



# The First International Conference on Development Finance & Economic Transformation

*Conference Proceedings*

*Theme*

**Development, Finance, Transformation & Economic  
Growth in Developing Countries for  
the 21<sup>st</sup> Century**

**EDITORS:**

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Transformation**

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***Development, Finance, Transformation & Economic Growth in Developing  
Countries for the 21<sup>st</sup> Century***

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# ***FOREWORD & PRE-PUBLICATION PEER REVIEW***

**Conference Proceedings published by the Faculty  
of Management & Law (Centre for Development  
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The goal of the First International Conference on Development Finance & Economic Transformation of the Faculty of Management & Law (University of Limpopo, Turfloop Campus), is to inaugurate an annual conference series that provides a sustainable platform for scholarly and pragmatic engagement among academics, practitioners, policy makers and politicians for the exchange of knowledge, ideas and information on the specific subject of development finance and economic transformation for developing countries. We expect that the conference would deliver milestones in pursuance of the University of Limpopo's Motto of "*Finding Solutions for Africa*"; and, perhaps for the developing world. Annually, the conference should generate multidisciplinary and interdisciplinary knowledge and ideas relevant for addressing the old problems of development, finance, economy and transformation for Africa and developing countries. To sustain this scholarship and intellectual project, the University of Limpopo has established the Centre for Development Finance & Economic Transformation within the Faculty of Management & Law which hosts both the conference series and the *South African Journal of Development & Transformation (SAJDT)*.

This scientific engagement consists of a team of prominent internationally-renowned scholars, as demonstrated in the Editorial Board; and, the peer review relies on an international pool of experts in the multidisciplinary subjects of development, finance, economy and transformation, with the orientation toward developing countries in general and Africa in particular. We expect this scholarship and intellectual project to deliver knowledge that is applicable and usable for Africa and the developing world within the global context where global financial markets collapsed and some degree of economic growth continued amidst widespread socio-economic and political marginalization of the majority of the world's population. This compilation of Conference Proceedings contains contributions by academics, practitioners and policy makers from across the world. The First International Conference on Development Finance & Economic Transformation has drawn experts in the subjects of development, finance, economy and transformation especially from Uganda, Botswana, Kenya, Nigeria, Zimbabwe, Germany, Australia, USA and UK.

*The pre-publication peer review was conducted in two phases. First, all conference paper proposals were subjected to double-blind peer review for adjudication using the expertise of the subject specialists in development, finance, economy and transformation. The call for papers drew 123 submissions; and, 117 of them were accepted for paper presentation at the Conference. Second, all 61 full papers submitted to the First Conference on Development Finance & Economic Transformation were subjected to another round of a pre-publication double-blind peer review process, out of which only 56 were accepted for publication in this Conference Proceedings. The pre-publication peer review used the rigorous adjudication template of the South African Journal of Development & Transformation. Papers published in this Conference Proceedings were reviewed and edited in accordance with the Editorial Policy of the South African Journal of Development & Transformation. The Conference Proceedings is also published on CD in order to be as accessible as possible to as many academics, researchers, practitioners and policy makers interested in the subject of development, finance, economy and transformation for Africa and the developing world in the 21<sup>st</sup> century.*

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# ***ACKNOWLEDGEMENT***

This inaugural conference was made possible by the visionary and progressive Leadership of the University of Limpopo, Professor Mahlo Mokgalong and Professor Pumela Msweli. These Leaders have planted a seed that would grow the Faculty of Management & Law, through its Centre for Development Finance & Economic Transformation, into a knowledge hub. Beyond creating a platform for an annual series and exchange of knowledge and ideas globally on a sustained basis, the Faculty of Management & Law will also distribute knowledge extensively through wide circulation of the *South African Journal of Development & Transformation*. We greatly thank these Great Leaders for their Vision and Unwavering Support.

The realisation of this scholarship and intellectual project was also made possible through selfless contributions of the Editors, Editorial Board, proposal and manuscript Adjudicators as well as Administrators. Special words of thanks are extended to Ms Phophi Nembambula, Ms Matshidiso Ledwaba, Ms Pinkie Mawasha, Mr Khutso Manyaka, Ms Angie Mamabolo, Ms Martina Segage, Ms Uchenna Alabi, Mr Maphatane and Mr Ramakgwakgwa for their sterling logistical and administrative arrangements for both the Conference and the Proceedings. The Conference would not have been successful without the unwavering support of Mr Maloka, Mr Madzivandila (Thanyani), Mr Masenya, Mr Mashamaite, Mr Madzivhandila (Andani), Ms Ramonyai, Mr Matshidza, Ms Moloto, Ms Ratau, Mr Phaswana, Mr Makukule and many others. The Conference and Proceedings would have been impossible without the continued support and advisories of the Scientific Committee – we greatly thank all members of the Committee for months of hard work and sacrifice. We are also thankful to the Executive Director of Marketing & Communications, Mr DK Mohuba, and Ms M Talane for their Leadership and Support. Finally, we would like to sincerely thank all the contributors who submitted their works to the First International Conference on Development Finance & Economic Transformation for consideration, paper presentations and publication in the Conference Proceedings.

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## DEVELOPMENT, FINANCE, ECONOMIC GROWTH AND TRANSFORMATION IN AFRICA AND THE DEVELOPING WORLD FOR THE 21<sup>st</sup> CENTURY: AN EDITORIAL ENGAGEMENT

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### INTRODUCTION

There are innumerable ways of measuring power capabilities in the interstate and international financial system (Armijo, 2007). Whereas it is common knowledge that the US\$ has continued to dominate the currency composition of total foreign exchange holdings, it is accepted that its hegemonic status has declined (Armijo & Echeverri-Gent, 2006; Armijo, 2007). But even as the US's foreign exchange reserves held by the central bank dropped drastically in recent years, its *quid pro quo* interstate political negotiations has persisted, because it holds a theoretical monopoly of "a large hoard of cash and liquid financial assets" (Armijo, 2007: 22). Together with the monetary gold, the US government's holding of official foreign exchange reserves is in practice far less than that of China and Japan; and, it is also slightly less than that of Taiwan, Korea, Russia, India, Singapore and Germany. But the US continues to hold a dominant position in world markets, the G-7 (G-8), International Monetary Fund (IMF), the World Bank and such other global financial governance institutions (MacFarlane, 2006; Glosny, 2010). The US's dominance on the financial power capabilities is eloquently captured by Armijo's (2007: 24) elucidation of the seigniorage privilege thus:

"When a country's home currency is in demand abroad as a store of value and for international transaction purposes, then that country can issue larger amounts than are demanded for domestic use. So long as foreigners are prepared to absorb dollars, the US government can print, and spend, without restraint. Moreover, given the enormous investment of virtually all foreign central banks, not to mention their private business communities in dollar-denominated assets, a dramatic dollar devaluation is feared by all sovereign players .... Essentially freed from foreign exchange constraints by its control of dollar seigniorage, the United States has become a major international debtor. The United States' enormous trade deficits are matched by equivalently large inflows of foreign capital as foreign central banks typically invest their dollars in US Treasury securities".

However, there are new investment vehicles denoted sovereign wealth funds (SWF), which are regarded as high-yielding but riskier; and, a significant proportion of this SWF is held by China and other governments in Asia and Middle East, exclusively the oil-producing advanced nations and the Organization of Petroleum Exporting Countries (OPEC) as well as emerging markets such as Russia and Singapore (Armijo & Echeverri-Gent, 2006; Armijo, 2007). But only China appears to be consequential in

respect of relative power capabilities of sovereign states, whilst India, Russia and Brazil are far less powerful (Macfarlane, 2006; Armijo & Echeverri-Gent, 2006; Glosny, 2010; Cameron, 2011). There is therefore specific concern about the rise of China and re-emergence of Russia as major powers of the future, discounting the significance of Japan, India and Brazil, largely because of the fear of the military threat that the nuclear states of China and Russia could pose (Armijo & Echeverri-Gent, 2006; Armijo, 2007).

Amidst the on-going global financial crises and recent economic recessions across the developed world as well as the multiple-front wars, the so-called developing economies that have been heavily dependent on the West's foreign development finance and foreign direct investment for their economic growth raised genuine concerns about the nuance uncertainties. The drawback of this orientation by the so-called developing economies, including those in Africa, is that "a new political environment" does not in itself guarantee the emergence of new thoughts or directions in scholarship; instead, the latter is motivated through "asking entirely new questions ... approaching 'old' questions from new perspectives and angles ... (and) incorporating insights from other disciplines" (Ramutsindela, 2010b: 91). Among other lines of inquiry for contemporary African scholarship, is the knowledge lacuna about the deleterious impacts of external forces and threats of geopolitics on the continent. These impacts have more often than not imperilled Africa's development, natural capital, unity, politics, culture and economics. One significant common denominator to Africa's exposure to these externalities revolves around the continent's aspiration and, to be precise, struggles for foreign development financing, foreign direct investment and domestic economic transformation. The New Partnership for Africa's Development (NEPAD) is the latest demonstration of these dynamics (Taylor, 2005).

Inevitably, questions of the relevance and applicability of the hegemonic discourse and development prescriptions to Africa and the so-called developing economies have remained in currency simultaneously as prevalent principal theorisation failed to recognise the uniqueness of the continent and such other markets (Gibb, 2009; Bachmann & Sidaway, 2010; Simon, 2010). In an apparent replacement of the continent's plunder by the West, China is exerting its predominance in the contemporary international competition for Africa's resources, allowing for the perpetuation of external powers in shaping the continent's development, political and economic destinies. Pertinent questions need to be framed: how different is China's development financing of Africa? Using Gibb's (2009: 713) phraseology, it should equally be asked if China had avoided the conventional entrapment of "a fairly superficial analysis of the African state as being somewhat dysfunctional, collapsed, weak and somehow 'more imagined' than the Western states?" From foreign direct investment, development financing and the BRICS regionalism perspectives, as well as the continental economic development decade that never materialised, it has to be asked if Africa merely continued in the present era as a "primitive or failed" continent? Without insinuating equalisation of the so-called developing world or generalisation of Africa's uniqueness, it can be reasonably concluded that these questioning is applicable to both.

Indeed, the reasonably fast GDP growth rates of the so-called "emerging" economies too is devoid of substance as it has not transformed the political and socio-economic realities of many poor nations of the South. Most African countries have achieved reasonable rates of GDP growth even as global financial crises gripped the developed world. Whilst the so-called "developing" countries such as South Africa are setting high economic growth targets under the guise of "shared" development, empirical

evidence dispels the logic of growth as a precondition for societal transformation and progress. Momentous financial injection has been made into Africa in the aftermath of colonialism, yet this continent is scarcely transformed. In this context, questions of what is “new” for Africa and the so-called developing world need to be framed. The hyperbolic pronouncements of NEPAD and its subsequent adoption by the African Union in 2001 were equally matched by the quick rush to the G-8 to beg for \$64 billion for kick-starting the implementation. If the Marshal Plan successfully reconstructed and lifted Europe from the ruins of war, how deformed is Africa and the so-called developing world to remain resistant to years of financing and libertarian reforms? As the developed world continues to suffer from the side-effects of self-prescribed medicine, how should Africa and the so-called developing world proceed within the harsh global financial, commercial and economic landscapes?

The First International Conference on Development Finance and Economic Transformation inaugurates an annual series that raises vexed questions about the governance, content, distributional patterns, forms, motives and conceptual logic of development, financing, economic growth, interstate system as well as political and socio-economic transformation. As the developed nations plunged the world into financial market crises since at least 2008 cognitive discordance have become unavoidable because the empirical evidence continues to pile against the universally accepted wisdom of development financing as a catalyst for economic growth and transformation for the so-called developing world. Simultaneously, the unquestioning universal acceptance of the nomenclature of “developing” countries belied the evidence on the ground, agitating for the futile shift to “emerging” economies. This Conference Proceedings addresses these complex multidisciplinary issues of development, finance, transformation and economic growth in Africa and the so-called developing countries in the 21<sup>st</sup> century from a multiplicity of perspectives. To this extent, the Conference Proceedings is organised into 8 interrelated tracks: (a) *global financial crises, economic recession and development finance*; (b) *governance of the international politics and economics, and developmentalism*; (c) *multilateral development aid and foreign development finance*; (d) *political-economy of development finance and economic transformation*; (e) *regionalism, development financing and domestication of the BRICS integrative spin-offs*; (f) *gender, rurality, development planning and socio-economic and political transformation*; (g) *knowledge economy, natural capital and environmental financing*, and (h), *sustainable development financing, Africa’s transformation and the Africa-China relations*. Inevitably, the overwhelming majority of the papers in this compilation tease out experiences from Africa. Whereas the papers published herein cannot claim to be exhaustive, there is no intention of creating a cyclical sequence of cognitive bifurcations.

## **GLOBAL FINANCIAL CRISES, ECONOMIC RECESSION AND DEVELOPMENT FINANCE**

Five papers, respectively, set the ideological, theoretical and pragmatic scenes in regard to the global financial crises, economic recession and development finance, and these are respectively authored by Nkuna, Amusan, Sentsho, Moyo and Montesh, Mmusinyane & Dintwe. Apparently, Africa and the so-called developing world cannot be expected to be immune of the on-going global economic and Eurozone debt crises, least because of the drying of foreign development finance. Development finance, with its conditionalities, has borne both costs and benefits, whilst the hegemonic form of economic transformation has created policy orphans in most developing countries. The question to ask, as the

global economic crises appear to have planted recurrent recession in the traditional sources of development funding and policy prescriptions, is: whether Africa's development finance and economic transformation? The notion of a borderless world has agitated for the hope of equalised universally shared benefits of globalisation (O'Dowd, 2010) amidst deeply "unfair, unstable, and unsustainable" global governance of economics and politics (Orrell, 2010: 5). Global, regional and local (sub)hegemonic forces act in parallel, rather than unison, to project "the developmental imaginary" which is divorced from the massive failures of the unfettered private enterprise (Anderson, 2006; Marsden, 2011), simultaneously as the hegemonic neoliberalism incorporates synthesised interests of global institutions and local business federations, turning "a compassionate face on social problems moralised as poverty, illness and ignorance" (Peet, 2002: 79).

### **GOVERNANCE OF THE INTERNATIONAL POLITICS AND ECONOMICS, AND DEVELOPMENTALISM**

Evidently, the relations of domination and exploitation have continued unabated in the world economy (Grosfoguel, 2007: 221); and, Africa's attempt to participate in global governance of politics and economics has become an apparent "self-erasure" (Mkandawire, 2011). This observation captures the common denominator among the twelve papers authored by Nkuna, Phora, Mwaruta, Amusan & Oyewole, Basheka, Mwesigye & Karyeija, Nevondwe, Balkaran, Satope, Masehela, Msweli & Masarira, Manyaka and Motubatse & Mokwele. Amidst loud academic discourses and political rhetoric, reality continues to present evidence of continuities of lived experiences of the "old world order" at all geographical scales. Perhaps, the question to be asked during this period where Africa and the so-called developing world have appeared to deliver positive economic growth rates that Goldman Sachs found reason to predict the groupings such as in the BRIC(S) to be engines of future global prosperity (Wilson & Purushothaman, 2003; O'Neill, Wilson, Purushothaman & Stupnytska, 2005; Tandon & Shome, 2009; Wilson, Kelston & Ahmed, 2010). Returning close to home, questions should be asked whether the "new" Africa has remained so "old" that development, finance, transformation and economic growth have remained elusive in the 21<sup>st</sup> century. In global governance, the production of discriminatory identities secures and reproduces identities of authority, with the result that globalisation has virtually become an ambiguous cyclical struggle of innovation, domination and reaction (Ndlovu-Gatsheni, 2007). Hence, governance of international politics and economics is attained and sustained through control of culture and knowledge, both of which order the world and legitimise power (Ndlovu-Gatsheni, 2007).

Recent discourses on globalisation, regionalism and continentalism have once again raised questions of "the geographical form of African unity and development" (Ramutsindela, 2009: 1). Such cognitive engagement is necessary, especially as the world's most celebrated model of globalisation and regionalism, increasingly unravelled and precipitated narratives of its irrelevance for the so-called developing economies, most of which are former colonies of some of the EU member states. Together with the post-War era universal acceptance of neo-libertarianism and the economic determinism assumption of the inevitability of the "prescribed finalism" of collective global development as the end result, the hegemonic modernism failed to recognise and to give credence to the role of the African state system in the governance of international politics and economics (Gibb, 2009; Bachmann & Sidaway, 2010). The "fallacy of transposition" of the Eurocentric and Westphalian state model of globalisation and regionalism has continued to be inadequate for governance of global politics and economics (Gibb, 2009:

702, 718). Vexed questions should therefore be asked whether Africa's globalisation and regionalism are merely "symbolic of the creation of substantive regional communities" or if they remain "imagined than real" (Simon, 2010: 97) or if they influence the transformation of governance of global politics and economies. It should be asked: how transformed is the governance of international politics and economics? How beneficial and/or costly is the engagement of the international politics and economics through the developmental state? Perhaps, questions should be asked about the validity or mythology of interstate interdependence, post-colonialism, post-apartheidism and so on.

## **MULTILATERAL DEVELOPMENT AID AND FOREIGN DEVELOPMENT FINANCE**

The inauguration of the International Conference on Development Finance and Economic Transformation does not hope to deny the complexity of the concepts and evolution of development and transformation for Africa and for the so-called developing world. The overriding objective of NEPAD's six key programmes on good governance, conflict prevention, management and resolution, building the infrastructure, modernising and integrating the banking system, debt reduction and access to markets is to nurture business confidence and to lower the costs of doing business in Africa. That way, NEPAD portrayed the hope of stimulating a continental average of 7% GDP annual growth rate as a function of business confidence. Hence, NEPAD's "first priority is to address investors' perception of Africa as a 'high risk' continent" and to improve its "negative image" (AU, 2001: 38). How "new" is such a partnership for Africa?

Neo-libertarianism has been an instrument of Eurocentric forms of globalisation, rather than African renaissance. Neo-libertarian globalisation contradicts the African Renaissance agenda, making a mockery of NEPAD as "an African-owned and African-led development programme", "based on the agenda set by African peoples through their own initiatives and of their own volition, to shape their own destiny" (AU, 2001: 11, 14). Indeed, successful implementation of programmes such as NEPAD and the attainment of the growth target, depends acutely on mobilisation of massive resources and heavy investments, the bulk of which "will have to be obtained from outside the continent" (AU, 2001: 36). Africa is expected to "ensure a sound and conducive environment for private sector activities" and to "promote foreign direct investment and trade, with particular emphasis on exports" (AU, 2001: 45). That is, the provision of multilateral development aid and foreign development finance is conditional. The conditionalities, such as those of the Structural Adjustment Programmes, have not provided the necessary injection for societal transformation in the so-called developing countries. Negotiating the landscape of multilateral development aid and foreign development finance has almost always agitated for acting in self-interest among African states in important international forums such as in the World Trade Organisation negotiations. Is there anything for Africa and the so-called developed world to salvage from the ruins of multilateral development aid and foreign development finance in the present era? Kanjere and Makuwira engage this subject.

## **POLITICAL-ECONOMY OF DEVELOPMENT FINANCE AND ECONOMIC TRANSFORMATION**

Power relations are embedded at all geographical scales; and, nine papers deal with these dynamics. The papers include: Makuwira & Gumede, Mamabolo, Ndou & Sebola, Asha, Munzhedzi, Nevondwe, Matotoka & Nevondwe, Mbedzi & Nevondwe and Makgamatho, Makhura & Sebola. The so-

called developing world has always been beset by teething financial and economic challenges that impaired, seemingly permanently, societal transformation and development. Africa itself has received innumerable funding offers and adopted economic initiatives since the abolishment of colonialism. But the continent continues to be sharply divided in all spheres of life with negligible transformation and development to the extent that some who tried to assist were discouraged. More importantly, some among Africans appear to be trapped in a mythological web that what is African is also, by origin, design and destiny, inferior. Even with the recent conceptualisation of regionalism that has led to the establishment of the BRICS grouping, the “S” was not in the original framing by the Goldman Sachs. If South Africa did not use the backdoor to enter the BRICS grouping, then the nuance framing of emerging market groupings would have been devoid of African countries. The global political-economy remains stacked against Africa.

Undeniably, traditional economic power bases like the G-7(now G-8), USA and Western Europe cannot be ignored (Landsberg, 2000), hence most governments from the South have pursued trade pacts with these western powerhouses. Despite Mbeki’s call for the establishment of a “strategic partnership” between Africa and the EU at the Africa-EU Summit in Cairo (Egypt) in April 2000, the South African government then pursued and attained a free trade arrangement with the EU in isolation from the rest of the continent. Since at least 2001, South Africa’s investment incentives and export support schemes continued to be targeted at the UK, Germany, the US, France, Italy and the Netherlands for special promotional campaigns. In this context, it has to be asked: how would the BRICS relate to the multiplicity of regional collectives, especially those in Africa, such as the Southern African Development Community (SADC), Economic Community of West African States (ECOWAS), Common Market for Eastern and Southern Africa (COMESA), Union of the Maghreb (UAM) and Economic Community of Central African States (ECCAS), especially given the intention to establish the grouping’s bank? Additionally, there is a South–South concept that seeks to enhance South Africa’s relations with the MERCOSUR, the Gulf Co-operation Council (GCC), the Caribbean Community and Common Market (CARICOM) and the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) (Landsberg, 2000).

## **REGIONALISM, DEVELOPMENT FINANCING AND THE BRICS GROUPING**

From a Nigerian-South African relations perspective, Amusan & Adeyeye interrogate the issues of regionalism. The concept of regionalism encompasses a wide spectrum of issues ranging from the economic, social, political and cultural to the environmental, making for an inherently complex, multifaceted process that involves state and non-state actors as well as formal and informal activities, practices, networks and processes (Ramutsindela, 2005, 2009, 2010b, 2011; Gibb, 2007, 2009; Bachmann & Sidaway, 2010). But the post-War discourses of trade regionalism paradigm have been captivated by Eurocentricism, neoliberalism, free market economics and the Westphalian state model (Gibb, 2009). The fusion of the neoclassical economics with the “predetermined and inevitable modernist destiny” allowed for conceptualisation of market regionalism on the basis of the notion of “modernity, economic determinism and ‘development’” (Gibb, 2009: 717). As a result, African states’ vertical trade relations with their former colonial powers have continued to be predominant simultaneously as horizontal intra-African trade relations have remained insignificant, implying that decades of emulation of the EU’s trade regionalism and the recent attempts at progression towards more complex stages of a common market

have been in vain. Foreign direct investment (FDI) also serves as an indicator of financial attractiveness (inward) and clout (outward); and, the BRICs' share has been increasing to the extent that the stocks of inward FDI of China, Russia and Brazil became larger than that of Japan, whereas the outward FDI from the BRICs has remained negligible (Armijo & Echeverri-Gent, 2006; Armijo, 2007; Duan, 2010; Glosny, 2010; Bell, 2011; Cameron, 2011). Whereas the BRICS framing is allegedly based on economic neoliberalism, African countries that attained average annual economic growth rate around 5%, with relatively large populations and potential for strong expansion in the demand of products of the West, were ignored in the initial conception. It should be asked: how different are the effects of the BRICS grouping for Africa and the so-called developing world? Evidently, the BRICS has become more popular than effectual in the interstate relations and the governance of global politics and economics.

### **GENDER, RURALITY, DEVELOPMENT PLANNING AND SOCIO-ECONOMIC AND POLITICAL TRANSFORMATION**

African leaders have long made a determination to adopt "an approach towards achieving unity and development" as a crucial part of a "tangible plan" for continental renewal (Ramutsindela, 2009: 2). However, in practice African states have uniformly usurped the hegemonic development model as a conscious strategy for "mobilising resources and asserting state sovereignty" (Bachmann & Sidaway, 2010: 1), tacitly warding-off regime change interventionism by the West. Inevitably, Africa's approach to development has been "driven principally by external agents" (Bachmann & Sidaway, 2010: 5), resulting in chronic failures (Simon, 2010: 103). These failures continue to be compounded by inappropriate development planning that disproportionately expose women and rural areas to the deleterious effects of socio-economic and political transformation. Similarly, conceptualisation of development planning does not escape the "location in the power structures .... (of) the class, sexual, gender, spiritual, linguistic, geographical, and racial hierarchies of the 'modern/colonial capitalist/patriarchal world-system' .... (because) "knowledges are always situated" (Grosfoguel, 2007: 213). Questions should be raised: do survivalist livelihoods and the fight against hunger alone empower rural women? Is the renewed emphasis on the primacy of rural development for national socio-economic transformation a mere nostalgic pipedream? Are there any alternative home-grown development policies for emancipation and empowerment of rural women in Africa and in the so-called developing world? Seventeen papers discuss these issues from a multiplicity of perspectives; and, these are authored by Madzivhandila, Makhura, Makgamatho & Tsheola, Jowah, Rangongo, Ndhlovu, Tau, Kyohairwe, Jonas, Netshandama & Mudau, Masipa & Jideani, Mhosva, Gumede, Njezula, Modiba, Moloto, van der Walt & de Klerk, Memela & Mubangizi and Montesh, Basdeo & Dintwe.

### **KNOWLEDGE ECONOMY, NATURAL CAPITAL AND ENVIRONMENTAL FINANCING**

Knowledge production involves vies and struggles for domination; as a result of the biased global power relations, copious volumes of knowledge are largely irrelevant and unusable for Africa (Mkandawire, 2011: 25). Knowledge construction is intricately aligned to constructed dominance and hierarchies of superiority and inferiority of people around the world (Grosfoguel, 2007: 214). But knowledge construction is not a straightforward exercise because situations of knowledge production are problematic and amenable to demeaning labelling (Grosfoguel, 2007). Hence, Africans continue to be

characterised as “people without writing”, “people without history”, “people without development” and, now, “people without democracy” (Grosfoguel, 2007: 214; Mkandawire, 2011: 25). Nadarajah and Beyers engage the issues of the knowledge economy at the local and institutional scales, respectively. That is, hegemonic conceptualization of Africa’s and the so-called developing world is an inseparable part of the “global designs articulated to the simultaneous production and reproduction ... (of) the global racial/ethnic hierarchy of Europeans and non-Europeans” (Grosfoguel, 2007: 214). The irony of Africa’s “(re)invented traditions” is that the West is assumed to have come to rescue the continent’s natural capital from poachers, who are actually the owners. Africa is now engulfed in a purchased natural capital through the logic of environmental conservation financing in “Peace Parks” or transfrontier conservation areas. The most elusive of hopes is that the locals would draw economic development spin-offs through tourism and the foreign exchange. A question has to be asked: how do all sorts of natural capital conservation activities link to societal progress? Six papers address this question; and, they are authored by Shai, Tawaziwa & Wedzerai, Rungano, Lukhele & Asha, Sumbana and Bapela & Ngwakwe. Whereas Africa is often characterised as rich in natural resources, environmental conservation financing appears to have borne negligible instrumental value for society. Importantly, the impacts and relationship of the continent’s natural capital with societal development, progress and socio-economic transformation are yet to be theoretically and empirically explored. Instead, struggles over natural capital have appeared to underwrite all conflicts on the continent.

## **SUSTAINABLE DEVELOPMENT FINANCING, AFRICA’S TRANSFORMATION AND THE AFRICA-CHINA RELATIONS**

Africa’s development is not only ambivalent, it also involves a terrain of “slippages, excesses and contradictions” (Ndlovu-Gatsheni, 2007: 175). Hegemonic perspectives produce uncritical knowledge within the global power relations (Grosfoguel, 2007), with the result that all of Africa’s alternative development financing and economic transformation paths have remained “commissioned to the West”. Even with family, Africa and the developing world is instructed to adopt unusable knowledge. So, the question of what sustainable development financing is for Africa cannot be avoided. Simultaneously, governance, or lack thereof, of the international economics and politics has become increasingly complex as China and the BRICS, in particular, strive to out-compete the traditional economic powers such as Japan, USA and the EU, which are the traditional sources of development finance and reform policy prescriptions. It is evident that the hegemonic form of economic transformation has created policy orphans in most developing countries. The question to ask, as the global economic crises appear to have planted recurrent recession in the traditional sources of development funding and policy prescriptions, is: whither Africa’s development finance and economic transformation? Does China avail a viable, credible and sustainable development funding partner for Africa? Nhadozie and Phungula interrogate these questions.

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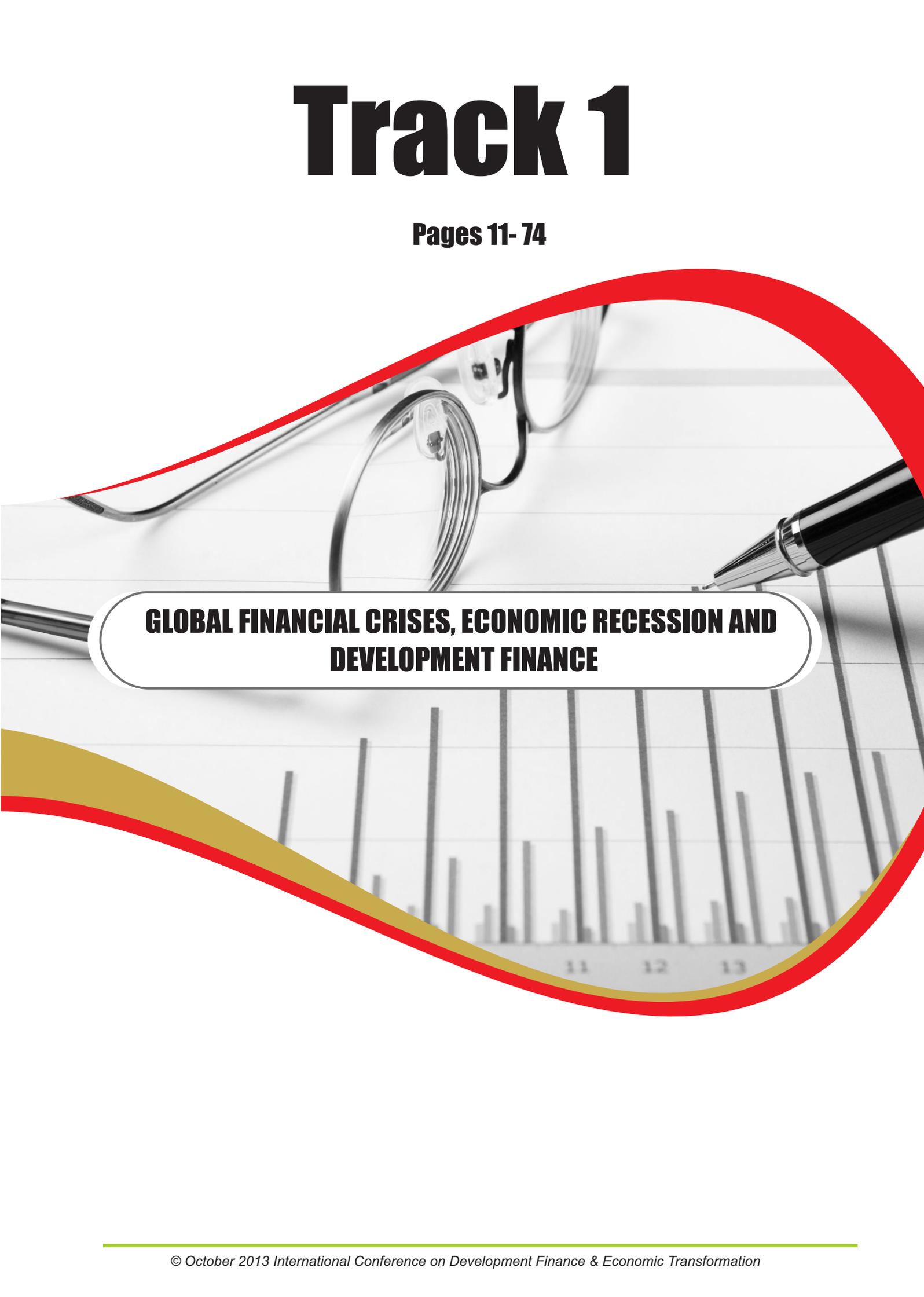
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# Track 1

Pages 11-74



**GLOBAL FINANCIAL CRISES, ECONOMIC RECESSION AND  
DEVELOPMENT FINANCE**

# THE STATE OF EQUILIBRIUM AND DISSIPATION FOR THE CONVERGENCE OF POLITICAL-ECONOMY IN DEVELOPING COUNTRIES: A VIEW FROM SYSTEMS THINKING

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## ABSTRACT

In the modern world, among factors that determine the success of the political-economy is the extent to which systems move towards the point of equilibrium, so it is also the same to development. In terms of systems thinking, that is referred to as systems homeostasis, which means that the systems have a strong tendency to move towards a state of order and stability, or adapted equilibrium. But the reality on the ground tends to be contrary to scientific speculation of the modern world. Instead systems tend to reach a point of bifurcation and divergence that through amplification factor are beyond linear speculation. Paradoxes and contradictions that manifest themselves within the state of political-economy convergence and development tend to be caught in those situations and those involved with surprises as to the limitations of rational science. This paper put forward a conceptual argument through systems thinking view that the hypothesis of the convergence of political economy for development within developing countries can best be understood through their state of bifurcation and dissipation than equilibrium. The contention is the point of equilibrium is within the navigated terrain of scientific development that has less regard of systems complexities. The point of equilibrium brings about negative changes to the system in an attempt to move it to the point of stability. Yet for development to take place systems must bring about positive changes that move opposite from being stable to the edge of chaos. It is within that state that the system becomes complex and trigger exploration of possibilities for change towards a better settlement that suits its circumstances. The argument of this paper is premised from the findings of the study conducted on the nature and implication of complexity in developmental local government in South Africa.

**Keywords:** Political-economy; systems thinking; complexity; developmental local government; developing countries; South Africa

## INTRODUCTION

Looking into the political future of a nation tends to be a highly speculative endeavour (Funke & Strulik, 2005). Novelists have a better track record than economists at foretelling the future (Rodrik, 2011). This is sheer fantasy of course, but one that seems to resonate well with the collective mood. The convergence hypothesis that poor economies might catch up has generated a huge empirical literature (Quah, 1995). The process of economic convergence at the regional level has been analysed extensively in the literature (Checherita, Nickel & Rother, 2009). Yet, the role of fiscal policy tools for convergence has been less thoroughly investigated empirically, at either country or regional level. This paper put forward an argument through systems thinking lenses in that the convergence of political economies as hypothesized tend to move towards the point of bifurcation and dissipation instead of equilibrium and convergence. In articulating this point, the paper introduces the debate through a reflection on the meaning of political-economy and development. That is followed by a synopsis on the development of systems thinking with varying pathways adopted over time. More attention is made to political economic convergence as applicable in practice. Examples of how it was implemented in various countries are given with more emphasis on developing countries. The dissipative and equilibrium nature of open systems is then

presented within the systems complexity to assert their non-linearity and operating far from equilibrium. As conclusion the state of regional economies is made to reflect their divergence that is contrary to the convergence as hypothesised.

## **POLITICAL-ECONOMY AND DEVELOPMENT**

The success of any political-economy can be determined by among other things, the extent to which it brings about development. The term political economy was originally associated with what is now known as classical economics (Mizruchi, 2006). Yet what is meant by political-economy is more in relation to development in modern societies. Jean-Jacques Rousseau (1755) lays a foundation of the modern discourse of economics by firstly relating to the origin of the word Economy, or OEconomy as derived from *oikos*, a house, and *nomos*, law, and meant originally only the wise and legitimate government of the house for the common good of the whole family. The meaning of the term was then extended to the government of that great family, the State. To distinguish these two senses of the word, the latter is called general or political-economy, and the former domestic or particular economy. Political-economy belongs to the category of the social sciences and it deals with the laws of the social production and distribution of material wealth at the various stages of development of human society (Lawrence & Wishart, 1957). The notion of this conception was on the basis of the life of society being regarded to depend on material production in order to live, people must have food, clothing and other material means of life. In order to have these, people must produce them and they must work. It is also important to note that from the very beginning, political-economy combined a sense of the descriptive and the prescriptive (Milonakis & Fine, 2009). Hence this has escalated to the notion of evolving nations and states informed by various ideologies overtime with a classic assertion by Hegel (1878) as cited in Milonakis & Fineto (2009) of the effect that political-economy cannot be the same for all countries and for all historical periods, political economy is therefore a historical science.

As for development, in as much as in general terms development means an event constituting a new stage in a changing situation or the process of change per se (Bellù, 2011), if not qualified development is implicitly intended as something positive or desirable. Other scholars like De Visser (2005), however view development in terms of elements of material, choice and equity. Material element encompass the satisfaction of material needs and improvement of standard of living with the reduction of absolute poverty, while choice relate to the extent people take control of their lives. Equity takes the form of inter-social or redistribution and intergenerational or sustainable equity. Kotze (1997) on the other hand defines development from a process perspective to refer to it as a positive change that must ideally occur through democratic and consultative practices, through identifying, as accurately as possible, and acting on what is good for people in a particular context, and through the clear-headed identification of constraints and opportunities while Nel (2000:49) argues that development involves both 'doing' and 'being'. It involves doing in that emphasis is usually placed on designing and managing programmes and projects to bring about visible and significant changes in the circumstances of the people. On the other side it involves being in the sense that it aims to increase the capacity of the people to influence their future. This implies that development programmes and projects do not only need to accomplish physical and concrete changes, but need to do so in such a way that people have an increased capacity to respond to and even shape these changes (Nel, 2000). Teune & Mlinar (1978) refer to development as the

integrated diversity of systems and their scale. It is by definition a characteristic of all systems with interdependent components such as organisations, institutions, human beings, and societies.

Development must be seen as a complex process that is not located, controlled, or even manipulated by human actors (Leroke, 1996). It rather involves numerous processes and interactions from various components acting independently. When referring to a society or to a socio-economic system, development usually means improvement, either in the general situation of the system, or in some of its constituent elements (Bellù, 2011). Development may occur due to some deliberate action carried out by single agents or by some authority pre-ordered to achieve improvement, to favourable circumstances in both. Development policies and private investment, in all their forms, are examples of such actions. Accordingly, development remains multi-dimensional in nature, because any improvement of complex systems, as indeed actual socio-economic systems are, can occur in different parts or ways, at different speeds and driven by different forces (Bellu, 2011). Development of one part of the system may be detrimental to the development of other parts, giving rise to conflicting objectives or trade-offs and conflicts. The process become systematically complex (Nkuna, 2013) and cannot be solely inclined within the rational theoretical disposition. Consequently, measuring development through determining whether and to what extent a system is developing is an intrinsically multidimensional exercise and complex. More so if development has to take place concurrently through convergence of a system like that of political-economy of varying developing countries.

#### **DEVELOPMENT OF SYSTEMS THINKING VIEWS**

The origin of general systems is traced to the thinking of the biologist, Von Bertalanfy in the 1920s (Stacey, 1996; Dooley, 1997; Kumar, 2002). The German biologist Von Bertalanfy put forward the idea that organisms, as well as human organisations and societies, are open systems (Stacey, 1996; Bevir, 2009). They are systems because they consist of a number of component sub-systems that are interrelated and interdependent on each other. They are open because they are connected by feedback links to their environments, or supra-systems of which they are part. Senge (1990) refer to business and other human endeavour also as systems. They are bound by invisible fabrics of interrelated actions, which often take years to fully play out their effects on each other. Political-economy and development are not immune to this notion as open systems as well.

#### **“Systems”: the Concept**

A number of theorists from various disciplines began to think and write about the unification of science in their quest for a body of concepts lending unity or organisation to studies undertaken in various disciplines, they developed the concept of “system”, which has since then become a basic conceptual asset of general systems theory (Kumar, 2002). The concept of “system” has been borrowed from the natural sciences where it is used to refer to clearly defined sets of interactions. The term has been defined as a complex whole, a set of connected things or parts, organised body of material or immaterial things, and its analysis is concerned, not so much with individuals as such, but rather the roles that individuals play and their interactions (Kumar, 2002; Bevir, 2009). In terms to policy programmes intervention, Mouton (2009) refers to programmes that have systematic features or with alternative causal strands as “complicated programmes”. Complicated programmes are characterised or distinguished in literature by

interventions implemented through multiple agencies; interventions with multiple simultaneous causal strands and interventions with alternative causal strands (Mouton, 2009). The new systems theorists developed along three pathways over much of the same period of time (Stacey *et al*, 2000). Systems thinking theories which were developed are: General Systems Theory, Cybernetics and Systems Dynamics and can be discussed as follows:

### **General Systems Theory**

The growing tendency in general systems theory is to describe human organisations within a broad framework of systems thinking (Kumar, 2000). A system in that context is an assembly of interdependent parts which may be referred to as sub-systems, whose interaction determines its survival (Zimmerman, Lindberg & Plsek, 2009). Interdependence means that change in one part affects other parts and thus the whole system. The changes in one of the factors within the political economy will eventually affect other operations within the whole system and eventually impact on development. The central concept of the general systems theory is that of homeostasis, which means that the systems have a strong tendency to move toward a state of order and stability, or adapted equilibrium (Stacey, Griffin & Shaw, 2000). They can only do this if they have permeable boundaries that are open to interactions with other systems. They display the property of equifinality, which means that they can reach homeostasis from a number of differing starting points along a number of differing paths. The systems' history and context is not an issue. What is important is its current state of relationship with other systems and clearly defined boundaries. In this regard the political-economy of a given country is viewed in the context of operating within permeable boundaries that if controls on the levers, the system may move towards the point of equilibrium. The point of equilibrium being the state of reaching the policy targets those are in line with the intentions towards development. In this case it will be in terms of the economic convergence as hypothesized to be in the case of developing countries. This assertion is within the positivist ontology that implies that there are possibilities of reaching predetermined objectives within the discourse.

### **Cybernetic Systems**

Cybernetics, which was defined in 1948 by Nobert Wiener as the science of communication and control in the animal and the machine, demonstrates that purposefulness can be accounted for by formal models in which corrective feedback loops have been built (Dobuzinskis, 1992). Cybernetics is the interdisciplinary study of the structure of regulatory systems. It is closely related to control theory and systems theory (Heylighen, Cilliers & Gershenson, 2007). Cybernetics is an approach that seeks to control an organisation by using feedback without understanding the feedback structure of the organisation itself (Stacey, 1996). It sees effective regulators as those that cause the system to be largely self-regulating, automatically handling the disturbance which the environment bombards it with. Cybernetic systems are self-regulating, goal-directed systems adapting to their environment (Stacey *et al*, 2000). The system comes with build-in checks and controls. Once set in place it can operate automatically as long as all parts are performing properly. Economies and development being open systems by themselves tend to respond to the environment outside them. Market forces tend to influence the state of economy.

## Systems Dynamics

Dynamics is the study of how a system changes overtime: classical dynamics establishes laws of motion through time for physical bodies; thermodynamics establishes laws of heat dissipation overtime; population dynamics establishes the patterns of change in population overtime; economic dynamics attempts to establish and explain patterns of economic development overtime; psychodynamics tries to explain the human behaviour patterns overtime that are generated by contradiction and tension, for example by the need to be part of a group and yet be a free individual, by the feeling of love and hate for the same person (Stacey, 1996). Mathematical models of a system are constructed, consisting of recursive, non-linear equations that specify how the system changes states over time (Stacey *et al*, 2000; Haynes, 2007). Systems dynamics theory recognises amplification, feedback either positive or negative and non-linear responses. The system moves from being self-regulating to self-influencing, be self-sustaining or self-destructive. Instead of thinking of a system moving towards an equilibrium state, it is thought of as following a small number of typical patterns or archetypes (Stacey *et al*, 2000). Role players within the economy and development have to recognise those patterns and identify leverage points at which action have to be taken to change them so to stay in control. The introduction of policy interventions that are related to political-economy can be seen as some form of leverage points that regimes seek to control various economic conditions.

## POLITICAL-ECONOMY CONVERGENCE

One of the most important questions of economic growth literature is this of economic convergence or divergence across different geographical units (Artelaris, Arvanitidis & Petrakos, 2008). The convergence argument refers to a process whereby the less advanced economies achieve higher rates of economic growth compared to the more advanced ones, and as such inequalities are reduced over time. In turn, divergence indicates that the opposite forces are in play sustaining or increasing income disparities between economies. The debate of convergence or divergence of per capita income across countries has received considerable attention in the literature, especially during the last couple of decades, giving rise to a growing number of studies. However, empirical evidence on the issue has been mixed, affected to a great extent by the methodology chosen for investigation. According to Sala-i-Martin (2002), the convergence issue has become more important because people want to know whether the standard of living for those in poor nations has been improved or has increased more rapidly than that of the richer countries, or conversely whether the rich are getting richer, and the poor are becoming poorer. The rate of convergence has been a crucial focus of debate since different methodologies have produced different results.

