		######	855,443,951	2,197,335,108
Donor grants	0						13,429,704	0			2,641,906			######		17,149,588
Loans	0							0		1,423,414	0			0		1,423,414
ROI (Capital)	0							0			0			0		0
Interest (Invest)	0							0	14,948	18,319,280	0	75,865,667		0	109,661,906	203,861,801
Other	0							0	10,281,278	20,127,739	44,800	17,681,856		0		48,135,673
Total	1,000,000,000	0	0	0	0	35,372,509	13,429,704	0	11,796,226	193,273,628	60,626,706	176,282,487	0	######	965,105,857	2,467,905,584
Expenditure																
Grant funding																
Agriculture	0							0			0			0		**0**
Environ & Biodiv	0							0			0			0		**0**
Health	0						2,536,650	0			0			0		**2,536,650**
HRD & Social Capital	0						7,533,661	0		84,564,706	6,683,229			0		**98,781,596**
Infra & assets	0		0				3,389,392	0			8,211,755	5,944,852		8,100,584		**25,646,583**
Job creation	0					8,644,835		0			0			0		**8,644,835**

Police/Security	0							0			0			0		**0**
Poverty relief	0							0			0	16,799,634		0		**16,799,634**
SMMEs	0		0		143,546,250		0	0			23,683,451			0		**167,229,701**
Social security	0							0			0			0		**0**
Toursim	0							0			0			0		**0**
Youth devment	0							0			0			0		**0**
Sub Tot	**0**	**0**	**0**	**0**	**143,546,250**	**8,644,835**	**13,459,703**	**0**	**0**	**84,564,706**	**38,578,435**	**22,744,486**	**0**	**######**	**0**	**319,638,999**
Investments	0										0					**0**
Guarantees (Invest)	0										0					**0**
Loans	0										0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**		**0**		**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**0**	**0**	**0**	**0**	**143,546,250**	**8,644,835**	**13,459,703**		**0**	**84,564,706**	**38,578,435**	**22,744,486**	**0**		**0**	**311,538,415**
																8% Infra: % of allocated/spent
																1% Infra: % of received

SECTORAL OVERVIEW	1999/1998														
	SPRA	IDT	IDC	Isibaya	Khula	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 1999/98
Revenue															
Govtment transfers	800,000,000		0			50,000,000	0	3,000,000		47,556,580	46,535,659		######		957,702,728
Donor grants	0					9,285,630	0			6,028,774			######		24,845,046
Loans	0						0			0			0		0
ROI (Capital)	0						0			0			0		0
Interest (Invest)	0						0			0	77,133,053		0		77,133,053
Other	0						0			0	18,012,759		0		18,012,759
Total	800,000,000	0	0	0	0	59,285,630	0	3,000,000	0	53,585,354	141,681,471	0	######	0	1,077,693,586
Expenditure															
Grant funding															
Agriculture	0						0			0			0		0
Environ & Biodiv	0						0			0			0		0
Health	0					14,220,504	0			0			0		14,220,504
HRD & Social Capital	0					32,388,208	0			5,491,896			0		37,880,104
Infra & assets	0		0			27,793,534	0			12,709,847	49,304,399		8,100,584		97,908,364
Job creation	0						0			0			0		0

Police/Security	0						0			0			0		**0**
Poverty relief	0						0			0	8,531,976		0		**8,531,976**
SMMEs	0		0		143,546,250		0			22,877,872			0		**166,424,122**
Social security	0						0			0			0		**0**
Toursim	0						0			0			0		**0**
Youth devment	0						0			0			0		**0**
Sub Tot	**0**	**0**	**0**	**0**	**143,546,250**	**74,402,246**	**0**	**0**	**0**	**41,079,615**	**57,836,375**	**0**	**######**	**0**	**324,965,070**
Investments	0									0					**0**
Guarantees (Invest)	0									0					**0**
Loans	0									0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**0**	**0**	**0**	**0**	**143,546,250**	**74,402,246**		**0**	**0**	**41,079,615**	**57,836,375**	**0**		**0**	**316,864,486**
															30% Infra: % of allocated/spent
															9% Infra: % of received