## SYSTEMS DISSIPATION, EQUILIBRIUM AND BIFURCATION

Another key concept in systems thinking is dissipative structures, which are ways in which open systems exchange energy, matter, or information with their environment and when pushed far from equilibrium create new structures and order (Kiel, 1994; Stacey, 1996; Cilliers, 1998; Mitleton-Kelly, 2002; Morcol & Wachhaus, 2009). The tendency of dissipative structures is to split into alternative solutions. Within the modern positivist ontological strand in the discourse, alternative agents that split from the main system can be predicted through science, yet in the postmodernist stance that cannot be predicted due to

complexities of the systems and its sub-elements. An observer could not predict which state will emerge, only chance will decide, through the dynamics of fluctuations and impact. The system will in effect scan the territory and will make a few attempts, perhaps unsuccessful at first, to stabilise. Then particular fluctuation will take over. Such fluctuations are beyond prediction. By stabilizing it the system becomes a historical object in the sense that its subsequent evolution depends on this critical choice. Complex policy systems are always trying to reinterpret historical and current data in the light of emerging events and this forms part of the feedback and interactive processes within the system (Morcol, 2003; Haynes, 2007). In social context, it is the series of critical decisions each individual takes from possible alternatives that may determine a particular life path for the individual (Mitleton-Kelly, 2002). The alternatives available are constrained by the person's current state and the state of the landscape the person occupies. Thus the emergent behaviour of the person is not a matter of chance but is the result of a person's selection among a finite set of perceived choices, as well as past choices made that have shaped that person's life path. Once a decision is made, there is a historical dimension and subsequent evolution may depend on that critical choice, but before the decision is finalised, the alternatives are sources of innovation and diversification, since the opening up of possibilities endows the individual and the system with new solutions. When a social entity is faced with a constraint, it finds new ways of operating, because away from equilibrium systems are forced to experiment and explore their space of possibilities. The exploration helps them to discover and create new patterns. When an organisation moves away from equilibrium, new ways of working are created and new forms of organisation may emerge (Mitleton-Kelly, 2002). This may be innovation or creativity. Political-economies of various countries as systems also take the form of dissipation and operating far from equilibrium. That necessitates state regimes to come with alternative interventions informed by alternatives to be chosen at the point the system bifurcation. The moment the system splits, it takes various forms and has a historical form that forms the basis of its current form. It is on those bases that it is also necessary for this paper to engage on the systems' history in relation to convergence of political-economy for development.

## **SYSTEMS' HISTORY**

Van Beek (2005) refer to the legitimisation of democracy by fundamental normative attitudes and convictions about the nature of domination and power; it obliges the rulers to uphold constitutional law and it commits the rulers and the ruled to keep up validity of a democratic political culture. But that mental condition for the functioning of democracy brings history to the fore because there can be no legitimacy of an organised political domination without some reference to the past (Van Beek, 2005). History in itself is a cultural interpretation of the past that helps to foster an understanding of present-day life and to enable projections into, and expectations of, the future. It molds the experiences of the human past into an empirically concrete idea of the flow of time where the past, the present and the future are interrelated in a way that allows people to place themselves within the experienced temporal changes of self and the world (Van Beek, 2005). The fundamental temporality of human life with its incremental and sudden changes, both around and within people, challenges the perception of time, and it is history that relates temporal change to the self-understanding of people and their relations with others. Developing countries tend operate within the context of their systematic histories that relate to their state of establishing and founding. Most of the developing countries are within Africa or places that are referred to as third world.

Their economies of scale are heavily influenced by the history of their creation which in terms of systems thinking can be regarded as a point of bifurcation. As open systems and complex in nature, they had to explore various possibilities on the point of split. A prototype example is the founding of the democratic Republic of South Africa that has been preceded by peaceful negotiations as different from Zimbabwe and Mozambique that came about through the guerrilla warfare.

## **REGIONAL DYNAMICS**

Political economy has emphasized the embeddedness of economic activity within larger political institutions (Mizruchi, 2006). Its focus in recent years has been on examining the effects of those institutions on variations in the nature of capitalist economies across nations hence the current trend of regionalisation. Regions as they exist in the current level of development evolution cannot disregard the political interplay dynamics within the regional blocks as well as the global landscape. The dynamics are such severe that the notion of convergence as articulated from the systems perspective becomes more of a hypothesis as posted. As Brezis (2008) put it that the parameters that lead to high growth today are also the parameters that will detract from higher growth in the future, with the main one being the repressive apparatus. Variables that ought to bring relations for convergence within a regional block tend to diverse. That ranges from ideologies to governance and reforms that relate closely to systematic history of each role player within the economy. In comparing the path of former communist countries, it is striking that there is a marked difference in the transition dynamics that have taken place over the past decades between China and Eastern Europe, both politically and economically (Brezis, 2008). Such dynamics manifests themselves even in the developing regional blocks like SADC. It is still unimaginable if some of the member states within SADC are moving towards convergence or phenomenally divergence. The point of bifurcation has played itself through the collapse of the interim government arrangement in Zimbabwe. The instability within the Central African Republic and the continued unrest in the Eastern DRC remain some of the examples that reflect the thorny issues in the region. The stability of Kenya and Somalia insurgence groups is not showing signs of coming to an end.

## **CONCLUSION**

This paper attempted to venture in the terrain of political-economy convergence for development using the systems thinking point of view. In as much as systems within the modern world are seen to be striving for homeostasis, in reality there is a point of bifurcation and dissipation that reduce the systems to divergence instead of convergence. The hypothesis of political-economy convergence in developing countries remains a test to be reckoned with in the discourse. The systems non-linearity and state of operating far from equilibrium need to be confronted assertively within the discourse. The notion of navigating terrains that have never been navigated before in discourses will never arrive at the right time than now. Of course rational science have made enormous contribution in the current discourse towards addressing phenomenal issues, however there are limitations that need to be dealt with from diverse perspective. As for the systems thinking there is a need to go beyond the positivist ontology to postmodern ontology that will be in the state of addressing real problems informed by authentic diagnosis.

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## DEVELOPING AREAS AND THE CHALLENGES OF DEVELOPMENT: LENSES OF THE WORLD TRADE ORGANISATION AND ALTERNATIVE ROADS FOR AFRICA IN THE 21<sup>ST</sup> CENTURY

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### ABSTRACT

As much as the developing states are blessed with natural resources that are enough to transform their economies into a positive direction, the imposed World Trade Organization's (WTO) mores continue to relegate them to the status of underdevelopment. The consequences of this on investment, trade and finance in the Third World States (TWSs), especially, Africa are disarticulation of the economy, exploitation, disinvestment, unemployment, political instability and unavailability of relevant technology to move the TWSs forward, among others. The intention of this paper is to situate the problems of biopiracy in Africa in term of its associated western international regimes of intellectual property rights (IPRs), geographical indications (GIs), prior informed consent (PIC), and access and sharing benefits (ASB). Doing this will bring us to the politics behind Rooibos (*Aspalathus linearis*) patenting, a medicinal plant found only in South Africa by various multinational corporations (MNCs). The financial and economic transformations of Africa will be enhanced through a regional regime, African Regional Intellectual Property Organisation (ARIPO), on indigenous knowledge (IK) to patent the continental biodiversity resources.

**Keywords:** WTO; IP; PIC; GI; PIC; ARIPO; Biopiracy; Rooibos.

### INTRODUCTION

Africa remains, always, at the receiving end of every international arrangement in the economic, political and socio-cultural developments. The issue of biopiracy, the removal of bioresources, is going to be the core of this discussion with more emphasis on the recent development in Rooibos patent, a tea that can only be traced to South Africa, but ironically, some non-South African companies attempted severally to get it registered. This attracted international attention in 1995 and 2013 as Burke International and Compagnie de Trucy, America companies, respectively attempted to claim ownership of this South Africa's natural heritage and national drink, rooibos tea. This arrangement was premeditated by the MNCs in trying to turn it into a royalty-collection agency simply because the WTO can apply trade sanction (Bhagwati, 2004: 183). The tea is a medicinal product, which could be described as a tea of life and "the new pomegranate juice"<sup>1</sup>. It is one of the products of South Africa that bring the state to limelight and importance at the international level.

One of the major problems of the 21<sup>st</sup> century is the exclusive right, in form of nature privatisation as against common goods (Thompson, 2010). In line with the WTO, Trade-Related Aspects of Intellectual Property Rights (TRIPS), World Intellectual Property Organisation (WIPO), and Convention on Biological Diversity (CBD), the plant is expected to be registered as IP, GI, and Trademark (TM) through domestic law. Unfortunately, South Africa's IP is still in the offing as the Department of Trade and Industry's (DTI) draft sent to the Parliament needs reframing to accommodate the issue of Rooibos. One of the major problems that various international regimes established to protect biodiversity, mostly in the developing areas, is conflict with law. For instance, CBD and TRIPS are not in agreement with the ownership of IP. While the CBD says that it belongs to the sovereign state/s and its communities, TRIPS on the other hand opines that IP should be for either private individual or a corporation that got it registered. This is where

the issue of precedent has continued to generate discussions in the TWSs. Plants and animals comprise the treasures of Africa but have helped to build empires overseas as much as yellow and black gold (Thompson, 2010: 299).

The formation of the CBD in 1992 was considered as an idea to meet the demand of the developing areas, but America is not a signatory. Instead, Washington promotes WTO, which is a single undertaking, agreement entered into by 159 states. WIPO was established with the aim of regulating IP but its activities are always to the benefit of the developed states. Establishment of many centres for the filing of IP is one of the major problems that African states are contending with, coupled with the lack of finance, knowhow and relevant professionals to handle the cumbersome filings. Some professionals that are ready to work *pro bono* for African states such as a US- based International Non-Profit Organisation, Public Interest Intellectual Property Advisors (PIIPA) is not without some conditions. It should be to the interest of the public, supportive of the interest of the developing states, financial capability to pay for professional assistance and organisational test to determine eligibility. There are different nuances to the interpretation of these conditions, which in the long run may not be in the interest of Africa (Davis & van den Berkhof, 2013: 7). Issue areas that remain unsettled despite the unequal exchange in the IPRs are the issue of ASB and PIC. These need some clarifications. Royalties on the patented plants and animals that were dubiously pirated from Africa in general with special focus on Rooibos by various MNCs need academic interrogation. This is against the much acclaimed ethical, social and environmental responsibilities in MNCs (Epstein, 2011: 185-99; Letto-Gillies, 2012; Wilks & Nordhaug, 2013: 286-305).

The problem associated with this, which this paper is interested in, is the nexus between the government, community and individual. It is the opinion of this paper that paying to government of the state, in line with the CBD, is going to be another means of exploitation because of the corrupt practices of government officials and red tapism. The stealing of IK is unabated from the pre-colonial Africa to the neo-colonial period. Formation of databank in form of a proposed Global Biocollecting Society (GBS) as proposed by Peter Drahos (EIPR, 2000) is believed to be the way out of this problem and to resolve multi-patenting is not without its lapses of cyber-espionage. There is a need for ARIPO to challenge the imperialistic IPRs of WIPO.

## **ROOIBOS AND ITS POLITICS**

### **Rooibos and its Development**

The source of this tea is traceable to the IK of the Khoi and San people occupying Cederberg, about 200 kilometres north of Cape Town. These are the people, according to African Commission on Indigenous Peoples (IPs), termed as indigenous people because they are pastoralists and hunter-gatherers (Wachira, 2010: 313). IPs may be defined as "groups and communities who self-identify themselves as such and who seek protection of their fundamental rights within the indigenous rights regime as developing in international law" (Wachira, 2010: 297). The use of rooibos by Khoi and San predated the arrival of Jan van Reebeick to the Cape of Good Hope. It is known as a source of food and medicine for nearly every ailment for the IPs that occupy the area. A Swedish botanist Carl Peter Humberg was able to relate with the people of the community to *steal* the use of the wonder Rooibos and recommended the same for use in treating some diseases in 1772. He marketed it in Germany under the name "Rooibos" or "Massai Tea". In 1904, a Russian immigrant Benjamin Ginsberg went further to exploit

the poverty of the area and became a merchant of the product which he packaged and sold in the country and exported part of it to Europe. History had it that in 1968, Annique Theron realised “that a rooibos infusion, when administered to her baby, cured the infant of chronic restlessness, vomiting and stomach cramps”, helped promote rooibos tea as a health drink (Joubert & Ferreira, 1996: 79).

Annique wrote a book, *Allergies: an Amazing Discovery* on Rooibos in 1970 (Cason, 2004). This globalised the tea and brought it into prominence in America, Europe and Japan as a multipurpose product. The tea, as sometime called Mountain Tea because it is a plant that grows in unusual terrain of mountainous area of Cederberg area, brought South Africa to limelight despite its apartheid policy. Annique registered Forever Young Company in America that produces skin care products with the use of rooibos. This further popularised rooibos and led to increase in demand. In 1993, she filed a TM application for Rooibos with the US Patent and Trademark Office (USPTO) and got registered in 1994. Rooibos Limited, South African company challenged the registration as the export of the product in the name of rooibos would be curtailed in the US if it is not classified as generic name. The company received support from the South African government and the Province of the Western Cape. Theron, a South African's dubious transaction with an American friend Ms Virginia Burke-Watkins of Burke International in the sales of the patent at a ridiculous price of \$10 is considered to be another source of concern. Could this be considered as an act of good gesture to a long standing friendship or out of poverty?

The issue that is awaiting academic explanation is who should pay for the benefit shared to the community that is the owner of this mystery plant since the original patent was transferred to another company without the knowledge of the state that is in control of the plant as discussed by Jay McGown (2006). This is where the issue of conflict of interest remains mystery between the CBD and TRIPs as mentioned above. Burke International's demand for \$5000 in compensation from the small tea cafes in the US made many of them change the name to either Red Tea or Red Bush which slowed their sales and brought confusion to consumers. In an attempt to better the lot of the rooibos producer in South Africa, Rooibos Limited attempted to register the same product with USPTO in 2002 with the name “Rooibos the Red Tea”. With the inclusion of the word rooibos, it was subjected to Burke International challenge. After almost a decade of legal battle between the two and the payment of almost \$1 million, the case was later settled out of court with the dropping of Rooibos name as a trademark in the US. Burke International and Rooibos Limited eventually registered the product and used the word rooibos in conjunction with other stylised words, symbols or designs in form of TM in 2006. In 2007, after the settlement Rooibos Limited also registered the product TM with Benelux Office for IP (BOIP). Is this a win-win achievement by both parties as it is reduced to a generic term and public domain/goods? Or does it imply that the Khoi and San peoples have finally lost their IK to the arrangement of WTO in the name of globalisation?

Of the four common genotypes of rooibos, “Nortier” is produced at commercial quantity while “Cederberg” is found in the wild in the region of Clanwilliam (Pretorious, n.d.: 70). The name Nortier is derived from a local doctor and a Rhodes Scholar, Le Fras Nortier who was encouraged by Ginsberg in the 1930s to experiment with cultivation of the plant; while Cederberg type is derived from the actual location where the plant is naturally found. Cederberg is considered as an organic and fair trade certified as it is original in the genetic composition compared with the plantation ones that have undergone some degree of genetic modification for improved production (Hawkins et al., 2011). Rooibos is considered as a wonderful plant because it only thrives in a specific climatic condition, which is peculiar to the western

part of South Africa. According to Schulz et al, (2000), Rooibos Tea prefers a mild Mediterranean climate. While older Rooibos plants are usually adapted to cold winters and hot, dry summers, the young plants display some sensitivity to frost. Dirk Troskie (2007: 6) observes further that other characteristics of Rooibos tea are the following:

“It must (be) in the winter rainfall area; the substrate must be a derivative of Table Mountain Sandstone; it must be deep, well drained sandy soils; the ph. of the soil must be below 7; and it must be in the *Fynbos* (fine bush) biome.”

Based on the above features, it is clear that the planting of this wonderful tea qualifies for GI status which is favoured by the eurocrats of Brussels as a source of royalty payment to the community that originally has owned this product for several centuries now (Fraser, 2013). Because of its unique features, it has become a source of employment for more than 5000 South Africans in the region and about 350 farmers are identified in the active production of the Mountain Tea which attracts international attention in recent time. The supposedly neglected sparsely populated region is being elevated as a globally recognised tea industry. Building of schools and support for the disadvantaged people by the Rooibos Limited and some cooperative societies for rooibos business are feasible in the region.

Rooibos is considered as the natural heritage of South Africa, a benefit to a people, a legal system, a nation and the cheapest tea that cures many ailments among the IPs. A research conducted by A Journey into Herbal and Natural Healing Research Centre(2009) attested to its universal ailment treatment such as boosting of immune system, acne, arthritis, athletes foot, candida, cellulite, cracked heels. eczema, fissures, headaches, haemorrhoids, insomnia, jock itch, moles, nail fungus, psoriasis, restless legs, rosacea, scars, skin tags, stretch marks, varicose veins, warts, wrinkles and hay fever. By 1984, Japan discovered that it is an anti-aging product when used as an ingredient of cosmetics and soap making. It is also confirmed that it is better than green tea because it contains less than 5% of tannin<sup>2</sup>. It is rich in copper, iron, protein, potassium, calcium, fluoride, zinc, manganese, alpha-hydroxyl (great for the skin) and magnesium. Based on these properties, it is good for anti-viral, anti-spasmodic and anti-allergic. A study at the Oxidative Stress Research Centre at the Cape Peninsula University of Technology has proven the ability of rooibos to improve liver function and protect the liver against oxidative damage.<sup>3</sup>

Like any other biological diversity, the developed states are always interested in biopirating African resources through many channels as discussed in Patrick Bond's Looting Africa (2006). Attempt to have a fair deal for the producers brought about the formation of South African Rooibos Council (SARC) with the aim of having a good deal and to embark on research and development for the improvement of the plant. The need to do this, as discussed above, is to maintain national heritage of the state.

WTO is the only regime that the West is always in support of because it promotes economic exploitation of the developing African continent. During the formative years of the regime, African representatives hardly contributed to the development of the regime because of the complexity of diplomatic negotiation; any contrary position by the developing areas would be met with economic and military reprisals. Many of the Rounds were conducted in secrecy between the West and their MNCs (Keet, 2006).

### **ABS Sharing Formulas**

Who is entitled to rooibos' ABS as the exact location where Theron took the sample for filing is not

known. Many communities are in control of rooibos. Difference between the Khois and the Sans seems to be a source of concern should royalty be paid by the patented companies eventually. Who gets what percentage and on what criteria is ABS to be awarded may lead to a resource curse as many communities and states in Africa are currently contending with. The nexus between the community and government is another issue. Is it the national government represented by SARC or the provincial government of the Western Cape that will be the rightful beneficiary of the financial reward if eventually settled through court or out of court? These issues will likely shape politics that could ensue after the crisis of ownership is settled. It is established that rooibos falls under category of piracy based on the definition advanced by McGown (2006: i) and the Edmond Institute that:

“Where there is access to or acquisition of biodiversity (and/or related traditional knowledge) without prior informed consent, including prior informed consent about benefit sharing, on the part(s) of those whose biodiversity (or traditional knowledge) has been “accessed” or “acquired”, there is biopiracy - i.e., theft”.

In his own definitions, Thompson (2010: 300) sees biopiracy as:

“...taking of plants, seeds and animals for pirate gain as well as pillaging local plants riches by genetic or chemical contamination. ...is removal of the organism, whether by laterally taking the plant, animal, seed or genetic material and claiming ownership, or by destroying it. Piracy refers to refusal to compensate or even acknowledge the original cultivators of the bioresources”.

These definitions therefore bring this paper to the twin concepts of defensive and positive protections. According to Dutfield (2006: 22) positive protection refers to the acquisition by the TK holders themselves of IPRs such as a patent or an alternative right provided in a *sui generis* system. Defensive protection refers to provisions adopted in the law or by the regulatory authorities to prevent IPRs claims to knowledge, a cultural expression or a product being granted to unauthorised persons or organisations. Going by these definitions the case of rooibos right falls within positive protection theory. Therefore, there is a need for many governments and non-governmental organisations to get involved in seeking any meaningful redress in form of making the holders of TK pay royalties to the community that is being deprived of its rights without PIC (Dutfield, 2006: 22).

There is a need to examine entitlement regime, which is sub-divided into two: property regime and liability regime. A property regime vests exclusive right in owners, of which the rights to authorise and determine conditions for access to the property in question are the most fundamental. The owner of this right should be able to enforce law on how, when, where and who to use the right. On the other hand is the liability regime, within which the issue of Rooibos falls. This is a regime that calls for ‘use-now-pay-later’ system according to which use is allowed without the authorisation of the rights holders. But it is not free access. Ex-post compensation is still required (Dutfield, 2006: 22). When IK falls within public domain, it does not mean that it has become a public good, but the IK holders can still claim its ownership through compensation. Liability regime, for instance, entitled Namibia, Angola, Botswana and South Africa to benefit from patented Hoodia when South African Council for Scientific and Industrial Research (CSIR) paid part of the royalties realised from patents sold to Phytopharm (British own company) to the Sans. What comes to mind from this transaction is the politics embedded in the sales of the rights to Phytopharm, which in turn, sold the same to Pfizer. Another question that comes to mind is whether Pfizer should be liable for payment of royalties or Phytopharm should inherit the payment. A situation where an

indigenous research centre patented biodiversity without the knowledge of the communities that own the resources needs more interrogation. This could have influenced some African states to establish ARIPO as an international regime to cater for the continent IP.

### **ARIPO AND IP REGIME**

ARIPO was established in 1976 with the responsibilities to hear applications for patents and registered trademarks in its member states. It replaced African Regional Industrial Property Organisation. According to the Banjul, The Gambia, Protocol (1993) and the Swakopmund Protocol that led to the protection of TK and expression of folklore (2010), ARIPO remains the major voice of the continent in achieving its Article III (c) objectives that spells the followings:

“In accordance with the objectives of ARIPO generally and in particular Article III (c), which provides for the establishment of such common services or organs as may be necessary or desirable for the coordination, harmonization and development of the intellectual property activities affecting its member states; *Recognizing* the intrinsic value of traditional knowledge, traditional cultures and folklore, including their social, cultural, spiritual, economic, intellectual, scientific, ecological, agricultural, medical, technological, commercial and educational value; *Convinced* that traditional knowledge systems, traditional cultures and folklore are diverse frameworks of ongoing innovation, creativity and distinctive intellectual and creative life that benefit local and traditional communities and all humanity; *Mindful of* the need to respect traditional knowledge systems, traditional cultures and folklore, as well as the dignity, cultural integrity and intellectual and spiritual values of traditional and local communities; to recognize and reward the contributions made by such communities to the conservation of the environment, to food security and sustainable agriculture, to the improvement in the health of populations, to the progress of science and technology, to the preservation and safeguarding of cultural heritage, to the development of artistic skills, and to enhancing a diversity of cultural contents and artistic expressions”.

Like other international regimes formed in Africa, ARIPO remains a lame dog as most of its protocols are not in force till date (2013). The Swakopmund (Namibia) Protocol, the basis of protection for the TK and sources of ASB appears to have been in a comma since 2010. It is worth noting that only 18 states are members of which they are Anglophone states except for Rwanda and Mozambique. Also the major powers in Africa like Nigeria, South Africa, Libya, Egypt, Ethiopia, Algeria and Angola are only observers as against participating actively for the development of NEPAD. This cannot be too far away from the imperialistic ambition of the developed states as discussed below.

### **REGISTRATION OF ROOIBOS AND ITS IMPLICATIONS FOR AFRICA'S DEVELOPMENT**

As people started to realise the economic and medicinal benefit of Rooibos, demand increased. Unknowingly, Ginsberg realised that his business strategy brought about demand both at the local and at the international level. Without thinking of patenting rooibos, he would supply in large quantity to tea industries that repackaged and sold rooibos tea under their own brand.

The effect of climate change and the negative impacts of the commercial farming further throw the indigenous away from rooibos business as the price of the commodity is getting lower to the extent

that income realised in 2003/4 could not pay for the inputs. These factors forced the small scale farmers (Khoisan) to result to wild rooibos which is heat-and-drought resistant. At the same time, it is facing extinction from climate change and unsustainable management and harvesting method. As much as fire plays critical role in the existence of wild rooibos, too much of it tends to prevent adequate veld recovery which may lead to loss of rooibos plant (Pretorious, nd.: 70). The wild rooibos "grows more slowly and can store up water reserves in its enlarged roots, enabling it to survive greater extremes of climate than its cultivated cousin". It is noted that small farmers are also in the business through farmers' co-operatives to supply 100% of the organic, fair trade rooibos to the consumer and retailers (Majavu, 2010). These are the farmers who rely on the spring rainfall to feed their three meters root bush for sustenance. The cultivated rooibos can last for only six years while the wild rooibos survive and be productive for up to 50 years. The wild rooibos is hardier than the tame variety and thrives on the regular natural fires caused by summer lightening (Pretorious, nd: 70). Potassium generated from bush fire will enhance the growth of the plant in the poor-nutrient soil.

Various attempts were made before now on the need for the rooibos growers to form cooperative societies in order to better the lots of the farmers on the mountain. In 1948, the Clanwilliam Tea Cooperative was formed, which brought about the recognition of the rooibos by the Department of Agriculture in the country in 1954 through the establishment of the Rooibos Control Board (RCB) (the Tea Board) after the World War II. Tea Board aimed at stabilising the price of rooibos, regulating the product, improving the quality and bringing the tea to the global market. By 1993, probably because of the imposed privatisation on the African states, the Tea Board was forced to privatise and as such became Rooibos Limited. With the politics behind bio-piracy in the industry, Rooibos Limited and other producers of the tea formed a non-profit SARC to promote the interest of the plant at the local and international levels, most especially, against the MNCs who have tried severally to claim ownership of Rooibos through patenting, but in the guise of bio-prospecting. SARC also engaged various NGOs in protecting Rooibos through R & D, food safety and certification.

Rooibos Limited since 2011 has been able to create more jobs and market the Mountain tea of which not less than 15,000 metric tons of rooibos are produced each year. Out of this, about 5, 000 metric tons are consumed by the local industries while the rest are for export to the developed states of the US, Japan and the EU. The industry contributes about R500 million each to the economy of South Africa. This production is expected to hit 25, 000 metric tons by 2015. Issue of WTO privatisation of nature applied a break to the ownership of the plant.

It is estimated by various students of African economic development that the continent keeps on losing more than \$50 billion each year to various investments. Financial mal-practices and different economic programmes imposed on Africa through the Fund and the Bank have further relegated the continent to the background. This is more prevalent in the extractive industries and biodiversity resources. MNCs are very active on the continent to perpetuate economic disarticulation in various forms, but claiming they are agenda of economic development (Rodney, 1972; Ake, 1983; Onimode, 1988, 2000; Bond, 2003, 2005, 2006; Stephan et al., 2006; Reinert, 2007; Mills, 2010; Thompson, 2010; Acemoglu & Robinson, 2012). For instance, Bolton (2008: 209) has this to say about the exploitation of Africa TK through IPR bio-piracy in many of the Africa's biodiversity resources with little or no ABS:

"Most of the time, however, there has been little progress in Africans getting any reward for profits

made on their traditional knowledge or natural resources. It's hardly surprising: to take on a large Western company in Western courts requires complex understanding of local law, expensive lawyers, and deep pockets. Among other natural resources patented so far are brazzein, a protein 500 times sweeter than sugar from plant in Gabon; teff, the hardy grain used in Ethiopia's flat *injera* bread that provides the staple for almost the whole country's diet; and an extract of the *Aloe ferox* plant from Lesotho, which helps lighten skin".

The settlement arrangement of the WTO is also cumbersome for the African states. Though at the theoretical level every state is equal before the law; the developed states always have their way through non-tariff barriers against developing states (Stephan, et al., 2006).

To stop Compagnie de Trucy from having exclusive rights to rooibos TM, South Africa "had to hastily find a translator, since challenges to TM applications must be submitted in French". Only four days' notice was given to South Africa to respond. If not because of the help from an ex-Capetonian working in the South African embassy in Paris and a French research institute, filing an observation to stop the company might remain a mirage as a result of the complexity and time frame (Smith, 2013). At the same time, DTI raised the issue with French Embassy and EU Representatives in Pretoria in a diplomatic bid to resolve the crisis. It is the turn of this paper to look into the concept of IP vis-a-vis the rooibos business at the domestic and global market.

#### **SOUTH AFRICA, INTERNATIONAL REGIMES ON IP AND THE PLIGHT OF THE DEVELOPING AREAS**

Article 1 of CBD, which South Africa is a party to, describes its objectives as quoted from John Dugard (2005: 401) as:

"The conservation of biological diversity, the sustainable use of its components and the fair trade and equitable sharing of the benefits arising out of the utilization of genetic resources".

CBD Art. 15 (1), (4) and (5) call for fair and equitable sharing derived from the use of generic resources. It also advocates the need to take various steps to conserve biodiversity resources within their jurisdictions with more emphasis on *in situ* as against *ex situ* to accommodate the need to preserve traditional lifestyles and local communities. Unfortunately for the developing areas, the US is not a signatory to this international regime, rather, in conjunction with MNCs, came up with the Marrakesh agreement on TRIPS with the intension of increasing their profit and market through expansion of rent extraction and increase in the number of foreign territories into which they could consider expanding. Art. 27 of the TRIPS agreement provides for 'the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof. Though contested by the developing states as an imperialistic ploy, the rules continue to govern international trade and investment (Dagne, 2012).

Also of note is the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), 1973. In its appendices it lists species threatened or likely to be threatened with extinction and prescribes regulations for trade in such species (Dugard, 2005: 400). According to the CITES, about three species of wild rooibos are with some threatened status (near threatened [NT], vulnerable [VU], endangered [EN] or critically endangered [CR]) (Hawkins et al., 2011: 5)

Reduction of the word rooibos to a generic term is another neo-imperialist means to subject Africa's resources to public domain of which their exclusive rights are not meant for the IPs that owns the resources. This arrangement may soon be introduced to other African products such as honeybush,

buchu, marula fruit and Karoo lamb. These unique products exclusively found in some of the African states have the same properties as champagne, port and sherry (Marais, 2013). This is an attempt to reduce the continent to the level of inputs producer to continue biopiracy. It also subjects the concept of IK to a rigorous academic interrogation. The out-of-court settlement after lots of fortune meant for economic development of the state has been wasted on litigation further perpetuates underdevelopment. The procedure is described by Soekie Snyman, the SARC coordinator, as a complicated by vague rules and a legal quagmire (Marais, 2013).

After series of imperialistic blow from the North, South Africa, in 2007, realised the need for GI to lay claim to rooibos and other plants and animals that are unique to the country. The importance of GIs and TM protection over biodiversity if backed by local legislation will enable the developing states to control their resources through ASB. An amendment bill on IP laws of 2007 was referred back to the parliament by Jacob Zuma in 2012 to accommodate TK and to meet international standard. Pending the final draft waiting for the President assent, a *sui generis* system was considered "to protect traditional intellectual property (TIP) through separate piece of legislation as in China, Peru and Thailand" (Karrim, 2009). Till 2013, the bill did not receive the necessary debate from the parliamentarians. 2013 could be said to be a watershed on the need to protect the small scale and commercial farmers from biopiracy. The Merchandise Marks Act proposed by the DTI in 2013 states that "The name rooibos can only be used to refer to the dry product, infusion or extract that is 100% pure rooibos derived from *Aspalathus linearis* and that has been cultivated or wild-harvested in the geographical area (of Cederberg) (Smith, 2013). This was when another MNCs, a French company, Compagnie de Trucy applied to register a number of trademarks incorporating the terms "South African Rooibos" and "Rooibos" in 2012. If the company succeeded in the registration, it implies that it would own exclusive rights to the names of any rooibos product sold in France, a key market in the European Union (Marais, 2013). Before Compagnie de Trucy ever attempted to register rooibos, Nestle and its sister cosmetic company, L'Oreal had attempted to register rooibos in 2010. When challenged of biopiracy, the companies denied any contravention of South Africa Biodiversity Act 10 of 2004, the Berne Declaration and Natural Justice principle (*Mail & Guardian*, 28 May 2010). Paris, going by history, should drop her ambition to patent rooibos because in the 1930's South Africa relinquished the use of the term "Champaign" in exchange for free access of Pretoria's crayfish to France (Troskie, 2007). For the need to qualify for international protection granted to GI, the state applied to register the term as a Certification Mark under the South African Trade Marks Act (Marais, 2013). GI registration is being considered a useful IPRs for Africa because it add value and improves the socio-economy of the rural dwellers as it involves less cost. This is to explore the EU's accommodation of registration of non-EU countries' GIs. Rooibos, as discussed above, meets every condition to be qualified as GI.

"It is only grown in one part of the world; the properties of the plant are a direct result of the unique geographical conditions in which it grows; there is a strong link between rooibos and the farmers that grow it, as they have traditional knowledge on the correct way to cultivate and produce the plant; and the plant is truly part of South African identity."<sup>4</sup>

The need for GI as championed by Rooibos Limited and SARC are stated as:

"...to protect the name from usurpation while allowing all those involved in the rooibos industry in the region – from farmers to exporters – to use it without fear of litigation in foreign markets. A GI

comes with specific guidelines for how a product should be produced, and this will ensure that all rooibos is of the same high quality. It (will) add value for the producers, and a GI would put more power in the hands of the producers and farmers. Because the GI links an area to a product, it would be a powerful marketing tool for the region, and could be used to promote other activities such as tourism. Rooibos is produced in a fragile ecosystem and a GI will help protect the unique biodiversity of the region. A GI will ensure that rooibos tea blends are in fact genuine and not diluted, by requiring the product to contain at least 80% rooibos in order for it be (labelled) as an official rooibos product”.<sup>5</sup>

## CONCLUSION AND RECOMMENDATIONS

WTO approach to IP is based on a long, but singular, tradition of Anglo-Saxon thought as advanced by John Locke of private property (Thompson, 2010: 302). From the international law perspective, it means that TK is not accommodated into the IP regime. The advocates of this only operating primarily within “human rights” and “preservation” approaches. These approaches appear more hospitable to TK advocates than the conventional IP approach, especially given the latter’s focus on *ex ante* incentives to create (Varadarajan, 2011: 419). To enhance fair trade certification, the small farmers should expand their production through government’s effort. It is noted that the land available for them is too small to expand production since commercial genetically modified rooibos farmers that contribute 95% of the total production dominate the industry. There is a need to encourage wild rooibos to avoid extinction.

The issue of ASB is problematic in many ways. There are several propositions on the need to abide by the CBD through IK preservation. These are in form of secrecy, database, PIC and property regime. As discussed above, property regime is not possible on the case of rooibos as against liability regime. One issue that is yet unresolved is the ASB. Who is supposed to receive the benefit from the sharing? Is it government, the community or private individual? Going by the history of South Africa, the sharing of the benefit may further generate crises. Allocating the proceed to government is not the best option as the community that is deprived of its biological resources which had served as a means of their livelihood may be permanently at the receiving end. From the time of colonialism in South Africa when the British colonialists took the land from the Khoi and San to the apartheid era and its forceful eviction of people from their land more problems had been created. Who is going to receive the benefit? Is it the people who occupied the land before 1913 Land Act that the government fixed as the terminal date of land claim or those who are in control of the land now? How can we confirm that the present land occupiers, even the small scale farmers are the original owners of the land? This brings about the need to re-examine the definition of IPs as those who rely on traditional lands and natural resources for their livelihood, economic sustenance, as well as religious and cultural life (Wachira, 2010: 299). Going by this definition, the issue of who should benefit from ASB is not a thing that could be resolved in the case of rooibos. The Khoi and San are the fruit gatherers and hunters who scattered around Western Cape, Northern Cape, part of Eastern Cape, and Botswana.

In African settings, there are mechanisms of access, use, and management of natural resources that are implemented by clan elders, including access to water, salt licks, wood fuel, herbal medicine, grazing, and ceremonial sites (Wachira, 2010: 309). Based on this, how can we substantiate this quality

with the present occupier of the rooibos producing communities? Upon post-apartheid system in South Africa, the new regime has little interest in the concept of development and unity in diversity when it comes to the issue of land. The ANC government considers it as a sensitive issue worth incremental approach for the stability of the state. The same could have explained the politics behind the land claim issue. The colonial arrangement before the South African war (Anglo-Boer) remains untouchable. As long as the colonial era is left unaddressed, issue of rooibos and ASB may not receive any meaningful justice. It, as discussed above, will perpetuate exploitation of the indigenous people by government and its officials on the one hand, and various NGOs and community elite on the other hand. This paper has not seen any attempt by the South African government to give recognition to the Khoi and San in term of policy process; they have no inputs through consultation and are therefore forced to be assimilated to other culture in the Cape area. This is coupled with the principle of *terra nullius* adopted by several governments in the country when it is believed that land belongs to state and not individual, most especially lands without title holders. Lack of "effective occupation" brings about allocation of the lands to the Afrikaners during the apartheid era for "better" use.

Another problem that calls for more questions than answers is the concept of community and private individual. Who are the right peoples to benefit from the ASB? Is it the present people that are mixed of Khoi and San or the indigenous people that are scattered around the area? If the communities are entitled to the benefit, at what proportion is the money going to be shared and who is going to be the custodian of such income? Is the income meant for all the Khoi and San that can be found in Botswana, Angola, Namibia and South Africa? The Redbush Tea Company claims that "Our Redbush Tea is not Fairtrade™, but we do however donate a percentage of our profits to the Kalahari Peoples Fund" raise many more questions than answers to the problem of ASB. The same position was held on the pirated Hoodia when it was claimed that royalty of 0.003% was paid to the Kalahari Peoples Fund (KPF) from retail sales from commercialised product (McGown, 2006: 8; Bolton, 2008: 209). The not-for-profit organisation is for the whole San and other indigenous peoples of the Kalahari Desert that span Botswana, Namibia and South Africa<sup>6</sup>. When Pfizer realised the need to address the issue of ASB in line with CBD's Nagoya Protocol (de Sousa Dias, 2012), the company abandoned the plan. *Hoodia* patent was later sold to Unilever, a Dutch/British food giant, a maker of Slim-Fast (Bolton, 2008: 209). Discoveries of antibiotics from termite hill in the Gambia, cosmetics from Africa's iconic baobab trees, and anti-impotence remedies from Congo Brazzaville receive more details in McGown book as discussed above, but with no royalty payment to IPs for IK. Government and its bureaucracy are noted for their high level of corruption, and at the same time protective protection type of rooibos needs government intervention. Does it mean that after the settlement of the IPRs, government would only be an onlooker without having any benefit out of proceeds? These are the issues that further research will proffer likely solutions to.

There is a need to encourage ARIPO through the AU political and economic regional blocs. It is expected that NEPAD should be able to energise the newly continental regime but the personal interest of the member states. Africa, for instance, is in most cases working against the interest of the AU and NEPAD perhaps for its hegemonic ambition, and in most cases, for economic development. Cases of the state's membership of Cairns Group and the question of tariff liberalisation within WTO are instructive of South Africa's lack of interest in Africa's development in general (Keet, 2006: 167; *New Agenda*, 2012: 9). To achieve ARIPO mission statements, the continent needs to come up with praxis solution to the issue of

economic development. Products such as Botswana beef, Mozambican prawns and Namibian oysters qualify for GI which would improve the rural dwellers. Marula fruit which is the source of Amarula liquor should be patented to avoid more crises. The identified sub-regional trading blocs established, hopefully, should bring about custom union to promote south-south trade and economic integration (Todaro & Smith, 2011: 617). Problems inherent on this position such as the colonial legacy, globalisation and conflict in various African states need to receive solutions. It is noted above that the Francophone states are not party to ARIPO. This may be because of the colonial factor of which the influence of France on these states continues to work against economic development of the continent. It is the contention of this paper that the issue of biodiversity resource registration should not be too cumbersome otherwise, that may lead to a continuation of biopiracy in Africa to the detriment of the developed states.

### Notes

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### ABSTRACT

The global recession that gripped the developed countries since 2008 affected the developing countries in a severe way. The developing countries were hard hit as there was a drop in demand for goods produced. The low levels of aggregate demand of resources and goods from the developing countries meant that countries like South Africa could not sell sufficient goods to their traditional trading partners. This resulted in loss of jobs and foreign direct investments (FDI). The rural areas were hardest hit by the effects of this recession. It is against this background that the paper argues that if the developing countries are to reverse the adverse effects of the global recession, the rural areas have to be developed economically. However, developing the rural areas will require a mind-set shift on the part of leaders in the private sector, traditional institutions and government. The majority of rural people are women who are in an environment that does not empower them economically through access to economic opportunities like land, jobs and finance. For this socio-economic landscape to change, innovative thinking geared towards opening the rural areas as economic hubs is imperative. The paper adopts a theoretical interpretive approach based on local and international literature to analyse the effects of the global recession on women, rural settings and the socio-economic situation in South Africa. The global recession has proven that unless developing countries prioritise rural economic development the effects will make the economic development of these countries arduous. Arising out of this argument, the paper presents some suggestions that could be pursued in heralding economic transformation in rural settings.

**Keywords:** Global recession; rural women; economic development; transformation; South Africa

### INTRODUCTION

The global recession of 2008 that started in the developed world evolved into a global inferno that hit hard the developing countries the hardest as they did not have enough reserves to cushion the effects of the global meltdown. The poor in the developing countries like South Africa were badly affected as their economies are resource based. The diminished aggregate demand of raw materials meant that the prices of resources fell and exports fell as well. This state of affairs resulted in loss of jobs and foreign direct investments. The rural areas were the hardest hit. Literature review indicates that the rapid spread of the financial crisis from a small number of developed countries to engulf the global economy provides irrefutable/tangible evidence that the international trade and financial system needs to be profoundly reformed to meet the needs and changed conditions of the global economy in the 21<sup>st</sup> century. The crisis exposed the weaknesses of the mechanisms that were put in place to ensure financial and economic stability (Stieglitz, 2002; Stiglitz, 2010; Moyo, 2011).

Developing countries, and especially the poor in these countries, are among the hardest hit of a crisis that they did not have a role in making. Even emerging-markets economies and least-developed countries that have managed their economies well are suffering declining output and employment. Indeed, those countries that have had the best performance in the recent past and have been most successful in integrating into the global economy have been among the most badly affected (Stiglitz, 2010; Stiglitz, 2012). The darkest side of the economic meltdown was the widening gap between the poor and the rich. The paper focuses on the adverse effects of the crises on the rural poor in South Africa. The South

African socio-economic landscape indicates that the majority of rural people are women who are in an environment that does not empower them economically through access to economic opportunities like land, jobs and finance. The low levels of education among this group make their plight even worse as they cannot compete for job opportunities. This vulnerable group has no one representing them, according to (Mbeki, 2009: 19) they fall prey to elites and other forces with the ability to form political organisations and therefore to control them.

Since the recession the poverty status of rural communities and particularly women has received much attention from governments, economists and policy makers. In 1995 the issue of the poverty status of women was put on top of the international development agenda at the Fourth World Conference on Women taking place in Beijing in 1995 (Klasen, Lechtenfeld & Povel, 2011: 2). Female headed households in developing countries deserve special attention since they are typically disadvantaged regarding access to land, labour, credit and insurance markets, discriminated against by cultural norms and suffering from, among others, high dependency burdens and economic immobility (Friedman, 1994; Perret, Anseeuw & Mathebula, 2005). This paper argues that the above reality notwithstanding, the plight of the poor in rural setting could be improved if economic activities that give them competitive advantage are developed. The paper identifies those structural aspects that hamper development for rural people particularly women and proposes solutions. The paper therefore concludes by offering proposal that could ameliorate the plight of the rural people particularly women.

## **LITERATURE OVERVIEW**

Literature shows that poverty differential between male- and female-headed households, preliminary work in South Africa has indicated that female-headed households may be more vulnerable to poverty because they tend to be larger, support more children, are based in rural areas, contain fewer working age adults, and because female heads are more likely to be unemployed and earn lower wages than their male counterparts (Friedman, 1994; Chant, 2003; Perret, Anseeuw & Mathebula, 2005; Koster, 2008; Rogan, 2011). In this paper the definition of poverty is informed by the definition used by the South African government which understand poverty to mean a deficiency in an individual's socio-economic capabilities. Its dimensions include factors such as income, access to basic services, access to assets and human capital, and social capital (Faber, 2009: 28). The above conditions are shaped by the colonial apartheid legacy and any attempt to improve the material and economic conditions of the rural poor has to address this historical legacy (Friedman, 1994; Terreblanche, 2002; Green Paper on Land reform, 2011; Mkhize, 2012).

According to the Living Conditions Survey (LCS) 2008/9's poverty profile 60,7% of people in traditional areas are living below the poverty line which is set at R305,00 (StatsSA, 2011). South Africa's poverty levels per settlement type show a clear bias against rurality (Table 1).

Traditional areas have the biggest share of the population living below the poverty line. This is bad given that they have the second largest share of population compared to the other settlement types in South Africa as the above table illustrates. Within this framework of a proletarianised rural stratum of society without any real alternative to wage labour, a distinction is drawn between women who are heads of household in their own right (*de jure*) and those who are heads only in the absence of men (*de facto*). The analysis of this distinction in some studies took some significant importance.

**Table 1:** Percentage share of poverty by settlement type

Settlement Type	Food poverty line (R305) (%)	Lower-bound poverty line (R416) (%)	Upper-bound poverty line (R577) (%)	RSA (%)
Urban formal	24,4	28,1	32,7	53,9
Urban informal	10,1	10,9	10,9	8,4
Traditional areas	60,7	55,9	51,4	33,6
Rural formal	4,8	5,1	5,0	4,1
<b>RSA</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: StatsSA, 2012

Where women assumed de facto responsibility whether or not the rural household is poor will depend on what income migrant men who are labourers earn and whether or not they contribute to the sustenance of the household and invest earnings in its resources. Given the low wages that black men earn as a legacy of the colonial apartheid policies a high proportion of household headed de facto by women would be poor. When women are de jure heads of households, before their own sons are grown, they miss the labour of men, regular wage remittances, and legal access to resources in patriarchal systems of local authority. These households will invariably be poor (O'Laughlin, Friedman, 1994; Terreblanche, 2002)

#### DYNAMICS SHAPING RURAL SOUTH AFRICA

The land tenure system in South Africa particularly in rural settings, where the land is in the custodianship of chiefs (*Magoshi*) or traditional authorities, is biased in favour of men. Women are not allowed to own land and this leaves them at the mercy of men. In rural areas this drives them into destitution as land is means of generating income. South Africa's history is permeated with discrimination based on race and gender. The country's infrastructure was moulded by the violent subjugation of indigenous people, appropriation of their land and resources, and the use of unjust laws, to force black people to work for low wages to generate wealth for the white minority. In South Africa, rural poverty and chronic deprivation may be partly ascribed to the poor endowment in natural resources of former homeland areas (O'Laughlin, 1997; Terreblanche, 2002; Perret, Anseeuw & Mathebula, 2005). In the South African context, poverty is a political construct (such poor endowment having been forged and organised by the apartheid system) whereby rural poverty served the interest of dominant social groups by assuring low-cost farm-labourers and workers for off-farm activities (mining and the industry, commercial and domestic service). This has always been the case since the establishment of the mineral energy complex as the basis for the South African economy (Terreblanche, 2002; Perret, Anseeuw & Mathebula, 2005). In the former Bantustans, owing to deprivation in natural resources (from enabling rainfalls to proper access to land) and lack of skills and markets, potential income from farming or non-farming rural activity remains

very low and uncertain. Therefore, African rural dwellers have long been tempted (or forced rather) to join the relatively well-developed non-agricultural, non-rural labour market. Such off-farm labour market has dominated household work incentives and labour allocation. The development of the mineral energy complex left the rural areas with the following characteristics:

- massive adult-male migration out of the rural environment;
- most rural households are women- and/or pensioner-headed;
- an overall collapse of the African peasantry (which existed until the end of the 19th century, before the first discriminatory, land-related laws); and,
- households mainly depend on cash income given by others, among others in a form remittances and social / welfare grants (Perret *et al*, 2005; see also O’Laughlin, 1997; Terreblanche, 2002)

With the discovery of gold and other minerals around the reef during the 1900 men were forced into the migrant labour system and women were left for long periods to fend for themselves in the rural areas. It is this lack of job opportunities and lack of access to land that exacerbate the poverty of rural people and women in particular. Collinson, Clark, Gerritsen, Byass, Kahn & Tollman (2009) point out that the labour migration in South Africa was enforced under apartheid with legal and political mechanisms to regulate geographic mobility and provide cheap and abundance labour to the farming and mineral energy complex (see also Terreblanche, 2002). The poverty of women is exacerbated by the reality that divorced women are usually left with children. The rural landscape shaped by the creation of the mineral and energy complex which was created by the colonial administration during the turn of the twentieth century forced rural communities particularly women to specialise in economic activities that entrenched their poverty. This left poor rural communities trapped in poverty and lack of job opportunities (Terreblanche, 2002). O’Laughlin (1997: 5) sums it up poignantly thus *“given the low wages paid to Black workers under the apartheid economy it is reasonable to expect that a high proportion of households - before their own sons are grown , they miss the labour of men, regular wage remittances and legal access to resources in patriarchal systems of local authority”*. These households will invariably be poor.

#### STATISTICAL INDICATORS OF RURAL POVERTY

As the aftermath of the global recession the South African unemployment stand at around 40%. With the recession mining companies shed a lot of jobs and the remittances that were flowing to the rural families stopped. The South African economy shed 400 000 jobs. May (1998 cited in Perret *et al*, 2005), 72% of the poor population lives in rural places, and so do 81% of the ultra-poor population (the poor defined as the 40% poorest households and ultra-poor the 20% poorest households). Furthermore, within the rural areas, 74% of the population lives in poor households, and 44% live in ultra-poor households.

The results of the Living Conditions Survey (LCS) 2008/2009 indicate that a little more than three thirds (76.8%) of the households in South Africa were headed by black Africans during the period September 2008 to August 2009 when the survey was conducted. About 12.5% of the households were headed by whites, 8.2% were headed by coloureds and 2.5% were headed by Indians/Asians. Of all the households, the majority were headed by males (60.2%). Among the black African-headed households, 56.2% were headed by males and 43.8% headed by females. This pattern (where the majority of households were headed by males) is observed in households headed by all other population groups.

Households headed by black Africans had the highest proportion of households headed by females (43.8%), followed by coloured-headed households (34.0%), followed by Indian/Asian-headed households (24.9%) and then white-headed households (22.3%). Table 2 below indicates percentages of population household heads.

**Table 2:** Gender of household head

Population group of household head	Sex of household head			Total (%)
	Male (%)	Female (%)	Total (%)	
Black African	56,2	43,8	100,0	76,8
Coloured	66,0	34,0	100,0	8,2
Indian/Asian	75,1	24,9	100,0	2,5
White	77,7	22,3	100,0	12,5
<b>Total</b>	<b>60,2</b>	<b>39,8</b>	<b>100,0</b>	<b>100,0</b>

Source: StatsSA, 2011

According to the LCS of 2008 / 2009 the average annual household consumption expenditure for black African-headed households, irrespective of sex of the household head, was below R45 000, nearly three times less than that for Indian /Asian-headed households and almost five times less than white-headed households. Nationally, the average annual consumption expenditure for female-headed households was R51 528 compared to R89 371 for male-headed households (StatsSA, 2011).

South African rural-based women occupy and use land in a variety of different forms, and there are enormous differences between and contradictions within rural communities. Women's relationships to land are determined by a mixture of apartheid land policy, the South African economy and the nature of their rural societies. The challenge of developing a coherent national policy to address the range of issues and diverse forms of rural production, and to do so in ways that simultaneously challenge the entrenched subordination of women, is something that needs urgent attention. The Green Paper on Land Reform (2011) seeks to address this issue. Delius & Schirmer (2001) point out that female poverty in rural areas is, in many respects, a legacy of the migrant labour system in which men found urban jobs and left women behind, often dependent on infrequent or non-existent remittances. In many instances, migrants never returned to their rural homes. Total income is chronically low in many female-headed household due to the presence of at most only one female wage earner and women's lower earnings in the labour market (Snyder, McLaughlin & Findeis, 2006). In rural South Africa the situation is even dire because of lack of job opportunities and people depend on social grants. The LCS 2008/9 indicates that the average annual household food consumption expenditure is R13547. Which is described as just adequate. This means that R13 547 of the R14 000 that state pays for old age grant goes to food. This leaves very little for anything else (StatsSA, 2011). There are three key and linked themes that characterise rural women's position in

relation to land. The first has to do with their lack of legitimate access to land in the form of rights. The second highlights their minimal role and access to decision-making around land. The third relates to the broader social, economic and environmental context (O,Laughlin 1997; Rogan, 2011).

Both women and men from rural and dispossessed communities share a basic need for more land with secure tenure and associated support services. However, traditionally, women were not able to have independent rights to land and were only eligible for allocation through men (either husbands or sons). For instance, under communal tenure systems, only married males are formally eligible for land rights. Inheritance operates through sons (usually the youngest inherits the land). A widow without children is particularly vulnerable since the land she worked will probably be taken by her parents-in-law or her late husband's brothers (O,Laughlin, 1997; Rogan, 2011). In the new dispensation in South Africa land reform that seeks to change this patriarchal and oppressive practices is a national priority is also enshrined in the constitution of the republic (Republic of South African, 1996). The right to gender equality enshrined in the new constitution which will confer full legal on African women, this will herald a profound change in their access to land. Women will now be eligible to purchase and be allocated land (Republic of South Africa, 1996).

## **SOCIO-ECONOMIC COSTS OF THE RECESSION**

The socio-economic costs of the recession are severe, and they will leave a trail of suffering well after the end of the global economic meltdown. Different countries were affected in different ways (Budget Review, 2012). Statistics South Africa revealed that 179 000 jobs had been lost in the first three months of 2009, which meant that job losses totalling 400 000 over the year were experienced. The Department of Labour indicated it had received more than 226 000 applications for unemployment insurance between September 2008 and the end of February 2009 during the Living Conditions survey 2008/2009 conducted by Stats SA. These represent the 'privileged' strata of workers, whose employers contribute to the national unemployment insurance fund, and who had formal contracts and held their jobs for more than six months. In South Africa's increasingly casualised labour market, it is difficult to know how many temporary jobs have been lost. In a society with very high unemployment and where incomes are distributed widely among families and kin, every lost job has huge implications for the socio-economic conditions of the vulnerable poor particularly in rural areas devoid of job opportunities (Marais,nd.). In 2009 the South African economy shed a million jobs resulting in a decline in the employment rate from 45% to 41%. The recession in South Africa impacted mainly on the poor and marginalized in both urban and rural settlements. The employment rate in rural areas plummeted to 15% which means for every 100 people only 15 earn an income from employment (Westaway, 2010: 3-4)

## **GOVERNMENT RESPONSE TO RURAL POVERTY IN SOUTH AFRICA**

### **Social Assistance**

In 1995 at the Fourth World Conference on Women in Beijing, poverty was identified as one of the challenges facing humanity. It was therefore imperative for governments to implement strategies aimed at eradicating ameliorating the ravages of poverty in developing countries. According to the Beijing Declaration and Platform for Action (BDPFA) point 16, "Eradication of poverty based on sustained economic growth, social development and social justice requires the involvement of women as agents

and also beneficiaries of people-centred sustainable development." (Ozoemena, 2010). The Budget Review (2012) highlights that the global recession affected people in South Africa in a way that warrants a conscious intervention by government to cushion the poor. South Africa faces severe inequalities, high unemployment and crushing poverty. As a result, South Africa seeks to improve the effectiveness of its social security system and the labour market institutions to address the above socio-economic problems. As a result, South Africa has a comprehensive social protection system to cushion the poor and the vulnerable. With the advent of democracy in 1994 a pro-poor social spending was introduced to compensate for the high levels of poverty, inequality and unemployment.<sup>3</sup> 5% of GDP is allocated for this purpose.

**Table 3: Social assistance grants in South Africa**

Grant per month, 2012/13	
Grant type	Amount
State Old-Age Grant	R1 200
State Old-Age Grant (over 75)	R1 220
Disability Grant	R1 200
Child-Support Grant	R280
Foster Child Grant	R770
Care Dependency Grant	R1 200
War-Veterans' Grant	R1 220

Government disburses the following grants: older persons; disability; foster care; care dependency; war veterans; social relief of distress; and, child support (table 3). The social grant system has been expanded in recent years by extending the child support grant to a child's 18th birthday, while the age at which men are eligible for the old age grant has been reduced from 65 to 60. A higher old age grant for those over 75 was introduced in 2011, and the means test threshold for the old age grant and disability grant was increased significantly in the same year. In 2012/13, R104.9 billion is allocated to social assistance, rising to R122 billion in 2014/15. The number of grant recipients is set to rise from 15.6 million in 2011/12 to 16.8 million in 2014/15 (Budget Speech, 2012).

### War on Poverty

The War on Poverty Campaign, which was first piloted in 2008/09, targets service delivery to poor households and monitors household progression out of extreme poverty. Government identified 1 128 of the most deprived municipal wards, where an estimated three million households comprising an estimated 15 million people live in extreme poverty. The campaign is being rolled out and it is planned that by 2014 all the identified wards will be covered. This annual campaign seeks to educate and inform parents, primary caregivers and communities about the importance of quality early learning for children. It also aims to increase the number of registered Early Childhood Development (LCD) centres and the number of children benefiting from their services. By March 2012, more than 800 000 children had

benefited from ECD services. The Department of Social Development's contributions to the development of children is one of the primary means to improve society's human capital and over time contribute to a reduction in intergenerational poverty (van Niekerk, 2011/12).

### **Expanded Public Works Programme (EPWP)**

The Expanded Public Works Programme (EPWP) is an important part of government's capacity to provide employment to those who are not absorbed into the labour market. While the first generation EPWP exceeded its target of 1 million work opportunities in 5 years, many of the jobs were short term and had limited positive impact on the lives of the targeted unemployed people.

### **Investment in Public Infrastructure**

Government's investment in public infrastructure is outlined in the Presidential Economic Joint Working Group document titled Framework for South Africa's Response to the International Economic Crisis (2009). In its medium-term expenditure framework, the government has budgeted R844.5 billion for public infrastructure in energy, transport, water, telecoms and housing (Benjamin, 2013). Government sees public investment in infrastructure as a key means of responding to the downturn in the economy. This public investment programme will include expanding and improving the road and rail networks, public transport, and port operations, dams, water and sanitation infrastructure, housing construction including low-income housing and publicly owned rental stock, information and communications technology and energy generation capacity as well as education and health infrastructure, and in the process create additional decent work opportunities whilst meeting the basic needs of the society. Activities will include maintenance of current infrastructure using labour intensive approaches wherever. Infrastructure investment should ensure the best possible social, employment and economic return to the society. This programme will be spread across both urban and rural areas. Rural development should include programmes to create employment, alleviate poverty, and improve access to health and education. (Presidential Economic Joint Working Group, 2009).

### **IMPEDIMENTS TO THE GOVERNMENT'S RESPONSE TO THE RECESSION/RURAL POVERTY**

Although government's response to the effects of the recession is laudable it would not by itself take the rural poor (women) out of poverty if anything it would trap them in poverty. The social grants are not sustainable in the long term in an environment where the tax base is shrinking. The infrastructure roll out is cyclical and the Extended Public Works Programme is temporary. The response therefore does not help the poor to harness the economic activities that will empower them to have a competitive advantage and give them economic activities that will give them comparative advantage. It is at most just a cushion against harsh economic realities. Jammie (2012) lists a number of factors that are problematic in doing business in South Africa (figure 1). These factors are a deterrent to Foreign Direct Investment (FDI) which has a potential to create quality jobs.

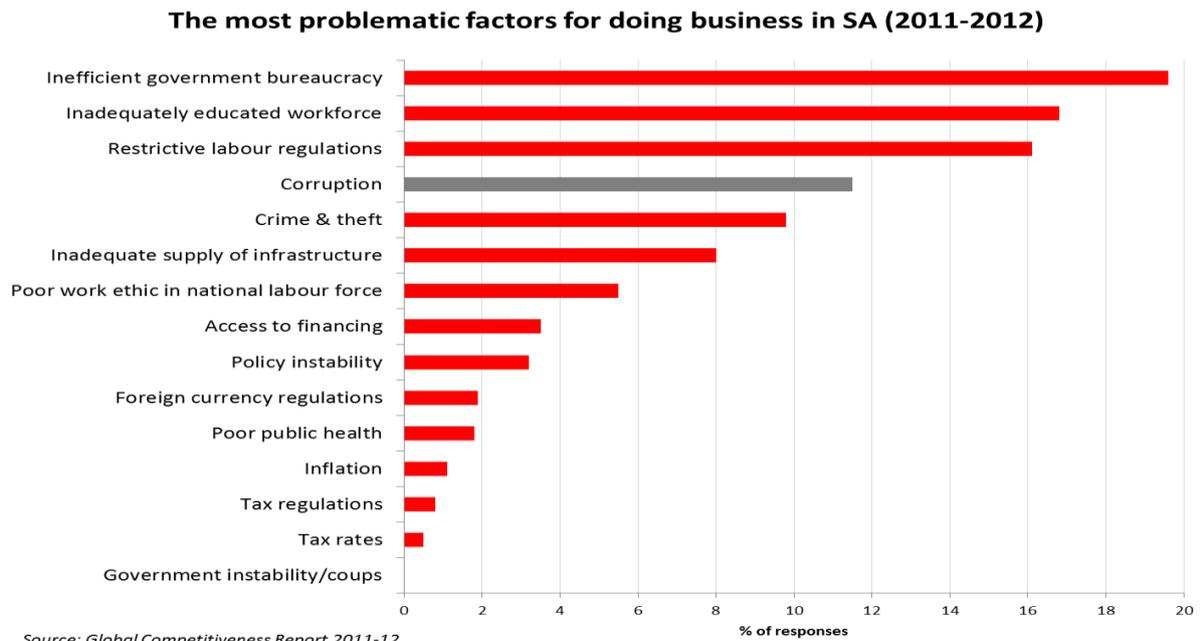
### **COMPARATIVE ADVANTAGE**

Government should start by improving the level of education for the vulnerable poor rural women so that they could acquire skills that will take them out of poverty. It is the responsibility of government to

make right decisions. According to StatsSA (2011) access to education for rural people is so poor that most people could barely read or write. Although in the new democracy the constitution gives equality to men and women, the traditional governance structure in rural areas are not in a hurry to implement the constitutional imperatives. Therefore access to land is still an impediment to getting poor rural women out of poverty. Improve Education – Improve the standard of education in order to facilitate the uptake of new technologies.

Rural communities have to identify economic activities that will give them comparative advantage. South Africa is a developmental state. Government therefore has to play a prominent role in the functioning of the economy at macro level. Government has to proactively have to help the poor (Terreblanche, 2012). Tourism is one area where the rural poor do not have to compete with other fast growing economies like china and India. This offers the rural people an advantage that no other country can rival. This is the area that government have to put money to ensure that rural people dominate this economic space. This could be done through investments and education (Mills, 2010).

Figure 1: Factors that impede reduction of rural poverty



Manufacturing/industrialisation: this is the only area that ensures that poor people can get out of poverty. The rural areas could be set up as manufacturing areas to service the SADC region. Co-ops that transfer ownership of the enterprises to the rural poor can give them a competitive edge. This has to be subsidised by government. Any development has to be supported by a strong manufacturing sector. A diversified local economy will ensure that rural people do not specialise in business activities subject to diminishing returns and / or commodity competition where they have no power over prices. All developed countries have a strong industrial base (Reinert, 2007). A nation that specialises in the production of raw materials can never lift itself out of poverty.

Establishment of informal saving: this could be harnessed to enable rural women to participate in the formal economy by participating through buying equity in the stock market. Pooling together *stove/*

savings and buying shares in the stock market will grow this savings. According Steyn (2013: 7), it is estimated that some R44.6 billion per annum is stashed away in South Africa's stokvels – even though the return is low, or often non-existent, it is favoured as a way to put a little bit of money each month being pooled together through the *stokvel*/savings.

Modernising rural agriculture: Modernising the rural small agricultural activities could ensure food security for the country and the Southern African Development Community (SADC) region. The regional integration of the economy will ensure a ready market for the rural farmers. Government should create the right environment and secure markets. Teach rural people particularly women modern farming techniques.

Diversity as precondition for development: Diversity into different types of businesses and industries will create synergies that will help stimulate local economic development (LED). This will stimulate demand for local goods. As a result, local money will circulate and stimulate the local economy. Economic development is a result of synergies.

Protecting rural economies against unfair competition: the free market dogma is good in a situation where countries are competing on a level playing field. Local industries at rural settings have to be developed and protected from the vagaries of globalisation until they can compete with other (developed) countries on equal footing.

## CONCLUSION

The South African government is doing a laudable job in cushioning the rural poor against the harsh economic conditions by providing social grants. But this dependency on the grants is not sustainable in an economy that is losing the tax base through job losses and a stagnant economy plagued by stagflation. The best approach will be to invest in the education of the rural poor so that they can participate in economic activities that will give them comparative advantage and competitive edge. The rural people should not be viewed as a burden to the state but as a human capital. Those whose material conditions improve could be taken off the social security system.

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# GLOBAL FINANCIAL CRISES AND IMPLICATIONS FOR DEVELOPMENT FINANCE IN AFRICA: CASE STUDY OF SELECTED DFIS

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## ABSTRACT

The causes and impact of the 2007-2009 global and economic crises are well documented. While the impact varied across countries, the crisis led to declining export volumes and earnings, falling government revenues, falling commodity prices, rising unemployment and declining capital inflows. Development Finance Institutions (DFIs) played a role in minimizing the adverse effects of the crisis, mainly through supporting countercyclical policies which were implemented by their respective governments. The paper aims to assess the role of those DFIs. It focuses on one multilateral African DFI, namely, the African Development Bank (AfDB) and four sub-regional DFIs, namely, the Development Bank of Southern Africa (DBSA), East African Development Bank (EADB), West African Development Bank (WADB) and the Central African Development Bank (CADB). The paper has two key objectives, to review and assess the nature and adequacy of the responses of those DFIs and to draw lessons on the implications for their role in the future. Methodologically, it is a theoretical paper which is based on a review of secondary information from various reports of the DFIs and other agencies. The paper argues that although these DFIs responded in some way to the crisis, responses were largely inadequate and also were of a short-term nature. It recommends that in order to minimize or avert risk and vulnerability to future crises, African DFIs should adopt more comprehensive, strategic and long-term approaches in support of structural transformation and the building of productive capacities with particular focus on industrial development, trade infrastructure and facilitation and strengthening of intra-African trade and regional integration.

**Keywords:** Global financial crisis; development finance; countercyclical; structural transformation; Development Finance Institutions; Africa

## INTRODUCTION

The global and financial crisis (hereafter referred to as “the crisis”) of 2007-2009 has been a subject of intense interest and debate. The fundamental reason for this is simple. From a political, economic and social perspective, recessions are undesirable market or cyclical phenomena because they adversely affect economic growth, employment, livelihoods and survival strategies for a nation. Whereas classical economists, after the tradition of Adam Smith and others, argued that even though markets can experience periods of disequilibrium, market forces, if unfettered, will eventually restore equilibrium. Over time though, this perspective has been seriously challenged. John Maynard Keynes, in the neoclassical economic tradition, argued that market instability is an inherent feature of the capitalist system. Market forces alone cannot be counted upon to bring about the necessary adjustments to aggregate demand. He emphasized that the state has a role to play by influencing aggregate demand in order to restore macroeconomic equilibrium. Development banks, being largely owned by states, can contribute to state policies in the form of countercyclical fiscal and monetary policies to increase or decrease aggregate demand and to stimulate supply responses, depending on the prevailing situation.

Evidence from various sources of literature shows that Africa as a continent was also affected by the crisis. While the impact varied across countries, the crisis led to declining export volumes and

earnings, falling government revenues, falling commodity prices, rising unemployment and declining capital inflows (AfDB, 2009: 1; Kasekende *et al.*, 2010: 2; United Nations Commission on Trade and Development, 2010: 200-220). However, the impact was less pronounced in comparison to countries in the North (United States and Europe, for example). In addition, there were variations in impact across countries. While there may be controversy on the root causes of the crisis, there appears to be consensus on the nature of its impact on economies, even though the extent differed between countries. Kasekende *et al.* (2010: 2), based on their extensive analysis of African countries, argue that Africa was adversely affected by the crisis although countries were affected differently. The size of impact was largely determined by the extent of their integration into the global trading and financial system and also by the strength of their economies, the resilience of their financial systems and by the nature and adequacy of the responses of their governments to the crisis.

This paper examines the responses of the development banks to the crisis. Specifically, it focuses on one African multilateral development bank, namely, the African Development Bank (AfDB) and four sub-regional development banks, namely, the Development Bank of Southern Africa (DBSA), the East African Development Bank (EADB), the Central African Development Bank (CADB) and the West African Development Bank (WADB). The specific objective of the paper is to determine the nature and adequacy of their responses and also to draw the policy implications for the future.

The paper is motivated by a keen interest on the role of development banks in the era of globalisation. While historically such banks have played an important role in providing long-term finance for development, particularly in terms of supporting infrastructure projects, the question is how will that role evolve in future given growing expectations that they could contribute to governments' countercyclical fiscal policies in times of recessions or when the need arises. The interest in DFIs also arises from their centrality in terms of the development agenda of many African countries. The paper argues that although there is evidence that the DFIs also contributed towards strategies by national and regional governments to minimise the impact of the global and financial crisis, that role was very limited and in fact, given the root causes of the risk and vulnerabilities of the most affected African countries, their interventions in the main were actually inadequate. The paper calls for African DFIs to adopt more comprehensive and long-term strategies which address the root causes of Africa's vulnerability to internal and external shocks. As has been argued for years, the continent continues to face the challenge of continued dependence on commodity exports and importing processed goods. It continues to depend on foreign direct investment and donor sources of finance. Domestic and intra-African trade are still smaller than trade between Africa and Europe and the United States.

The paper argues that although these DFIs responded in some way to the crisis, responses were largely inadequate and also were of a short-term nature. Because at the root of the problem is the structural weaknesses of most African countries. It is therefore recommended that in order to minimize or avert risk and vulnerability to future crises, African DFIs should adopt more comprehensive, strategic and long-term approaches for structural transformation and the building of productive capacities with particular focus on industrial development, trade infrastructure and facilitation and strengthening of intra-African trade and regional integration. The rest of the paper is structured as follows: Section 2 presents an overview of DFIs and their role in development. Section 3 articulates the theoretical framework which explains possible mechanisms by which DFIs could have contributed towards a solution to the adverse

impact of the crisis on Africa. Section 4 presents the main findings from the literature. Finally, section 5 outlines conclusion and recommendations.

## **OVERVIEW OF DEVELOPMENT FINANCE INSTITUTIONS**

DFIs are specialised financial institutions which provide long-term finance and usually this is on concessionary terms (at below market interest rates). They provide finance (for example, loans, guarantees, equity investment) to the public sector. In most countries, the major shareholder in DFIs is the national government. For multilateral development banks such as the AfDB, member countries own shares. In addition, non-African member (mostly, American and European countries) also hold a minority stake in the bank. The shareholders (donor countries) provide callable capital/endowments to the DFIs, which they use to provide such loans and equity positions. These can leverage in other sources of finance, including private finance. Dalberg (2010: 1) indicates that DFIs also provide project-specific and general technical assistance (TA) and promote standards in the funds or companies in which they invest. Their investments in private sector and also in public sector projects aim to generate a financial return but also to achieve a development impact. Typically, banks provide short-term finance, mainly for working capital purposes. Developmental projects such as infrastructure, industrial development, power and electricity projects tend to be long-term and normally banks would not fund such investments. This is where DFIs come in because they were specifically designed to provide long-term development finance.

DFIs are of different types. Multilateral Development Banks (MDBs) are international institutions which historically provide loans and grants to developing countries in order to assist them achieve their goals of economic and social development. Examples of MDBs include the World Bank and smaller regional development banks, such as for example, the African Development Bank (AfDB); the Asian Development Bank (AsDB); the European Bank for Reconstruction and Development (EBRD); and the Inter-American Development Bank (IDB). Historically, development banks have been an important instrument of governments to promote economic growth by providing credit and a wide range of advisory and capacity building programs to households, small and medium enterprises, and even large private corporations, whose financial needs are not sufficiently served by private commercial banks or local capital markets.

Nelson (2010: 1) explains that project loans include large infrastructure projects, such as highways, power plants, port facilities, and dams, as well as social projects, including health and education initiatives. Most of the DFIs have two funds, often called lending windows or lending facilities. One type of lending window is used to make loans at market-based interest rates.<sup>3</sup> Such non-concessional loans are, depending on the MDB, extended to governments and private sector firms in middle income and some creditworthy low-income countries. The other type of lending window is used to make loans at below-market interest rates (concessional loans) and grants to the governments of low-income countries (Nelson, 2010: 6). The background of each of the DFIs which are the subject of the paper is presented below.

### **The African Development Bank (AfDB)**

The Annual Report of the AfDB (2010) provides a background of the bank. The bank is a multilateral development bank which was set up in 1964 in order to provide long term finance and

technical assistance to the 53 member African countries and 24 non-African countries who are also members of the bank. In 1973, AfDB formed the African Development Fund (ADF) with the objective of reducing poverty by extending concessional loans and grants to low-income countries. To become an AfDB member, non-regional countries must first be members of the ADF. The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by: (a) mobilizing and allocating resources for investment in RMCs; and (b), providing policy advice and technical assistance to support development efforts (AfDB, 2010). AfDB seeks to stimulate and mobilize internal and external resources to enhance investments and to provide its regional member countries with technical and financial assistance. One of the key strategic aims of the bank is to become the preferred partner in Africa, providing quality investment and advice.

### **Central African Development Bank (CADB)**

Nelson (2010:19) explains that the CADB was established by an Agreement of 3 December 1975, the Central African States Development Bank (BDEAC) is the development financing arm for the Central African Economic and Monetary community (CEMAC), which includes Cameroon, Central Africa, the Congo, Gabon, Equatorial Guinea and Chad. It is an International Financial Institution endowed with full legal personality and financial autonomy.

Based in Brazzaville, Congo, the Bank's mission is to promote economic and social development of the member states of CEMAC, particularly through the mobilization of financial resources in order to fund national and multinational projects contributing to the economic integration of the area, and promoting private sector development. In the current financial landscape of the Central African region, BDEAC positions itself as an international development financing institution that mainly promotes investments in major infrastructure or agricultural programs and projects as well as private sector development. In addition, at the local level BDEAC identifies itself as a strategic partner for national financial institutions which mainly offer financing oriented to covering short-term requirements. The missions of the Bank include fostering the socio-economic development of CEMAC countries through the funding of national and multi-national investments and economic integration projects in particular. It also includes support for states, sub-regional organizations, financial institutions and economic players in their effort to mobilize financial resources and fund projects. Furthermore, it assists these various actors to fund feasibility studies of potential programs and projects.

### **The Development Bank of Southern Africa (DBSA)**

Gumede *et al.* (2011: 2-6) provide a background about the DBSA which is one of South Africa's 13 development finance institutions (DFIs). It was established on 30 June 1983. Although it is wholly owned by the South African government, its mandate extends to the Southern African Development Community (SADC) which consists of Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe. In terms of the Development Bank of Southern Africa Act, 1997, which provides for the continued existence of the Bank as a development finance institution, the main objectives of the Bank are the promotion of economic development and growth, human resources development, institutional capacity building, and the support

of development projects and programmes in the region. DBSA is a self-funded institution and raises its funding from domestic and international capital markets, bilateral and multilateral institutions, and internally generated resources. According to its Annual Report (2010), the purpose of DBSA is to accelerate sustainable socio-economic development by funding physical, social and economic infrastructure. DBSA's main task is to improve the quality of life of the people within the region of Southern Africa. The Bank plays a multiple role of financier, counsel, partner, implementer and integrator, aiming to mobilize finance and expertise for development projects. It seeks to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions. Over the ten-year period leading to 2014, the Bank has plans to invest a total of 45 billion Rands, of which 30 billion Rands will be in South Africa and 15 billion Rands in the rest of Southern Africa.

### **The East African Development Bank (EADB)**

The East African Development Bank (EADB) was established in 1967 to promote the goals of East African cooperation. In 1980, it was re-established under its own charter after the collapse of the East African Community had. A new Community has been formed consisting of the same members. Shareholders include the member countries of the Community, namely, Kenya, Uganda, Tanzania and Rwanda. The African Development Bank (AfDB), the Netherlands Development Finance Company (FMO), German Investment and Development Company (DEG), SBIC-Africa Holdings, Commercial Bank of Africa, Nairobi, Nordea Bank of Sweden, Standard Chartered Bank, London and Barclays Bank Plc., London, among others, also have a stake in the bank. The EADB has a core mandate to strengthen social and economic development in the region.

### **West African Development Bank**

The West African Development Bank (WADB) is the common development finance institution of the Member States of the West African Economic and Monetary Union (WAEMU). It was established by an agreement signed on 14 November 1973 and became operational in 1976. Based in Lomé, Togo, it is an international public institution whose purpose, as provided for under Article 2 of its Articles of Association, is to promote a balanced development of its member states and foster economic integration within West Africa by financing priority development projects. The member countries are Benin, Burkina-Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. In 2001, WADB established priority working areas, with particular emphasis on poverty reduction, economic integration and the promotion of private sector activities. The Bank's financial products include long - and medium-term loans to finance investment projects and recapitalization funding. It extends financing to national financing institutions.

## **LITERATURE REVIEW**

A number of studies indicate that although Africa was not as seriously affected by the crisis as compared to other regions, nonetheless, some countries were adversely affected particularly those dependent on commodity exports and also those whose economies were more integrated with the global trading and financial system. Evidence is provided by, among others, Kasekende *et al.* (2010: 2), Wakeman-Linn (2009: 1-19), Sagasti & Prada (2006), Sebastian *et al.* (2010), UNCTAD (2010) and AfDB

(2009, 2010). Botswana's diamond sector was one of the worst affected (AfDB, 2009). Kenya, Tanzania and Uganda suffered declines in their export volumes and revenues (AfDB, 2009). South Africa's textile and clothing sector suffered losses as external demand fell in its Northern markets (Department of Trade and Industry, 2007). Mining was also reported to have experienced a decline due to falling prices for its mineral exports. Chitiga *et al.* (2009) use a Computable General Equilibrium model to show that the crisis had a negative impact on South Africa's economy in terms of manufacturing sector and export growth. The results confirm the reports from industry associations such as the National Automobile Association of South Africa (NAAMSA, 2009, 2010) which show that during 2009, the sector registered declines in production volumes, sales, exports and earnings.

West Africa, being largely dependent on commodity exports of agricultural products and also crude oil also suffered negatively. A study by Wakeman-Linn *et al.* (2009: 16) indicates that the CEMAC region was seriously affected by the global financial crisis and resulting global recession. Exports prices and volumes declined substantially, government revenues—oil and non-oil—also declined sharply. The most significant impact of the crisis on the CEMAC region stemmed from the decline in world oil prices. By spring 2009, crude oil prices had declined by around US\$100 since their peak in 2008. Consistent with this decline in prices, overall fiscal revenues from oil for the CEMAC region in 2009 were projected to be more than 67 per cent lower than they were in the previous year. Combined with the fall in export volumes and prices for timber and other commodities, total export values were projected to be less than half of what was previously projected. The non-oil growth rate in the region was expected to fall by half, to 2.5 per cent.

The CEMAC region was also exposed because, as Wakeman-Linn *et al.* (2009: 8) argue, despite its insulation from the direct effects of the sub-prime crisis, the banking sector was potentially exposed to the global financial turmoil. They indicate that foreign banks—mostly French—accounted for 60 per cent of bank assets in the region. There was concern that the banking system was potentially exposed to capital repatriation by foreign banks, if they were to deleverage or close their local operations.

The overall impact on expected export revenues for 2009 was said to be aggravated by the on-going contraction in export volumes for timber and other commodities (Wakemann-Linn *et al.*, 2009: 5). The Republic of Congo and Equatorial Guinea had the highest level of government revenues from oil, in per cent of GDP, followed by Gabon and Chad. The study also projected that all CEMAC countries except Equatorial Guinea would have fiscal deficits in 2009, with the region seeing a swing of almost 14 per cent of non-oil GDP in its overall fiscal balance.

The focus of this paper is how the DFIs responded to this crisis. According to Luna-Martinez & Vicente (2012: 5), historically, DFIs have been an important instrument used by governments to promote economic development in practically all countries around the world, regardless of their stage of development. They have been used to finance the construction of roads, highways, energy plants, dams, and telecommunication infrastructure; foster incipient industries and small and medium enterprises (SMEs); and provide financial services to low-income households. In emerging market economies, for instance, DFIs usually constitute the main source of long term credit, loan guarantees, and other financial services in the infrastructure, housing and agriculture sectors. This perspective is also articulated by Velde (2011: 5) who emphasizes that DFIs engage particularly in countries with restricted access to domestic and foreign capital markets. He also explains that they specialise in loans with longer maturities and other financial products which are appropriate for financing long-term infrastructure projects; that DFIs aim to be

catalysts, which help companies implement investment plans. They provide risk mitigation that enables investors to proceed with plans they might otherwise abandon.

Griffiths-Jones & Hertova (2008: 2) add that argue that regional institutions may be better placed to respond to regional needs and demands, as well as potentially be more effective in providing regional public goods, especially those requiring large initial investments and regional coordination mechanisms. Important examples are: (a) financing regional cross-border infrastructure; (b) supporting development of regional capital markets as well as harmonizing their regulatory systems; and (c), coordinating and helping finance regional efforts, and technological innovation. Due to their important developmental role, the authors argue that regional development banks DFIs and sub-regional development banks are important and should continue to play a role in the international development architecture. This is because most emerging market countries have difficulty in accessing private capital markets which tend to be "unreliable, limited and costly". They also indicate that DFIs act as a counter-cyclical offset to fluctuations in private capital market financing for low to middle-income countries.

During the current financial crisis, most development banks in Latin America, followed by Asia, Africa, and Europe, have assumed a countercyclical role by scaling up their lending. There are different options for DFIs to fund their business operations, including (a) taking savings and deposits from the public, (b) borrowing from other financial institutions, (c) raising money in the domestic or international capital markets, (d) using their own equity, and (e) receiving budget allocations from the government. Most DFIs combine all these funding options. Luna-Martinez & Vicente (2012: 7) concur that during the global financial crisis of 2008-2010, most DFIs played a countercyclical role by providing credit to private firms that were temporarily unable to access funding from private commercial banks or capital markets. This has renewed the interest of policy-makers in various jurisdictions on the role of DFIs during periods of economic distress. Moreover, the financial crisis triggered new debates on the role of the state in the economy and, in particular, the financial sector.

Martinez & Vicente (2012: 2) also conducted a survey of DFIs on behalf of the World Bank. The survey was based on new data that have been collected from 90 national development banks in 61 countries. Their evidence shows that most of the DFIs in the survey assumed a countercyclical role by increasing their supply of credit to private firms in their jurisdictions to partially mitigate the credit crunch associated with the global financial crisis. They increased short and long term lending, not only to their existing customers, but also to new customers from private commercial banks which faced temporary difficulties in refinancing their loans or acquiring new lines of credit. Even large multinationals, like the auto-maker Chrysler, benefited from loans provided by DFIs in middle income countries. Gumede, Govender & Motshodi (2011: 3), also highlight the role of DFIs in countercyclical policies. They give the example of the Brazilian Development Bank (BNDES) to demonstrate the vital catalyst role a DFI can play through the tool of "counter-cyclical lending". BNDES has used the tool both to overcome the negative impact of the 2008/9 global financial crisis and also to use the response to the crisis to turn around the country's economy. BNDES used countercyclical policy to create new jobs, protect existing jobs, expand infrastructure, especially to underdeveloped areas, and for building new industries. BNDES dramatically upgraded its credit lines, providing loans to finance private and public enterprises. Loans were mainly directed towards infrastructure and long-term investment, but also towards regional development and circulating capital for small and medium-sized enterprises (SMEs).

Even the International Monetary Fund agreed to some form of fiscal stimulus. As Wakeman-Linn (2009: 8) argue:

“All CEMAC countries are projected to have fiscal deficits that will be unsustainable, calling for medium-term fiscal tightening. Short term fiscal policy, however, must be geared toward cushioning the impact of the global recession on the domestic economy and protecting the most vulnerable. As there appears to be sufficient financing available, governments may wish to engage in temporary fiscal stimulus, if they can reconcile that with the needed medium-term fiscal adjustment”.

In East Asia, most of the fiscal stimulus packages to counter the effects of the 2008 global financial crisis have consisted of large investments in infrastructure, such as roads, ports, rail networks and basic needs, for example more efficient energy supplies, reliable water supply and sustainable environmental management (Gumede *et al.*, 2011: 4).

In the midst of the “credit crunch” which was caused by the global financial crisis, the Asian Development Bank (ADB) also applied counter-cyclical lending. It set up a US\$3 billion fund to help member countries swiftly ramp up the fiscal spending needed to overcome the global economic crisis and to help sustain longer-term growth. Export-dependent Asia was impacted negatively by the decreasing demand for its goods, primarily from the United States and Europe. The ADB’s Countercyclical Support Facility (CSF) provides short-term loans faster and more cheaply than the ADB’s existing special programme loan facilities (ADB, 2009: 25). Africa has also responded to the crisis through its regional institutions. For example, the African Development Bank (AfDB) took several actions to enable countries of the region to gain greater access to long-term finance.

## MAIN FINDINGS

Evidence from various sources in the literature were used to find out how multilateral and sub-regional banks responded to the crisis. In this section, the responses of each selected institution are reviewed.

### African Development Bank

Available evidence shows that the Bank responded very timeously and in a consultative manner. The Bank created the Group of Ten officials to monitor the crisis and its effects on African countries. The first meeting of the Group took place on 16 January 2009 in South Africa. A systematic approach was also adopted. An immediate response was to restructure the Bank’s portfolios in many countries in which it operates. This process involved the redirection of projects with mediocre success rates towards more viable initiatives. In a joint communique, the African Development Bank Group with a number of International Financial Institution (IFI) and Development Finance Institutions (DFIs) partners (the Agence Française de Développement Group, the European Investment Bank, the Development Bank of Southern Africa, German Financial Cooperation (through KfW), the International Islamic Trade Finance Corporation, and the World Bank Group launched a Joint International Financial Institution (IFI)/DFI Action Plan to respond to the Financial Crisis in Africa (AfDB, 2009: 1). The Plan was coordinated through the African Financing Partnership. It aimed to support the region’s financial systems and lending to the private sector

in a coordinated manner. Specifically, under the Plan, more financial support would be extended towards trade and regional integration, strengthening of the financial sector and also towards increase lending to infrastructure projects and other real sectors of the economy such as agribusiness and small and medium enterprises (SMEs) experiencing a shortfall in liquidity (AfDB 2009: 2).

The AfDB introduced some very important facilities. The Quick Disbursement Loan Facility and the Emergency Liquidity Facility (ELF) were immediately introduced as a multi-purpose USD1.5 billion facility providing financial support to AfDB eligible countries and non-sovereign operations that were suffering from lack of liquidity due to the global financial crisis. The Trade Finance Initiative (TFI) was in two phases. In the first phase, it introduced a USD500 million new trade finance line of credit (TF LOC) that will support African commercial banks and DFIs trade finance operations. In the second phase, it considered the feasibility of introducing comprehensive trade finance products and services, including the possibility of committing USD500 million to global trade finance liquidity programs. An African Small to Medium Enterprise (SME) Guarantee Fund was also introduced. This was a multi-donor fund of USD300 to 500 million whose purpose was to increase and maintain access to finance for SMEs, microfinance institutions, and nonbank financial institutions. The Bank also launched, jointly with the International Fund for Agricultural Development the African Agriculture Fund, the Alliance for a Green Revolution in Africa, and the Africa Development Fund (AFD), the African Agriculture Fund. The Fund was expected to raise EUR250 million during its first phase and subsequently EUR250 million to target private companies and cooperatives to increase and diversify agricultural production. (AfDB, 2009: 3).

The Bank extended a \$1.5 billion loan to Botswana for its budget support. The loan was to help the government fund a budget deficit which was estimated at 13.5 per cent of Gross Domestic Product (GDP). Botswana's deficit was caused by falling commodity prices, especially diamonds. How adequate was the response of the AfDB is difficult to say due in particular, to lack of data on what other African countries (outside Botswana which received specific support), actually required in long-term financing as a response to the crisis. This is an information gap that needs to be filled by future research. Analysis of specific country support would be useful in terms of assessing nature of the support versus actual requirements, impact as well as appropriateness of the intervention. Such an analysis could also provide lessons on how DFIs should prepare for future market instabilities or shocks.

### **Central African Development Bank**

At the beginning of 2009, leaders of the Economic and Monetary Community of Central African States (CEMAC), met in Gabon and took a number of important decisions (CEMAC, January 2009). The conference was held to find ways of responding to the financial crisis (CEMAC, 2009: 2). They welcomed the efforts made in elaborating a Program for Economic Integration for CEMAC's Vision 2025. The leaders called for a regional conference to address problems in key sectors affected by the crisis. They also called for the immediate implementation of the Program for Economic Integration; the issuing of bonds to increase funding sources for public investment projects; the creation of a guarantee fund for small and medium size enterprises (SMEs) (CEMAC, 2009: 6); the adoption of ways of easing access to credit; the creation of a regional observatory that will oversee a sound legal and business environment; and the creation of a Committee of Surveillance in CEMAC that will be composed of the Commission, the Central African Banking Regulator (COBAC), the Development Bank for Central African States (BDEAC), and

Member states (CEMAC, 2009: 7). So the bank has scaled up lending in the areas of agriculture and above all infrastructure (energy and transport facilities). But it is faced with serious problems of liquidity given the slow pace of repayment of debts. In 2011 the government of Congo came to the assistance of the bank with a very limited capital of approximately 13 million dollars (BDEAC, 2011). So the bank like its West African counterpart has been hamstrung by problems of funding.

#### **Development Bank of Southern Africa (DBSA)**

Gumede (2010: 18) argues that the Development Bank of Southern Africa contributed R 8.9 billion for development despite the economic downturn characterized by rapid strengthening of the Rand from the previous financial years against major currencies; a sharp decline in interest rates and an increase in the costs of borrowing, specifically on short-term funding. The Bank spent an amount of R550.2 million on developmental initiatives in 2009-10 including support in the following areas. First it channelled funds to subsidise lending rates to under-resourced municipalities (to the tune of R72.9 million). Its Targeted Infrastructure Programme (TIP), provided concessional lending loans to poorly resourced municipalities that would otherwise fall short on financing. DBSA also expanded expenditure on research and advisory services (amounting to R69.1 million). Related to this, it provided advisory services through its planning division. Furthermore, it also widened its technical assistance (R67.4 million). Finally it increased its expenditure through the DBSA Development Fund (its contribution being R340 million). The Fund promotes capacity building for development by providing grants, technical experts for under-resourced municipalities under the Siyenza Manje programme, training to enhance the skills of officials and financial and administrative services to various development agencies. In specific sectors the bank has been keen to support actors in the area of agriculture especially in the realm of agricultural infrastructure. For instance, DBSA advanced millions in funding projects in Mauritius (in the field of aquaculture) and in Mozambique (in the sugar sector). Its involvement in the agricultural sector is guided by the principles of multiple stakeholders and beneficiaries. The bank equally also financed tourism sector because it was one of those sectors which were adversely affected by the crisis. Another priority area for its investments were in transport infrastructure development (airports, roads, rail).