SECTORAL OVERVIEW	1998/1997														
	SPRA	IDT	IDC	Isibaya	Khula	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 1998/97
Revenue															
Govtment transfers	300,000,000	556,562,500	0				0			28,283,484	6,836,956		######		902,293,429
Donor grants	0	0				26,302,045	0			4,106,883			######		31,506,023
Loans	0	0					0			0			0		0
ROI (Capital)	0	0					0			0			0		0
Interest (Invest)	0	0					0			0	79,637,502		0		79,637,502
Other	0	0					0			0	8,943,717		0		8,943,717
Total	300,000,000	556,562,500	0	0	0	26,302,045	0	0	0	32,390,367	95,418,175	0	######	0	1,022,380,671
Expenditure															
Grant funding															
Agriculture	0	0					0			0			0		0
Environ & Biodiv	0	0					0			0			0		0
Health	0	0					0			0			0		0
HRD & Social Capital	0	279,125,000				2,271,730	0			3,714,004			0		285,110,734
Infra & assets	0	225,562,500	0			13,195,819	0			13,163,816	41,365,052		8,100,584		301,387,771
Job creation	0	21,250,000				11,000,533	0			0			0		32,250,533

Police/Security	0	0					0			0			0		0
Poverty relief	0	0					0			0	6,538,006		0		6,538,006
SMMEs	0	30,625,000	0		143,546,250		0			6,983,522			0		181,154,772
Social security	0	0					0			0			0		0
Toursim	0	0					0			0			0		0
Youth devment	0	0					0			0			0		0
Sub Tot	**0**	**556,562,500**	**0**	**0**	**143,546,250**	**26,468,082**	**0**	**0**	**0**	**23,861,342**	**47,903,058**	**0**	**######**	**0**	**806,441,816**
Investments	0	0								0					0
Guarantees (Invest)	0	0								0					0
Loans	0	0								0					0
Sub Tot	0	0	0	0	0	0		0	0	0	0	0		0	0
Total	**0**	**556,562,500**	**0**	**0**	**143,546,250**	**26,468,082**		**0**	**0**	**23,861,342**	**47,903,058**	**0**		**0**	**798,341,232**
															37% Infra: % of allocated/spent
															29% Infra: % of received

SECTORAL OVERVIEW	1997/1996														
	SPRA	IDT	IDC	Isibaya	Khula	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 1997/96
Revenue															
Govtment transfers	0	556,562,500	0			50,000,000	0			0	13,268,473		######		630,441,462
Donor grants	0	0				43,758,455	0			0			######		46,686,511
Loans	0	0					0			0			0		0
ROI (Capital)	0	0					0			0			0		0
Interest (Invest)	0	0					0			0	39,662,233		0		39,662,233
Other	0	0					0			0	3,979,264		0		3,979,264
Total	0	556,562,500	0	0	0	93,758,455	0	0	0	0	56,909,970	0	######	0	720,769,470
Expenditure															
Grant funding															
Agriculture	0	0					0			0			0		0
Environ & Biodiv	0	0					0			0			0		0
Health	0	0					0			0			0		0
HRD & Social Capital	0	279,125,000				2,271,730	0			0			0		281,396,730
Infra & assets	0	225,562,500	0			13,195,819	0			0	42,626,035		0		281,384,354
Job creation	0	21,250,000				11,000,533	0			0			0		32,250,533

Police/Security	0	0					0			0			0		**0**
Poverty relief	0	0					0			0	619,037		0		**619,037**
SMMEs	0	30,625,000	0		143,546,250		0			0			0		**30,625,000**
Social security	0	0					0			0			0		**0**
Toursim	0	0					0			0			0		**0**
Youth devment	0	0					0			0			0		**0**
Sub Tot	**0**	**556,562,500**	**0**	**0**	**143,546,250**	**26,468,082**	**0**	**0**	**0**	**0**	**43,245,072**	**0**	**0**	**0**	**626,275,654**
Investments	0	0								0					**0**
Guarantees (Invest)	0	0								0					**0**
Loans	0	0								0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**0**	**556,562,500**	**0**	**0**	**143,546,250**	**26,468,082**		**0**	**0**	**0**	**43,245,072**	**0**		**0**	**626,275,654**
															45% Infra: % of allocated/spent
															39% Infra: % of received