#### **East African Development Bank (EADB)**

The global financial crisis had a major impact on the economic performance of the East African Development Bank (EADB). Due to portfolio rationalization and decline in disbursements, the Bank chronicled a 8.79 million dollar loss. The Bank's balance sheet declined from 275.60 million dollars as at the end of December 2007 to 243.81 million dollars as at the end of December 2008 (EADB, 2008). From its perspective, the Bank's operations in 2009 were characterized by scaled down processing of new credit. During the review period, efforts towards project supervision and debt recovery were increased. Through a proactive approach, various actions were taken by the Bank on distressed projects, including restructuring and realization of arrears. The positive results of the stepped up recovery were strong debt collection and gains from projects that were previously written off (EADB, 2009: 9).

In 2009, a new operating environment became a new reality due to the global economic meltdown. But the crisis resulted in the scaling down of new lending given that the effective demand of the potential clients was constrained. The Bank then increased its pace of lending. Medium and long-term

lending accounted for 19 million dollars while 0.9 million dollars was approved towards asset finance lease (EADB, 2009: 45). In the area of lending the institution has as objective to increase its role in financing projects and programs in infrastructure, agriculture and social sectors. In particular, it has pledged to continue to support those segments of infrastructure that are amenable to private sector participation, while at the same time providing support to the public sector in the development of infrastructure projects that are important for the economic and social development of the member states.

### **West African Development Bank**

The Bank has highlighted the importance of its lending for agricultural and infrastructure projects in the region of West Africa. Like the Central African Development Bank the entity is influenced by the economic and political realities of its member states. This entails that it depends mainly on the paid up capital by its shareholding members that are themselves in need of development money. So instead of the states looking at the bank for new initiatives and products (funds and facilities) the bank has been looking up to its cash-strapped members for re-generation.

When compared to responses by other regional banks, it appears that the intervention by the African DFIs were much smaller. The president of the Asian Development Bank (Haruhiko Kuroda) announced that his institution would step up lending for operations as a response to the financial crisis. First, several billions were to be used to supplement the originally planned sum of 12 billion dollars. In addition the ADB increased funds for its Trade Finance Facilitation Program (TFFP) from 150 million dollars to one billion dollars in 2009. Finally the ADB held a major conference in March 2009 entitled "South Asia Forum on the Impact of Global Economic and Financial Crisis." The conference provided an opportunity for important Asian stakeholders to exchange views on the implications and lessons to be drawn from the crisis. The Multilateral Investment Fund (MIF) that addresses issues relating to micro-enterprises endorsed loans and grants worth 166 million dollars in 2008. The Inter-American Investment Corporation on its part approved the use of 553 million dollars for operations mainly backing the activities of small and medium sized enterprises. On trade financing the bank created an Aid for Trade Strategic Fund accorded grants to finance projects that will reduce trade barriers. In all the Bank increased its loan, credit guarantee and grant approvals from about 250 million dollars to 12.2 billion dollars in 2008.

The Board of the European Investment Bank (EIB), for example, approved a Corporate Operation Plan (2009-2011) that outlined specific steps to be taken to respond to the crisis in client countries. In 2009 and 2010 the bank increased its lending by 15 billion euros, this being 30 per cent increase when juxtaposed with the proportion of previous years. Also an extra 2.5 billion euros per year was aimed at small and medium sized enterprises with an extra billion euros being dedicated to even smaller companies. The bank also developed a new lending window in which cooperation with commercial banks would be enhanced so as to share risks in lending. What is more the sum of 6 billion euros has been directed to special transport and energy infrastructure facilities. Compared to the Central Independent States (CIS) which include countries such as Russia, Kazakhstan, Armenia, Belarus and Tajikistan, among others, responses by African DFIs were much smaller. For example, the Eurasian Development Bank (EDB) implemented immediate measures in order to mitigate the consequences of the international financial meltdown. The Bank's response was more focused and comprehensive. For example, in April 2009, the EDB Council approved an anti-crisis program of operations. That program

aimed at investing in projects that have substantial multiplicative effects (indirectly increasing GDP and employment in other sectors of the economy) and promote industrial cooperation between member states. The EDB was the Implementing Agency for the EURASEC Anti-Crisis Fund that had been adopted by the members of that constellation (EDB, 2010: 116). The EURASEC Anti-Crisis Fund had an allocation of up to 8.5 billion dollars. The resources of the Fund were used for sovereign loans; stabilization credits and financing interstate projects (EDB, 2011).

That other regions invested larger amounts in responding to the crisis may not necessarily mean that Africa's response was inadequate. Firstly, it could be a reflection that the impact of the crisis in Africa was also smaller than other regions. But it could also mean that the response was inadequate. Without data to show what resources were required by different countries for their planned responses, it is difficult to judge the adequacy or lack thereof, of African DFIs' responses to the global and financial crisis. The challenge with paucity of data is that without a clear picture of the nature and size of demand for assistance from affected countries, the adequacy or non-adequacy of the interventions through the ELF, TFF, for example, are difficult to ascertain.

AfDB (2010: 9) emphasizes the importance of structural reforms so as to minimize risk and vulnerability of African economies to external crises.

"While Africa's macroeconomic achievements prior to the crisis have been impressive, progress with structural reforms has been mixed. Although the continent is becoming more open to trade and FDI, structural transformation, and in particular industrialization, remains limited. Moreover, the continent continues to suffer from weaknesses in infrastructure and institutions, including the business environment" (AfDB, 2010: 9).

Wakeman-Linn et al. (2009: 16) emphasize the need to strengthen the business environment in the CEMAC region:

" Even after the current crisis is over, and investors are once again ready to return to investing in low-income and SSA countries, they are likely to be significantly more risk-averse than before. Thus, if the CEMAC region wishes to position itself to attract investors in the post-global recession environment, aggressive efforts to strengthen the region' business environment are essential now. This will need to include strengthening the judicial and regulatory environment for private business, improving governance, and improving the regional infrastructure, in line with the Regional Economic Plan".

## CONCLUSION AND RECOMMENDATIONS

The global economic and financial crisis of 2007-2009 had an adverse effect on some African economies particularly those that were more closely integrated into the global economy as reflected in their relatively larger share of their trade with European and American markets compared to Africa., their reliance on commodity exports and also the extent of integration of their financial and capital markets with those of the Northern countries. However, the nature and size of impact varied between countries.

From the available evidence which was reviewed, DFIs responded in order to avert or minimize the impact of the crisis. At the multilateral level, the AfDB responded swiftly through some innovative financial instruments which were designed to increase liquidity support to countries and to promote trade activities. Evidence also showed that sub-regional DFIS also contributed towards the countercyclical

efforts. However, except for the DBSA, the other banks had liquidity constraints which limited their capacity to respond adequately to the crisis. The DBSA contributed significantly to the South African government's countercyclical fiscal policies largely by financing infrastructure and thereby promoting job creation and stimulating aggregate demand.

It was also observed that even through all the institutions did respond in some way, the adequacy or non-adequacy of those responses could not be ascertained without looking at the demand-side in terms of the actual requirements for fiscal stimulus packages, balance of payments support and bail out requirements by affected industries or sectors. Lack of availability of data made it difficult to reach a conclusion. Evidence also indicated that some DFIs, for example, EADB and WADB and CADB, had liquidity problems and this limited their capacity to respond. This indicates that there is need for transformation of the DFIs themselves so that they are sustainable and viable. This will adequately position them to respond both swiftly as well as adequately in the face of any external shocks. They will then be able to contribute more meaningfully to economic growth, job creation and poverty reduction.

The positive contribution by the DFIs notwithstanding, the major challenge which the paper observed was the short-term nature of the responses. In essence, the measures taken were to address the immediate situation and perhaps it was understandable under the circumstances. However, given that at the root of the risk and vulnerability to external shock for most African economies is the structural weaknesses which have characterized them for decades, a long-term and more comprehensive solution must lie in investing more towards improving economic diversification, building industrial capacity, diversifying the export base, and increasing domestic production and exchange systems and also increasing intra-African trade.

Fosu & Naude (2009: 3) recommend a number of risk reduction strategies. These include greater export and production diversification through expansion of South-South trade, growth of agro-industries and increased investments in infrastructure. They also entail the strengthening and deepening of African financial sectors in order to enhance their capacities to finance economic growth. In order to boost aggregate demand during downswings, they also recommend the expanding of domestic demand through fiscal and monetary stimuli, where possible, in a manner that does not lead to unsustainable debt accumulation. This could be achieved through an improvement in the supply capacity of African countries, for instance through public works programmes targeted towards infrastructure and transport services. Other measures include tightening of financial systems so as to maintain adequate bank capital requirements, the maintenance of competitive real exchange rates and investment in further regional integration and regional trade facilitation measures.

It is therefore recommended that the African Development Bank, in collaboration with sub-regional banks and country governments, will need to prioritize the agenda for structural transformation of African economies. DFIs should be strengthened so that they become sustainable institutions which can in turn fund the transformation agenda in terms of industrialization, infrastructure development and the creation of a business environment which can attract both domestic and foreign direct investment which promotes pro-poor economic growth, job creation and poverty reduction. DFIs will need to do more to support a development strategy which will enable the continent to diversify its production and export base and also promote intra-African trade as a strategy for diversification of export markets. This should significantly enhance the continent's capacity to respond to any shocks and market instabilities.

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## A PERSPECTIVE OF WHITE-COLLAR CRIME AS A GLOBAL FINANCIAL PROBLEM

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### ABSTRACT

White-collar crime is a generic term that refers to a broad range of illegal acts committed by seemingly respectable people in business settings as part of their occupational roles. There are many different types of white-collar crime, and they impose enormous financial, physical, and social harms on individuals, communities, and the society in general. As a result loss of money may not necessarily be viewed in the same way as physical injury or visible theft of an item. Because of their special characteristics and the techniques by which they are committed, they pose significant problems for law enforcement and regulatory agencies interested in curbing them. For example fraud committed by companies (e.g. finance companies) not only results in the loss of personal savings but may also destroy the public's confidence to invest their money. White-collar crimes are often considered indirect and impersonal in nature because their harms are often diffused among multiple victims, its totality can be overlooked. However, although the amount of financial loss in each case may vary significantly it can have significant short and long term effects on victims, business/investors' confidence and the economy of the country. Therefore this paper seeks to examine the impact of white collar-crimes in a global society and the extent of its prevention strategies in the form of investigation and prosecution if properly executed could boost business confidence. The paper also seeks to determine what needs to be done to curb the proliferation of white-collar crime in a global set up.

**Keywords:** White-collar crime; enforcement; regulation; global financial problem; business confidence

### INTRODUCTION

White-collar crime or economic crime as globally known is very rife and seems to be posing daunting and significant challenges for businesses all over the world including South Africa (SA). Traditionally, public attention has focused mainly on violent or contact crime prevention and enforcement while white-collar crime was considered to be less damaging to society and to the individual, despite the latter being more likely to have the greater financial impact on the society at large. Despite several prevention strategies which have been employed in South Africa, crime statistics reveal an upward trend in proliferation of white-collar crimes. The said proliferation of white-collar crimes seems to question whether the adopted prevention and detection strategies are adequate to deter prevent or punish opportunists involved in committing such crimes. This is the reason why this paper endeavours to comprehend the proliferation of white-collar crimes in South Africa with the intention of determining the adequacy and effectiveness of enforcement or prevention measures aimed at curbing the said increase.

Since the international trends of white collar crimes are used as comparative tools in this paper, three approaches are used to attempt to unravel the mystery of white-collar crime. The first approach is the one populated by the American National Check Fraud Centre which stipulates that "white-collar crime" is divided into different types and schemes. The second approach is based on Hazel Croall who believes that there is a need to differentiate between 'classic' white-collar crime, which involves personal gain, at the expense of employers, 'the government' or clients (which can also be described as occupational

crime); and offences which involve increased profits or the survival of the organization—often known as organizational or corporate crime. The third approach is the European approach which tends to prefer the term “economic crime instead of white-collar crime. It is against this background that this paper looks at the common characteristics of white collar crime. This discussion is also including different techniques that perpetrators use in the commission of white collar crime. The impact of white collar crime on the South African society at large is also analysed alongside the specific victims of white collar crime. In the final analysis, this paper looks at the prevention strategies that can be used to address the problems associated with white collar crime.

The data used in this paper emanates primarily from literature which was collected through a desktop research. An extensive analysis of literature pertaining to the commission of white collar crime, its impact and the manner in which it can be prevented was done with the intention of arriving at the conclusions. Different pieces of legislation, decided cases and scholastic publications pertaining to white collar crime were used to provide a theoretical foundation as well as a comparison between South Africa and the some parts of the world. While the conclusions in this article are limited to a focus on the proliferation of white collar crime in South Africa, they are also relevant to how other parts of the world experience white collar crime. This paper is therefore premised within the qualitative paradigm and subscribes to the logic of contextualization, and that of inductive reasoning.

#### **CHARACTERISTICS AND TECHNIQUES OF WHITE COLLAR CRIME**

According to Strader (2002: 2), Criminologist and sociologist Edwin Sutherland first popularized the term “white-collar crime” in 1939, defining such a crime as one “committed by a person of respectability and high social status in the course of his/*her* occupation.” Sutherland (1949) also included crimes committed by corporations and other legal entities within his definition. White-collar crime also refers to nonviolent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional or semi-professional thus utilizing their special occupational or special technical skills and opportunities with a professional knowledge of business and government. On the other hand the FBI (2008: 4) describe white-collar crime as those illegal acts which are characterized by deceit, concealment, or violation of trust which are not dependent upon the application or threat of physical force or violence. These acts are committed by individuals and organizations to obtain money, property, or services, to avoid the loss of money or services, or to secure personal or business advantage.

As a result white-collar crimes today are found in all types of businesses, industries, occupations, and professions. For example Nigerian 419 scam, Pyramid schemes (CSIS Task Force, 2000; Strader, 2007), Bank Account hijacking (Finklea, 2010), Remittance scam (money grams) (Shover & Wright, 2001). The use of front companies (FIC, 2012: 23), Drug mules, (SAPS 2011/2012: 94), Industrial espionage, (Federal Bureau of Investigation, 1996), Racketeering, (section 2 (1) of the Prevention of Organised Crime Act 121 of 1998), Health care fraud, Federal Bureau of Investigation (1992), Tax evasion Chiumya (2006), Tax avoidance (United Nations, 2002), Money laundering Croall (2001), Environmental crime (UNCTAD, 1999), Consumer fraud (Strader, 2007), Securities violations (Croall, 2001) and Antitrust violations (Finklea, 2010). However such crimes *modus operandi* is that these crimes are often committed in secret (The Hidden Cost of White-collar Crime, 2003).

Whilst white-collar crimes can be said to surface in a large variety of forms and styles, most of its characteristics remain similar. This is due to the fact that in most cases, similar techniques are used by different perpetrators to commit white collar crime. These characteristics and techniques distinguish white-collar crimes from most forms of traditional well known crimes. According to Lansberg (1997), the three characteristics of white-collar crime are particularly important: (a) the offender has legitimate access to the target or victim of the crime on the basis of an occupational position or trust (emphasis added); (b) the offender is spatially separated from the victim; and (c) the offender's actions have a superficial appearance of legality. Legitimate access means that white-collar offenders do not have to solve a problem that most predatory offenders confront - the problem of getting close to the target. For example, before a burglar can directly steal something, he or she must first gain access to a particular object/property/home. This is usually done by using force to break in a door or window or sneaking in. Therefore breaking in creates additional risk of exposure for the offender. White-collar offenders, on the other hand, are not exposed to this additional risk because their occupational roles give them legitimate access to the targets of their crimes. Therefore this is what Shapiro terms it the difference between "crime in the streets" and "crime in the suites" (Shapiro, 1990: 353) For example, in bank account hijacking because of their occupational positions, bank employees have legitimate access to client's money and can embezzle it without breaking into their homes or physically confronting them on the street (Shapiro, 1990: 350-351). Similarly, in many other forms of white-collar crime such as securities violations, antitrust violations, and health care frauds, the perpetrators take advantage of their occupational roles to get access to the targets of their crime. Consequently in many white-collar crimes, the offenders never directly confront or come in contact with their victims, based on spatial separation, this is so even if their victims are directly or indirectly affected.

A classic example is what was found in SA relating to the rampant antitrust violations by biggest companies that have been selling, at huge profit margins, their products to members of the public. Antitrust violations occurs when competitors in an industry get together/collude to set prices for their products or services, as opposed to having prices determined by free and open competition in the marketplace. In that antitrust violation can be divided into two broad groups: restrictive trade agreements, and monopolies or monopolistic practices (Finklea, 2010). Restrictive trade agreements involve an illegal agreement or understanding between competitors in an industry to restrict how the industry works. Two examples of restrictive trade agreements are price fixing and market sharing or division. *Price fixing* refers to agreements between competitors to set prices at a certain level. For example, if milk producers get together and agree among themselves to charge schools a set price for the milk used in school lunch programs that is price fixing (Finklea, 2010). *Market sharing* occurs when competitors get together and divide up an area, so that only one of them operates in any one area at a time.

For example, two paving contractors might divide up a town so that one takes the east side and the other the west side of town. These sorts of agreements are illegal because they restrain trade. In these examples, the prices for these goods and services (milk and paving) are not being set by open competition in the marketplace, as they should be in a free market economy (Federal Bureau of Investigation, 1989). Whereas monopolies and monopolistic practices involve unfair attempts to corner a market or to drive out competitors from a marketplace. A monopoly is said to exist if one company controls an entire market, but a company can have monopolistic control even though it has competitors if

it controls a large enough share of a market. A classic recent example of anti-trust violations can be found in SA where the said practice was unearthed and was found to have been in operation for quite some time without it being noticed. The South African Competition Tribunal has been very active in curbing this form of white-collar crime, most of such cases were finalised through admission of price fixing and settlement reached thereof with the Competition Tribunal in the following cases (*The Competition Commission v Foodcorp (Pty) Ltd*, *The Competition Commission v Lafarge Industries South Africa (Pty) Ltd*, *The Competition Commission v Shell SA Marketing (Pty) Ltd*, *Competition Commission v New Just Fun Group (Pty) Ltd*, *Competition Commission v Senwes Ltd* and *The Competition Commission v McCoy's Glass Wholesalers*).

It is most often that this kind of anti-competitive crime involves highly skilled and knowledgeable individuals, in positions of trust, who have full appreciation of their actions but nevertheless due to the fact that the public is likely not to easily see or know the impact of the said secret decisions taken by them. Therefore the most litigated levels of *mens rea* in white collar criminal cases involve the concepts of "purpose" and "knowledge." For example, in the *United States v Gypsum* the court held that *mens rea* is an element that must be proven in a criminal antitrust case (Besozzi, 2004). The court further found that the required level of *mens rea*, in cases where anticompetitive effects have been shown, is *knowledge* that the defendant's actions would have such effects. The Court also implied that the *purpose* to engage in actions with an anticompetitive effect would suffice in cases where such an effect cannot be proven (*United States v Gypsum*).

Clearly antitrust violations seem rampant in SA where almost all industries seem to have been directly or indirectly involved in prohibited practices as defined by the Competition Commission Act 1998. In a fraud, theft and money laundering situation the case of *State v Joseph Arthur Walter Brown* decided on 2013 is essential for reference. Mr Brown was charged inter alia with four counts of fraud, two counts of theft, one count of contravening section 1(1)(a) of the Corruption Act, No. 94 of 1992, one count of contravening section 3(b)(ii)(aa) and/or (bb) and/or (cc) and/or 3(b)(iv) of the Prevention and Combating Corrupt Activities Act, No. 12 of 2004 and a contravention of section 4(a) and or 4(b) of the Prevention of Organised Crime Act, No. 121 of 1998. However he was only convicted of two counts of lesser fraud due to the shoddy investigation and prosecution thereof. Veldhuizen, J Sentenced to pay a combined fine of 150 000 or serve 18 months imprisonment, while a further 18 months imprisonment is imposed but suspended for a period of four (4) years on condition that he would not again be convicted of the crime of fraud committed during the period of its suspension (*State v Joseph Arthur Walter Brown* para 11-12), *Brown v National Director of Public Prosecutions and Others*, para 8). Although Veldhuizen J found the charges he was convicted under as extremely diluted version of the fraud that the indictment alleges. Clearly the investigation and the prosecution process seem not to have done its thorough investigation or presented its case/evidence convincingly so in ensuring a hefty conviction is imposed on Mr Brown for his deeds and as a result. It is however doubtful if his sentence would have any impact on deterring future economic crimes rather likely setting a precedent despite cases being adjudicated on their own merits. Whereas in the same set of facts Brown's counterpart Mr Maddock was found guilty on two counts of fraud, one of theft, one of reckless conduct and 49 for money laundering to which he was given an effective seven-year sentence as per judgment in *S v Maddock Incorporated and Another*, to which a plea guilty was entered into with the accused. In SA the abovementioned cases are a demonstration of what members of the

public, for decades, have been subjected to without knowledge thereof of various industries collusive anti-competitive/prohibited practices/dealings in contravention of section 4 (1) and (2) of the Competition Act that prohibit an agreement or concerted practice between parties in any horizontal relationship from engaging in such practices likely to have the effect of substantially preventing or lessening competition in a market, through fixing of prices and or dividing markets by allocating customers, suppliers, territories or specific types of goods or services.

Further in 2005 Mr Shaik, a close ally to President Zuma, was convicted on two counts of corruption and one of fraud and the companies with which he was associated were all convicted of corruption, four were convicted of fraud and two of money laundering and was sentenced to an effective 15 years in prison (*S v Shaik and Others*). While the former National Police Commissioner Mr Selebi was also convicted of corruption and as well sentenced to 15 years' imprisonment (*Selebi v S*). However both were released on medical parole after serving a short period of their sentences which caused an uproar since they are seen to be highly politically connected that was seen to have indirectly influenced their early indirect release compared to normal unknown offenders who are still in jail (Munusamy, 2012). It is therefore argued that SA can be seen to be delivering a mixed messages to its citizens and the world out there that some are given preferential treatment considering Mr Lewis who was convicted to have killed Chris Hani is still languishing in jail despite to be suffering from prostate cancer and still being denied medical parole (Hani Murderer Denied Medical Parole, 2013). The fact that SA in 2012 was ranked 69 out of 176 on the Corruption Perception Index should be worrying for the country (Corruption Perception Index, 2012), as it tries to regain its status and also draw/retain its investors and this could indeed affect its business confidence in the long run if nothing is done to improve the country's corruption status or re-image itself.

On the other side the recent high profile white collar/economic crime case in the United States of America (USA) that was well reported globally, in 2009, is that of Bernard L. Madoff from related to a massive operation of a Ponzi scheme. A ponzi scheme is a fraudulent investment scheme. It offers investors unusually high returns, but the payouts do not come from actual profits – the victim's own money, or money paid by subsequent investors, is used. It entails victims being enticed to invest in a seemingly legitimate investment opportunity with promises of high returns. Initially, the scammers may pay out large amounts to attract more investors. But new investors are paid using money from previous investors, rather than from real profit (FIC, 2012: 23). The scheme often cannot be maintained for long, because the earnings, if any, are always less than the payments. Eventually, the scammer disappears with the money, minus any payouts to investors. Madoff pleaded guilty to all 11 counts of securities fraud, investment adviser fraud, mail fraud, wire fraud, three counts of money laundering, false statements, perjury, false filings with the U.S. Securities and Exchange Commission (SEC), and theft from an employee benefit plan.

Chin J, as a result of a guilty plea Mr Madoff had entered into, sentenced him to an effective imprisonment term of 150 years, consisting of 20 years on each count for count 1, 3, 4, 5, 6 and 10; then 5 years on each count for count 2, 8, 9 and 11 and 10 years on count 7 and all to run consecutively. Chin J also imposed a supervised release term of 3 years on each count and all to run consecutively (*United States of America v Bernard L Madoff*). Additionally, the criminal information to which Madoff pleaded guilty included forfeiture allegations that required Madoff to forfeit the proceeds of the charged crimes, as

well as all property involved in the money laundering offenses and all property traceable to such scheme (Finklea, 2010). Another high profile judgment involved the case of *USA v William J. Jefferson* where the Eastern District Court of Virginia found Mr Jefferson guilty of 11 counts of bribery, fraud, money laundering and racketeering that involves using his schemes to help American businesses make deals in West Africa in exchange for money and stock paid to shell companies controlled by his family members. Ellis J sentenced him to an effective 13 years in prison for his acts thus sending a message that the society is not going to tolerate such conduct that are seen as cancer on the body politic.

At an international level, the United Nations (UN) Oil for Food Programme demonstrated the deep rooted widespread level of white-collar crime which was seen to have been the biggest corruption scandal whereby government of Iraq sold \$64.2 billion of oil to 248 companies in turn 3, 614 companies sold \$34.5 billion of humanitarian goods to Iraq (Report on the Manipulation of the Oil-for-Food Programme, 2005). The said UN Oil for Food Programme resulted in implicating biggest multinational corporations in the USA and Europe (Warin & Boutros, 2007). However South Africa companies in this saga, as implicated, were found to have been merely "acting as intermediaries rather than 'end users' of the oil (that is, refineries)" (Donen Commission of Inquiry, 2006). It is on this premise that having Protected Disclosures Act 2000 is very essential to enable employees in both the private and the public sector to disclose information regarding unlawful or irregular conduct by their employers or other employees in the employ of their employers. However the said Act can be argued to be absent on its implementation side considering what South Africans have been subjected to when one look at the rampant cartels that made it a norm for decades to be openly practicing their anti-competitive behaviour. Also in the USA since UN Oil for Food Programme scandal erupted about 34 companies had to file disclosure statements relating to their role in the UN Oil for Food Programme in accordance with the Foreign Corrupt Practices Act 1997 (FCPA, Warin & Boutros, 2007). Since that report it was reported in the USA that about 18 guilty plea agreements were entered into for violation of the FCPA of those it was found that about seven companies were exclusively related to the UN Oil for Food Programme (Deutsch & Altenbbaumer-Price, 2009: 2). Thus when one looks at the South African cases and the punishment patterns or deterrence efforts, they seem lighter and likely to enable perpetrators to believe they can get away with white-collar crime. The sentences meted out in South Africa have portrayed a diminished success compared to the USA counterpart. Therefore prosecution challenges in SA are clearly shown by the difference between the proliferating statistics of white-collar crimes and the rate of prosecution including sentences imposed on such crimes. Ultimately it could be argued that the said approach seems to be worsening the South African position when compared to the global standings on fraud and corruption in general and white collar crime in particular.

#### **THE IMPACT OF WHITE-COLLAR CRIME ON THE SOUTH AFRICA'S ECONOMY**

Although literature shows that white-collar crimes globally are on the increase, SA appears to be ahead of their global counterparts in terms of reported economic crimes. For instance, SA was reported to have encountered about 60% of economic related crimes in 2011 while globally it was found to be at about 34% (PWC Global Economic Crime Survey, 2011). In 2007, it was reported that about 43% of companies confirmed to have encountered economic crime incidents in the past two years, which was down from 45% in 2005 globally. Therefore, SA in particular since 2005-2011 appears to have been always

hit the most by white-collar crime when compared to the global statistics.

For example, the impact of white collar crime in South Africa in 2011 was averaged to about 83% while the global impact was 45% which is almost half of what SA has experienced (6-PWC Global Economic Crime Survey, 2011). In other words SA during that period was found to have had the worst white-collar crime rate in the world (SA, capital of white-collar crime: 2007). As a result this entails the country to have lost over R7.4-Billion in fraud crimes in that period (SA, Capital of White-collar Crime, 2007). Further that according to the 6-PWC Global Economic Crime Survey (2011) in a period of 12 months SA when compared to the Global network had 73% compared to 72% of asset misappropriation, 42% compared to 24% of bribery and fraud, 32% compared to 24% of financial statement fraud and 26% compared to 23% of cybercrime (6-PWC Global Economic Crime Survey, 2011-5). Clearly billions seem to be lost on an annual basis due to economic crimes and the country seems not to be doing much in proving their commitment to tackle the white-collar crime pandemic.

However beside the mentioned statistics, since 2009 there seems to be an increase on tax fraud, market fraud including price fixing and illegal trading in SA. (6-PWC Global Economic Crime Survey: 2011-6). Therefore the exponential increase in incidents where computers and other advanced technologies are utilised to commit white-collar crime also poses a substantial problem to entities in the public and private sectors. According to the South African Police Service Annual Report (2011/2012: 94), commercial crime which falls within organised crime spans a wide area to include: illegal drugs; plundering precious metals and diamonds; smuggling firearms and weapons; human trafficking; money laundering, specific violent crime; non-ferrous metals; vehicle related crimes; endangered species; crimes against the state; and related crime. In terms of this, the Organised Crime Unit within the SAPS identified and investigated 179 organised crime groups composed of 492 targets. 57 of these groups were successfully terminated, resulting in the arrest of 282 suspects. Additional to their mandate, 1 415 arrests were made and 376 convictions were secured for specific violent crime such as the hijacking of cars and truck-hijacking, cash-in-transit robberies, bank robberies, ATM bombings, house and business robberies. And, 2 910 arrests and 700 convictions resulted from non-project investigations which exclude specific violent crimes. Furthermore, the Annual report outline a worrying increasing trend of commercial related crimes reported since 2004-2012 as follows:

**Table 1:** Commercially-related crime in South Africa

♦	♦ Year	Reported commercial related crimes
1.	♦ 2004/2005:	53 931
2.	♦ 2005/2006:	54 214
3.	♦ 2006/2007:	61 690
4.	♦ 2007/2008:	65 286
5.	♦ 2008/2009:	77 474
6.	♦ 2009/2010:	84 842
7.	♦ 2010/2011:	88 388
8.	♦ 2011/2012:	88 050

Clearly the statistics as above-mentioned when measured against the prosecution ratio seems

short-lived and the former depict SA to be experiencing an uphill battle to curb this kind of proliferating crimes within its territory. Therefore the adoption of the Corruption Act, Prevention and Combating of Corrupt Activities Act, and the Prevention of Organised Crime Act on their own could not be seen to be an adequate measure to contain this kind of crime. It is on this premise that the Organised Crime Unit seems to be experiencing a daunting task to implement the said Act, not forgetting its inadequate resources and capacity in ultimately ensuring cases similar to that of Mr Brown deliver hefty convictions against white-collar crimes offenders. There are compelling reasons why law enforcement and regulating agencies need to effectively and efficiently target white collar syndicates. Most important, white-collar crime causes huge financial losses to government and private sector and to individuals. The severity of the white-collar crime problem has been seen as one of the most serious problems confronting law enforcement authorities. Firstly, during the 1980s, the country was rocked by insider trading scandals. Subsequent investigations revealed that corporate insiders made huge profits by trading on secret information, to the detriment of ordinary investors who did not have that information when trading. Further, such fraud threatened to undermine public confidence in the securities markets themselves. Secondly, in the late 1980s and early 1990s, the savings and loan industry collapsed. This occurred in some substantial part because executives of those institutions engaged in wide-scale fraudulent practices. Thousands of persons lost their life savings as a result.

Finally, in 2002, Wall Street was rocked by corporate accounting scandals. Allegations have been made that this occurred at least in part because of wrongdoing by corporate executives and their accountants. Large corporations filed for bankruptcy, causing huge losses to employee retirement accounts and to other investors. These are just examples of what law enforcement regulatory agencies are facing and marginalised people are looking up to them to receive their investments and ensure those accountable are prosecuted. This is based on the fact that over thousands white-collar crimes are committed each year, causing untold harm to the economy and business (Center for the Study of Democracy, 2002).

When a business suffers losses from embezzlement or other types of fraud, a negative impact is quick to surface, namely it can go out of business, resulting in job losses, costing taxpayer's money for unemployment insurance or uninsured visits to the emergency room, not to mention filings for bankruptcy. What if a certain employee cannot find a job? Might this spur some people to crime? On the other hand, even if the operation stayed in business after being hit by white-collar crime scandal, this often means that the business must charge more for its product, at least for some period of time, in an attempt to offset the damages (Strader, 2007). Additionally, after some type of fraud occurs, many firms install a tighter security system or other stiffer financial controls and the customer always bears the burden of these increased costs.

#### **THE IMPACT OF WHITE-COLLAR CRIME ON VICTIMS**

First and foremost it must be acknowledged that the white-collar crimes do have a tremendous effect on everyone irrespective of their social status in the society. In any white-collar crime setting it is often that the society is either directly or indirectly affected though they may not have played a direct or indirect role. For example victims of price fixing often are members of the general public, who have been forced to pay higher prices for goods and services than they would have not if prices were set by an open

market competition despite the victims not to have been contacted directly by the perpetrators. Other examples are beneficiaries crying foul to Mr Brown who have lost their money and still struggling to trace it and to be redistributed, and the Madoff case where there seems to be more traceable investments assets that have been forfeited and redistributed to his victims. Perhaps the most troublesome aspect of white-collar crime is the superficial appearance of legitimacy. As above stated, when a burglar breaks into a home or an auto thief steals a vehicle, or any of the other traditional street crimes occurs, the fact that a crime has occurred is obvious. The offender's actions leave visible traces of the crime (for example, the broken door and missing television), and the offender's actions can clearly be recognised as illegal by observers. In the case of the vast majority of white-collar crimes, however, the offender's actions are not obviously illegal. Indeed, at first glance they look entirely legitimate, and the fact that a crime may have occurred is not obvious (Shover & Wright, 2001).

Therefore unlike the victims of most contact crimes such as rape, many face-to-face white-collar crimes do not arouse the general sympathy reserved for those who have suffered harm, loss, or injury. Instead, these victims are often viewed with a mixture of scepticism, suspicion, and disbelief. The general incredulity with which these victims are regarded seems to derive from two widely held beliefs: (a) that victimization from fraud and rape does not happen except to those of questionable character, and (b) that only those who have shown an exceptional disregard for simple rules of conduct become victims of rape and fraud (United Nations, 2008). The victims of these types of offenses often feel that they are further victimized by the system. Uncaring/shoddy investigations leading to acquittal of offenders make them feel as if they have committed some sort of wrong or law enforcement seems not to have adequate resources to execute their functions or do not understand or take the victims losses seriously. To make matters worse, victims will refrain often from reporting such violations if they have been perpetrated by people in the government or others in positions of authority (United Nations, 2008). They begin to feel that there is no one they can trust. It is therefore prudent when trust is proven or at issue that the Court in *S v Yengeni* case para 74 held that:

"The immediate and permanent removal from an office of trust should follow in every case of a crime involving an element of dishonesty as a matter of law and of public policy."

It is clear that beside penalties being issued and paid against big corporations for their anti-competitive behaviours their bosses continues to live comfortable lives and those criminally convicted also seems to continue to live as if they are not criminals (medical paroles and Mr Brown as well as Competition Commission settlements). It is the said conduct that seems to fuel public outrage over bad acts of corporate executives and their subsequent lives while millions have suffered job losses and or their hard earned money/assets (Recine, 2002: 1544). This is evident in SA when it is alarming that despite such high statistics recorded of white-collar crimes there seems to be less conviction in such cases and even on corporations that were found to be in violation of the Anti-Corruption legislations as abovementioned. Some of those officials are still found today occupying those positions of trust thus thwarting any effort to deter them from abusing their powers. Clearly money appears to be easily flashed out in avoiding a prison sentence and thus making the offender to feel less guilty than the actual imprisonment in addition to a fine. However it needs to be acknowledged that prevention efforts have long being adopted to tackle white-collar crimes yet their adequacy/willingness to root out such crimes remains questionable.

## THE PREVENTION OF WHITE COLLAR CRIME

It is common that in white-collar crimes the offenders deliberately cover up their illicit activities from victims and investigators and thus impeding on the collection of evidence of misconduct which ultimately poses a significant challenge on prosecuting, punishing or deterring offenders (Shapiro, 1990: 355). As an effort to curb the rampant white-collar crime in the USA it was reported that the government seems to have adopted an aggressive and controversial tactics in battling white-collar crimes that seem to encroach upon the erosion of an attorney-client relationship. Such an approach received heavy criticism from all spheres which led to the revision of their 'Principles of Federal Prosecution of Business Organisations' though it was still seen not to have substantially moved away from its original stance (Frongillo & Jaclyn, 2007, Savage Jnr. & Schumacher, 2006). It is reported that there seems to be an increase and anticipated growth in federal investigations and prosecutions of white-collar crimes in the USA (Podgor, 1996-1997).

However, in SA though one can argue that there seems to be many investigations on-going yet the prosecution of such crimes seems to remain a wishful thinking for victims to bear its sweet fruits. However global effort and individual countries need to be commended to have put measures in place to track and trace evidence resulting in successful prosecution of such offenders. Therefore the South Africa's efforts to curb white collar crimes should include preventive measures since the reactive measures cannot be always successful. The first involves pre-employment practices which, if effective, filter out would-be criminals from the applicants' pool. This could be accomplished in several ways. First, an employer could put a standard message on job applications asking prospective employees to reveal any previous felony convictions. If they had a conviction for embezzlement, just as an example, it would probably be unwise to consider that person for any position in the finance office (Centre for the Study of Democracy, 2000). Also in SA it is common especially in certain government positions that a security clearance would be required before confirmation of appointment to certain positions (Montesh & Mmusinyane, 2011, Section 9 (3) of the Military Ombud Act).

If the employer was concerned about getting accurate information on applications, one might require that all prospective employees obtain a criminal history check and present that with their job application. It is often the practice in SA that certain employers do require prospective employees to declare if they have been previously found guilty of misconducts though not particularly related to white-collar crimes. This enables employers to make an appropriate evaluation whether or not they are willing to appoint such a person in a position of trust or not. Applicants that had something to hide other than misdemeanours would be wary of completing the process. Additionally, many employers ask that interviewees sign a form that allows the employer to conduct a background check in order to make sure that the information on the employee's application is correct. This information is often verified by checking with the Police's Criminal Record Centre to determine if the person has any convictions or other actions against them, both criminal and civil. This information is a *public* record. In addition to the above-mentioned prevention approaches, the United Nations (2008) suggests a three-Stage Model for Prevention and Detection of Business Criminal Activity consisting of the following aspects (table 2).

**Table 2:** Model for prevention and detection of business criminal activities

<i>Prevention</i>	<i>Detection</i>	<i>Remedies</i>
Minimal cash on hand; Strengthen office key control; Check identification; Background checks; Design unambiguous authorisation procedures; Pay everything by cheque or by electronic settlement; do not delegate cheque signing; Outsource payroll; Make use of computer firewalls; Secure passwords; Secure websites; Ensure regular employee training; Install burglar alarms; Install surveillance cameras; Secure Internet payment; Separation of duties; Ensure that company equipment is tagged; Ensure that Management set an ethical example and ethics statements are displayed in the building; Ensure that the Policy and Procedure manuals in place.	Unscheduled audits; Internal auditors; External auditors; Software application; Police Monitoring employees; Lifestyle changes; Life style audits; Behaviour indicators; Customer complaints; Financial statement analysis; Frequently check bank statements; Alarm systems; Scanning EBay and want ads Reporting hotlines; Look for exceptions, such as manual checks	Insurance Prosecution Expert witnesses Employee dismissal Punitive damages Settlements/negotiations

**CONCLUSION**

Although offenses similar to what is referred to as white-collar crime have been around for centuries, it is likely that white-collar crime will become even more prevalent in the future than it is now or was in the past. Social and technological changes have made white-collar crime opportunities abundant to a broader range of people than ever before. The important changes include a rise in white collar-type jobs, the growth in state largesse, an increase in trust relationships, economic globalization, the revolution in financial services, and the rise of the Internet as a means of communication and business. Therefore the fight against white collar in South African cannot be won solely through the adoption of anti-white-collar crimes legislations. There is a need for more concerted prevention strategies which are implemented effectively. It was established by previous research projects that prosecution alone cannot turn the tide against white collar crimes. In majority of cases, prosecution of white collar crime comes into play after the damage has been done. To make matters worse, other factors such as poor investigation and lack of investigative resources may have an adverse impact on the success of prosecution in white collar crimes. If the prosecution is the only option left, adequate resources should be made available, utilised and spared in ensuring proper, detailed and thorough investigations are conducted before handing over files to the prosecution bodies as witnessed on the Madoff case in the USA. It is only through adequate preventive measures that the label attached to SA as the capital of white-collar crimes can be reversed. SA indeed needs to heed some lessons from the other countries of the world on how white collar crime is investigated and prosecuted with the intention of deterring the prospective perpetrators.

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# Track 2

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A pair of glasses and a pen are resting on a document. The document features a bar chart with several bars of varying heights. The numbers 11, 12, and 13 are visible at the bottom of the chart. A red curved line arches over the glasses and pen, and a gold and red curved line arches under the bar chart.

**GOVERNANCE OF THE INTERNATIONAL POLITICS AND  
ECONOMICS, AND DEVELOPMENTALISM**

## DEVELOPMENT FINANCE WITHIN THE SHIFTING PARADIGMS OF GOVERNANCE AND DEVELOPMENT: A POSTMODERN VIEW

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### ABSTRACT

The Millennium Development Goals (MDGs) are due to expire on 2015. Progress made towards achieving those goals will be determined by among other factors the extent to which developing countries have managed to extract and maximise the benefits and advantages of development finance provided throughout the implementation thereof in ensuring that targets set are met. Just like any conceptualisation within the area of policy discourse, governance has become more fashionable for adoption to express phenomenal interactions that take place within various polities, governments, states and regimes. Governance as a concept even gains momentum on an international state of policy vocabulary. Consideration of the shifting paradigms of both governance and development need to be attended to if meaningful development finance had to be made specifically within developing countries. Developing countries are caught up on the rolling out of development aid on matters of governance yet in context their state of being developmental is not static as compared to that of developed countries when coming to development financing. Operationalisation for both governance and development are confuted by paradigmatic shifts due to complexities on contexts and circumstances that can only be defined locally. The epitome therefore is that developing countries are conditioned on the idealised context of governance and development as if paradigms those inform their various stages of development are squarely within a static rational theoretical ontology. This paper adopt the postmodern ontological stand to argue that the stagnation or failing to adapt to shifting paradigms on governance and development have a bearing on development finance. Continuous rhetoric that might be equally duped to be pseudo colonisation due to continued dependence on conditional development finance aid by developed countries contributes to the state of material conditions within developing countries. Financing development within developing countries should be within the context of both governance and development paradigms that is informed by the circumstances within those developing countries. Such contention therefore need analytical framework that is beyond rational thinking and informed by realities that can be determined locally. The shifting paradigms create complexities that cannot be addressed by one size fit all scenario. Instead the continued locally informed factors that occur within those developing countries need to be considered. Ontological basis that informs such frameworks need to consider contexts of the recipients' countries without persuasion of conditions that do not fit local realities.

**Keywords:** Postmodernism; paradigms; ontology; governance; development; MDGs

### INTRODUCTION

Political power and institutional capability is less and less derived from formal constitutional powers accorded to the state but more from a capacity to wield and coordinate resources from public and private actors and interests (Pierre & Peters, 2000). Put slightly differently, we have been witnessing a development from a 'command and control' type of state towards an 'enabling' state, a model in which the state is not proactively governing society but is more concerned with defining objectives and mustering resources from a wide variety of sources to pursue those goals. There has been a large literature on public sector reform coming out of institutional economics, public administration, and from the communities of

practice surrounding development agencies seeking to improve governance (Fukuyama, 2013). Yet there is no shortage of references to the notion that the quality of governance matters to development (Hyden, Court & Mease, 2003). It is on that basis that many observers and analysts believe that it is the main reason for explaining variations in socio-economic development performance around the world. The approaches favoured by economists sought to conceptualize governance in a principal-agent framework, and have sought to control corruption and bad administration through manipulation of incentives (Fukuyama, 2013). In many social sciences and humanities disciplines, to say something like that would hardly be novel, and even in economics, amazingly enough, globalization has apparently not led to convergence (Drechsler, 2013). The shifting of paradigms among others in the context of both governance and development create complexities that cannot be dealt with in a form of a meta-narrative discourse that is within the rational modern ontology like the reigning scientific world of today (Nkuna, 2013). It is in that notion that Fukuyama (2013) put it frankly that it would be very hard to develop a rational choice theory of state capacity, since capacity in any organisation is so heavily influenced by norms, organisational culture, leadership, and other factors that don't easily fit into a model based on economic incentives. So is governance and development for purposes of development financing within developing countries.

## **POSTMODERN ONTOLOGY**

In alluding postmodern ontological framework within the discourse, especially if it is applicable to governance and development as it is the case in this article, it is important first understand the ontological premise thereof. Postmodernism is ambiguous as a concept, and it has created much controversy (Bogason, 2001). Rose (1991, cited in White, 1999: 153) refers to the term to have been used during the 1950's and 1960's but did not come into common currency until the following decade. Generally postmodernism is the recognition that Enlightenment's promises of universal truth, justice, and beauty would not be realised in modern society. Beyond this it is difficult to give the concept a unitary definition, no matter how comprehensive it might be, because of diversity of themes and ideas. Postmodernity has been considered as being either epochal, in replacing modernity as the current time frame, or epistemological, in its relativity to other interpretations of social structures, and Newton (1996) considers the implications of both uses of the concept for the study of organizations (Barnet & Crowther, 1998). The concept of postmodernity is however considered most fully by Lyotard (1984) who questions the use of modernist metanarratives which legitimate society as existing for the good of its members with the consequent presumption that the whole unites the parts as an expression of the common good. Grbich (2004) however, put it that postmodernity/postmodern literally means the time following modern era, while postmodernism is the identifiable ideological position that developed from modernism, including further development of ideas, stylistic communications and perceptions and beliefs which began to dominate this era.

## **Understanding Postmodernism**

Postmodernism simply means that there is no single discourse that can unify all forms of knowledge, there is a need to cope with a multiplicity of discourses, many different language games – all of which are determined locally, not legitimated externally (Cilliers, 1998). There is no single theoretical

approach or framework which can address a given phenomenon on its own without the application of other theoretical approaches or frameworks from other disciplines with different interpretations and those interpretations need to be informed by the realities of that given phenomenon which are determined closely or locally. Postmodern theorists would argue that administration should be dispersed and fragmented, capable of accommodating conflict, multiplicity and difference, and decentralisation and autonomy (Cilliers, 1998; White, 1999; Miller & Fox, 2007). With greater participation and the localisation of politics and administration, policy makers put less emphasis on centrally established development goals and programs, and there is also a gradual reorientation from the knowledge needs of the national government to those of localities (Jun & Revira, 1997). The postmodern sensibility stresses perspectivism (Schram, 1993). Things are always understood from a partial or both in a sense of incomplete and biased perspective. The postmodern sensibility stresses textual mediation; understandings of the world are mediated through texts and there is a need to be attentive to how discursive practices help constitute the partial perspectives relied on for making sense of the world. Fox and Miller (1993) published their first stab at what postmodern analysis of public administration might mean. To them postmodernism means a number of radical changes in our understanding of the world. It involves movements such as:

- From centripetal to centrifugal, that is, from centralisation to fragmentation;
- From metanarratives to disparate texts, that is, from the grand theories to more or less circumstantial evidence;
- From commensurability and common units to incommensurability, that is, difference rather than likeness;
- From universals to hyper-pluralism, that is, to fragmentation instead of generalised units of analysis;
- From Newtonian physics to Heisenberg's quantum physics, that is, from causal theory to unpredictable analysis of the microcosms, where the intervention of the researcher is felt.

Postmodern conditions are characterised by fragmentation: An overarching rationale or vision is replaced by processes of reasoning, and see trends towards decentralisation, individualisation and internationalisation (Bogason, 2001). There is currently a considerable debate going on the subject of postmodernity/postmodern in social sciences. This paper presents postmodernity as an approach to be adopted complementary to modern discourses in governance and development. Modern thinking however dominates the current scientific discourse. Of course we cannot refute the progress that rational science has made on development and governance. As Sokal (1996) put it, if there is anyone who believes that the laws of physics are mere social conventions, he/she is invited to try to transgress one from the windows of his twenty first floor apartment. Postmodern thinking is, however complementary to modern scientific discourse by reflecting on the other side of a coin. A postmodernist view of organizations, such as local government institutions, is that they are sustained by the rules governing their existence and by the resource appropriation mechanisms which apply to them rather than by any real need from the people who they purport to serve (Barnet & Crowther, 1998). Postmodern thinking is, just like modern thinking characterised by various traditions such as the radical tradition associated with thinkers like Derrida (1976), Foucault (1980, 1982), Lyotard (1984) and others that are in extreme relativistic position or labelled as French postmodernism (Arias & Acebron, 2001). There is also a postmodern tradition that features the likes of Kuhn (1977), Lakatos (1977) and Feyerabend (1995) that form the core of the second and well known postmodern tradition. They recognise the complexity of scientific activity and see science

in the context of traditions establishing their own standards of what is acceptable science. The third postmodern tradition is hermeneutics associated with the writings of Heidegger (1962), Gadamer (1975), Habermas (1972), Ricoeur (1971) and Taylor (1975). Their interest in the study is interpretation of texts, extending their research techniques not only to literature, but to arts, jurisprudence and, more recently, the social sciences. Hermeneutics is the theory of interpretation in history, religious, art, law, and literature (White, 1999). It is the art of science of interpreting the meaning of texts or text like entities, and it offers general principles for determining the validity of interpretations of meaning.

These strands of postmodern thought do not appear in a vacuum, but within and in response to a changing society with new and evolving characteristics (Arias & Acebron, 2001). In a postmodern society, economic relationships adopt new meanings and management needs to take new directions. Bourgon (2007) viewed this from the point given the demand for accountability across all levels of government, there is growing need to find a new balance between conflicting lines of tension. As society become more complex, the need for flexibility continued to grow (Bourgon, 2007). It is such flexibility that needs consideration for ensuring development finance within the shifting paradigms in governance and development.

#### **PARADIGMATIC CONCEPTION**

In engaging the notion of governance and development paradigms, it is important to first conceptualise paradigm for operational purpose. The conception of paradigms remains an operational abstract that cannot be defined with solid lines within the theoretical discourse where it is applicable. These become immense when that such is linked to subject areas within the field of social science that features governance and development. Yet there is a tendency of scholars of assertively engaging on the debate of paradigm shift without actually locating its parameters despite abstract dimension it assume within the discourse. The lack of a broad definition of a paradigm has created a sense of intellectual vertigo in the increasingly intense debate especially over corporate governance reforms (Pound, 1993). Coetzee (1988) however refers to a paradigm as, *inter alia*, a model or table for the inflection of a class of words, as of a particular declension and or conjugation. It also refers to a pattern or thinking associated with specific time or period or a tradition, a school or a style of science that has concrete historical significance as well as explicit assumptions, methods and research projects. A paradigm within social sciences refers to a notion meant as an over-arching perspective that drives the field within a given space of time or period Therefore governance within its applicability on international economics and politics take the form of a paradigm for financing development of developing countries. That is the matter that this paper argues that shifting of such paradigms has implications for financing development. Without drawing to conclusion, the space line and time space as well as interface for such shifts are not necessarily linear in conforming to rational mechanistic shift like changing the gears of a moving vehicle. It is rather a phenomenal interchange that manifests itself over time and space to an extent that developing countries are caught up on recycled paradigms that have failed in developed countries and experimental exploitations continue to subject such countries on a vulnerable state of development that is not informed by local realities.

## UNDERSTANDING GOVERNANCE

The concept governance is not new (UNESCAP, 2013). It is a versatile one and has been around in both political and academic discourse for a long time referring in a generic sense to the task of running a government or any other appropriate entity for that matter (Piere & Peters, 2000). Reading on how it fits in the current discourse, especially where development is involved, it is telling that the practice of governance has been there as human kind was in existence (UNESCAP, 2013). However the existing literature associates a wide variety of different phenomena with the concepts ranging from different institutional structures and actor constellations in political decision making to varying types of policy instruments (Treib, Bahr & Falkner, 2007). It originates from the need of economics and political science for an all-embracing concept capable of conveying diverse meanings not covered by the traditional term government. Yet government is itself a formation by the society to ensure order within a given administrative state (Mossberger, 2007). So governance now features mostly in the discourse as corporate governance and state governance respectively. Referring to the exercise of power overall, the term governance, in both corporate and State contexts, embraces action by executive bodies, assemblies like national parliaments and judicial bodies like national courts and tribunals.

The term governance corresponds to the post-modern form of economic and political organisations. The post-modern views of understanding reality have it created and still a matter of debate within the dominant modern scientific thinking (Cilliers, 1998; Nkuna & Sebola, 2012). The moment one put such within a discourse that is regarded as scientific engagement, the reception become that of scolded as one appear to be debating outside the realm of scientific thinking that adhere to the principle of seeking a single solution to human problems that is based on rationality and reductionist ontology. That led to those within the conversation of governance to pay little attention to the concept itself and found them misusing the concept to mean anything that they cannot explain within the polity or the processes that provide a locus for public administration. In that basis Fukuyama (2013) refers to governance as a government's ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not. Though it is not clear whether the concept of 'governance' can in the near future become a common 'theory' shared between disciplines, the theoretical and methodological diversity is simply too great for that and it can become a vehicle for comparison and for mutual learning and theoretical inspiration; in general, the term governance is associated with a change in the nature of the state (Treib, *et al*, 2007). In this sense, governance denotes a process of governing which departs from the traditional model where collectively binding decisions are taken by elected representatives within parliaments and implemented by bureaucrats within public administrations. Governance takes into account a change in the actor constellation, both during the formulation and the implementation of policies and in the method of political steering. Governance thus refers to societal steering and is often described as a process of co-ordination within networks (Kooiman 2003; Jordan & Schout, 2006). It is those changes in actor constellations within the policy processes that bring about complexities that are outside the realm of modern theoretical paradigms. Therefore governance needs to be dealt with beyond the state of knowledge for operational purposes as it involved locally determined realities.

## GOVERNANCE BEYOND KNOWLEDGE

Somers (2006) allude to the fact that organisation scholars have since considerably developed

the field by contributing new models and theories of organisations and established links between organisational forms and performance. However, from a practitioner' perspective, the role of managers in today's organisations seems to be, day after day, a more complex and daunting task to deliver an even harder to reach organisational performance. Several external factors that might be at the root of this have been examined in literature such as globalization and turbulence. On the other hand, internal elements have been the object of research with a prescriptive perspective as to what are the elements that need to be modified to respond to those changes? Max-Neef (2007) refers to this as unending bifurcations in life. It is on that basis that the argument is put forward in line with Rhodes (1996) contention that the concept of governance is now used in connection with several contemporary social sciences, especially economics and political science (Kersbergen & Waarden, 2004; Treib *et al*, 2007). As Rhodes (1996) put it, the concept of governance is currently used in contemporary social sciences with at least six different meanings: the minimal State, corporate governance, new public management, good governance, social-cybernetic systems and self-organised networks. It can be seen from Rhodes' (1996) contention that pinning down governance without adding to it a prefix tends to be an issue that those in the conversation avoid.

The argument is that to realise governance in any endeavour within humankind, it is important for those in the discourse to define it beyond the everyday usage of the concept to ensure the tendency of getting stuck to knowledge without proper understanding for operationalisation. Of course there are those that made an attempt to delve deeper to elude the concept beyond just knowledge. Its meaning of different things to different people triggers the need to focus right. Hence Fukuyama (2013) posited that his initial the quality of governance is different from the ends that governance is meant to fulfil in that is governance is about the performance of agents in carrying out the wishes of principals, and not about the goals that principals set. That in actual fact depends on the level within a society the concept is applied as well as the goals to be achieved and the approach being followed. That also does not assist much in pinning down governance only from knowledge perspective as the meaning will shift with the level of application and that is where the post-modern understanding come to play as propounded by Nkuna and Sebola (2012). The gap to be closed is to advance to elucidate the concept to take the same meaning across the levels as if it has to feature in modern scientific form (Wagenaar, 2007; Nkuna & Sebola, 2012). If that cannot be achieved then the concept is stuck in the post-modern ontology that will necessitate the local meaning of the concept within a given context. Greater clarity was brought on governance by elevating it to an umbrella concept to define an approach to comparative politics; an approach that fills analytical gaps left by others (Hyden, 2006). Using a governance approach, Hyden (2006) emphasises the creative potential of politics, especially with the ability of leaders to rise above the existing structure of the ordinary, to change the rules of the game and to inspire others to partake in efforts to move society forward in new and productive directions. His views boil down to governance as a conceptual approaches that, when fully elaborated, can frame a comparative analysis of macro-politics and concerns big questions of a constitutional nature that establish the rules of political conduct. It involves creative intervention by political actors to change structures that inhibit the expression of human potential and refers to particular types of relationships among political actors are socially sanctioned rather than arbitrary.

## GOVERNANCE PARADIGMS

There are two overarching paradigms on governance conceptions that span the collection of models (Goujon & Flick, 2010). Goujon & Flick (2010) cited Lenoble and Maesschalck's (2006 & 2003) on "Beyond Neo-institutionalist and Pragmatist Approaches to Governance", and "Toward a Theory of Governance", respectively, to explain the theory and methodology behind the two main current governance paradigm trends. Those governance paradigms have been termed the "efficiency paradigm" and the "participatory paradigm" and constitute, in the former case, economic "neo-institutionalist" governance theory, and in the latter, a participatory, "pragmatist" approach. These two paradigms illustrate the two main trends that are the basis for almost all of the currently-used governance approaches. In providing for development finance, international economics and politics rail within the frameworks that are informed by the knowledge base of these paradigms without consideration of governance paradigmatic shifts that are complex in the form of context and circumstances. More especially in cases where governance is viewed from a single perspective that fit in the reductionist scientific approach. Ardalan (2010) draws that closer in viewing governance paradigms from a global perspective that emphasizes that, in general, any phenomenon may be seen and analysed from different viewpoints and that each viewpoint exposes a certain aspect of the phenomenon under consideration. The question here might be, in ensuring governance on international economics and politics for development financing in developing countries, how do we navigate through the shifting paradigms towards the espoused phenomena of development? Premising the possible answer on basis of four governance paradigms as identified by Ardalan (2010) being functionalist, interpretive, radical humanist, and radical structuralist, a deduction is drawn that will prove to be near impossible given the complex dimensional nature of governance. Each of those paradigms is discussed briefly as follows:

***The Functionalist Paradigm:*** This paradigm assumes that society has a concrete existence and follows certain order (Ardlan, 2010). These assumptions lead to the existence of an objective and value-free social science which can produce true explanatory and predictive knowledge of the reality out there. These are typical assertions and ontological base of modern science (Nkuna & Sebola, 2012). It assumes that scientific theories can be assessed objectively by reference to empirical evidence. Scientists do not see any roles for themselves within the phenomenon which they analyse through the rigor and technique of the scientific method. It assumes there are universal standards of science, which determine what constitutes an adequate explanation of what is observed and eventually the hope of universal truth lying somewhere.

***The Interpretative Paradigm:*** This paradigm sees the social world as a process created by individuals (Ardlan, 2010). Social reality, insofar as it exists outside the consciousness of any individual, is regarded as being a network of assumptions and inter-subjectively shared meanings. This assumption leads to the belief that there are shared multiple realities which are sustained and changed. The paradigm believes that scientific knowledge is socially constructed and socially sustained; its significance and meaning can only be understood within its immediate social context. The paradigm believes that there are no universally valid rules in analysing a phenomenon like that of governance and development.

***The Radical Humanist Paradigm:*** The paradigm assumes that reality is socially created and sustained (Ardlan, 2010). It provides critiques of the status quo. It tends to view society as anti-human and views the process of reality creation as feeding back on itself; such that individuals and society are

prevented from reaching their highest possible potential. That is, the consciousness of human beings is dominated by the ideological superstructures of the social system, which results in their alienation or false consciousness. Radical humanists believe that everything must be grasped as a whole, because the whole dominates the parts in an all-embracing sense. Moreover, truth is historically specific, relative to a given set of circumstances, so that one should not search for generalizations for the laws of motion of societies.

**The Radical Structuralist Paradigm:** The paradigm assumes that reality is objective and concrete (Ardlan, 2010). It uses scientific methods to find the order that prevails in the phenomenon. It views society as a potentially dominating force and is based on four central notions. *Firstly*, the notion of totality, that is the phenomenon as a whole. This notion emphasizes that the totality shapes and is present in all its constituent parts. *Secondly*, the notion of structure that focuses on the configurations of social relationships, called structures. *Thirdly*, the notion of contradiction that construes structures, or social formations, contains contradictory and antagonistic relationships within them that act as seeds of their own decay. The *fourth* notion is that of crisis. Contradictions within a given totality reach a point at which they can no longer be contained. The resulting political and economic crises indicate the point of transformation from one totality to another, in which one set of structures is replaced by another of a fundamentally different nature.

## APPROACHES TO GOVERNANCE

Examination of the so-called approaches shows that they are based on specific aspects of or functions constituting the phenomenon and thus of little consequence if not downright meaningless (Coetzee, 1988). Tools such as technology assessment and value-sensitive design are not sufficient to constitute governance approaches on their own, but can be used within a governance approach to explore the issues raised and as part of opening the cognitive framing in order for that exploration to be successful (Goujon & Flick, 2010). This distinction is necessary, since there can be some confusion over whether using a particular tool is sufficient to qualify as a full governance procedure for a project. It is often, however, the case that projects will not use the governance approaches explicitly, yet the ways the tools are used and incorporated into project design can be analysed in order to determine which of the governance approaches were used.

**The Standard Model:** The model presents a traditional top-down approach, which is based on the knowledge of experts (Goujon & Flick, 2010). Normativity here comes from the knowledge and opinions of the experts involved in the decision-making. This model fits perfectly into the classical distinctions between facts and values that is also an ontological base of modern science (Nkuna & Sebola, 2012). Experts have objective approach governance as that perceived by the public are marked by a greater degree of subjectivity. Several essential elements characterise the functioning of this model being the necessity to preserve the purity of expertise by not combining the facts and value judgements (Goujon & Flick, 2010). Expertise is generally independent from political, economic and social influence. Yet in a social science discourse that is based on normative values like that of governance and development it is near impossible. This model usually fits in the efficiency paradigm, due to its use of expertise and top-down imposition of knowledge and the expectation that this knowledge will be implemented in the technological development.

**Consultation Model:** This model brings into question the fundamental thesis of the standard model, namely the opposition between the irrational public and the rationality of the experts (Goujon & Flick, 2010). The distance between experts and non-experts is not connected with the level of knowledge, but with the difference in perceptions. The public asks wider questions with regard to governance because they are no longer confronted with abstract scientific theoretical issues but with realities on the ground. The Consultation Model apparently fits in the participatory paradigm, since it relies on a participatory approach, but it is more suited to the efficiency paradigm, because it is more like the Standard Model since the public is still seen as an opposition. But however according to Nkuna (2007) participation can take different modes within given typologies. That creates complexities as the mode tends to shift within a continuum at an unpredictable typology shift.

**Revised Standard Model:** The first two models are based on the atomistic perception of society (Goujon & Flick, 2010). The public opinion is seen as a kind of data the aggregation of individual opinions, and not like a social production, the result of confrontation of different social groups on the public arena. In this way, the question of the social construction of a problem is omitted. In this model, which is the extension of the standard model, emphasis is placed on interaction between regulation process, social groups and media. The Revised Standard Model usually fits in the efficiency paradigm, because, like the Standard Model, it uses a top-down approach embodied in the technocratic vision, leaving public stakeholders out of the decision-making process.

**Co-construction Model:** This model distinguishes itself by questioning the way in which technological development projects use experts (Goujon & Flick, 2010). Representations of technology come from numerous collected case studies. The works of the new sociology of sciences have progressively come to blame the traditional conception of science as a revelation of universal, independent truths of the social system they produce. The Co-construction Model usually fits in the participatory paradigm, since it, too, requires a participatory approach, and particularly the “weak proceduralism” of Labour.

## **DEVELOPMENT: DIMENSIONAL AND PARADIGM QUESTION**

In general terms, development means an event constituting a new stage in a changing situation or the process of change per se (Bellù, 2011). If not qualified, development is implicitly intended as something positive or desirable. Other scholars like Visser (2005), however defines development in terms of elements of material, choice and equity. Material element encompass the satisfaction of material needs and improvement of standard of living with the reduction of absolute poverty, while choice relate to the extent people take control of their lives. Equity takes the form of inter-social or redistribution and intergenerational or sustainable equity. Kotze (1997) on the other hand defines development from a process perspective to refer to it as a positive change that must ideally occur through democratic and consultative practices, through identifying, as accurately as possible, and acting on what is good for people in a particular context, and through the clear-headed identification of constraints and opportunities while Nel (2000: 49) argues that development involves both ‘doing’ and ‘being’. It involves doing in that emphasis is usually placed on designing and managing programmes and projects to bring about visible and significant changes in the circumstances of the people. On the other side it involves being in the sense that it aims to increase the capacity of the people to influence their future. This implies that

development programmes and projects do not only need to accomplish physical and concrete changes, but need to do so in such a way that people have an increased capacity to respond to and even shape these changes (Nel, 2000). Teune & Mlinar (1978) refer to development as the integrated diversity of systems and their scale. It is by definition a characteristic of all systems with interdependent components such as organisations, institutions, human beings, and societies. Development must be seen as a complex process that is not located, controlled, or even manipulated by human actors (Leroke, 1996). It rather involves numerous processes and interactions from various components acting independently. When referring to a society or to a socio-economic system, development usually means improvement, either in the general situation of the system, or in some of its constituent elements (Bellù, 2011). Development may occur due to some deliberate action carried out by single agents or by some authority pre-ordered to achieve improvement, to favourable circumstances in both. Development policies and private investment, in all their forms, are examples of such actions.

Accordingly, development remains multi-dimensional in nature, because any improvement of complex systems, as indeed actual socio-economic systems are, can occur in different parts or ways, at different speeds and driven by different forces (Bellu, 2011). Development of one part of the system may be detrimental to the development of other parts, giving rise to conflicting objectives or trade-offs and conflicts. The process become systematically complex (Nkuna, 2013) and cannot be solely inclined within the rational theoretical disposition. Consequently, measuring development through determining whether and to what extent a system is developing is an intrinsically multidimensional exercise and complex.

### **Dimensions of Development**

Even if the development of a socio-economic system can be viewed as a holistic exercise and as an all-encompassing endeavour; for practical purposes, in particular for policy making and development management, the focus of the agents aiming at development is always on selected parts of the system or on specific features (Bellu, 2011). Therefore, development is qualified and specified in different ways. Bellu (2011) provide a summary and non-exhaustive list of possible qualifications comprises:

***Economic Development:*** This is development that refers to improvement of the way endowments and goods and services are used within or by the system to generate new goods and services in order to provide additional consumption and/or investment possibilities to the members of the system (Bellu, 2011).

***Human Development:*** This is also referred to a people-centred development, where the focus is put on the improvement of the various dimensions affecting the well-being of individuals and their relationships with the society in the form health, education, entitlements, capabilities, empowerment (Bellu, 2011).

***Sustainable Development:*** This development which considers the long term perspectives of the socio-economic system, to ensure that improvements occurring in the short term will not be detrimental to the future status or development potential of the system, i.e. development will be "sustainable" on environmental, social, financial and other grounds (Bellu, 2011).

***Territorial Development:*** This is development of a specific region or space achievable by exploiting the specific socio-economic, environmental and institutional potential of the area, and its relationships with external subjects (Bellu, 2011).

## DEVELOPMENT PARADIGMS

According to Bellu (2011), the review of the literature on the ingredients of development and on selected mutual relationships allowed the identification of a number of possible development paradigms with the following summary features:

***Free-market Trickle-down Growth-led Development:*** Under this paradigm growth, even if it accrues to the rich, trickles-down to the poor through the normal income distribution channels and the functioning of free markets, associated with the withdrawal of national governments, the liberalisation of foreign trade and the promotion of foreign investments (Bellu, 2011).

***Pro-poor (broad-based or balanced) Growth-led Development:*** Growth matters for development only if associated with an equitable distribution of income, to be achieved through the promotion of activities generating a broad-based primary income distribution and institutional mechanisms like fiscal systems ensuring an equitable secondary distribution of real income, without necessarily relying on trickle-down mechanisms (Bellu, 2011).

***Low-wage Industry-led Development:*** This model is characterised by capital accumulation especially for the promotion of heavy industry, at least in the first stage, which leads to investing a large share of national output and compressing consumption, thus extracting the surplus from labour (Bellu, 2011). In many situations this has occurred or occurs essentially at the expense of the rural poor who migrate to urban areas.

***Low-wage Labour-intensive Export-led Development:*** This type of development is based on the export of labour-intensive manufactured commodities in a context low-wage (Bellu, 2011). It is a variant on the previous paradigm where the focus is placed on export-oriented industrialisation. The case of China as described in Chow (1993) could fit into this category. These latter development paradigms are often associated with a process of import substitution industrialisation.

***Agriculture-based Development:*** Agricultural growth is seen as directly contributing to the various dimensions of socio-economic development, not only through its contributions to the general growth of the economic system, but also for its specific contributions to poverty reduction in its small-scale version, resilience of local communities, preservation of the environment (Bellu, 2011).

***Endogenous Growth-based Development:*** Technological changes required supporting economic growth and by way of consequence development do not need to be exogenous that is generated from outside national socio-economic systems and transferred. Investment and activities generate spill overs, for example, by learning-by-doing processes generating knowledge and therefore technology improvements (Bellu, 2011). Emphasis is placed on policies favouring local processes, context-specific technologies and the creation and maintenance of human capital.

***Rural Development Paradigm:*** Here the accent is placed not only, or not mainly, on agriculture or any other sector per se, but on the socio-economic relationships among agents present in the same rural space and also on the relationship of the rural space as regards other spaces, whether be they urban, peri-urban or rural (Bellu, 2011). This concept of development fits into the frame of "territorial development" and embodies the concept of "community-based development". Policies to maintain and enhance the above-mentioned relationships play a key role in the development process.

***Washington Consensus-based Development:*** Development is only possible if countries are able

to benefit from the globalised environment (Bellu, 2011). They have to liberalise foreign trade, privatise public assets, lower marginal tax rates and broaden the tax base; keep public deficits tight, refrain from market interventions, liberalise exchange and interest rates, allow free FDI. This will complement domestic savings and bring about new modern technologies. Countries which do not adjust their policies accordingly are more likely to be marginalised from the development mainstream.

***Strategic Openness-based Development:*** Balancing openness and protection by differentiating across commodities, partners, periods rather than simply and blindly adhere to the “Washington Consensus” (Bellu, 2011). This implies, for example, the protection of infant industry, of strategic sectors including food producing ones, preferential trade agreements with selected countries with complementary economies, building comparative advantages on selected commodities through direct public interventions etc.

***Exhaustible-resource Export-led Development:*** Most oil-mineral-timber endowed countries have enjoyed and are still enjoying the possibility of accumulating financial resources to start-up and feed development processes through the export of primary resources (Bellu, 2011). This is the type of development path adopted by most oil producing countries for instance, particularly in the Middle East and Africa.

***Agricultural Commodity Export-led” Development:*** This export-oriented development paradigm is often adopted by countries which are neither endowed with exportable primary resources nor with any significant industrial system (Bellu, 2011). This is the case of countries producing and exporting mainly primary or semi-processed agricultural “tropical” commodities like tea, coffee, cocoa, cotton, bananas.

***Emigration-based Development:*** Countries with a weak industrial sector may find themselves with excess labour because the primary sector is not capable of absorbing all the existing labour force even at subsistence wage levels, due to the lack of complementary factors like capital, infrastructures and/or natural resources like land and water (Bellu, 2011). Their development (including their social stability) is substantially based on consumption/accumulation mechanisms driven by remittances of expatriated workers.

***Immigration-based Development:*** Countries able to attract labour thanks to financial resources accumulated through the export of their natural resource base such as selected Gulf countries or thanks to a consolidated industry-services system like physical capital, know-how may develop further by attracting labour from excess labour countries and extract the surplus to further feed their development process (Bellu, 2011).

***FDI-based Development:*** A further consideration applies to financial sources that may be used to fund capital accumulation to start up and feed development processes (Bellu, 2011). Further to funds from exports, selected countries rely heavily on FDI; above all when they are endowed with natural resources like land, water, minerals, and oil and/or with cheap labour.

***Foreign Aid-based Development:*** Whenever foreign aid is not fully absorbed by immediate emergency-related consumption of subsistence goods like staple food, selected countries may attempt to kick-start their development process using grants, either channelled to the country through the funding of specific development projects or through the public budget support (Bellu, 2011). In most cases such aids have strings attached that tend to miss the realities that remain core for development finance in those developing countries.

## CONCLUSION

In conclusion, it is perhaps necessary to firstly align the debate with the assertions of Repnik & Mohs (1992) that before there is a new international consensus that can be translated into development practice, answers will have to be found questions like; What is actually meant by governance and, more particularly, good governance? By what yardstick can governance be measured? How significant is the “how” of governance for the development process and what implication does this have for bilateral or multilateral donors? Above all, how is governance related to development, political participation and democracy? This paper have joint the discourse that chanted closer to creating an atmosphere towards answering some of the questions posed by Repnik & Mohs (1992) from the ontological base of postmodern thinking. Caution was however taken that postmodernism cannot be articulately by laid bare without consideration of progress made by modern ontological foundations within the phenomena of governance and development. However the space and time period that defines the gap of development especially in developing countries need to be considered with a view of looking at both sides of the coin. Societies have moved beyond the static modern conception and various circumstances have complex contexts that are informed by paradigmatic conceptions of that period and space. As these paradigms shifts in both governance and development, realities on the ground remain the only authentic aspects to be consideration to respond to issues of development finance in developing countries. That in it has to raise issue on the frameworks that policy actors applies as they enter the various fields of discourse that give effect to governance and development especially when it is within developing countries.

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# GOVERNANCE OR LACK THEREOF OF THE INTERNATIONAL ECONOMICS: WHAT ARE THE IMPLICATIONS FOR DEVELOPING COUNTRIES DEVELOPMENT FINANCING?

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## ABSTRACT

The attempt to understand institutions and how they function saw the concept of governance enter the discourse of political economy. The concept was conceived to make sense of what appeared to be non-governmental institutions as instruments of policy delivery and the hybrid nature of these institutions hinting that they are also not entirely in the private domain. These institutions seem to yield fruit away from the centre implying that they could be viable vehicles for the state to utilise in delivering services for the citizenry and the public. Inefficiencies bothersome to the state infrastructure will hereby be a thing of the past. The governance school of thought and the neo-liberal thinking coating such a school have not sailed, steered nor rowed the stormy waters of challenges from the left. Ideas about a weakening centre and the surrender of financial control and regulatory mechanisms and at the extreme new social formations in the form of governance institutions can be viewed as pigmentation of the liberal thought. At the level of international politics and economics, the question of governance or the lack thereof is a matter of concern for the implications on development finance of developing countries. The paper seeks to highlight the need for the international community to consider that good intentions of governance and the intended development can function properly with a dosage of various ingredients. This variety embraces and appreciates the social, local political, economic but most essentially the moral aspect in the conduct of development finance and governance. It seeks to raise the bar of standards by satirically purporting that the best manner of coming down to the ground of prudent governance and development is through appreciating high moral standards. Resources of various sorts may be in abundance or scarce, but it is the interaction of man and these resources that becomes essential if desirable developmental initiatives are to yield the intended consequences.

**Keywords:** Governance; international economics; development finance; developing countries

## INTRODUCTION

The arena of international economics and politics is subject to issues related to governance or lack thereof and has implications for the development finance of developing countries. This paper shall dissect the concept of governance, questioning whether such a concept as "international governance" exist or can be coined to give understanding to international relations and development finance. It is almost inevitable to discuss the notion of development and not highlight the differing views of what constitute development especially in the context of the centre and periphery of the donor or financier and the recipient or financed. This is the pivot of international economics and politics. It is indeed the kernel of political economy at an international scale. While political economy asks the question of who receives what, when and from whom, international political economy addresses the concern of which nations receive development finance and under which conditions.

## GOVERNING WITHOUT GOVERNMENT?

It is imperative that before a discussion on governance could unfold several views regarding the concept be explored and explained so that theoretical discourse, the rhetoric and some understanding is

shed on what the concept means purportedly. Governance has not been the accepted gospel in the academic church thus some criticism followed. Indeed Marinetto (2003: 593) enunciates “although governance theory has gained a semblance of orthodoxy, this should not preclude it from scrutiny”. Hence on the flipside the author will also draw in arguments that shake off the governance school of thought and cast serious doubt perhaps on the general validity of the concept of governance. The concept of governance was made prominent by most notably Rod Rhodes in an attempt to explore the institutions, actors and policy processes undertaken by the British government in the decades 1980s and 1990s.

Wondering whether governance has eclipsed government; and, Jordan, Rudiger, Wurzel & Zito (2005: 625-626) note that there is no universally accepted definition of governance or a consensus on the set of variables/phenomena grouped under the title of governance. The concept of governance derives from the capacity to cover a wide range of institutions and relationships involved in the process of governing. A possible candidate of governance is the policy instruments that are chosen to address the policy goals in different jurisdictions”. At the core of the concept of governance are six main themes according to Rhodes who visualized governing without government. These themes are the minimal state, corporate governance, new public management, good governance, socio-cybernetic systems and self-organizing networks.

Milward & Provan (2000: 360) cite Stoker who refers to governance as “a more inclusive term, concerned with creating the conditions for ordered rule and collective action, often including agents in the private and non-profit sectors as well as within the public sector. The essence of governance is its focus on governing mechanisms (grants, contracts, and agreements) that do not rest solely on the authority and sanctions of government”. While one does not wish to bout with liberal enthusiasts about state reform and the inefficiencies of the nation state, liberty and her alleged aptitudes keeps on glaring one in the face. The idea of the minimal state is a classic liberal economics view that the state should play a minimal role in the economy. The market should be allowed a free play with its forces and if anything the state should be the enabler providing the market with *laissez faire* to flourish and the state should only provide the goods that the market cannot provide due to capacity constraints and the nature of such goods. Thus the state will stick to the provision of public goods such as the administration of justice and the law.

The minimal state idea is kept company by the phrase of the “hollow state” or “hollowing out the state”. This idea is not necessarily the classical Marxist notion of the “withering away of the state” well-awaited in the eventual communist and ultimate socialist future to come hitherto. Milward & Provan (2000: 362) explains of a hollowed state as “the degree of separation between a government and the services it funds ... in a general sense, the hollow state refers to any joint production situation where a government agency relies on others (firms, non-profits, or other government agencies) to jointly deliver public services. Carried to the extreme it refers to the government that as a matter of public policy has chosen to contract out all its production capability to third parties, perhaps retaining only a systems integration function that is responsible for negotiating, monitoring and evaluating contracts”. The idea of the hollowed state has been criticised by Marinetto (2003) as a result of an intellectual paradigm rooted in the study of developments in British politics traceable to the early 1960s preoccupied with a scrutiny of the sovereignty of the state through parliament and the cabinet (formal government institutions). Marinetto (2003: 593) alludes that “paradigms are generally not subject to rigorous falsification, but when anomalies do emerge they are denied or dismissed”. This would make logical sense that the line of thought of the Anglo-Saxon school

presents the governance concept in the midst of (Marinetto, 2003: 595) “the internal hollowing out of the core executive is (being) mainly the result of market orientated public sector reforms. The acceleration of globalisation in recent years has resulted (resulting) in the external hollowing out of the nation state, with the internationalisation of finance and production placing especial pressures upon the ability of central government to manoeuvre freely”.

The key idea with corporate governance is the need to govern accorded equal prominence with the need to manage. The ideals are that corporations should have clear lines and levels of accountability with well-defined roles and responsibilities. Openness and fair business dealings together with disclosure of information for transparency purposes are the orders of the day for this lawful, legal and legitimate state of affairs. The philosophy behind this thinking gels well with the inkling former President of South Africa, Thabo Mbeki, who in a recent lecture to the Free Market Foundation on ‘Integrity in Leadership’ articulated of integrity. He spoke of integrity as wholeness, completeness, soundness and coherence. Having found in the preamble of the Constitution of the national democratic South African Republic commitment to healing past divisions and strengthen democratic values and principles by promoting social justice and a better quality of life for all, integrity means ‘coherence between these commitments, our attitudes, our words and our actions, so that at every level the behaviour of each one of us, whether in public or private’ takes us to the envisaged state. By and large the corporate governance principle imbues the total discipline in the governance of corporations public and private alike. We govern as much as we manage.

Another element of governance comes with a moral value judgement with the epitaph “good”, the element of good governance. Unsurprisingly the World Bank as a lending institution to Third World countries after defining governance as the exercise of political power to manage a nation’s affairs, prescribes the following ingredients as panacea to the good governance package: an efficient public service, an independent judicial system and a legal framework to enforce contracts, the accountable administration of public funds, an independent public auditor responsible to a representative legislature, respect for the law and human rights at all levels of government, a pluralistic institutional structure and a free press.

The element of “good governance” has not impressed Grindle (2004) who believes that the international development community in the well-intended effort to eradicate poverty has not particularly been asking the right questions. He states “however, good governance is deeply problematic as a guide to development. Getting good governance calls for improvements that touch virtually all aspects of the public sector from institutions that set the rules of the game for economic and political interaction...to organizations that manage administrative systems and deliver services to citizens...to the interface of officials and citizens in political and bureaucratic arenas” (Grindle, 2004: 525-526). He further argues that we have failed to ask whether there could be conditions “good enough” for initiatives towards development in an array of countries, thus warranting “good enough governance”. Secondly given the disparities in various countries pertinent to different needs, there arises more a need to prioritize needs as determined by the pragmatics of countries under consideration.

While the argument to “take services directly to the people” and thus surpass state institutions which unfortunately have a bad history of maladministration and inefficiency, a question about the long-term implications of such a move and the probable concern regarding future political legitimacy cannot be left unanswered. What are the long-term implications on political legitimacy of outsourcing? What are

the corruption-laden insinuations in contracting-out? Moreover, given the general state of "repair and damage control" in most African states the capacity to overhaul an entire administration in conformance with World Bank conditionalities bears upon capacity, readiness, priorities and other trade-offs that are most probably more essential than "foreign aid". Hence Grindle (2004: 545) concludes "inevitably, governance reforms take place in the midst of conflict, confusion, cross-purpose, inefficiencies, and learning-by-doing...but it is unlikely that much can be accomplished when such countries are overloaded with commitments to change large numbers of conditions at the same time".

Perhaps more practical than the bi-polar dichotomy of public versus private is the element of socio-cybernetic systems. This continuum envisage an interplay of activities where neither the public nor the private dominate but both players are centre-less with the tendency to self-regulate and the process of policy formulation as a baby for the private and public parents. (Stoker, 1998: 17) indicates that "the very essence of governance is the focus on governing mechanisms that do not rest on recourse to the authority and sanctions of government". Almost similar to socio-cybernetic systems are self-organising networks as the last though not least in the governance package. These networks could assume the shape of *inta alia* public-private partnerships and voluntary schemes held together by inter-dependence, trust and reciprocity. The influential idea here too is very little state interference. However as Jordan *et al.* (2005: 492) assert "our study shows that in spite of the theoretical commitment to find less direct and hierarchical forms of state involvement (that is, more governance), governments (and the EU) find themselves inexorably drawn into the detailed process of designing, adopting and overseeing the implementation of all (environmental) policy instruments, however, supposedly 'soft' and 'new'".

#### **IMPLICATIONS OF GOVERNANCE OR LACK THEREOF ON DEVELOPMENT FINANCE FOR DEVELOPING COUNTRIES**

The buck does not stop in spite of the debates regarding governance and most probably its feasibility for the development of developing countries. Similarly the efforts of the World Bank and the International Monetary Fund in attempting a package of 'what works' to achieve growth, development and alleviate if not eradicate poverty are good. Nonetheless good intentions are not enough. The task of diagnosis to the ills of developing countries and the inherent prognosis of chaos and disaster should developing countries not have their houses in order is also understandable especially when it comes from the donors or lenders of international capital who are concerned about returns on investments and value for money among others. Nonetheless as Kumssa & Mbeche (2004: 852) argue in their research on African institutions "both social and development organizations play crucial roles in the development process of African countries and therefore policymakers should design policies that will improve their productive capacity by strengthening their organizational capability and institutional building ability. Institutional capability for development implies the capacity of national, regional and local government as well as non-governmental institutions to optimize and effectively utilize economic and human resources to accelerate economic growth and enhance the welfare of the people".

A question regarding the implications of governance or lack thereof on the development finance of developing countries can hardly be separated from the nuances, insinuations and inferences that there are relations of sort between the governance and the development agendas. (Fritz & Menocal, 2007: 537) assert that "...the good governance agenda has taken centre-stage and generated a wave of policy

pronouncements within the international assistance community ... the developmental state and the good governance agendas overlap in important respects, but are nonetheless distinct". The emphasis of the developmental state paradigm is on shared results orientation while the good governance school is about setting minimum standards and norms to be followed by countries in transforming their economies. (Fritz & Menocal, 2007: 538) direct that "thus setting relatively fair rules of the game and letting the private sector do the rest is not enough for a developmental state. The state must be able to be pro-active without making major errors .... It must be capable of planning and building a road without the bulk of the funds being creamed-off in kick-backs, or the routing being decided on a purely political basis". Clearly whether or not there is an intellectual or theoretical assertion attached to the behaviour of the state and or its agents, whatever can be identified and viewed as wastage does not advance the course of progress in developing societies. The developmental state cannot be strong with its hands and clumsy with its fingers.

There seem to be a need for rigorous and pragmatic approach to both handing and handling of development finance to developing countries. The intentions for development and economic transformation agendas are well-meant efforts which can be advanced through thorough and systemic course. Individual countries are distinct features which make it complex and complicated to adopt a blanket approach to shield these countries from the winds blowing underdevelopment with the chills of poverty. Fritz & Menocal (2007) attribute some of the shortcomings of external aid and donor practices and policies to excessively standardised and insufficiently innovative and tailored approaches. "For example, while some innovative thinking has gone into the reform of public financial management and into decentralization, fresh perspectives on civil-service and core public-administration reform have been particularly scarce in recent years – especially in terms of thinking beyond the fashions of the New Public Management, which originated in and was primarily designed to meet the reform needs of highly developed countries" (Fritz & Menocal, 2007: 545). There are various lessons that could be learned from the global financial meltdown. Of particular interest to this paper are the integration of local economies in the global arena and the serious lack of morality displayed by cronyism. While monetary economics are most probably the most modern and convenient mechanisms of economic exchange, the utter end of accumulation as an end in itself and the apparent absence of will power to the benefits of all and sundry and good quality life for all are more detrimental. The mere focus on markets and capitalist behaviour without a profound general human aspect is almost similar to the World Bank and IMF's restructuring package to developing countries finance. The glaring pitfall is the erosion of local economies and the possible shakedown of social capital as we get the needs of international economics speaking to the people instead of the people speaking to international economics.

The above could constitute a serious conflict of interest only if the interests of developing countries have profoundly being in the forefront of the development agenda minus the dictates of international capital. Most of the inability of international capital and financing to address the developmental needs of developing countries is attributable to the imposition nature of approach to development which could be much an issue of bad international economics as it is bad international politics. The probable implication is possibly the need for developing countries to look within for developmental avenues while balancing this with global play. Continental efforts such as the African Peer Review mechanisms and NEPAD are some of the measures in Africa targeted towards regional economic development and good governance initiatives.

Efforts towards development in developing countries, regional economic integration and good governance have unfortunately been hampered by challenges of corruption, mismanagement and bad administration. This moth that eats away the fabric of societies turns to derail finances that are targeted towards development into conspicuous consumption or even funding of ventures that have no developmental sense at all. While studies have been undertaken to find out whether phenomena like corruption can actually grease the wheels of development, it has been found that the costs outgrow the benefits. If development for all and sundry is to be achieved, societies will have to eradicate ills like corruption then follow poverty, inequality and the like. One believes that the scourge of corruption could be a disease which societies have not been able to properly diagnose. Nonetheless one is inclined to believe that some form of moral regeneration just to curb the activity of theft, bribery and mismanagement is necessary. As the paper has argued above, this regeneration should take place even at an international level to nib the footloose capital in the bud.

A panacea for the ills of the international economics and politics may be hard to come by. Some of the rigidities posing as challenges to development are the nature of lending institutions conditionalities and the general approach to development. It would be desirable to tailor-make developmental finance packages as per the needs of developing countries as opposed to 'ready for delivery' approach. This could be achieved through proper and thorough research on developmental needs. Administrative and prudent financial management by a well-mannered bureaucracy rid and healed from the diseases of corruption and the like would serve well as a fertile soil to plant the seed of development for developing countries. This could be a tenet of 'good-enough governance' that gels well with efforts towards regional economic integration and good governance. Expectantly administrators in both developing countries and the lending institutions should follow suit in some form of moral regeneration kicking aside kickbacks, bribes, corruption and maladministration.

## CONCLUSION

This paper has provided a review of the existing literature, albeit limited in scope and depth, in order to outline the significance of governance or lack thereof on development finance for developing countries. The paper is exploratory and it suggests that there is a need for further investigation in order to establish, with accuracy, the nature, form, direction and content of the relationship between governance and development finance.

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## EURO-CENTRIC MODEL OF DEVELOPMENT: CURRENTLY DIRECTING GLOBAL DEVELOPMENT AGENDAS?

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### ABSTRACT

This paper explores the complex links between international development agenda, the North and the South divide. A brief overview of the colonisation process was covered. The paper scrutinises the relation between the North and the South, the power politics within the international development sector. Furthermore, it challenges the present status quo that development is a homogenous process. The paper briefly addresses the conceptual weakness of international development in solving the North South divide, which is controlled by the powerful Non-Governmental Organisation and international regimes.

**Keywords:** International development agenda; colonialism; power politics; North-South Divide; othering; post-colonial theory

### INTRODUCTION

Development is so complex and it has a number of definitions just like the number of people trying to define it. Various author have attempted define it, but up to now there is no agreed definition. For the purpose of this paper I would define development as process of moving from the undesirable to a desired position. It is crucial to highlight the fact that development is ongoing process and there is no country around the world which can claim that it has reached the pinnacle of development. Every country around the globe is developing; it is only that we are at different stages of development. It is also critical to highlight that even if countries are at different stages of development no country or institution should prescribe and spell the terms of development to another country, since development process is not homogenous, but heterogeneous process.

It is against this backcloth that this paper seeks to find out why the Eurocentric model of development is dictating the contemporary development process, while it is on ink and paper that development does not have one formula but it has several formulas. International regimes such as the International Monetary Fund, the World Bank and the World Trade Organisation, the multilateral organizations, are being used by the powerful countries in the North to dictate the global development agenda. Hence they are losing their appeal because they are now serving one section of the global community. These institutions are also failing to address the injustices which were perpetuated by the North during the dark years of colonization.