SECTORAL OVERVIEW	1996/1995														
	SPRA	IDT	IDC	Isibaya	Khula	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 1996/95
Revenue															
Govtment transfers	0	556,562,500	0				0			0	8,333,640		######		574,896,140
Donor grants	0						0			0			######		3,000,000
Loans	0						0			0			0		0
ROI (Capital)	0						0			0			0		0
Interest (Invest)	0						0			0	16,053,840		0		16,053,840
Other	0						0			0	1,738,997		0		1,738,997
Total	0	556,562,500	0	0	0	0	0	0	0	0	26,126,477	0	######	0	595,688,977
Expenditure															
Grant funding															
Agriculture	0	0					0			0			0		0
Environ & Biodiv	0	0					0			0			0		0
Health	0	0				5,919,829	0			0			0		5,919,829
HRD & Social Capital	0	279,125,000				34,595,082	0			0			0		313,720,082
Infra & assets	0	225,562,500	0			6,986,189	0			0	12,092,390		0		244,641,079
Job creation	0	21,250,000					0			0			0		21,250,000

Police/Security	0	0					0			0			0		**0**
Poverty relief	0	0					0			0	135,000		0		**135,000**
SMMEs	0	30,625,000	0		143,546,250		0			0			0		**30,625,000**
Social security	0	0					0			0			0		**0**
Toursim	0	0					0			0			0		**0**
Youth devment	0	0					0			0			0		**0**
Sub Tot	**0**	**556,562,500**	**0**	**0**	**143,546,250**	**47,501,100**	**0**	**0**	**0**	**0**	**12,227,390**	**0**	**0**	**0**	**616,290,990**
Investments	0									0					**0**
Guarantees (Invest)	0									0					**0**
Loans	0									0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**0**	**556,562,500**	**0**	**0**	**143,546,250**	**47,501,100**		**0**	**0**	**0**	**12,227,390**	**0**		**0**	**616,290,990**
															40% Infra: % of allocated/spent
															41% Infra: % of received

SECTORAL OVERVIEW	1995/1994														
	SPRA	IDT	IDC	Isibaya	Khula	NDA	NEF	NLB	NSF	Ntsika	OJA	SAWEN	uTshani	UYF	Totals: 1995/94
Revenue															
Govtment transfers	0	556,562,500	0				0			0	3,237,216		0		559,799,716
Donor grants	0	0					0			0			4,000,000		4,000,000
Loans	0	0					0			0			0		0
ROI (Capital)	0	0					0			0			0		0
Interest (Invest)	0	0					0			0	8,695,196		0		8,695,196
Other	0	0					0			0	757,693		0		757,693
Total	0	556,562,500	0	0	0	0	0	0	0	0	12,690,105	0	4,000,000	0	573,252,605
Expenditure															
Grant funding															
Agriculture	0	0					0			0			0		0
Environ & Biodiv	0	0					0			0			0		0
Health	0	0					0			0			0		0
HRD & Social Capital	0	279,125,000					0			0			0		279,125,000
Infra & assets	0	225,562,500	0				0			0	3,671,032		0		229,233,532
Job creation	0	21,250,000					0			0			0		21,250,000

Police/Security	0	0					0			0			0		**0**
Poverty relief	0	0					0			0	145,000		0		**145,000**
SMMEs	0	30,625,000	0				0			0			0		**30,625,000**
Social security	0	0					0			0			0		**0**
Toursim	0	0					0			0			0		**0**
Youth devment	0	0					0			0			0		**0**
Sub Tot	**0**	**556,562,500**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,816,032**	**0**	**0**	**0**	**560,378,532**
Investments	0	0								0					**0**
Guarantees (Invest)	0	0								0					**0**
Loans	0	0								0					**0**
Sub Tot	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**		**0**	**0**
Total	**0**	**556,562,500**	**0**	**0**	**0**	**0**		**0**	**0**	**0**	**3,816,032**	**0**		**0**	**560,378,532**
															41% Infra: % of allocated/spent
															40% Infra: % of received