### EUROCENTRIC MODEL DICTATING THE PACE OF DEVELOPMENT IN THE IN THE EMERGING COUNTRIES

The Golden years of the 1950s and 1960s witnessed unprecedented economic growth through industrialization of the developing countries following the post war restricting. For the developing countries modernisation was prescribed as the means of achieving the similar progress of which was achieved by the rest of the developed countries. This consists of moving traditional societies through series of stages of development modeled on the historical development of North America, Japan and Western Europe towards economic take off. The main mechanism for poverty reduction was "trickle down" where spoils of growth would gradual filter through the masses at large (Allen & Thomas, 1992).

Rapid industrialization followed mainly in Latin America, Asia and to a limited extent in Sub-Saharan Africa only very few countries had managed to take off, while very few had realised the trickle-down effect. The 1970s saw a shift on the goal post of the global development agenda, the focus was now on employment creation and redistribution of wealth. Most countries were forced to spend more than their income. The period also witnessed a substantial increase in the indebtedness of developing countries (the emergence of the debt trap or debt-led growth). By the end of the 1970s interest on loans borrowed by most of the developing countries had soared with serious consequences for large-scale borrowers and their debt repayments. When the so-called developed countries realised that this approach was a failure they introduced the neo-liberal policies otherwise known as market-led structural adjustment programme. Most countries were forced by an invisible hand to open up this development strategy, countries such as Zambia, Ghana, Ivory Coast and Zimbabwe to mention among others were forced to embrace Economic Structural Adjustment Programme. This development theory which a lot of countries embraced was crafted by the West and it failed to reduce poverty from the face of the earth instead it increased the level of poverty around the world (Aristide, 2000). According to Haynes (2005) and Aristide (2000), the world is at a crisis with more than half of its population living below two dollars a day, but the world is experiencing unprecedented economic growth. The statistics that describe the accumulation of wealth in the world are mind-boggling. In 1960 the richest 20% of the world population had 70% of the world's wealth; today they have 86% of the wealth. In 1960 the poorest 20% of the world's population had just 2.3% of the wealth of the world. When the International regimes realised that the ESAP is failing to reduce poverty they introduced the Millennium Development Goals under the auspices of the concept of globalisation.

The International community under the umbrella of the United Nations adopted the Millennium Development Goals (MDGs) in 2000 as blue print for solving urgent problems affecting billions of people around the world, saving the planet from accelerated deterioration and building a better world in the 21<sup>st</sup> century. Stiglitz (2002) asserts that globalisation development theory is just like the modernisation theory coming with a new name, but the script and the players remain the same trying to make the whole world follow the same pattern of development. Based on the aforementioned, it is clear that development ideology, policy and paradigm especially in Sub-Saharan Africa over the last sixty years have mainly emanated from the West under the auspices of the Bretton Woods institution. Governments in the South have only a marginal influence over development policy and practice due to the unequal playing ground; hence, responses and strategies for tackling poverty have tended to be reactionary rather than being proactive and focused on addressing the structural or root cause of poverty which is housed in the international regimes such as the World Bank, International Monetary Fund and the World Trade Organisation to mention but just a few. I would like to argue that the lion's share of the governments in the South remained fixed on services delivery, which undermines their roles and chances of playing a more proactive role in setting the development agenda or influencing the formulation and implementation of more pro-people policies and programmes. The next section will give the discussion and analysis of the contemporary development discourse.

## **CONTEMPORARY DEVELOPMENT DISCOURSE**

Imperial domination and expansion is an ancient phenomenon, beginning in Roman times. However, from 1875-1900, an extraordinary movement of imperial enthusiasm and colonial expansionism

set in amongst the European powers (Young, 1931). The European graded land in different parts of the world. The new colonial masters imposed the European type of administration to the new colonies. The new system of administration failed to take the needs and aspiration of the local native people in their new forms of government. Most of countries which were colonized are found in the present day developing countries otherwise known as Third world countries. It was clear that the primary objective of colonial rule was to increase the wealth and power of the colonising state (Roberts, 2004). Colonisation finally came to an end in most parts of the world in 1994 when South Africa gained her independence after centuries of oppression.

It is unrealistic to assume that political sovereignty and national independence brought an end to all forms of colonialism as well as to conclude that decolonization marked the end of the empire building. It did effectively signal on the end to Colonisation as a specific form of power but the imperial interests global-North continue to be present (Kothari, 2002). Griffin (2004) argued that the former colonizers still controls their former colonizes indirectly through trade, structured aid and international voluntary services. The global powerful Northern states are now using international organisations and multinational corporations to keep their interests in the south as well as to control (Smith, 1994; Kothari, 2002). The new domination of developing countries by the West has been termed "neocolonialism" or "recolonization" (Kothari, 2002).

The relationship between the former colonies and ex-colonial states continues to have major implications for modern global economic, political and social systems. Independence was seen as a new beginning for the ex-colonial states. However, as Kothari (2002) and Crush (1995) note, in reality the transition from the colonial moment to the development process signaled a shift in emphasis rather than the end of one project and the beginning of another. After the considerable effort involved with the establishment of the colonies and subsequent administration, the metropolis were unwilling to relinquish all control.

The transition process was strictly governed by the departing colonial administration: As a result, a new bureaucratic state system was hurriedly constructed based on the Western model (Hoogvelt, 2001). This system was doomed to failure before it even began, as the Northern model of a nation state had developed slowly over hundreds of years and is highly integrated into the history of Europe. However, the ideologies behind liberal democracy had little foundation in the colonized regions (Said, 1989). This model failed to take in to account the development trends and needs of the South. Roberts (2004) and Griffin (2004) asserts that in order to understand the contemporary development of the countries in the south, it very crucial to understand the colonial history because the west tend to characterize as rationale peaceful, liberal without natural suspicious and the South is irrational degenerate primitive mystical suspicious. This reinforces the othering and representation discourse in the development agenda being spread through international regimes such as the World Bank and International Monetary Fund, among other means.

Post-colonial theory is particularly useful for understanding and challenging this new form of domination and the euro-centric model of development currently directing global development agendas. This approach sees development as an institution as being part of the problem, it is considered a bureaucratic force with global reach and an explicitly pro capitalist agenda, operating as a tool of regimes that seek to perpetuate relations of inequality and dependence between the West and the rest, and through representation, to perpetuate the construction of others as post-colonial subjects.

The relevance of the post-colonial discourse to International development is significant as they are descendants forms of travel associated with the rise of Empire building by the European nations lead by Britain. During the period of empire building Europe was seeing itself as superior than the rest of the world and it gave itself the mandate to spread modern life. The colonial texts which were framed during those days overemphasized attributes, or misinterpreted characteristics in their representation of the other in order to portray the need for Colonisation. The post-colonial theory is useful in this case because it helps to understand the Euro centric model of development which was ushered as the American policy in 1949, currently directed by International Monetary Fund, World Bank and other forms and means.

Colonisation penetrated all aspects of the native people's lives, rubbishing their cultures and religions and attempting to impose a new culture in which the native people were led to believe that they should serve their 'colonial masters'. This was perpetuated through a number of channels such literature (the bible), education and trade as a way to justify colonising the South (Kothari, 2002) It is essential that the colonized people are indoctrinated to believe that they are inferior to the colonisers. As Kapoor (2002) suggests, at times this involves imposing suppressed knowledge and propaganda to subvert any form of resistance. This has resulted in colonial discourse having a profound impact on colonial and ex colonial societies that it is impossible to recuperate any identity un-contaminated by it. If this discourse is to be taken seriously, it can be argued that it is not in the North's interest for the new state to develop to their level, and as Biccum (2002) argues, that the very nature of neo-liberal development policies undermines their ability to do so. The goal of achieving the "highest levels of humanity" as successfully attained in the North, according to neo-liberal policies, only possible with the assistance of the North. However, according to the idea of supremacy used to subvert the new states, these goals should only be achievable by the North. Furthermore, the inferiority of developing countries is necessary for the North to continue dictating the development agenda in the South as well as to justify the need of the poverty industry spearheaded by the international regimes and the global transnational corporation.

The legacy of colonialism is clearly a vital and important component which is necessary to consider in the analysis of contemporary international voluntary services in the South. The term "Third World", commonly used to describe ex-colonies has strong neo-colonial connotation, propounding their inferiority and the supremacy of the "first world nations". There has been a tendency for the structural adjustment wing of mainstream development agenda to attempt to fit the ex-colonies into models of Northern political economy, ignoring the political, social, economic and cultural legacies of individual countries. This is known as the neo-liberal approach. Post-colonial theory has articulated an alternative way of viewing development. It questions the legitimacy of much of the existing writing on the history of development and imperialist representations; and, it also fundamentally denies the argument that the influence of the colonial era is over, by highlighting the contemporary consequences. Post-colonial theory has become an important tool for commentators who adopted a critical approach to the role of the North in dictating the development agendas of "third world" countries (Roberts, 2004). The North cannot let go the power of controlling the development process in the South.

The term colonial theory has been often used interchangeable with otherness and difference as a way to differentiate the North and the South. The post-colonial theory has pointed out the binary gaze. The binary logic of imperialism has tendency of Western thought in general to see the world in terms of binary opposition that establish a relation of dominance. Binary opposition is structured related to one another,

and in colonial discourse there may be variation of one underlying binary. Binarism, the establishment of the strict opposition between two categories, is important to point out that one category is always dominating, such as black/white, civilised/primitive, coloniser/colonised (Ashcroft *et al.*, 1998). According to Ashcroft *et al.* (1998), the binary gaze of the post-colonial denies the existence of any grey areas there is nothing in between the two opposing sides it is either you are primitive or you are civilised. The post-colonial theory seeks to destabilise these binary oppositions which are pointing out the relationships of dominance by acknowledging the fact that cultures are overlapping and hybrid of cultures is emerging between the two opposing forces. It can now be argued that post-colonial societies are hybrid and hybridity in most cases resist the dominance of colonial culture. The other strategy to destabilise the binary gaze is through ambivalence (this refers to the complex nature of the relationship between colonised and coloniser). After colonizing, the settlers set up schools to educate the native people and now the native people are taking advantage of literature to use it as an anti-colonisation message but in some cases oppressing their people such as some of the dictators in most of the developing world. This brings a lot of complexities because they are just turning the tables the other way around with the anti-west rhetoric taking advantage of the past colonial legacy to cover for their own shortcomings as well. The binary gaze has also found its way in the development field because of the relationship between the former colonial masters and colonial states.

According to Echtner & Prasad (2003), the post-colonial school of thought in the development landscape is interested in finding a number of grey areas which are in the main domain of the development field. It seeks to understand how people and places are represented, and to what extent is the representation reinforcing the colonial binarisms of the civilised and the primitive. The post-colonial theory in the development sector aims at challenging why ex-colonies are fixed on the stereotype of the North as well as finding out how capitalist ideology which serves to perpetuate the political, cultural and economic exploitation of the South. It is also critical at this juncture to highlight that the main context of international development within the post-colonial societies has been controlled and determined by the North and this has contributed to the present day image of the South. It is very crucial to point out that poverty is not marketed as a failure of the civilizing process of the imperial past, but it is marketed under very different connotations as issues of foreign aid and assistance, hence the need for international voluntary services so that they can go and fight poverty.

Post-colonial theory brings the whole concept of development into question arguing that the pre-capitalist "colonial states" are an indispensable and integral necessity for the existence of "developed" capitalist states. There is substantial evidence to suggest that it is not only big business and Northern governments who continue to dominate policy in developing countries, but also Non-Governmental Development Organisations (NGDOs) (Townsend, 1999). Decisions on aid project funding are often made in the North, without proper consultation with and proper involvement of local people. NGDOs often have broader agendas; it is important that the development projects funded in the South produce the right message to attract funding in the North. For example, pictures of starving children provoke generous donations while less urgent long-term projects often find it harder to generate support. Projects designed in the North to generate maximum funding will not necessarily address the local needs of the countries in the South (Crewe & Harrison, 1998). This creates a lot of challenges because resources in some cases will be channeled to the people who are not in need of them but they have managed to create the image

which is acceptable in the north. It is important to highlight that unlike other social theories, such as Marxism, post-colonial theory cannot be characterised as an ideology of specific set of ideas (Roberts, 2004). Instead it is used as an umbrella term to refer to a *diverse range of critical approaches that deconstruct Western thought* (McClintock, 1994). Furthermore, the term's formulation has not relied upon social science methodology and fieldwork, but instead, has emerged out of the field of humanitarian literature (Kapoor, 2002). With this background the post-colonial theory was used as the lens for this paper and it is crucial to highlight that post-colonial theory is under the auspices of critical paradigm, which claims to strive to give voices to the voiceless people in the developing world.

## CONCLUSION

The development discourse has developed as part of the broad international development agenda and the ever changing global structure. The end of colonisation marked the beginning of new relationships of ex colonies and the Northern Countries. However as a lot of commentators have argued that the new relationship is still very unequal, with the North still attempting to dominate the South, politically, social, economically and culturally (Crush, 1995; Smith 1994; Said, 1987; Kothari, 2002). The process has been played out through a wide variety of agents, such as the economic structural adjustment programmes, tided loans, trade and works of Western organisations such as International Monetary Fund, World Bank and World Trade Organisation plus some who are perpetuating the under development of ex colonies.

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THE QUEST FOR HEGEMONY AND THE FUTURE OF AFRICAN SOLUTIONS TO AFRICAN  
DEVELOPMENT PROBLEMS: LESSONS FROM HEADWAYS IN AFRICAN SECURITY  
SECTOR

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**ABSTRACT**

The problems of African development and integration with the world of globalisation have continued to attract concern in policy making cycle and academic world, within and beyond the shore of the continent. Ever since the issues of economic development took up the continent priority, series of propositions have been advanced and considered. On the post-colonial nationalism background, most of the African leaders preferred African solution to African (development and security) problems, despite the region's continuous reliance on external investment and market. At the recent time, however, this strategy is low on the priority list. In this consideration, this paper observes a revival and new dimension of African Solution Strategy (ASS). In this regard, global, regional and sub-regional struggle for competitiveness, and the resultant hegemonic traits, is obtained to be dominating the unveiling ASS future.

**Keywords:** Globalisation; policy-making; development; integration; post-colonial nationalism; African Solution Strategy; Africa

**INTRODUCTION**

The problem of development in Africa remains as apparent as it is five decade ago. In addition to domestic disarticulation of Africa economy, the region has also received little consideration of investors that often restrict themselves to exploration of natural resources at best. In this situation, African Solution to (African Development) Problems, henceforth use as African Solution Strategy (ASS), gained regional prominence. However, predominant ASS of the 1970s and 1980s does not meet the test of time. In its trial, Africa came under a new capitalist world order. This marked the time when Foreign Direct Investment (FDI), foreign trade and institutional building became the major drivers of development across the globe. Therefore, Africa became engrossed in a new form of competition to attract foreign investors.

Earlier in this world order, Africa was rated to be highly unattractive to investors. Therefore, until the recent surge in the Chinese African interests, the Western hegemonic interest highly reduced African choice of strategy. Before now, Africa had painfully struggled for integration into the Western world order; not minding the myopic view of Africa doesn't matter that predominate in it. It is not until the decline of this order that the West and the world emerging powers identify the strategic importance of the new scramble for Africa. However, the on-going debate on the extent that this trend could be sustained by African states is cautioning. Moreover, it is certain that this trend does not equate to development for African populations. Also, the benefits of this new scramble are widening the development gap between African states. These and other problems have uncertainly framed the basis for an unveiling ASS.

It is therefore hope that regional organizations and intra-Africa relations are active to coordinate African state partnership with global efforts to enhance development in the continent. This understanding is set in relation to the struggle for competitiveness and the resultant hegemonic structure at the global, regional and sub-regional level, as well as, development, in its recent African dynamism. Currently

dominated by external investment and market, to what extent can ASS shape the future of Africa development? To resolve this issue into a conclusion, a comparative understanding is considered as a meaningful yardstick, by which we will learn on African application capability of this strategy in the security sector.

## **PHILOSOPHY AND THEORY OF INTERNATIONAL QUEST**

The study of international relations has been philologically dominated by the traditions of economic, political and social philosophies. In these traditions, the historicism of human nature is believed to have been dominated by competition for resources, power and status. Prominent philosophers like Hobbes, Hegel, Marx and Gramsci shared different convictions of how these competitive historicism look like. For instance, Hobbesian establishment found a brutish and nasty historicism of human society, where survival depends on competitiveness. Hegelian philosophy also pointed out that the historicism of human nature is dominated by struggle for status. Marxism further reinforced and rationalized this struggle and competition in human society with its scientific historicism. In this way, it is argued that human society across history has produced its final competition between the capitalist and the proletarian.

This philology has been aptly transposed to capture the modern conduct of international relations in three ways. First, international politics is observed, based on neorealism, as a struggle for power and dominance among states, which is in return tied to their survival. Second, international economy, by neoliberal evaluation, entail struggle for the wealth of nations, which is limited in supply, but required for survival. Third, international political economy, in Gramscian term, is associated with materialism, and the resultant 'power and resistance'. Generally, therefore, international relations is been characterized by quest against quest, from which actors often struggle to outpace each other in their competition for value.

Competition for survival, status, resources and power often cycle to enhance one another. As a result, the accumulated power of a state, according to neorealism, is a function of its acquired resources and status, and the vice versa, which in return determine its survivability in ever competitive international politics. This point is likewise reinforced by the neoliberals. Based on these two theories, a state is expected to struggle with other states for limited world resources, in accordance to its competitive technological, military, economic, cultural and political capacities. In this regard, however, sufficient accumulation by a state is anticipated to insulate its domination of others in further contest. A situation of this nature is called hegemony. Alas, a state hegemony often threatens other states in competition, thereby, making it difficult for them to contest their divergent interests free and fairly with the state. By implication, resistance against domination or its attempt is a natural international affair.

In its castigation of materialism, Marxist-Lenin-Gramsci tradition explained the pace for this unending quest in term of capitalist hegemony of the state and its internationalization as the prevailing capitalist world order (Gill, 2008; Thomas, 2009). This tradition denied state and the world capitalist order that is associated with it. This is the basis of the postulation that the end of materialism, which is expected to accompany the collapse of capitalist world order, will end the history of this quest. During the Cold War, the success of communist East was then anticipated to destroy the faulty world order and produce an end to further materialist quest. The hope raised on this tradition that a struggle can end further struggle has, however, become unsustainable followed the decline of communism and the resultant end of Cold War.

In contrast to Marxist tradition, Francis Fukuyama (1992) leaned on Hegelian historicism in writing

the end of history in favour of liberalism. Despite this, competition, involving states and non-state actors over ideas and values continued to dominate every facet of the post-Cold War and twenty-first century world (dis)order. In this regard, trusting cooperation and institutionalism has been argued by neo-functionalists, has a means to escape the challenge of continuous struggle, which is tied to high stake like state survival. This is the light that neoliberals began to see cooperation in competition and neorealist embraced possibility of a cooperative hegemony, with emphasis on institutionalism, recognition and legitimacy. This has helped to reduce known level of violence that is associated with hegemonic competition. However, a total elimination of hegemonic competition seems to be less than possibility. In other word, domestic demand for global competitiveness and the resultant likeliness to dominate other competitors will maintain the need to bandwagon hegemonic state(s) for self-preservation. One world, in this regard, will now coexist with many worlds (Hurrell, 2007).

### **BACKGROUND TO AFRICAN SOLUTION STRATEGY (ASS)**

African Solution to African Problem or ASS is a product of the continent deep rooted history of colonialism and the quest for statehood, and its resultant manifestation in the subsequent interplay of individual state domestic dynamism, the regional and the international systems. Historically, from the domestic outlook Africa colonies, the quest for statehood was activated by the increase in African competitive capacity against the colonial powers in local administration, economy, politics and military. In most of the British and some French colonies for instance, competition between Africans and Europeans for administrative postings and trade consent are the major domestic forces that work against the foundation of colonialism. However, Portuguese colonies and French Algeria quest to statehood was as a result of the increase in African competitive capacity in local administration and unconventional warfare, as against the colonial administration and the colonial monopoly of conventional means of repression respectively.

On this setting, political consciousness increased and demand for independence persisted. This created a wave of nationalism across the continent, known as Pan-Africanism, from where individual African state momentum for independency was set. This dichotomy plays its way into the East-West ideological rivalry. As against painful colonial experiences under Western powers, African sympathy for the Eastern powers' rhetoric of anti-colonialism/nationalism and anti-capitalism/communism was, therefore, natural. In this regard, however, anti-capitalism/communism was only second to anti-colonialism/nationalism, for many African advocates. The then raging Cold War prompted leaders of these new states to take median posture, to safeguard their newly won political freedom, as well as, freedom of choice in decision making, in regard to international affairs.

This development set the pace of what we referred as background of ASS. As soon as they won political freedom, many African states commenced what they considered as a quest for economic freedom from European monopoly of African wealth. At the domestic and regional levels, the growth of African economic elites, known to critics as semi bourgeoisies, spearheaded this quest. In this regard, a wave of nationalisation of foreign assets ranged across Africa in between 1960s and 1970s. Within this space of time, many African states embarked on internal developmental measure. At the global level, African states teamed up with other third world states to demand for New International Economic Order (NIEO).

However, by all evidence, this phase of ASS was dominated by political and cultural revival efforts at both the domestic of individual African states and the regional levels. Alas, it is recounted that disarticulation of economy, monopolistic tendencies, unfavourable term of trade, technological shortage, monoculture economy and political instability are some of the prominent problems that disrupted African political led development strategy (Ake, 1981).

### **THE TRIAL OF ASS AND THE UNFULFILLED PROMISE**

As the international market collapse on African economy, the compass that piloted internal measure at the domestic level became unsustainable. In this, many African states hoped for NIEO. As a result, in comparison with other post-colonial regions of the world, African development gap increased by 1980s. By this time, lack of economic progress has become a major challenge to African state. The architects of Lagos Plan of Action captured this aptly:

“The effect of unfulfilled promises of global development strategies has been more sharply felt in Africa than in the other continents of the world. Indeed, rather than result in an improvement in the economic situation of the continent, successive strategies have made it stagnate and become more susceptible than other regions to the economic and social crises suffered by the industrialised countries. Thus, Africa is unable to point to any significant growth rate, or satisfactory index of general well-being, in the past 20 years.”

On this background, African states agreed to increase intra-Africa trade and to transfer of technology. Ambitious plan was made as if it would soon become a reality. However, 1980s is really a decade of decline for Africa economy. The decade unveiled the limitations of many African states in internal developmental measures and capacity to provide social welfare. By the turn of 1990s, trade deficit resulting from declining price of African primary products and debt crisis resulting from subsequent financial crisis, have become dominant in Africa. This debt crisis subjected Africa to the mercy of IMF, World Bank and London and Paris clubs.

In contrast to the ASS, IMF led Africa into painful structural adjustment programme in the name of debt rescheduling. This was preceded by a Washington Consensus, an ambitiously planned blue print to bring the whole world under the capitalist world order. This entail the principle of fiscal discipline, cut in public expenditure, tax cut, competitive exchange rate, liberalisation of inward flow of FDI, interest rate and trade, privatisation and deregulation (Williamson, 2004). In this trial, Africa development was tied to hope in FDI investment that was totally not forthcoming and to export orientation. Concentration of many states on export worsen the situation, as this increase developing states supply of their primary products far above their demand in world market. At the same time, the worth of importing manufacture good increased beyond African purchasing power. The most painful aspect is the dominant perception of Africa by Western investors, who did not see any hope or future in the region.

### **New Global Africa Reappraiser**

Russian Foreign Minister Sergei Lavrov is recently reported by *Eurasia Daily Monitor* (12 June 2013) to have, pointed out that Russian record of \$4 billion trade turnover with Africa against China's \$120 billion in 2011 has not acceptable to Moscow. This view holds beyond Russia, further in to US and EU. China overtook US as African largest trading partner in 2009. Indian trade relation with Africa rose from \$1

billion in 2001 to \$50 billion in 2010. In addition to this, Turkey, South Korea and Brazil percentage of African trade is on increase. Many factors, some domestic and others international, have accounted for this development.

At the global level, the crisis of US hegemonic moment and the rise of others constituted the major factor that is engineering the recent African reappraiser. In what is known as US world, US and EU that own preponderance power and influence in the continent were found of exonerating themselves of commitments, under the idea that "Africa doesn't matter." Perhaps because the little strategic importance that is attached to Africa ended with the Cold War competition for allies and influence between the East and the West on the continent. In addition to the collapse of USSR, European and Japanese economic slumps left US to dominate the world politically, economically, militarily, culturally and technologically.

However, the current relative decline of US hegemonic moment has revived declinists views (Huntington, 1988/89; 1996; 1999; Layne, 2006; Zakaria, 2008; Nye, 2010). In this debate, it is argued that Brazil, Russia, China and South Africa quest for status, wealth and power in the declining US world is likely to create a new form global bloc competition (Larson & Shevchenko, 2010; Hurrell, 2006). In regard to this competition, the value of African rich resources and market has continued to attract both investment and trade (see ECA, 2011). As a result, Africa has been recording an amassing growth rate, attributable to this new scramble. For instance, FDI projects into sub-Saharan Africa have grown at a compound rate of 22% since 2007 (Ernest and Young's Attractiveness Survey, 2013: 5).

In this regard, at the international level, there are increases in the strategic consideration for Africa by global powers. To some extent, the recent Obama visit to Africa two month after Chinese President Xi Jinping visited the continent is considerable. The *US Council of Foreign Relation Daily Brief* (23 June 2013) leaned on *Asia Times* submission that: "China may not be a rival that the US wants to name-check, but there is no doubt that the spectre of Beijing's flourishing influence in the region is a vital subtext to the President [Obama] visit." This argument is also substantial in the case of other leading global competitor for Africa, like Russia, EU, Japan and India, and lesser stakeholders like Canada, Australia and Brazil.

Individual African states and the region's recent record are significant. In this regard, Africa is calculated to have recorded an average economic growth rate of 4 to 5 per cent over the last decade. McKinsey Global Institute (2010) reportedly noted the existence of 20 indigenous companies with not less than \$3 billion worth in Africa by 2008. The size of South Africa economy has recently qualified her to join Brazil, Russia, India and China in a group of emerging economy and global anti-hegemonic power bloc known as BRICS. Also, Rwanda moves up 10 places at 70th position in the world and third position in sub-Saharan Africa on Global Competitiveness Index 2011-2012. In the same report, South Africa ranked 50th position in the world, second in BRICS and first in Africa. One recent World Bank report also projected Nigeria economy to emerge as one of the twenty largest economies in the world by 2050. Angola, Sao Tome and Principles, Botswana, Dr Congo and South Sudan are expected to be insulated toward development with the recent pace of investment in their natural resources. Even as global investment decline in 2012, Africa is still rated to have recorded improvement in its global share of 3.7% compare 2.9% in 2011 (UNCTAD, 2013).

## HOPING FOR THE NEW ASS

Significant is the role of FDI led development that glues Africa into capitalist world order, in the

trust for development. Simultaneously, it increases Africa vulnerability to global economic conditions. It has further brought inequality and unequal economic development within Africa and with the world at large. Even at best, the corresponding value of FDI led development remains remote to African population. The problem of how to convert growth to public goods persists in Africa (UNIDO, 2008). This is better understood from the region's position in Human Development Indexes of the recent years (e.g. see UNDP, 2013). At large, Africa economy is still disintegrated, disorganized and uncomplimentary. In addition to this gap, Africa is even short of indigenous innovation and therefore unprepared to benefit from world technological and financial progresses (Beck & Maimbo, 2013; Bilbao-Osorio, Dutta & Lanvin, 2013). Alas, that progress is not substantial enough to understand African reality.

In this regard, many Africa states have embarked on institutional capacity building at the domestic level. Rwanda progress is the most appraise here. On the regional level, New Partnership for Africa (NEPA) has emerged as an ambitious mechanism to integrate weak African states developmental efforts with prosperous one and with the wider international community. Likewise, at the sub-regional level, proliferation and allegiance to regional economic blocs like Economic Community of West African States (ECOWAS), Southern African Development Community (SADC), Central African Economic and Monetary Community (CEMAC) and East Africa Economic Community (EEC) is increasing in Africa.

Alas, aspiration for increase in intra-African trade that currently preoccupied African leaders is based on misguided assumption, which downplays the importance of the content of Africa foreign trade (see ECA, 2013; Lawrence, Hanouz & Doherty, 2012). However, intra-Africa investment is better position to boost intra-African trade. In this regard, the impacts of increase in the flow of FDI to some African states from other part of the world will be share with other states that are initially less beneficent. In this way, states that are less attractive on global investment domain will then finding more fortune from intra-African investment opportunity. Intra-African investment has been particularly impressive over this period since 2007, growing at a 32.5% compound rate (Ernest and Young's Attractiveness Survey, 2013: 5). Also, the direction of recent migration flow in Sub-Saharan Africa, which is largely intraregional and economically driven, is instructive (IOM, 2011). This is important to understand recent drive for sub-regional blocs, a form of sphere of influence, by many sub-regional and regional hegemonic states in Africa. It should not be taken for granted that each region quasi-automatically produces its regional power (Nolte, 2010: 884).

The traditional understanding of Africa political economy, will not but question this lane of development. How could developing states of Africa, which depend on foreign financials, technology and market, invest abroad? This question is partially answered by the recent success story of South Africa raised drive for intra-Africa investment, Nigeria investment in Sao Tome and Principle, and globally, India, China, Brazil, Turkey and many more. Even with this, to what extend is dependency compatible with independency? In this aspect, African states are too small to individually confront the on-going forces of globalization. As a result, the necessity of a regional mechanism is not in doubt. But to what extend can ASS or African interest align with the forces of global interest? On this question, it is considered that the application of this strategy in Africa security will better inform this understanding.

## **ASS FOR SECURITY**

Apart from development in economic term, ASS is also been apply to the region's security sector. The economic and security sectors are distinguished as the most technical and require aspect of ASS.

Comparatively, both sectors facilitated one form of competition or the other that ultimately tend to a contest for dominance. Even with persistence of limitations in the application of ASS in the security sector, its recent headways are impressive (Mays, 2003).

As Africa began to lose its little strategic importance following the end of the Cold War, international investment in her security declined. At this point, different African initiatives, mostly involving regional or sub-regional hegemonic states or their led blocs, emerged to maintain order on the continent. It is under this initiative that Nigeria led ECOMOG mission to Liberia in 1997 and South Africa and Botswana deployed their military to Lesotho in 1998, in the name of SADC. Africa Union is not also devoid of different initiatives at this point (see Powell, 2005). This trend prevailed until the 9/11 attacks in America and the resultant securitization of African failed states, which unveil global security implications of the on-going contest for influence in Africa. This contest involves al Qaida, Hezbollah, Iranian and North Korea axis, the BRIC axis and Europe-America axis. The prevalence of illegal trade, presence of uranium in the continent and the recent fear of nuclear proliferation and terrorism has also brought Africa to limelight (see Broodryk & Stott, 2012; World Customs Organization, 2012). This coincided with the evolving non-polarity in international system, from where "power is now found in many hands and in many places" (Haass, 2008: 45).

On this background, Africa has emerged a strategic importance in global security calculus of the world powers. In this regard, more attention is devoted to building partnership and partners' capacity, as well as to create a sense of common security. As a result, America and Europe have continued to invest and influence the African security architecture. But their influence is not black and white in defence planning and budgeting, rather, its occurrence is technical and strategic. The situation has become a matter of common interest; ASS is here interested in Africa security, and foreign (either direct or indirect) investment in African security sector (FIASS) (this, however, excludes private investment) is interested in donors' security, which is interlock with Africa security. While ASS is a means to an end for Africa, to expect FIASS that will be an end in itself will be an erroneous hope. In this way, ASS and FIASS have made a convenient threshold of complementary effect toward common good. Therefore, individual African states, regional and sub-regional organizations and hegemonic states have continued their role in the continent security architecture, with more capability.

## **CONCLUSION**

Interest intersection and compatibility is a matter of effort and perception. The world powers are desperate about their investment, security and status in relation to Africa. So therefore, global interest is intercepting local and regional ones. This is context that one could appreciate initiative behind United Nations Economic Commission for Africa, African Growth and Opportunity Act (AGOA) and their sponsors. But just as this holds, Africa states are the one that will take the lead in their own security and development. Just as South Africa is leading the continent drive for intra-Africa economic investment and Nigeria is pushing for intra-Africa peace keeping. Different sub-regional blocs are most likely to serve as stepping stones for these states to achieve their goal, which is also a common security and development. In this regard, Africa will need a paradigm shift from castigation of foreign investment, or at best its embracement, to its complementation for public goods.

Global capital will continue to search for a prepared region. Just as it will be difficult to precisely date

when Africa will lose recently acquired strategic importance in global security calculus of great powers, most especially in relation to al Qaida contest for influence in the region; a decline in inflow of FDI and regional growth is not likely to be so soon or sudden. However, the best option is for Africa to prepare for uncertainty. Also, that Africa is said to have record this progress does not mean that the region has arrived; rather, recently offered condition is a fabulous base to economic take-off. Coincidence of increase in security and economic significant of a state or region to a great power often piloted economic take-off. Britain, USSR, US and China experiences are instructive. Chinese strategic importance in balancing the USSR's Cold War influence and power, in relation to US, is an instance.

Therefore global quest for hegemony will continue to increase Africa's international status and competitiveness. At another junction, this is likely to pit African leading states against each other in competition to attract global investors and invest in stake across the continent. It is on this background that both Nigeria and South Africa must develop long time diplomatic consciousness, at least to encourage political cooperation as their economies could not forever remain anonymous rivals, and the two states cannot avoid to contests hegemony at the regional level. At both sub-regional and regional levels, the two states will not also be able to prevent resistance of continental medium power. Ghana and Cote d'Ivoire to Nigeria in West Africa, Zimbabwe and Angola to South Africa in the Southern Africa, and Tanzania Kenya, and DR Congo are potential resistance to the possibility of sub-Saharan African hegemony. At large, dominant sub-Saharan states could not avoid a confrontation with North Africa counterparts, and the whole dynamism of recent crisis in the region. However, this is not likely to come violent. African states are strongly encouraged to enhance their individual institutional capacity, for substantial domestic stability, which can guarantee stable diplomatic future for the continent.

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# POLITICS AND AFRICA'S QUEST FOR ECONOMIC TRANSFORMATION: PUBLIC ADMINISTRATION PERSPECTIVE

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## ABSTRACT

This paper attempts to answer the question: Can Africa achieve sustainable economic transformation without addressing the continent's volatile politics? The paper adopts a public administration approach given the richness of the field and its critical role in the economic transformation of countries. While the unit of analysis for most social science disciplines is almost the same-government and its role in society, perspectives touted by economists on a posed question will be fundamentally different from those of sociologists, political scientists, and historians. Economists may argue that good economic policies can see Africa attain the desired development without addressing politics. We use the public administration lens to interrogate how politics can influence economic transformation of a developing country. Politics, in its traditional usage is about control and we aver that political decisions have serious implications for the economic transformation of "African society". We trace this debate from the African pre-colonial epoch, through the colonial and post-colonial times to argue that if African societies are to be economically emancipated, they must address their politics. We explore how political decisions have influenced the economic directions of African "democracies". We analyse how bad politics has contributed to the economic crisis in Africa and the evolving notion of state and government. The paper concludes by illuminating some of the lessons learnt so far and implications for public administration in transforming African economies.

**Keywords:** Sustainable economic transformation; political volatility; democracies; public administration; Africa

## INTRODUCTION

Africa is indeed a diverse continent characterized by different cultures and levels of development although certain common customs and values define an African. In its diversity; Africa's quest for transformation-economic, social, technological and political -is a necessity because the continent has lagged behind other continents for long; notwithstanding the immense natural resources. Politics, in our view has had negative impacts on economic progress. Majority of African countries continue to lag behind the development ladder due to conflicts resulting from a failure by the political class to share equitably the existing natural resources. There is need to have "ethnic justice" in resource allocation. Africa has about 12 per cent of the world's oil reserves, 42 per cent of its gold, 80–90 per cent of chromium and platinum group metals, and 60 per cent of arable land in addition to vast timber resources. With such abundance and rising global demand for raw materials, African governments are forging new partnerships, boosting infrastructure investment and sharing skills and technology (Economic Report on Africa, 2013: 10).

Politics and economics have historically been hostile partners although their outright 'divorce' has not yet materialized. Politics and economics have symbiotic relationships although it is largely ignored in most discourses especially those that attempt to find a prescription for a developmental crisis. By its

nature, politics shapes the economics of a country. However, it can also be argued that the economics also determine the kind of politics to be played. Some economic decisions are political mechanisms of controlling the affairs of the state. At its best, the new field of political economy combines the reasoning of politics and economics. If indeed, a crisis is to be conceptually defined as a critical event or point of decision which, if not handled in an appropriate and timely manner, may turn into a catastrophe, Africans have a long history of crises. Addressing singly the economic crises will not see the continent through the journey of recovery or transformation. Politics, societal values and morality are important variables for any recovery or transformation initiatives.

Throughout human civilization whenever a crisis occurred in the management of public affairs, a need for concerted efforts to address the crisis would emerge. The 'Ubuntu or humanness' philosophy from South Africa was often one of the responses to such crises. The collaborative efforts in addressing calamities that befell the continent was often part of the societal organization. It is possibly a well-known fact that Africans have historically adopted approaches to managing problems that have presented themselves on their way to development but only to be told by their western masters that such solutions were unworkable. Before the colonialists, Africa had impressively well-known machinery for managing its public affairs based on the African values. The African economies of the time, small as they were, received adequate political guidance for the common good of all people that were part of the respective polities.

Politicians determine public expenditure management of any government. They are by democratic doctrines mandated to demand accountability; control the approval of major appointments including those of central bank governors, secretary to the treasury, Ministers of finance and other senior positions of government that drive the country's economy. They generally hold public officers to account. If the politicians conspire to abuse public trust, their decisions are clandestine and the economic implications of such decisions can be disastrous. Politicians in all African countries are at least responsible for bloated public administration expenditure through their numerous appointments; many of which are for political supporters. The unnecessary expenditures on these appointments have diverted public resources that could have been used for service delivery and improving the economic transformation agenda. It is easy to divert money for a road infrastructure project to payment of salaries of political appointees as long as the latter can increase the political hegemony of those in the ruling regimes. However, if politicians decide to work for progress and transformation of their society, they can achieve it with meritocracy.

Africa's economy in the pre-colonial period was diverse and in a large measure was driven by extensive trade routes that developed between cities and kingdoms. Some trade routes were overland, while others involved navigating rivers and some developed around port cities. Large African empires became wealthy due to their trade networks. Some parts of Africa had close trade relationships with Arab kingdoms. This development, along with the economic potential in finding a trade route to the Indian Ocean, brought the Portuguese to sub-Saharan Africa as an imperial force in the 15th century. Christian missionary activities were supplemented by economic imperialism. After the Scramble for Africa in the 1880s and the partitioning of the continent among European powers, the continent's former economy and trade routes were destroyed in large measure and replaced with new ones. The political class was used in most African societies to achieve the colonial goals although in other societies, the colonialists were fought. Colonial interests created new industries to feed European appetites for goods such as palm oil,

rubber, cotton, precious metals, spices and other goods. Following the independence of African countries during the 20th century, economic, political and social upheaval consumed much of the continent. An economic rebound among some countries has been evident in recent years, however.

Africa is in a development crisis as the all continent needs economic transformation. From a public administration angle, the economic transformation is possible with a robust administrative infrastructure that is not only efficient but very effective in delivering services for the common good. The attainment of economic transformation requires good government based on sound public service infrastructure-processes, rules, policies and practices. The public service infrastructure is determined by those who hold political offices. Not only do the politicians make policies to regulate the public service infrastructure but they control the key for appointing top bureaucrats for running the bureaucracy. Good economic policies only work when they have the political muscles of the ruling governments. Politicians set the agenda and as Alam *et al.* (2010) rightly posit, public leadership must guide decisions and actions for sustainable quality services from public institutions, despite significant challenges arising from the global crisis.

Anthropology has always been negated among indigenous African scholars more so those who debate matters of economic transformation. Yet, anthropologists offer useful frameworks to capture the essence of African socio-cultural systems. Scholars continue to ignore the realities of rapidly urbanizing African societies and their impact on power struggles as most opposition politicians in African countries dominate the urban electorates. Even our post-modernist discourse deals with the esoteric of fast disappearing African traditions, rather than with how modernizing people gain power and control resources. Many anthropologists still refuse to learn African languages, even when they attempt to deconstruct the subtleties of their discourses in order to get at the variegated images in African minds. Anthropology would enable us appreciate how in the past, Leadership guided by public interest as a priority, made public institutions more responsive to society's needs and meaningfully utilizes scarce resources amidst challenges as Alam & Hoque, (2010) would possibly argue.

Mafunisa (2008: 79) has pointed out that, public officials are expected to act in a proper and acceptable manner in performing their duties. This position is based on the understanding that there are right and wrong ways of acting in a given situation. In the domain of public administration, right ways of acting are associated with increasing the efficiency of service delivery in the public interest, thereby promoting the general welfare of society. Under difficult circumstances facing any government, it is imperative to ensure that the crisis does not negatively impact on ethical leadership, which is challenging enough in the public sector even if there was no crisis (Klapper, 1999: 137). It is fair to say that any activity directed toward improved delivery of public service amidst the global crisis starts with the development of purpose and strategies within the context of ethical public administration. If ethics is not part of the overall strategy and purpose of public institutions, then the provision of sound public administration within democratic structures of public institutions will be compromised (Dorasamy, 2010: 8).

In the past ten years, economic growth in Africa has been reportedly impressive although it has not translated into poverty reduction as is the case with other continents. The reported economic growth is partially attributed to the political stability The World Bank reports the economy of Sub-Saharan African countries grew at rates that match or surpass global rates. The top nations in 2007 include Mauritania with growth at 19.8%, Angola at 17.6%, Sudan at 9.6%, Mozambique at 7.9% and Malawi at 7.8%. Other fast

growers include Rwanda, Mozambique, Chad, Niger, Burkina Faso and Ethiopia. Nonetheless, growth has been dismal, negative or sluggish in many parts of Africa including Zimbabwe, the Democratic Republic of the Congo, the Republic of the Congo and Burundi. Many international agencies are gaining increasing interest in investing emerging African economies especially as Africa continues to maintain high economic growth despite current global economic recession. Caiden (1982: 16) mentions two of Plato's principles which ought to guide public leadership, which include a clear focus on the common good of the people that will ensure actions conform to public interest and a commitment toward caring for the welfare of the public and not serving the interests of a certain individual so as to betray the rest. It can be argued that the neglect of public interest and the negation of caring for others have been responsible for the poor economies in Africa. This paper first discusses the context of the African continent. The paper develops a conceptual framework for analysis before the linkage between politics and economic transformation in the fourth section. The fifth section of the paper makes modest proposals on the new road to sustainable recovery realizing the unquestionable role of politics in our economic transformation. Finally, the paper makes concluding remarks.

## **THE CONTEXT**

African politicians in the late 1950s and early 1960s were primarily interested in the issues of "independence", "national integration", and "modernization", somewhat in that order. To a larger extent, their vision saw some economic progress and improved service delivery. In the majority of African countries, roads were constructed, hospitals were built, schools were constructed and these provided the basic requirements of human existence to a sizeable number of citizens at the time. The leaders of the times aspired to lead their largely rural and basically agricultural societies, still governed by traditional authorities who were often deemed decadent and reactionary. Insisting upon the need for "national integration," in the face of a plethora of ethnic collectivities, African leaders imposed a single party system, claiming that this was close to the African "palaver." There was often some justification for these actions, since competitively engaged in the Cold War the protagonists did attempt to profit from African ethnic competition. By the 1980s, regardless of ideology, the political economies of the African states had so deteriorated that this led to frequent military coups, political oppression, ethnic strife and economic degradation. Some of the blame lay with African governments that often "pursued economic policies or created public institutions that became impediments to their economic progress." The other part of the problem was due to Africa being the victim of a changing global economic environment. Because African economies were so heavily dependent on the export of a few primary products, any recession in the West caused them to collapse.

Africa's quest for economic growth and transformation has since continuously suffered major setbacks. Some of these are internally generated and inextricably linked to the politics of the times; while others are externally influenced and they also involve the global political games of powerful countries through international agencies and organisations. Many independent African states have remained glued to international interference in trade activities as a tool for political survival as opposed to transforming the African economies. Trade has been one of the key elements linking the African region to the global economy since the end of colonial rule (Nkurayija, 2011). With an economy already geared to produce commodities to supply the industrial interest of developed countries, the managers of the post-colonial

state found themselves entrenched in deep seated traditions of trade from which they could hardly extricate themselves completely (Nanji & Munchiri, 2009: 2). Despite the increased trade orientation of Africa, its share of world trade has declined because its exports have grown much more slowly than world exports (Nkurayija, 2011).

The share of Africa exports in world exports was 1.6% in 2004 according to UNCTAD Handbook of Statistics 2006/2007 while Africa's imports in world imports was 1.4% in 2004 (Sindzingre, 2008: 9). As a result, the region suffers from an acute dependence in export trade in order to stabilize its balance of payments. In most Africa states, the situation is characterized by production of similar products (primary products) which invisibly constrains their trading abilities on the international scene for the same market partners (Nanji & Munchiri, 2009). According to Cohn (2008: 339), export led growth is a development strategy that has been employed with remarkable success in some parts of the world, especially Asia thus creating the impression that it could have been a life line for most developing countries in search for a niche on the global economic scene. However, its application in other parts of the world including the African continent may lead to real economic growth (Rodrik, 2008). It should also be noted that export led growth is a policy open to excessive volatility (Nkurayija, 2011).

With such volatility from export driven growth, Import Substitution Industrialization (ISI) policy which aimed at replacing industrial imports with domestically manufactured goods presented itself as the best alternative (Cohn, 2008: 214). Most countries in Africa adopted this policy with the goal of reducing the dependency on western countries for manufactured goods (Nkurayija, 2011). However, the adoption of ISI policies has not been completely successful. Infant industries needed a lot of protection to be able to compete in the world market. It seems that democratic values must be struggled for and sustained in the 21st century in each country based on its own experience, though, good governance and strong leadership must be adopted (Nkurayija, 2011).

Indeed, African governments must respect economic and political rights if African development is to succeed. It should be noted that the Asian Tigers experienced significant growth and development under dictatorial regimes. While democracy is desirable, it is not a sine qua non for economic emancipation. However, economic governance must go hand in hand with good governance where issues of transparency, accountability, legal framework, rule of law, respect for human rights and responsiveness to citizen demands are key democratic credentials of any government. These are crucial elements if African countries are ready to realize its development and succeed their 21<sup>st</sup> century challenges (Nkurayija, 2011). Economic liberalization is an element of transforming African economy in order to reach its economic growth. How privatisation, openness and competition are pursued have implications on the economies transformation and growth of Africa (Nkurayija, 2011). Politics has previously driven this agenda of economic liberalization. The philosophy behind this is that the private sector is the engine of growth. However, in most African countries, the private sector must first be developed. Some politicians may not even want a strong private sector especially if home grown as it will threaten the centres of powers. To address this eventuality, politicians put in place economic policies like the tax waivers which they can give in bits to those private investors that believe in the ruling government ideology. To those opposed, similar negative economic policies are put in place.

The euphoria of the market must be examined in the context of its ability to provide what it takes to move an economy forward in a macro sense. Therefore, the essence is to open up the economy for

interested economic agents, with government inclusive to compete. The objective will be to avoid both market and government failures (Nkurayija, 2011). Africa is well known for having offered an important historical laboratory for experimentation of many approaches and more so those with a western flavour. From the colonial periods, various experiments have taken place and will possibly continue to do so although their positive impacts are only evident among few countries. Nohlen (2000: 522) correctly made this point when he commented that sub-Saharan Africa (SSA) has been at the receiving end of a myriad of developmental experiments ranging from modernization concepts to self-help and good governance approaches. Economies around the world have been severely affected by the global crisis. Despite wide ranging policy responses, intense financial strains and economic slack have not totally disappeared. We cannot dispute that in most parts of Africa, unemployment is still on the rise, global manufacturing capacity is still not optimally utilized, while governments are saddled with large fiscal obligations (World Economic Outlook, 2009: 5).

## **THE PROBLEM**

Many African countries suffer severe infrastructure deficiencies. While the central role of the state in economic transformation may require a "developmental state" approach, the prevailing development approaches have favoured the business approach in most African countries. While countries like Japan, Korea, Malaysia and Singapore achieved deep structural economic transformation and sustained growth over three decades largely through a disciplined planning approach (Nkurayija, 2011), there is political interference in the planning frameworks in Africa. Most African countries have failed to achieve sustained economic growth, structural transformation of their economies, largely because of the poor planning. This problem persists to date. Since the 1950s, when African countries began assuming their independence, development economists have sought to advance neoliberal and development theories based on European experience as the only solution to the question of underdevelopment. Consequently, the problems of under-development were viewed as manifestations of distortion in the factors of production that prevented the operation of a free-market system. Therefore, corrections of such dislocation through the efficient allocation of resources and following the path Europe had taken were the only panacea.

Carnone (2007: 1) heaps the misery of African countries on the return of political parties which he argues produced a discontinuity not only in the continent's political life, but also in the study of African politics. He strongly suggests that party pluralism had first emerged in sub-Saharan Africa during the final stages of the colonial period, on the eve of independence, in the late 1950s and early 1960s. The transplant of this Western arrangement, however, was quickly rejected by virtually all African societies, much like what happened to other political dispensations originating from Europe, such as the modern state, liberal constitutionalism or representative government. To what extent can Africa achieve economic transformation without addressing the politics?

## **CONCEPTUAL FRAMEWORK**

The generic conceptualization of 'politics' is the art or science of government. In Africa, this art or science has been synonymous with governance and democracy or self-administration. The argument often advanced, is that, governance and self-administration are the key ingredients for economic transformation. Whereas such has been the case with developed countries of the North, in Africa, it

appears it has not been the case. The former has well organized administration structures, while the latter has weak and fragmented administrative institutions. The search for meaning of democracy in Africa has remained diminutive and has not effusively entered popular discourse, especially where languages contain direct semantic equivalent (Ake, 2000; Bratton & Mattes, 2001). Rose *et al.* (1998) observes that some cultural interpretations emphasize that democracy changes its meaning in translation, sometimes even signifying consensual constructs like community or unity. For Bratton & Mattes (2001a, 2001b), they argue that contrary to cultural interpretations, the standard liberal ideas of civil and political rights lie at the core of African understandings of democracy.

On the contrary, Ake (2000: 33) in his book titled: *The Feasibility of Democracy in Africa*, argues that the history of Africa has been one long emancipatory struggle against all manners of oppression that were orchestrated by slave traders, overzealous missionaries, French ideologues, British colonisers, home grown dictators, and foreign imperialists. These categories of individuals paralyzed institutions of governance and fractured efforts geared at establishing effective and efficient public administration systems. It was generally agreed that self-administration is not relevant to Africa (Ake, 2000: 33). Struggles for self-administration were hardly treated seriously by outside world, especially the developed market economies who only problematized relevance of self-administration in Africa and dismissed its possibility (Ake, 2000: 33).

Indeed, powerful factors conspired against self-administration in Africa and even the admission of its possibility. For instance the colonial powers could only justify colonialism with the fiction that Africans were less than human and could not be entitled to the amenities of civilisation, especially democracy (Lipset, 1963; Rustow, 1970; Sorenson, 1993; Ake, 2000). In their article *Former Presidents in African Politics*, Southall, Simutanyi, and Daniel (2006) argue that not only had colonial state itself embedded traditions of political authoritarianism, but also weakened the created spaces of public administration. In addition, African countries had limited cultural and national hegemony, had low literacy level, lacked substantial middle class, and low level of economic development.

## **POLITICS, ECONOMIC GROWTH AND TRANSFORMATION**

African countries badly need to embark on processes of economic transformation, not just growth. They have to do so insisting on have appropriate institutions and systems that are based on institutional 'best practices' that have emerged in much richer countries. Recent economic performance in Africa has not generated enough economic diversification, job growth or social development to create wealth and lift millions of Africans out of poverty (Economic Report on Africa, 2013: 6). A key challenge, therefore, is how Africa can pursue more effective policies to accelerate and sustain high growth and make that growth more inclusive and equitable. Political players have a critical role to play in this economic emancipation borrowing from other successful countries.

Radelet (2010) in a book *Emerging Africa: How 17 countries are leading the way*, argues that many African economies have been growing fast since the mid-1990s owing to the spread of democracy; improved policy-making; and the emergence of new political leaders who increasingly work hand-in-hand with donors. Such optimistic views are now becoming the new conventional wisdom about sub-Saharan Africa. Such a statement portrays the potential politics has in economic transformation of the continent. The politics referred to here is good politics geared at changing the lives of the majority through

appropriate policies rather than the political of marginalizing the masses. We suggest the redistributive politics on the vast resources in possession of African countries. Such politics has to be played within a democratic context and strong systems of good governance must be established by those who manage the political space.

Considering the case of Malaysia, a country that has frequently been compared to a number of African countries in terms of initial conditions, growth performance and development achievements with the mainstay of the economy was the primary sector: natural resources and agriculture. Society was characterized by sharp cleavages in economic position, religion and languages (Nkurayija, 2011). Yet, the "Malaysian growth story can be viewed as a narrative of the structural transformation of a predominant agricultural economy to a more industrialized economy, and then to attempts to transform it further in the latter part of the 1990s towards a knowledge based economy (Yusof & Bhattasali, 2008: 30). The story demonstrates among other things, the vital role that a state can play in transforming a developing economy into a prosperous high middle-income one in a period of about three decades or less.

The main lesson to be drawn from the Malaysian and other relevant development experiences is that successful economic transformation was achieved by deliberate state involvement, based as it was on a disciplined planning process aimed at transforming the structure of the economy. The evidence shows that the involvement of the state in this process included not only formulation of relevant development policies, but also creation of the required institutions and provision of the required investment (Yusof & Bhattasali, 2008). The experiences of successful countries in Asia, Latin America, and elsewhere present two important aspects of effective economic transformation processes. The first is that there are discernible common characteristics in the patterns of structural change and economic development processes in general, industrialization and diversification in particular. The second and overarching feature is that the state plays a central role in guiding and promoting successful economic transformation. Developing infrastructure, attracting foreign resources, and increasing productivity are important elements of successful transformation, as are strong and functional institutions (Nkurayija, 2011).

Political leaders must have a strong vision on where they wish to see the African continent. The call for economic transformation by such leaders would for example need strong political decisions to put an end to the perverse process which transfers Africa's wealth elsewhere, thereby perpetuating misery and endangering the very survival of the continent's population. Governments have to be better at identifying good criteria to determine the industries appropriate to their endowment structure and level of development. The government's policy to facilitate industrial upgrading and diversification must be anchored on industries with latent competitive advantage so that, once the new industries are established, they can quickly become competitive domestically and internationally. For African states to effectively transform their economies, they need to plan the process; formulating relevant economic and social development strategies and policies; and implement the plans and policies.

Historically, politicians have shaped the destiny of their societies. Pre-colonial African societies under kingship administrative systems were able to see progress due to the role of the politicians of the time. Kingdoms that saw progress in the economic transformation did so because those who played the role of policy making had the vision. However, it is also documented that brutal dictatorships in the African societies before colonialists came were responsible for the economic misery of majority citizens. During

colonial era, political discourse excluded not only self-administration but even the public institutions they had established during colonialism. The African national states continued this legacy by turning against public sector transformation in accordance with popular national aspirations - which in the end; found themselves on collision course with their subordinates. With excessive demand for structural transformation of colonial system, the colonialists insisted that it was necessary to pursue development first and such would be achieved better by giving unquestioning support to leadership within the created spaces of administration.

Some independent states made heroic and innovative efforts to create public institutions for efficient and affective public administration. However, the majority became victims of political military authoritarianism. This was driven by competition between (ethnic or ethnicising) elites for control of the state machinery which deployed the major economic resources in society (Markowitz, 1977; Mohamed Sali, 2001). However, when voluntary conformity did not come they resorted to subjugation and criminalised political opposition and the rest of the world seem to have encouraged such tendencies (Ake, 2000. p34). Perhaps, Africa's former colonial masters, anxious for influence with new holders of power, gave tolerant support. This helped to crystallize a climate of opinion in West hostile to self-administration in Africa (Ake, 1993); Bratton & Mattes, 2001a&b; and Rose, et al, 1998). From time to time, (for instance, during the Carter administration in the United States) human rights abuses in Africa became an issue but never was democracy (Ake, 2000).

The above implied indifference to self-administration was true even for human rights organisations which had made strenuous efforts to check human rights abuses in Africa. The aggressive emptiness of cold war was replaced with mission of democratisation, a mission which, would widely be believed, and firmly consolidate the hegemony of the Western values throughout the world. Accordingly, the West came to regard self-administration as an important item on the Africa agenda. With such realisation, the West's attitude and coupled with the long struggle for self-administration by the colonised in Africa begun to show results too striking and too prevalent to be uncared for (Bratton & Mattes, 2001 and Rose *et al*, 1998). The West's attitude towards self-administration in Africa also drew additional impetus from Africa's economic and strategic marginalisation. The world economy shifted from production of goods to services and from material-intensive to knowledge-intensive industries, a trend which reduced the economic importance of economic producers. At the same time, advances in science and technology yielded an increasing number of synthetic products which are more flexible and more versatile than those which African traditionally exported (Ake, 1996). Such changes made Africa's primary economies far less relevant to present economic needs of industrialized countries.

The economic and strategic marginalisation of Africa gave the West much more latitude to conduct its relations with Africa in a more principled way. The West adopted a posture of calculated indifference to issues of human rights and democracy in Africa in order to avoid jeopardising her economic and strategic interests and facilitate its quest for allies against communism. As soon as the importance of these concerns diminished, the West became more inclined to bring its African policies closer to its democratic and human rights commitments (Ake, 2000). Whereas some of the impetus to self-administration in Africa may have come from these developments in external environment, the drive for democratisation in Africa was predominantly internally generated – and was initially demand and driven by marginalised elements for the incorporation.

According to Ake (2000), the demand occurred on two levels, that is, on the level of elites as a demand for political incorporation and on the level of masses as a demand for economic incorporation. Following the period after colonialism in Africa, the state was everything. Among others the state controlled the economy, polity and society with its presence pervasive and its powers unchecked by constitutional constraints, undeveloped political culture or vibrant civil society (Ake, 2000). Those who held power were inclined to share it only with a very small coterie of collaborators. The states were privatised and left in the control of small groups, especially those assumed powerful usually drawn from the leader's community, religious faith, geographical region or ethnic base.

The masses that were not incorporated and trusted with power, but had attained some formal education demanded political and economic incorporation. Unfortunately, these elites tended to settle for exploiting the colonial system to their benefit rather than transforming it according to the democratic expectations of the nationalist movement (Ake, 2000). The continuous failure to incorporate the masses resulted into repression which endangered political dynamism, later stalling development. This failure of the leadership in most parts of Africa had and is still life threatening to ordinary citizens. At the same, the economic crisis and deficiency of self-administration has practically put every country on Africa to a test. On the face of it, democratisation process in contemporary Africa is largely urban phenomena. It has hardly engaged rural most of the rural communities which has contributed to economic marginalisation of rural areas. Democratic politics, indeed practically, have been often inaccessible to rural people. The severities of subsistence farming, scavenging for water and firewood have left the rural masses with little time for politics. As if that is not worse enough, little access to education has indirectly contributed to rural communities excluded in democratic politics participation, as their contributions are considered insignificant.

Democracy movement in Africa does not appear to effectively integrate most people in rural Africa. The national political society appears to imagine that the incorporation of rural communities is perhaps, an incomprehensible abstraction. Their sense of political community tends to be localised, as does the focus of their primary political identity and loyalty. Having very little sense of affinity and sharing of common concerns with national political, society, existing forms of democratic participation tend to make little sense. Politics and economic especially in African transformation seem to require louder voice in debates. One's failure to realize that politics and economic transformation has a broader connotation shows a deficit in understanding of the fact that, the two have a symbiotic relationship.

Africans, like people anywhere, value the opportunity to speak and act without constraint and not only on some collectively mandated development agenda that has dominated the current political discourse. The current economic transformation in Africa has been largely inspired by the Washington Consensus, spearheaded by multinational organizations such as the World Bank and IMF through the structural adjustment programmes (SAPS). These programmes have registered successes in some countries – although, there is also evidence of their failures. Some political commentators have argued that some of the SAPS were structurally engineered to keep African heavily reliant on the West. Although such claims may be true or false, this paper focuses more on the nexus between politics and Africa's quest for economic growth or transformation.

To complicate the situation, the end of the Cold War and a subsequent disinterest by both East and West in African affairs, led to Afropessimism - the almost racist notion that Africa and Africans were

hopeless. Rather than consider Africa's problems as the precipitate of its turbulent change, the practices of the often embattled (and often corrupt) African leaders were blamed. The United States insisted that Africa's only solution was to adopt democracy and free markets. American ideologues insisted that "democracy" means not only the right of people to elect their own government, but that only a democratic system can guarantee the full exercise of fundamental human rights now judged to be universal and applicable to all individuals without distinction as to age, gender, descent, religion, ethnicity, or race (20).

#### **WHAT AFRICAN POLITICIANS NEED TO DO**

There is general agreement in most African countries that coups must end, corruption must be rooted out, and economies must be restored. In the majority of poor African countries today, the ruling elite operate on a patron-client basis. It needs to get access to 'rents' in the economy to cement its internal relationships and buy the support of crucial constituencies. The ruling elites often want to control revenues from natural natural resources and they have allowed corruption to drive the economies. The haves have continue to get and the have not's continue to suffer. The importance of political leadership has been demonstrated repeatedly throughout history. Africa will not reach the desired economic transformation levels without leaders of integrity, vision, public-service orientation, self-belief and a stubborn focus on structural transformation in the context of democratic governance. Countless examples of extraordinary leaders, ranging from Mahatma Gandhi to Vladimir Lenin and Mao Tse-tung to Barack Obama, remind us of the effect one or a small group of political leaders can have on a society. These great historical figures are transformational leaders because they were able to spearhead fundamental change within their societies. The ultimate success of social transformation is that a transformed economy is creating and financing a better life for all people (men and women, children and elderly, physically abled or disabled), ensuring universal access to essential services, providing additional social protection for the poorest and weakest in society and ensuring an equitable, peaceful and harmonious society.

Structural transformation pre-supposes a transformed relationship between state and citizens. Except for the brief period in many African countries following de-colonisation, the experience of political governance has been largely negative, fraught with corruption and nepotism, human rights violations, military or one-party dictatorships and poor stewardship of the economy. The African political elite have largely been more accountable to external powers – political and big business – through aid dependency, commodity export dependency, and outright political and military interventions. The period of structural adjustment programmes, spanning two-three decades - exacerbated this growing distance between people and governments, by diminishing the role of the state in the direct provisioning of essential public services to the poor, by trimming the state down and weakening its capability to serve the people including peace, security and democratic accountability and by deepening inequalities that contribute to tearing the society apart.

Therefore given the above arguments, we propose the "5-Whats" that leaders need to focus on in order to be able to handle the mandate of public administration. Public administration in our view is basically managing the realm of governmental and other public activities. It is governmental administration whereby managerial, political, legal and occupational categories or conceptualization's intersect. Therefore, what is needed are seven elements that have been arrived at through our vast teaching experience of public administration, consultancy and practical work in public sector and survey

of literature over the years. These are (a) what values?; (b) what institutions?; (c) what structures?; (d) what personnel?; and (e), what policies? WE shall tackle one by one in the order that they appear. However the order of appearance does not denote any priority or value ladenness.

We thus begin with the “what values?” One may argue that the civil service values are known and are taught in public administration schools and provided to the public administrators during the time of induction. As part of the ethics infrastructure, this has been the case but may have not always translated into institutionalized values to promote accountability. In their role to promote deliver services – economic welfare, social welfare and order and protection, the UK core civil service values seem to have a universal appeal. It is pertinent therefore that leaders and public administrators demonstrate and show the highest levels of commitment to these values: integrity, honesty, objectivity and impartiality. In the UK code of conduct, “integrity” is defined as putting the obligations of public service above your own personal interests; “honesty” is being truthful and open; “objectivity” is basing your advice and decisions on rigorous analysis of the evidence; and “impartiality” is acting solely according to the merits of the case and serving equally well Governments of different political persuasions. These core values support good government and ensure the achievement of the highest possible standards in all that the Civil Service does. In Uganda for example, the code of conduct is so detailed and outlines 12 key areas of concern, i.e. Attendance to duty, Time Management, Absence from duty, sexual Harassment, Customer Care, Conflict of Interest, Financial Credibility, Communication of Information, Removal, destruction or altering of records, Accountability , Handling of gifts and bribes and Dress and Appearance. Nevertheless, the integrity deficit continues to grow and the cases of corruption increase. Therefore more innovative ways of inculcating values should be looked into. One of the suggestions is political commitment and leadership is example. People do what their leaders do and not what they tell them to do. Therefore, as Edgar Schein suggests What leaders pay attention to, measure and control is central, Leader’s reactions to critical incidents and organisational crisis is another area of concern and Deliberate role modelling, teaching and counselling by leaders is pertinent. The criteria for allocation of rewards and status, and the criteria for recruitment, selection, promotion, retirement and ex-communication should be clear and practiced as primary mechanisms for enforcing values. These can be supplemented by Secondary Articulation and Reinforcement Mechanisms which can be embedded in (a) Organisation's design and structure, organisational systems and procedures; (b) Design of physical space, facades, and buildings; and (c), Stories, legends, myths, and parables about important events and people, and Formal statements of organizational philosophy, creeds, and charters.

The second what is about institutions; what institutions? This is from the background that we have both formal and informal institutions. However two major challenges have been faced. In some, if not most African countries, what has been observed is the promotion of individuals at the expense of institutions. The second challenge is that we notice that informal institutions are taking over from the formal institutions. We recommend the following to ensure that the institutions work efficiently and effectively. First, there is need for all countries to come up with nationally developed, participatory government-wide monitoring and evaluation systems. Second, citizen empowerment through special-purpose associations and sector networks has to be set up to allow responsive development based on the citizens demands and priorities. Since we are in the era of governance, there is need for enhancement of e-governance and digital governance to raise the level of citizen participation. Governance is also going

collaborative through joined up government, and this calls for strategic partnerships with the private sector and civil society to mobilise untapped resources. As for the informality, we need a cultural adjustment programme whereby all leaders and citizens come up with national ethos to respect institutions and negate filial relations that tend to by-pass the traditional and formal institutions.

The third what deals with structures. Our view is that In search for better performing modes of governance and public administration, African countries have to be involved in a continuous exercise of restructuring, reforming, and reconfiguring their governance systems and institutions to make them more participative, decentralized and responsive to local, regional and global needs. There is need to have a strong developmental state approach to managing the economy. By doing so, Africa will be building states that are capable of playing a developmental and transformative role. This can be done by emphasizing technical education and skills development, economic nationalism whereby the sentiments and aspirations of Africans are considered and not subjugated to foreign investors, heavy industrialization and giving incentives to foreign capital that will lead to skills transfer and increase value addition to the locally produced products. This is accompanied by a public service that is fully immersed in the development agenda but insulated from undue political interference, whereby the cherished bureaucratic ideals of recruitment on merit, promotion based on performance, and specialisation are adhered to and not political correctness and ideological clarity. Thus a public service that is representative and responsive is preferred to one that is based on patronage and royalty. Public policy-making should be widened beyond the monopoly of politicians, the central government or public sector institutions.

Fourth is what personnel is needed. The challenge of attracting, developing, utilising and retaining capable human resources in the public sector is central to the effectiveness of governments all over the world. What needs to be done is to take up the challenge of building human resource capacities in general, and leadership in particular. One fundamental way is to refocus on the need for public administration in the running of governmental business. For instance University graduates in Public administration at master's and undergraduate levels needs to be given special preference in public service as opposed to those who have undertaken business administration courses. The teaching of public administration and public policy modules should be made compulsory in all graduate programmes in the country. This will enable a renewed focus on the true spirit of public service as opposed to emphasis on private sector styles of management which have driven public service management. A compulsory induction course on foundations of sound public administration needs to be initiated for all technical and political players. This will allow public servants view themselves as "servants" and not managers. It is important for public administrators to view citizens as 'non – voluntary clients' who unlike clients under business have a choice of where and which service they have to go to. Therefore managerialism promoted by business courses has distorted what government is and ought to be. Citizens can never be clients. They need to be served and not governed.

Fifth are setting the right policies which actually deal with people's needs and problems. A public policy simply put is a solution to a problem therefore African leaders should run away from looking at policies from a normative and symbolic angle, and also avoid the view of only looking at the political (electoral) value of policies. Many policy makers are eager to come up with solutions to policy problems and yet it is more valuable to understand the problem than to provide solutions which may never solve the problem. Moreover, the policies should serve justice. Here we mean that there should be equitable

distribution of resources and social justice has to be promoted. Groups and individuals who have been marginalized need to be uplifted and their rights promoted. Other countries can learn from Uganda which has come up with a checklist with a simple criterion against the assessment of human rights compliance that can be made by the committee or any government department presenting a Bill, policy, budget or any other programme to Parliament. In addition, another checklist on gender and equity is being developed by the Equal opportunities Commission. Policies also ought to support democratic institutions and processes; the point here is that African countries have tended to focus more on the most rudimentary form of democracy, i.e. procedural democracy and yet the citizens are now more empowered and informed and wish to exercise themselves through substantive democracy: (a) rule of law; (b) clear respect and enforcement of the doctrine of separation of powers; (c) protection of basic liberties of speech, assembly, religion, and property; and (d), constitutional liberalism. Lastly, the policies must encourage an active citizenship after all power belongs to the people.

## CONCLUSION

This paper sought to widen the debate on the interplay between Politics and Africa's Quest for Economic Transformation, using the Public Administration Perspective. We conclude that leaders have a fundamental role in ensuring that as they play the political game – which involves the exercise of power, the public allocation of values, the resolution of conflict, and the competition among individuals, groups, or states pursuing their interests – they need to know that they are public administrators that are expected to improve the quality of life for each and every citizen within their polity, and lead by example. In order to achieve this, they have to ensure that the civil service values are known and are taught in public administration schools and provided to the public administrators during the time of induction. Focus on business administration in the modern era should be replaced with public administration in the postmodern era. To build strong institutions, there is need for all countries to come up with nationally developed, participatory government-wide monitoring and evaluation systems. Create empowered communities and citizens through special-purpose associations and sector networks. Since we are in the era of governance, there is need for enhancement of e-governance and digital governance to raise the level of citizen participation. Our view is that in search for better performing modes of governance and public administration, African countries have to be continuously reform and reconfiguring their governance systems and institutions to make them more participative, decentralized and responsive to local, regional and global needs. Lastly is for the political leadership to put in place the right policies which actually deal with people's needs and problems.

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### ABSTRACT

Psychoanalysts posit that if you capture the minds of individuals, their hearts and souls will follow. Elections are important forces for change in a new democracy, bringing to power new leaders not beholden to existing captors, but rather to other clients that would like to capture the state for their own interest. The theory of regulatory capture (grounded in the writings of Karl Marx) materialises when interest groups with disproportionate amounts of power shape public policy. Regulatory agencies eventually come to be dominated by the very sectors they were charged with regulating. South Africa's post-apartheid reconstruction and development programme is fraught with obstacles, legacies and the prevalence of corruption inhibiting its development which has not progressed beyond that which coalesces into the interests of the controlling elites. This paper is not an expose of corruption, but rather uses pertinent issues and cases emphasizing the vexatious capturing of the public service. The paper argues from a pluralistic foundational approach that state institutions have been captured by members of a powerful nexus who have developed an interdependent and reciprocal association with the state, affecting its formal institutional capacity to reduce corruption, failure to strengthen transparency and accountability, and does not allow the judiciary and public bureaucracy to work professionally. A consistent thread running through this paper is recognition of the need to re-capture the public service from the context of a "captured state."

**Keywords:** Capture; corruption; elite; executive; policy

### INTRODUCTION

In most of African states, elites run the state in their own interests in contrast to the elites in the Asian tiger countries who manage the state in the interests of the public (Dowden, 2005). The theory of regulatory capture where interest groups with disproportionate amounts of power shape public policy traces its roots back to the writings of Karl Marx (Woodward, 1998: 1). Regulatory capture focuses on the role of interest groups in shaping public policy. This intellectual tradition has deep roots, with Marx arguing that big business sought and paid for control of important economic institutions. Wilson (1989:76) posits that regulatory capture, also referred to as "client politics," occurs when most or all of the benefits of a program go to some single or small interest group, yet most or all of the costs are borne by the taxpayers. In the 21st century, globally people are increasingly rejecting the notion that corruption is inevitable. Corruption is having a corrosive effect globally. Grand corruption is defined as acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good. It is common practice that legal systems around the world protect senior government officials from prosecution by granting them political immunity. This is supposed to shield them from undue pressure. However, immunity to the law has also allowed numerous politicians across the world to go unpunished for crimes big and small, including corruption. Immunity can lead to impunity. The privilege of immunity sometimes gives the impression that politicians can do as they please, which can result in acts against the public good. If a government official is protected by immunity and accepts a bribe for a contract, they have little fear of the justice system, even if they are found out to be guilty. Impunity triggers actions that lead to the abuse of public resources or the manipulation of laws for

politicians' personal gain or for the benefit of the few. After getting away with it once, the instinct is to do it repeatedly until someone finally says 'stop'. Nevertheless, all over the world, too few are saying "let's stop impunity". Political immunity, therefore, must always be justified (Transparency International, 2013).

Head of Governance, Crime and Justice Division at the Institute for Security Studies, Gareth Newham says that there are many different agencies in the state mandated to stop corruption. However, these agencies are not able to operate free and without political interference, completely independently and able to take action against anybody in South Africa no matter how powerful they are. The problem that drives South Africans perception that 'there is nothing done about corruption' is the fact that very powerful people are being implicated in doing wrong things and sometimes they are not investigated or charges are dropped against them. The lyrics of a song poignantly reflect that the "captured mind is a captured state". Against the backdrop of what government does, the actions of society should always underscore what the public is doing. The citizens' role is always to act as a watchdog and to monitor public services and raise awareness.

Hellman & Schankerman (2000: 32) and Bellina *et al.* (2009) suggest that 'governance' has become a key word in the lexicon of international relations and an inescapable paradigm for the politics of development in a state in transition. The state of governance in South Africa has had a chequered history. The country's battle for liberation from apartheid has brought challenges in terms of establishing a sound system of governance. The constraints of regulatory, administrative, economic and poor governance practices have created high levels of patronage in return for short-term political gains leading to contention (Grayling, 2013) that technological and scientific advances are the drivers of change: not politicians. In South Africa, Ramphela (2013) concludes that young people are so disillusioned with the behaviour of their leaders in government manifesting as the greed that characterizes politics that they have either withdrawn from public life or remained cynical on the margins of public life where the nexus between state intervention in enterprise decision-making (state benefits to firms) and corruption payments undergirds the quality of governance. And so what happened to this notion of South African socialism?

The main challenge of the transition has been to redefine how the state interacts with firms, but little attention has been paid to the other side of the relationship: how firms influence the state-especially how they exert influence on and collude with public officials to extract advantages. Some firms in transition economies have been able to shape the rules of the game to their own advantage, at considerable social cost, creating what Hellman *et al.* (2000) call a "capture economy". In the capture economy, public officials and politicians privately sell under-provided public goods and a range of rent-generating advantages "a la carte" to individual firms. Pillay's (2004:589) study reveals that corruption has flourished as a result of institutional weaknesses. This paper argues that state institutions, at all tiers of government, have been captured by members of a powerful network who have developed an interdependent and reciprocal association with the state, affecting its formal institutional capacity to reduce corruption, strengthen transparency and accountability, and allow the judiciary and public bureaucracy to work professionally.

## **REGULATORY CAPTURE THEORY**

Jones (2005) and Freely (2007: 15-29) define Regulatory Capture Theory as the process by which regulatory agencies are dominated by the very industries they were charged with regulating within the

seemingly democratic framework of the political landscape. Regulatory capture happens when a regulatory agency, a faceless, covert clique inside the state that holds the reins of real power, eventually acts in ways that benefit the industry it is supposed to be regulating, rather than the public. The political agenda of the regulatory capture state involves an allegiance to nationalism, corporatism, and state interests, to manipulate political and economic elites. Wilson (1989: 76) expands on the Regulatory Capture Theory as having occurred when special interests co-opt policymakers or political bodies, regulatory agencies, in particular to further their own ends. Regulatory Capture Theory is closely related to the “rent-seeking” and “political failure” theories developed by the public choice school of economics. Another term for regulatory capture is “client politics”, which “occurs when most or all of the benefits of a program go to some single, reasonably small interest (and industry, profession, or locality) but most or all of the costs will be borne by the taxpayers”.

Hellman *et al.* (2000) also observe that state capture, influence, and administrative corruption are all shown to have distinct causes and consequences. Large incumbent firms with formal ties to the state tend to inherit influence as a legacy of the past and tend to enjoy more ‘rights’ and definitely higher growth rates. To compete against these influential incumbents, new entrants turn to state capture as a strategic choice-not as a substitute for innovation but to compensate for weaknesses in the legal and regulatory framework. Transparency International (Slater, 2011) defines corruption broadly as the abuse of entrusted power for private gain. However, Forbes (2013) equates Regulatory Capture to one or more general principal-agent problem which is pervasive and not at all concentrated in the public sector only; and, neither is corruption just a unique challenge to South Africa only (Ngamlana, n.d.).

#### **EQUILIBRIUM OF COMPETITIVE CAPTURE**

Barnes (2007: 25) uses the Bulgarian case to analyse movement from a situation of what appeared to be a “Partial-Reform Equilibrium” to an “Equilibrium of Competitive Capture”. In such a process, elections are important forces for change, but not because they bring reformist parties to power or lead to completed economic liberalisation. Instead, especially in the first several electoral cycles in a new democracy, they can bring to power new leaders who are not beholden to existing captors, but rather to other clients that would like to capture the state for their own interests. Over time, the country experiences a parade of captors, eventually leading to a system where no single group owns the state, but where it is still not insulated. Instead, several competing groups fight with each other to raid it for their own benefits. This resonates extremely well and is replicated within the contemporaneous context of the Mbeki and Zuma eras in South African politics and directly to the public sector.

#### **POLITICS OF POST-COLONIAL SOCIETIES**

Frantz Fanon, author of *Les Damnés de la Terre* (The Damned of the Earth) inaugurated serious thinking about the politics of post-colonial societies, whereby predatory elites with increasing authoritarianism on the part of governments had captured national struggles. The ruling parties held their people in contempt by using the old party structures to hold them down and try to “drug them with memories of the anti-colonial struggles.” The new installed government took over aspects of the colonial state and dealt with the people in a manner not dissimilar to the colonial state, as parties became a means of private advancement (Pithouse, 2011).

## **SOUTH AFRICAN PUBLIC SECTOR**

South Africa offers an interesting case study of the link between a captured state and corruption. After the euphoric 1994 elections, almost every other South African wanted to become a public servant because there was a very real sense that becoming part of the newly democratic public service, in whatever capacity was the right thing to do. There was the chance to replace an illegitimate and unrepresentative public sector by practically re-casting what it means to be a public servant. Thousands of committed, honest, and hard-working people flooded into the public sector, willingly embracing the herculean task of revolutionising the institutional character and practical work-face of the public service (McKinley, 2012). Post 1994, South Africa's relatively new democratically elected African National Congress (ANC) government embarked upon a programme to reconstruct and develop the country for the benefit of all its peoples, replete and fraught with obstacles, apartheid legacies, and the prevalence of corruption. Subsequently, South Africa has been constantly ranked as one of the countries in Transparency International's Corruption Perception Index 2012 (CPI), in order of those with the least perceived corruption in the public sector to those with the most. South Africa ranked 69 of 176 in 2012.

Public perceptions are important in gauging public levels of dissatisfaction with the government (Shisana, 2012: 1). The real roots of the crisis lie in the fact that the post-apartheid deal has not only allowed elites to flourish while the people at the bottom of society have been pushed further into desperation but that it has also allowed contending elites to convince themselves that, despite the on-going rebellion of the poor, politics is largely about their own internecine battles (Pithouse, 2011). Frisch (1994: 60–61, cited in Pillay, 2004: 586) captured this succinctly: “... corruption kills the development spirit, nothing is as destructive to a society as the rush to quick and easy money which makes fools of those who can work honestly and constructively”.

### **Legislative Framework**

Sections 152(1) and 195(1) of the Constitution (RSA, 1996) provide that public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles: ethics, effective use of resources, development-oriented, accountable, transparent, broadly representative, ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation in every sphere of government. National Government has introduced and promoted various pieces of key legislation such as the Public Finance Management Act, Protected Disclosures Act, the Promotion of Access to Information Act, Financial Intelligence Centre Act, Promotion of Administrative Justice Act and the Prevention and Combating of Corrupt Activities Act, including defining Honesty and Integrity as a key set of 11 competencies required of senior managers. Although the Code of Conduct for the Public Service has become part of the regulations for every public servant, the Minister for the Public Service and Administration (MPSA), in line with the Cabinet's decision to fast track anti-corruption work, created a unit to coordinate and integrate Government's anti-corruption work at the level of policy and strategy implementation. Cabinet approved the Public Service Anti-Corruption Strategy in January 2002.

In the area of local government, Government has introduced the Municipal Finance Management Act in order to bring greater accountability and transparency in municipal operations. This Act also introduces risk management and fraud prevention as statutory requirements in local authorities.

Structures have been created by the Department of Provincial and Local Government to initiate and implement an anti-corruption campaign in local government. Implementation of the anti-corruption initiative is taking place within the ambit of Project Consolidate, Government's initiative to support 136 municipalities (NACF, 2013).

### **Policy**

The most commonly related policy argument is that the South African state simply lacks the capacity to implement policy and therefore, new policies are unlikely to be realised in practice (Pithouse, 2008). The first of these limits is the way in which elite political discourse, often driven by elite interests, regularly undermines formal policy positions. The debates on the prospects for new and better policies are entertained and should be taken up with vigour. However, it is necessary to be clear sighted about the limits to a conception of politics that focuses on policy without taking sufficient account of the other factors that shape the reality of practice. A second major limit to the political will of the state to implement its policies is the degree to which the state developmental agenda has been overwhelmingly captured by local party elites and subordinated to their personal interests.

### **Batho Pele**

Batho Pele is a government initiative, launched in 1997, to improve service delivery, which translates literally to "People First", formulated around eight key principles amongst which includes amongst others - the best possible value for money which according to Fakir (2011) underpins Batho Pele resonating with anybody. Good and responsive public service fosters respect and reciprocity between public servant and citizen. As one helps the other, the other only reinforces positive engagement and a defence of public service and the role of the State. Batho Pele is not beyond the bounds of what is possible. It is needed now more than ever, if not as a functioning government programme, then at least in spirit. Poor public service has been persistent and in some places citizens have approached the courts to claim their rights against unresponsive officials. When public work is not seen as a duty but rather as a burden, people see the state as a last resort, not first preference, and only use state services because they have no other option. This cycle of antagonism between public servant and citizen only deepens regression. Ironically, the top echelon of public functionaries only use those public services that they cannot do without and rely on private services for the rest.

### **Bureaucrats/Securocrats**

Public Service and Administration Minister Lindiwe Sisulu (MPSA) emphatically claims that she is "...not a bureaucrat by nature, I am a securocrat" (Sisulu & du Plessis, 2013). A securocrat talks about measures to shake up the civil service, reinforcing the notion that there has been critique of liberal democracy accompanied by a shift in power to securocrats.

### **Executive/Bureaucratic Discretionary Power**

A discretionary element in decision-making contains the potential for abuse. Eliminating discretionary decisions altogether, would be impossible and impractical. However, the abuse of bureaucratic discretionary power (Stapenhurst & Langseth, 1997: 311-330), usually occurs in rigid systems

with multiple sources of monopoly power including ministers "selling" their discretionary powers; officials taking percentages on government contracts, which are then often paid into foreign bank accounts, officials receiving excessive "hospitality" from government contractors and benefits in kind, such as scholarships for the education of children at universities; officials contracting government business to themselves, either through front companies and "partners" or even openly to themselves as "consultants" and providing employment for family members. Stapenhurst & Langseth (1997: 311-330) identifies systemic corruption occurring where corruption has become an integral part of the system. Such corruption is the nemesis of anti-corruption reformers, and a new government may find itself impotent in reforming the very system it must rely on to govern.

The avuncular President Jacob Zuma, has the tendency to remain silent on issues of scandal, especially where he is either directly or indirectly implicated, including his obligations as Commander-in-Chief of the armed forces as has been evidenced in what has now been coined the "Guptagate" scandal. The security, sovereignty, nationhood and intellect of the country according to Makhoba (2013: 26) have been undermined by the "friends" of Jacob Zuma and his family. Defence Minister Nosiviwe Mapisa-Nqakula denied that the Department of Defence had granted the permission and ordered the aircraft removed from the military base, yet copies of South African Air Force document granting a jet chartered by the Gupta family permission to land at the Waterkloof Air Force Base were sent to various departments' weeks before, using Zuma's name to secure the landing (Ngalwa, 2013: 1). Notwithstanding the unauthorised and brazen use of the Waterkloof military air base (a national key point) by the Gupta family is a matter of national concern and warrants careful attention of all democrats in South Africa. South Africans need to understand why and how a single family has come to wield such enormous power and influence over sections of government and its administration (Gordin, 2013). It is interesting to note that the Gupta's only spoken defence so far has been to play the proverbial race card. Their newspaper (The New Age) has launched the position that criticism of their conduct is "tinged with Xenophobia claiming that the over-reaction to the Waterkloof issue is an indication that the government and South Africans are not sure about our place in the world." How convenient, to own a newspaper that accuses your accusers of being racist!

In addition, the Minister of Public Works has refused to publicly divulge the report on the expenditure in excess of R200 million on "security arrangements" on President Zuma's private Nkandla homestead, citing the National Key Point Act. This is not limited to Zuma only, as ex-president Thabo Mbeki's Johannesburg retirement home was where a few million rands of public money was spent on security (shades of Nkandla). Mothapo (2013) chastises that all ANC public representatives must begin to appreciate that good governance and oversight is not the sole responsibility of the opposition. This means that the bulk of critical, constructive, and substantive questions to Members of the Executive should come from ANC MPs with the ultimate aim of assisting deployees to perform better and achieve the electoral mandate.

### **Ruling party**

Pithouse (2012) unequivocally asserts that the ANC has been captured by a predatory elite that is cynical, corrupt, ruthless and reckless and which is actively reinscribing unbridgeable inequalities into the deep structures of the nascent South African society. It is true that the ANC retains the support of

progressives, liberals and technocrats of various sorts, bringing these people into various projects within the party is a mode of legitimation and containment rather than sincere engagement. Party politics is a farce in which different factions of the elite pretend to represent the people as a whole, even with religious leaders often preferring to share the stage with politicians.

McKinley (2012) re-asserts that similar to so many democratic revolutions before, there was the simultaneous growth in the capturing of state institutions by 'public servants' at the highest levels that incubated malfeasance and client politics. In an attempt to defend rising corruption within Mpumalanga, the Premier of Mpumalanga, Ndaweni Mahlangu (1999) unashamedly stated that it was okay for politicians to lie. He was simply giving verbal affirmation to the reality. Similarly, in 2006 the ANC's Head of the Presidency Smuts Ngonyama declared, in response to rising criticism of his own enrichment from the partial (BEE) privatisation of Telkom, that "we did not struggle to be poor", he was merely confirming that it was now acceptable for public servants (or those closely connected) to sell off public sector property for personal gain with people looting state coffers claiming that "it's our time to eat." Defence Ministerial representative Ndivhuwo Mabya claimed behind the smokescreens of "national interest" and "classified information" that, "we do not have to explain to anyone the decisions which we take ... we don't owe anyone answers."

Public Service and Administration Minister Lindiwe Sisulu contends that "it will be a betrayal of the people who fought for the revolution if its gains are reversed. No revolution is irreversible" (Sisulu & du Plessis, 2013). However, Heath (2000: 373-376) argues that corruption in the public sector has and always will continue to be a thorn in the side of any government throughout the world. Irrespective of what control measures are put in place, corruption remains a problem in many respects. It undermines the authority and the credibility of the government and its employees, it has an effect on the economic balance of the country and it plays a major role in the spread of economic crimes in general.

### **National Development Plan (NDP) on Cadre Deployment**

The National Development Plan (NPC, 2009) clearly articulates the steps that government needs to take to "... professionalise the public service, strengthen accountability, improve coordination and prosecute corruption." It further criticises political appointments by stating that "... in South Africa the current approach to appointments blurs the lines of accountability. The requirement for cabinet to approve the appointment of Heads of Department makes it unclear whether they are accountable to their minister, to the cabinet or the ruling party." The reality is that cadre deployment has undermined the ability of the government to deliver quality services to all South Africans. Minister of Public Enterprises, Malusi Gigaba's comments on cadre deployment that he "wouldn't apologise for deploying a cadre into a board" and that "there will be some rotations on the board(s), based on people whose time has lapsed" appears to be a blatant contradiction of the National Development Plan which will inevitably hamper government's efforts to professionalise the public service. Against the ever-increasing service delivery protests, South Africa needs professional and capable people to make sure that the trains run on time, the lights are kept on, and that the national carrier does not continue to run at a loss.

### **Bloated Public Service**

South Africa's public service is too large, which is not capable to effectively deliver services to the

public. The South African public service, under the ANC's rule, is busy growing abnormally fast and has already reached alarming proportions. In the first quarter (2013), the government has replaced the trade sector, which contracted by 66 000 over the same period, as the single biggest employer in South Africa. In the same quarter alone, more than 44 000 public servants had been appointed. This brought the number of public servants to a total of 3,1 million or 22,6% of the total labour force of South Africa. It is a huge figure, one of the highest proportions of civil servants to population in the world. A problematic trend is the increase in the size of the government labour force in relation to the rest of the economy (Rau, 2013). This is a recipe for a financial implosion if the smaller private sector cannot continue to carry the ever-increasing public service. This is clearly unsustainable as the public sector wage bill is ultimately paid for by the taxes generated by the private sector. PERSAL (an integrated transversal system for the administration of human resource transactions and payment of salary for the South African Government) reflects the number of the Senior Management Service (SMS) posts in the Public Service as at 31 December 2012 (table 1).

**Table 1: SMS as at 31 December 2012**

<b>Post Level</b>	<b>Number of Posts in the Public Service (Excluding Department of Defence) 31 December 2012</b>
Director-General	159
Deputy Director-General	642
Chief Director	2 501
Director	7 782
Deputy Director	21 191
<b>TOTAL</b>	<b>32275</b>

**Source:** Ministry of Public Service and Administration (MPSA)

At present, South Africa has 34 ministers, 33 deputy ministers, 159 directors general, 642 deputy directors general, 2 501 chief directors and 7 782 directors, according to the minister's reply. This implies that every minister on average has 4.67 directors general, 19 deputy directors general, 74 chief directors and 229 directors to assist them in the performing of their duties. The Public Service Act, 1994, section 3(b)(1), stipulates that the President or the Premier appoints the Head of Department (HoD) or may delegate those powers if they so choose. As high as 61% of HoDs felt that their positions would not be secured when (not if) there is a change of political leadership. In addition, the most appropriate individual is not always appointed to the position. Where a change in public service leadership occurs, there must be a proper handover to facilitate stability during the transition. This is made even more difficult by the fact that there is no system of proper handover or orientation from the departing to the newly appointed Head of Department in the Public Service (PSC, 2008: vi-x). According to Mulder (2013), the government is wasting millions of rand to keep a huge and an unwieldy public service going which is even bigger than that of the United States of America (USA) with a population of 313 million people, six times that of South Africa. The USA had 2.19 million public servants on a federal level (December 2011). This is less than South Africa's current number of public servants. Notwithstanding, in Africa, Kenya's new government

decided to cut the size of the public service by reducing the number of ministers from 42 to 18.

### **Public Service “Tenderpreneurs”**

There is increasing public awareness that tenders have created a class of rent seekers, the so-called “tenderpreneurs.” Chitiga-Mabugu (2012: 10-11) mitigates three inherent arguments that weaken the state: first - by calling for tenders, the state has effectively abandoned its responsibility in the provision of basic services; second - the tenders are responsible for corruption (rent seeking); and third - affirms that reducing every government service to a tender reduces the state’s ability to create jobs. In South Africa, the challenges of widespread unemployment demands the effective use of every rand spent. There is a strong argument that public procurement can be used to leverage employment and create a more inclusive post-apartheid by giving preference to previously disadvantaged groups. For Pillay (2004: 586), the effect of corruption has seriously constrained development of the national economy and has significantly inhibited good governance. Corruption is one of the major impediments to effective development. However, the reason that South Africa has not developed is that it has not been in the interests of the controlling elites to develop it. Public Service and Administration Minister Lindiwe Sisulu has committed the public service in dealing with double dipping and grey areas by banning public servants from doing business with government departments (Sisulu & du Plessis, 2013). The minister has already conducted a skills audit, which showed many were not up to the job. Those that are not skilled adequately will either be sent to a governance school to upgrade their skills or be retrained for other positions.

Ramphela (2013) argues that former ANC Youth League president Julius Malema’s political demise came about because his consultancy service, On Point, which was found to be looting the state in the guise of a Limpopo-based project management unit; 8000 public servants in the Eastern Cape still continue to do business with the Department of Health and rendering it bankrupt. There have already been murmurs from public servants about the business issue, yet none has been arrested, yet the information on them is readily available. Such is the culture of unaccountability that steals from poor people and the public without any repercussion or punishment. Government reports, which monitor public servant attitudes and those of their customers, are merely adequate, but what is needed are measures to shift the behaviour of public servants (Welsh & Hoffman, 2013).

### **Consultants**

South Africa has to be the only country in the world where the majority of this public sector “cadre,” high-ranking politicians, public sector, and top management of parastatals, become millionaires every year. Business, which has been corrupt at the highest levels and which is often ruthlessly predatory, is deeply implicated. This is exacerbated by appointing politically connected individuals as consultants and service providers destroy the capacity of the state to deliver (Kobus Marais). Public Service and Administration Minister Lindiwe Sisulu (2013) wants a clampdown on the misuse of consultants by government departments and has vowed to put an end to the irregular practice of appointing consultants to do the jobs of permanently employed officials. Sisulu warned errant senior public servants who did not follow government regulations when managing consulting contracts, to expect government to act against them. “We believe in a clean and accountable government, and those who do not assist us to achieve this

commitment have no place in our public service." Government departments have been slammed for the ineffective and expensive use of consultants. A staggering R102 billion was spent on consultants by national and provincial government departments in the past three years (2009-2011). Departments at provincial level accounted for R68 billion of the total spent on consultants. The investigation did not include local government spending. There is a parallel government of consultants doing the work of the employed public servants for whom it pays R315-billion (state's wage bill) a year. The state is running two payrolls, yet the outcome is not an efficient or effective state. The only beneficiaries are the companies that put the consultants into state service. Masombuka (2013: 1-2) reports that the government spent R33.5 billion on consultants employed to develop media monitoring projects, plant trees, offer basic adult education to police officers and audit staff skills - tasks that could have been done by public servants. The Auditor General's 2011-2012 report according to Mkhwanazi (2012), Redelinghuys (2013) and Pongoma (2013) exposes consultants for costing the country R102 billion to hire experts in various fields, including one noted case of hiring a consultant to manage other consultants, excess payments of R18.5 million to consultants by the same department, full payment of more than R11 million was made for a consultant overseeing a project that had not been completed three years after the deadline, a consultant paid R29 million for breach of contract due to non-performance, R134 million paid to consultants without supporting documents and the awarding of projects to a consultant who compiled the projects needs assessment. In some instances consultants were appointed who were not the highest-scoring bidders and who were more expensive than the rest of the bidders (Magome, 2013: 1). Some of the largest amounts spent were due to non-compliance with regulations (table 2).

**Table 2:** Largest payments to consultants by some Department

Department	Amount
Defence	R10.4 billion
Water Affairs	R4.3 billion
Police	R4.0 billion
Correctional Services	R2.3 billion
Transport	R1.8 billion
Rural Development	R1 billion

The abuse of over R102 billion on consultants could easily have built 1.9 million low cost (RDP) houses at R54 000 per house; 1 700 schools at R60 million per school and 298 hospitals at R336 million per hospital (table 3). Habib (2010) claimed in an inflammatory speech that it is the capacity crisis that is preventing the state from providing effective service delivery and it can be blamed on affirmative action. "The problem is that black people are placed in key positions because they are cadres and not because they are qualified for the positions." Paul Hoffman (2013:1) of the SA Institute for Accountability claims that the widespread use of consultants was due to the government employing incompetents, where people are given jobs that they have no capacity to do. To that effect, the Minister of Public Service and Administration (MPSA) Lindiwe Sisulu has announced that government is establishing a school for governance to ensure that public servants are well trained/retrained.

**Table 3:** What R102 billion could have been used to build?

Houses	1.9 million RDP houses at R54 000 per house
Schools	1 700 schools at R60 million per school
Hospitals	298 hospitals at R336 million per hospital

What each case reveals is that the civil servants employed by government do not know how to govern.

### State Owned Enterprises/Corporatism

Corporatism has more than one meaning. Wiarda (1996: 23-24) avers that it may refer to political, or social organization that involves association of the people of society into corporate groups, such as agriculture, business, ethnic, labour, military, patronage, or scientific affiliations, on the basis of common interests. South Africa's complex political economy have given rise to several forms of corruption. The new social forces governing South Africa have historically been excluded from the economy, but now control state power, and are responsible for delivering services to previously excluded and marginalised people (Pillay, 2004: 592). Donnelly (2013: 6) highlights the National Development Plan (NDP), which has far more broad-based support, and underscores the need to improve governance at State Owned Enterprises as critical to creating a capable state. McKinley (2013) also argues that if ever there was a classic example of the fundamental contradiction informing the raging debate about South Africa's 'developmental model', and the macro-framing for the delivery of public services, it is to be found in ESKOM. The contradiction is painfully obvious; as the state-owned delivery mechanism equals public service provision beneficial to the majority of South Africans, the broad working class/poor. Yet, when it comes to such intervention by ESKOM, a majority state-owned entity, its own management seeks to deliver a public service (electricity) through a commodified, cost-recovery model wholly consistent with a corporatised, capitalist market-defined delivery mechanism. Why? Because even though ESKOM is a (majority) state-owned entity, it is practically run as a corporation with the profit motive at the forefront of its revenue (and thus sustainability) model. Thus, the entire debate about more state intervention (ostensibly in order to 'protect' the public sphere and better deliver public services to those that need them most) is little more than a rhetorical exercise. However, as long as the political decision-making process as well as the character of the chosen practical 'delivery' mechanisms of such a 'developmental' agenda lack inclusive democratic form and de-commodified content, there is every likelihood that it will end up being an exercise in developmental futility.

### Civil Society and NGOs

Civil society, often taken to mean non-governmental organisations (NGO) and think tanks, is increasingly presented, by both itself and the media, as the last bulwark against the slide into authoritarianism. It is a rare NGO in which the director or the board is elected or which is run on democratic lines as NGOs are a creation of donors and civil society professionals rather than organisations that have emerged out of some sort of popular process. Despite the fact that NGOs are often not representative, political parties are often explicit about their preference for engaging certain NGOs rather than popular organisations. However, in a more conciliatory tone, Pithouse (2012) acknowledges that while it is essential to face up to the reality of what the ANC has become, it is equally

essential to acknowledge that the ANC is not solely responsible for the situation in which the country finds itself, but rather it is time for a collective facing up to the broader realities of society and a collective rethinking of a way forward. The media, with its systemic disregard for the equal humanity of poor people, also shares some of the responsibility (McKinley, 2013).

### **Service Delivery Protests**

Stapenhurst & Langseth (1997: 311-330) argues that corrupt leaders unquestionably deepen the poverty of their people. Public expenditure decisions are fuelled by private gain and subsidized by bribes with scant regard for the good of the country or its people. Pithouse's (2008) intuition, given the capture of local developmental projects by local party elites, is not surprising that over the last few years so many of the often misnamed 'service delivery protests' have targeted ward councillors and their committees. Housing is a particularly crude example of this. At every turn, the politics of patronage moves state developmental projects against the interests of the poor. The Minister of Human Settlements has revealed that there are 2,278 million households in South Africa without toilets and that it is unlikely that these households will receive their toilets by December 2014, as per his Department's target.

### **NATIONAL ANTI-CORRUPTION FORUM (NACF)**

Mafunisa (2007: 260-270) and Ngamlana (n.d.) are unanimous that a common thread cuts across most cultures and norms in the understanding that corruption refers to any activity that is intentionally conducted for personal gain, at the expense of government. Hellman, Ones, & Kaufman define corruption as "the use of public office for private gain". It is defined as the misuse of power for private benefit, and usually involves money changing hands. In South Africa, the rich and corrupt become even richer at the expense of the poor. The Gini co-efficient is a damning indictment in this regard. Definitions of corruption can vary from culture to culture; different societies often have different views on what corruption is, as not all societal norms are necessarily consistent with good governance. The primary reason for concern about corruption is that it reduces public trust and confidence in the integrity and impartiality of elected representatives (political office bearers and public officials).

In spite of all these efforts, Ngamlana (n.d.) argues that corruption in South Africa has taken a turn for the worse with the arms deal, the oilgate, Shabir Shaik, "Jackie Selebi and friends" saga, and corrupt dealings involving senior politicians (late Minister Shiceka, whose corrupt activities were uncovered by the national media) and high profile government employees taking centre stage. Reports of tender irregularities implicating the erstwhile Public Works Minister and dismissed Police Commissioner come as no surprise when one tracks back how half-heartedly government had committed to the fight against corruption. President Zuma, in each of his speeches commits government to the fight against corruption albeit falling short of giving concrete strategies. It would appear as though government commits to the fight against corruption mostly in speech and to a very limited extent in deed.

It was realized early that the Public Service could not succeed in the battle against corruption alone and that broad based partnerships had to be developed to assist. The National Anti-Corruption Forum was established and launched in 2001 to combat and prevent corruption, build integrity and raise awareness. The NACF comprises three sectors, namely civil society, business, and government. The Public Service Anti-Corruption Strategy has been developed for the Public Service in order to give effect to

the expressed commitment of the Government to fight corruption in the Public Service. According to the National Anti-Corruption Forum (NACF, 2013), the government has stepped up its anti-corruption activities, its efforts have become more systemic, with greater emphasis on instituting appropriate policy measures to prevent corruption. South Africa's anti-corruption progress is well documented in five published documents, namely the Country Corruption Assessment report (Department of Public Service and Administration/UNODC, 2003), the Towards a Ten Year Review discussion document (The Presidency, 2004), the Public Integrity Index (Centre for Public Integrity, 2004) and the National Integrity Systems country study report (Transparency International, 2005) and the record of the 2nd National Anti-corruption Summit (National Anti-corruption Forum, 2005).

However Ngamlana (nd.) reports that the call centre in the Monitoring and Evaluation Ministry in the Office of the President shows that operators seem terribly busy and hardly ever have time to answer the phone. There is very little monitoring done as to the usefulness of this system. The truth is that if people report corrupt Public Servants and nothing ever is done, they soon lose faith in the system. No concrete studies have been done on the usefulness and effectiveness of the Anti-Corruption Forum so no one can claim that it works well, but judging by the rise in corrupt activities in the Public Sector, one can safely draw conclusions.

The most notable problems are insufficient coordination of anti-corruption work and poor information about corruption within the South African public service (Pillay, 2004:586). The common argument in this respect is that the South African state simply lacks the capacity to implement policy and that; therefore, new policies are unlikely to be realised in practice. South Africa has not done well in dealing with corruption, fraud and financial misconduct over the past years. Public Service and Administration Minister Lindiwe Sisulu admits that the anti-corruption unit in the Department of Public Service and Administration (DPSA) has, to date, not chipped away sufficiently at perceptions of corruption (Sisulu & du Plessis, 2013). *According to Sisulu, it is not worth giving up the anti-corruption fight just because it appears to be a losing battle.* Her measures to deal with departmental corruption are nothing new and commentators have already asked what good a new set of measures would do.

### **Judicial Procedure/Treason**

Justice Arthur Chaskalson claims that "Corruption and maladministration are inconsistent with the rule of law and the fundamental values of our Constitution. They undermine the constitutional commitment to human dignity, the achievement of equality and the advancement of human rights and freedoms. They are the antithesis of the open, accountable, democratic government required by the Constitution. If allowed to go unchecked and unpunished they will pose a serious threat to our democratic State." Commentary on the recent state of the public service and the effects of grand corruption and the effects of high profile profligation and wanton abuse of state resources has prompted much awaited debate on such transgressions being equated to treason. The South African law does not distinguish between different types of treason. Legal experts and academics, however, point out that only people who are considered to be bound by obligations of loyalty to a state ("a person owing allegiance to a state") can be tried for treason. South African courts defined treason as "Any overt act committed by a person owing allegiance to a state...." Some lawyers call it the chameleon crime, because it is a charge so vaguely defined that it can be used to either suppress or protect. The incidents of grand corruption

invariably involve highly influential and politically resourced individual and where it perhaps is time to invoke their actions as being an overt act against the state equivalent to treason.

### **Specialised Commercial Crimes Courts**

The establishment of the Specialised Commercial Crimes Courts to adjudicate on corruption cases over the past five years have made a material contribution to the combating and adjudication of commercial crime, including corruption. These courts have been established in Pretoria, Johannesburg, Durban, and Port Elizabeth. The courts have gained strong business support and international acclaim as a best practice model, dealing with a variety of commercial crimes and corruption and statistics show that these courts finalise a greater number of cases and achieve higher conviction rates (above 94%) than normal regional courts.

### **FAILED STATE STATUS**

Currently South Africa ranks 66<sup>th</sup> and falling in terms of countries heading towards failed state status (Welsh & Hoffman, 2013). Fortunately, South Africa is still a far cry from being declared a failed state. There are, however, some disquieting signs that analysts have alluded to. State failure occurs along a continuum: dysfunctional institutions, popular protests (such as the regular service delivery protests), illegal and often violent strikes, and the evident growing alienation of young, urban blacks who face a lifetime of unemployment. There are other danger signals of threats to key institutions:

- cadre deployment, which has already played havoc with the efficient running of government in all spheres
- the weakness of parliamentary oversight,
- the reluctance to answer parliamentary questions that probe too deep

The list of disquieting manifestations of a reluctance to heed the constitutional requirement of transparency is long. There are six political indicators that bear mention; however, for the purpose of this paper it is prudent to mention the following:

- Progressive deterioration of public services,
- Security apparatus as a "state within a state"
- The rise of factionalised elites.

### **CONCLUSION**

South Africa has not developed, as it has not been in the interests of the controlling elites to develop it. Econometric research suggests there is a negative association between high levels of corruption and economic growth. Members of various powerful nexus have captured state institutions and have developed symbiotic relationships with the state, thereby, affecting its institutional capacity to reduce corruption and the failure to strengthen transparency and accountability. Tenderpreneurship, political profiteers, and the featureless men and women in high places who loot the state in the name of Black Economic Empowerment, must come to an end as well as the ascension into senior positions of power and influence of dubious characters at national level, especially those who seek to keep South Africa from progress. The public bureaucracy is negatively impacted from working professionally. Therefore the state needs to take a stronger stance on governance, making public spending and public procurement more

transparent and ensuring that public bodies are more accountable to citizens. Citizens have every right and a responsibility to ensure that public institutions are a reflection of the people's aspirations. The root of the rot, if not arrested, will be too late for the state to fulfil the vision and promise of the National Development Plan 2030. Politicians ultimately have to answer to the taxpayer and are not a law unto themselves. Ultimately citizens need to hold them accountable and responsible for their criminality.

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## THE PRINCIPLES OF CORPORATE GOVERNANCE: WHERE IS THE SOUTH AFRICAN PUBLIC SECTOR NOW?

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### ABSTRACT

It is clear that corporate governance plays a crucial role in the public sector. Against this background, this paper examines the principles of corporate governance as underpinned in the South African Constitution, Public Finance Management Act, Municipal Finance Management Act, King Report I, II, III, King Code of Corporate Practices and Conduct. It has often appeared as though the public sector is exempted from the application of corporate governance. It is however, argued in this paper that the principles of corporate governance are not only applicable to the private sector, but also applies to the public sector. It is further argued that the effectiveness and accountability of the public sector can be improved significantly if these principles of corporate governance are applied correctly. In examining the principles of corporate governance in the public sector, this paper looks at various institutions in the public sector that promotes corporate governance. The purpose here is to evaluate the principles of corporate governance in these institutions. This paper will outline the nine principles of corporate governance. These principles are pillars of the governance of the public sector institutions. The paper will further outline the corporate governance challenges which lie at the heart of public sector institutions woes. It is a well-known fact that corporate governance is about effective and responsible leadership. Responsible leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency, which values underpin good corporate governance.

**Keywords:** Corporate governance; public sector institutions; responsible leadership; accountability; transparency; South Africa

### INTRODUCTION

Clarke notes that as the scale and activity of corporations have increased massively, the governance of these entities has assumed considerable importance.<sup>1</sup> Scholars and practitioners argue these business corporations have an enduring impact upon societies and economies, and how corporations are governed their ownership and control, the objectives they pursue, the rights they respect, the responsibilities they recognise, and how they distribute the value they create has become a matter of the greatest significance, not simply for their directors and shareholders, but for the wider communities they serve.<sup>2</sup> Koma asserts that the concept of corporate governance is not solely confined to private sector setting and as such it is incumbent upon public sector organisations to embrace corporate governance with a view to improve their efficiency, effectiveness, accountability and reputation.<sup>3</sup> Senator Abetz correctly pointed out that:

“while corporate governance concepts and terminology may have originated in the private sector, ‘its impact has deepened and broadened ...[and] is no longer reserved for the private sector, but also applies to other areas of society – the education sector, the not-for-profit sector, and of course, the public sector.”<sup>4</sup>

It is clear that corporate governance plays a crucial role in the public sector. Against this background, this article examines the principles of corporate governance as underpinned in the Public Finance Management Act,<sup>5</sup> King Report I, II, III, King Code of Corporate Practices and Conduct. It has often

appeared as though the public sector is exempted from the application of corporate governance. It is however, argued in this article that the principles of corporate governance are not only applicable to the private sector, but also applies to the public sector. It is further argued that the effectiveness and accountability of the public sector can be improved significantly if these principles of corporate governance are applied correctly. In examining the principles of corporate governance in the public sector, this article looks at various institutions in the public sector that promotes corporate governance. The purpose here is to evaluate the principles of corporate governance in these institutions.

Corporate governance is generally understood to mean the way in which companies are directed and controlled such that it can fulfil its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term.<sup>6</sup> Thus, the emphasis is on those organs which play a vital role in corporative decision-making.<sup>7</sup> Corporate governance is based on principles such as conducting the business with integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner.<sup>8</sup>

From the above explanation, it can be said that corporate governance had been originally associated with the companies and having a domain in the company law.<sup>9</sup> In 1994 upon the election of a democratic majority government, the South African government found that some of the instruments for delivering necessary services and carrying out policy were actually State Owned Entities (SOEs), and their control and governance was not based on any standardized principles or rules. These SOEs were organized in many different ways and subordinate to a wide range of legislation and statutory regulations.<sup>10</sup> Some SOEs, in fact, acted as autonomous entities, having no direction or control from the previous government for a long period of time.<sup>11</sup> South African SOEs form a significant portion of vital industries that drive the economy by providing factor inputs. Three key inputs, electricity, transportation and telecommunications are dominated by SOEs. Without these key SOEs, the resources, tourism, information technology and manufacturing sectors could not function effectively. These sectors are principal drivers of the formal sector economy, and provide for the bulk of economic growth.<sup>12</sup> The status of South Africa's SOEs and the extent of potential privatization has been the subject of lively debate within government and civil society since the first democratic elections. Given the special role of the SOEs, the need to sustain formal sector employment levels and skills retention and the debate on the ownership of key economic assets, a path of restructuring was adopted. Essentially, this policy recognised the need to inculcate efficiency within the SOEs while concurrently ensuring that social and infrastructural goals were met.<sup>13</sup>

In 1999, the Government affirmed the overall strategic vision of the restructuring of SOEs. The Department of Public Enterprises was given an expanded mandate to lead the programme of restructuring with the active participation of the Cabinet. Corporate governance, as embodied in the new and revised Protocol.<sup>14</sup> It is the Government's intent that the principles of the Protocol should apply to all public entities and their subsidiaries<sup>15</sup> In this context, the proper governance and control of SOEs became an important component of the restructuring process. The magnitude of this task cannot be overestimated, given the aggregate size of SOEs. These SOEs are the principal entities that deliver many social goods and services to ensure quality of life of all South Africans. The publication of the first King Report on corporate governance in November 1994 and secondly in March 2002 has given further

impetus to the issues of governance not only in SOEs, but also in the full range of business entities.<sup>16</sup>

Accordingly, unlike the King Code, which covers a wide spectrum of entities in both the private and public sectors, the Protocol seeks to provide guidance specifically to the public sector, taking into account the unique mandate of the SOE's, which includes the achievement of socio-politico-economic objectives of the government. It is recognized further that since the King Code is of general application, there are various specific public sector related issues, which may not be fully addressed therein and which issues require to be addressed in the Protocol. It should, therefore, be understood at all times that the principles of the Protocol only seek to amplify and not supersede (or conflict with) those contained in the King Code and that the Protocol should, in fact, be read in conjunction with the King Code.<sup>17</sup>

### **DOES CORPORATE GOVERNANCE APPLY TO THE PUBLIC SECTOR?**

From the discussion above it is clear that corporate governance is often associated with the private sector than the public sector.<sup>18</sup> The cardinal question is whether corporate governance is only confined to the private sector. From the definitions of corporate governance stated above, it can be deduced that corporate governance describes the overall management of an institution. The term "Corporate" refers to a body or institution, and the use of the term corporate in "corporate governance" can be extended beyond companies and business corporations in the private sector.<sup>19</sup> Corporate governance has, therefore, a broader application and should also form the base of financial management in the public sector.<sup>20</sup> Therefore the overall management of an institution under corporate governance is not restricted to private sector but is also applicable to the public sector entities.<sup>21</sup> McGregor correctly pointed out that governance is more than rules, regulations, accountability, structures and frameworks. She notes that governance is also about institutional attitudes, leadership, values and behaviours. She concludes that all these issues cut across all areas of an organisation whether private or public sector organisation [*emphasis added*].<sup>22</sup>

Governance in the public sector has a political dimension because the roles of the stakeholders in governing the public sector are important. The stakeholders will be represented by a governing body, for example Parliament, who has, through elected representatives the responsibility for appraising performance.<sup>23</sup> The stakeholders also include providers of resources (taxpayers, lenders, bondholders, and creditors), service provider/partners (employees, contractors, and joint venture partners and other government entities), users of services (individuals and businesses who benefit from the services that the entity provides), interest groups, analysts/statistic gatherers (policy analysts, economists, financial analysts, rating agencies), media and the wider community.<sup>24</sup> The main objective of corporate governance in the public sector is to ensure that the government deliver services in a way that is equitable, efficient, effective and affordable, and consistent with the principles of service delivery such as universal coverage and environmental sustainability.<sup>25</sup> All these aspects are in harmony with the principles of corporate governance and indicate that corporate governance is just as applicable to the public sector as it is to the private sector.<sup>26</sup> Corporate governance principles should be vigorously enforced both in the national and provincial governments for effective financial management. These principles involve openness, integrity and accountability, which can also be subdivided into features like independence, honesty, fairness, objectivity, discipline and responsibility.<sup>27</sup> The implementation of sound corporate governance and financial management in the public sector is hindered due to various managerial shortcomings.<sup>28</sup> This

includes *inter alia*, the lack of understanding of King Reports and the provisions of the Public Finance Management Act (PFMA).<sup>29</sup>

## THE LAW ON CORPORATE GOVERNANCE

Corporate governance embodies processes and systems by which corporate enterprises are directed, controlled and held to account.<sup>30</sup> Corporate governance in South Africa was institutionalised by the publication of the King Report on Corporate Governance in November 1994, which report has subsequently been superseded by the King Code of 2002. The purpose of the King Report is to promote the highest standards of corporate governance in South Africa. The Code of Corporate Practices and Conduct contained in the King Report applies *inter alia*, to SOEs and agencies that fall under the PFMA.<sup>31</sup> PFMA is the principal Act promulgated by the Government to stipulate in detail the rules and regulations related to financial management and reporting to be followed and observed by SOE governing bodies and management. The PFMA applies not only to SOE's, but to departments, other public entities, constitutional institutions, Parliament and provincial legislatures, specified in the PFMA. Every public entity governed by the PFMA must have an accounting authority, which must be accountable for the purposes of the PFMA. This is usually the board. However, if there is no board, the statutory governing body will be considered the 'authority.' In special circumstances, the relevant treasury may approve or instruct that another body serve as the accounting authority for that public entity.

The King Code of Corporate Practices and Conduct provides specific guidelines for corporate governance. The report applies to all companies with securities listed on the Johannesburg Stock Exchange (JSE), banks, financial and insurance entities, as well as public sector enterprises and agencies that are subject to the PFMA and the Municipal Finance Management Act (MFMA) <sup>32</sup> including any department of state or administration in the national, provincial or local sphere of government. The King Code of Corporate Practices and Conduct and the Protocol on Corporate Governance in the public sector provides particular reference to the following areas: who should be on the board? Functions of the board; distinction between the chairperson and the chief executive officer; role of directors; remuneration committee; allocation of share options; board committees; evaluation of directors; dealing in securities; business ethics and organisational integrity; annual reports and general meetings; and, the company secretary. The government, as a major shareholder in SOEs, faces a wide range of risks associated with the operations of SOEs, including financial, reputation, political and operational risks.<sup>33</sup> It is the responsibility of each Executive Authority (in whom the primary responsibility for appropriate SOE oversight and accountability to Parliament rests) to ensure that these risks are identified, reduced and managed. In this regard, a key requirement of SOEs is to report and account for their performance to the relevant Executive Authority in respect of financial and non-financial matters, at the same time, however, maintaining independence in the conduct of their duties and free from day to day involvement by the Executive Authority (the line Ministry).<sup>34</sup> It is through Protocols, Shareholder Compacts and Policy Framework for SOE released by the relevant Executive Authorities from time to time that the government ensures that there are no actual or perceived conflicts of interest and that SOEs achieve the government's broad policy objectives and ensuring that the SOE's boards operate efficiently and effectively.<sup>35</sup> SOEs operate within the framework of a variety of legislation including, *inter alia*, PFMA (which is part of Government's broader strategy to improve financial management in the public sector), Companies Act 71

of 2008 and the relevant legislation under which an SOE operates. It is, therefore, important that directors of SOEs develop working knowledge of this framework and ensure that the SOEs comply with their legal obligations.<sup>36</sup>

### **Application of King Reports**

King I Report promotes the highest standards of corporate governance. It advocated an integrated and inclusive approach to corporate governance. This approach requires companies to widen their focus beyond financial matters and to consider the company's triple bottom line that is its economic, environmental and social impacts.<sup>37</sup> King I Report required that each company pay heed to how these triple bottom-line factors impacted on and affected a wide range of stakeholders with whom the company transacted, rather than simply its shareholders.<sup>38</sup>

The King III Report and the Code apply to all entities incorporated in and resident in South Africa, regardless of the manner and form of incorporation or establishment and whether that establishment is in the public, private or non-profit sectors. In contrast, the King II Report only applied to certain categories of business enterprises, namely listed companies, financial institutions and sector enterprises, while companies falling out of these categories were merely required to consider the application of the King II Report insofar as it was applicable.<sup>39</sup>

The USA codified its corporate governance provisions in the Sarbanes- Oxley Act of 2002 and legal sanctions are applied for non-compliance with this Act. In South Africa, compliance with the King III Report and the code is mandatory for the companies listed on the JSE, financial institutions and sector enterprises, but for all other entities there is no statutory obligation to comply with the King III Report and the Code. While corporate governance practices in South Africa may be voluntary, note that they are highly recommended and have considerable persuasive force.<sup>40</sup> Commonwealth countries and the European Union Member States have also not legislated their corporate governance practices and have adopted a similar approach to that adopted in South Africa.<sup>41</sup>

## **INSTITUTIONS AND STRUCTURES OF GOVERNANCE IN THE PUBLIC SECTOR**

There are various institutions and structures that play a vital role in promoting good governance in the public sector. These institutions must adapt the principles of good governance for the purposes of controlling the activities of organizations that operate as parastatals or public entities and others that function as business units within the broad context of the government sector.

### **National and Provincial Departments**

The National departments and provincial departments are the most expected structures in the public sector that should promote the elements of good governance and that includes *inter alia* accountability, transparency and responsibility. These structures bear a duty to support governance in the public sector in general. The Standing Committee on Public accounts in particular ensures that the executive is held accountable for all its activities. The Executive has to be accountable for public monies and for all the resources they use on a day to day basis, this is essential especially in the evolving fraud and corruption in South Africa.

### **Auditor General**

The Auditor General (AG) derives its general mandate from the Constitution.<sup>42</sup> The AG accordingly has a duty to audit and report on the accounts, financial statements and financial management of: all national and provincial state departments and administrations; all municipalities; and, any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General. The AG reports are required to be made available for public domain.<sup>43</sup> The availability of these reports to the public promotes transparency and accountability which are the essentials of good governance. This discussion is relevant in that the public sector is also subject to auditing. It is submitted that auditing in general must be understood by both the public servants and most importantly, managerial leadership. The managerial leadership must be well acquainted with the processes of auditing; the lack of understanding of these processes would deprive the managerial leadership the opportunity to use the PFMA as a guiding policy for good governance in the public service. In support of accountability and responsibility, the AG must submit the annual report, financial statement and audit reports of financial statements within six months after the financial year to which they relate to oversight mechanism and to the National Assembly.<sup>44</sup>

### **Public Service Commission**

There is a single Public Service Commission in the Republic of South Africa. This Commission is independent and impartial in the exercise of its duties.<sup>45</sup> The Public Service Commission (PSC) is another structure that promotes the governance of the public sector. PSC is tasked and empowered to amongst others, investigate, monitor and evaluate the organisation and administration of the public service.<sup>46</sup> This duty also includes the obligation to promote measures that would ensure effective and efficient performance within the Public Service and to promote values and principles of public administration as set out in the Constitution, throughout the Public Service.<sup>47</sup> It can therefore be deduced that the PSC promotes governance in the public sector through the regulation and promotion of ethical leadership, monitoring and evaluation, management and measurement activities in the public service.

### **National Treasury**

National Treasury (NT) seeks to ensure that good governance is at the heart of public service.<sup>48</sup> It also ensures that financial management in the public service is improved and thus intact. To support its mandate, NT is responsible for the promotion and enforcement of transparency effective management in respect of revenue, expenditure, assets, and liabilities of department, public entities and constitutional entities.<sup>49</sup> Most importantly, the NT is expected to assess and monitor the implementation of the PFMA, as well as the norms and standards and Treasury regulations so that financial management in the public service is at the optimal level.<sup>50</sup> NT may also promote good governance by encouraging accountability, transparency and risk management in the public sector. NT may encourage the public sector again through the drafting of risk and fraud plans for the department which may be implemented by the both the departments and officials to promote good governance.<sup>51</sup>

### **Public Protector**

The Public Protector (PP) derives its mandate from the Constitution.<sup>52</sup> PP has the power: to

investigate any conduct in state affairs, or in the public administration in any sphere of government, that is alleged or suspected to be improper or to result in any impropriety or prejudice;<sup>53</sup> to report on that conduct;<sup>54</sup> and, to take appropriate remedial action.<sup>55</sup> From the above constitutional mandate, it can be deduced that the PP is supportive of corporate governance and its processes. It can further be deduced that the government departments are under scrutiny and observed by the public in support of good governance so that the rights of the public are not undermined.<sup>56</sup> It is within this context that the members of the public are encouraged to lodge complaints against any misuse of public monies by government departments. It is therefore essential to ensure that governance is intact.<sup>57</sup>

## **PRINCIPLES OF CORPORATE GOVERNANCE**

The following are the principles of corporate governance as provided by the King III Report and code, namely: ethical leadership and corporate citizenship; establishment boards and directors; establishment of audit committees; the governance of risk; the use of information technology; compliance with the laws, codes, rules and standards; internal audit; governing stakeholder relationships; and, integrated reporting and disclosure.

### **Ethical Leadership and Corporate Citizenship**

The underlying philosophy of the King III Report revolves around leadership, sustainability and corporate citizenship. On the issue of leadership, the King III Report requires the board of directors to provide effective leadership based on an ethical foundation.<sup>58</sup> Ethics or integrity is the foundation of and very reason for corporate governance. An ethical corporate culture constitutes more than social philanthropy or charitable donations.<sup>59</sup> The reasoning behind the ethics of corporate governance, which requires the board of directors to ensure that the company is run ethically, is that, as this is achieved, the company earns the respect and approval of those affected by and affecting its operations.<sup>60</sup>

### **Boards and Directors**

The King III Report places greater emphasis on the leadership, integrity and responsibility of the board. The board constitutes a fundamental base of corporate governance in the SOE's. Accordingly, each SOE should be headed and controlled by an effective and efficient board, comprising of executive and non-executive directors of whom, preferably, the majority should be non-executive directors in order to ensure independence and objectivity in decision making.<sup>61</sup> The King III Report differentiates between executive and non-executive directors. An executive director is involved with the day today management of the SOE. He or she is in the full-time salaried employee of the SOE<sup>62</sup> and is generally under a contract of service with the company. A non-executive director, on the other hand, is a part-time director. He or she is not involved in the management of the SOE, but plays an important role in providing objective judgment, independent of management, on issues facing the SOE.<sup>63</sup> Generally, non-executive directors contribute to the development of management strategies and monitor the activities of the executive directors.<sup>64</sup> A non-executive director must not be biased and must always rescue himself where conflict of interests arises.<sup>65</sup>

In *Fisheries Development Corporation of SA Ltd v Jorgenses and Fisheries Development Corporation of SA Ltd v AWJ Investment (Pty) Ltd*<sup>66</sup>, the court stated that non-executive directors are not bound to give continuous attention to the affairs of the company. Their duties are of an intermittent nature,

to be performed at periodical board meetings and at any other meetings that may require their attention. Non-executive directors are expected to attend board and relevant board committee meetings and to acquire and maintain a broad knowledge of the economic environment, industry and business of the company.<sup>67</sup> The role of non-executive directors and the independence that they are believed to bring to the board of directors has been a consistent theme of corporate governance theories, policies and programmes.<sup>68</sup> An independent non-executive director is a director who is required to be independent in character and judgment.<sup>69</sup> There should be no relationships or circumstances that are likely to affect, or could appear to affect, their independence. In this context, 'independence' means the absence of undue influence and bias that could be affected by the intensity of the relationship between the director and the company, rather than any particular fact such as length of service or age. Not only should the director be independent in fact, but he or she should also appear to be independent in the perception of a reasonably informed outsider.<sup>70</sup> The following are the roles of the Board in the SOE:

- The board of the SOE has absolute responsibility for the performance of the SOE and is fully accountable to the shareholder for such performance. As a result, the board should give strategic direction to the SOE, and in concurrence with the Executive Authority appoint the chief executive officer and ensure that an effective succession plan for all directors and key executives is in place and adhered to.<sup>71</sup>
- In the SOE, the board of directors are responsible for submission of all reports, returns, notices and other information to parliament, the executive authority, National Treasury, as may be required by the statutes.<sup>72</sup>
- The board is also responsible for the management, including the safeguarding, of the assets and for the management of the revenue, expenditure and liabilities of SOE.<sup>73</sup>
- The board must ensure that SOE has an Affirmative Action Plan in place to advance members of the groups historically discriminated against, including on the grounds of race, colour, origin, gender and disability.<sup>74</sup>
- The directors shall, in the exercise of their powers, use their best endeavours to achieve the objectives of the SOE as set out in the Memorandum of Association of the SOE and as conveyed to them by the Executive Authority.<sup>75</sup>
- If the board is unable to comply with any of the responsibilities determined for it in the PFMA, it must promptly report the inability, together with reasons, to the Executive Authority and the National Treasury.<sup>76</sup>
- The board of an SOE in terms of section 55 of the PFMA must: (a) keep full and proper records of the financial affairs of the SOE; (b) prepare financial statements for each year; (c) submit the draft financial statements within two months after year-end of the treasury and auditors for auditing; (d) and, submit the audited statements within 5 months after the financial year-end to the Executive Authority, National Treasury and the Auditor-General (AG).

The board must annually in consultation with its Executive Authority conclude a shareholder's compact. The Shareholder's compact must document the mandated key performance measures and indicators to be attained by the SOE as agreed between the parties. The board of an SOE must also establish procedures for quarterly reporting to the Executive Authority to facilitate effective performance monitoring,

calculation and corrective action.<sup>77</sup>

### **Audit Committees**

The King III Report requires the board of directors to ensure that the company has an effective and independent audit committee. An independent audit committee plays central role in corporate governance and is vital to ensure the integrity of integrated reporting and financial controls and to identify and manage financial risks.<sup>78</sup> The PFMA and MFMA also require public sector institutions to establish independent audit committees and internal audit committees. The report requires listed companies and SOEs to establish an audit committee. The shareholders must elect the members at each annual general meeting. Private companies, non-profit companies and personal liabilities companies may voluntarily appoint an audit committee and define its composition, purpose and duties in the memorandum of incorporation.<sup>79</sup> The audit committee should comprise of at least three members who should be suitably skilled and experienced non-executive director. The Companies Act also prescribes further requirements. The chairperson of the board of directors should not be chairperson or member of the audit. The chairperson must only attend meeting upon invitation.<sup>80</sup>

The appointment of audit committee members in state-owned entities is governed by the PFMA and MFMA. Members of the audit committee must meet at least four times in a year. They should also meet with internal and external auditors at least once a year without the management being present.<sup>81</sup> The mismanagement of public funds has led to public officials being required to demonstrate how the public funds are being utilised. These accountability requirements and the requirement for sound financial management have brought public sector managers in contact with accountability instruments such as internal audit and the audit committee of the institution.<sup>82</sup> In essence, audit committees promote accountability which is one of the important elements of corporate governance. PFMA also touches on the element accountability in the public sector through section 38. Section 38 requires the accounting officer therein to ensure that the department has and maintains a system of financial and risk management and internal control. This system of internal control must be monitored by an internal audit function, under the control and direction of an audit committee. It can be seen that the audit committee has been built into the legislative framework as an accountability instrument.<sup>83</sup>

### **GOVERNANCE OF INFORMATION TECHNOLOGY (IT)**

The governance of IT is dealt with for the first time in the King III Report.<sup>84</sup> As acknowledged by the King III Report, IT has become an integral part of doing business and is fundamental to support, sustain and grow the business. The King III Report states that IT governance is not an isolated discipline, but an integral part of overall corporate governance. Information technology governance can be considered as a framework that supports the effective and efficient management of IT resources to facilitate the achievement of a company's strategic objectives.<sup>85</sup> The IT governance framework should include the relevant structures, processes and mechanisms to enable IT to deliver value to the business and to mitigate IT risks. It should focus on the governance of the information as well as the governance of technology.<sup>86</sup> The King III Report requires the board of directors to be responsible for IT governance. The board may appoint an IT steering committee or similar forum to assist with its governance of IT. It is recommended that the Chief Executive Officer (CEO) appoints a Chief Information Officer (CIO) to be

responsible for the management of IT. There is an increased risk to organisations that embrace IT and its directors should ensure that the reasonable steps have been taken to govern IT.<sup>87</sup> In exercising their duty of care, directors should ensure that prudent and reasonable steps have been taken in regard to IT governance. To address this by legislation alone is not the answer. International guidelines have been developed through organisations such as ITGI and ISACA (COBIT and Val IT), the ISO authorities (eg: ISO 38500) and various other organisations such as OCEG. These may be used as a framework or audit for the adequacy of the company's information governance for instance, but it is not possible to have one size fits all. However, companies should keep abreast of the rapidly expanding regulatory requirements pertaining to information.<sup>88</sup>

### **Governance of Risk**

The King III Report requires that the board of directors be responsible for the governance of risk and determine the levels of risk tolerance that the company is able to bear in the pursuit of its objectives. Risk is defined as the taking of risk for reward. The board of directors should determine the levels of risk tolerance at least once a year. It should review these limits during periods of increased uncertainty or any adverse changes in the business environment. It is recommended that the board's responsibility for risk governance be expressed in the board charter in addition, the board's responsibility for risk governance should manifest in a documented risk management policy and plan, which should be widely distributed throughout the company and reviewed by the board at least once a year. The board should also comment in the integrated report on the effectiveness of the system and process of risk management.<sup>89</sup> A risk committee or audit committee should assist the board in carrying out its risk responsibilities.<sup>90</sup> The risk committee should have at least three members and should include executive and non-executive directors.<sup>91</sup> The committee should comprise people with adequate risk management skills and experience to equip the committee to perform its functions, and may invite independent risk management experts to attend its meetings, if necessary.<sup>92</sup> It should convene at least twice a year.<sup>93</sup>

Regarding risk disclosure, the King III Report recommends that the board of directors should ensure that there are processes in place that enable complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.<sup>94</sup> Undue, unexpected or unusual risks should be disclosed in the integrated report.<sup>95</sup> In the public sector, risk management involves identifying risks that may prevent a department from achieving its objectives, analysing those risks, avoiding certain risks and managing those that remain. It has been suggested that audit committees should fulfil the role of assisting to assess risks facing the government department.<sup>96</sup> In the premise, directors should keep the executive authority informed of risk management strategies by outlining them in corporate plans and progress reports, and other reports when necessary.<sup>97</sup> In addition, and unless otherwise qualified because of circumstances applying to a particular SOE, corporate plans and progress reports should contain a statement from the board that the board has appropriate risk management policies and practices in place and that adequate systems and expertise are being applied to achieve compliance with those policies and procedures.<sup>98</sup>

### **Compliance with Laws, Rules, Codes and Standards**

The King III Report requires the board of directors to ensure that the company complies with all applicable and relevant laws and that it considers adherence to non-binding rules, codes and

standards.<sup>99</sup>A compliance culture should be encourage through leadership, establishing the appropriate structures, education and training, communication and the measurement of key performance indicators relevant to compliance.<sup>100</sup>The board has a duty to take necessary steps to ensure the identification of laws, rules, codes and standards that apply to the company.<sup>101</sup>Details must be disclosed by the board in its integral report on how it has discharged its responsibility to establish an effective compliance framework and process.<sup>102</sup> The King III Report goes as far as to require the board and each individual director to have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.<sup>103</sup>Directors should sufficiently familiarize themselves with the general content applicable laws, rules, codes and standards to be able to adequately discharge their fiduciary duties and their duty of care, skill and diligence in the best interest of the company.<sup>104</sup> Compliance risk, which is the of damage arising from non-adherence to the law and regulations, to the company's business model, objectives, reputation, going concern, stakeholders relationships or sustainability, should form integral part of the company's risk management process.<sup>105</sup>

The King III Report suggests that the board delegates to management the implementation of an effective compliance framework and process.<sup>106</sup>An independent, suitably skilled compliance officer may be appointed.<sup>107</sup> He or she should have access to, and interact regularly on, strategies compliance matters the board and/or appropriate board committee and executive management.<sup>108</sup> Although the chief executive officer may appoint a compliance officer to assist in the execution of the compliance function, note that accountability to the board of directors remains with the chief executive officer.<sup>109</sup>

### **Internal Audit**

The King III Report requires the board of directors to ensure that there is an effective risk based internal audit.<sup>110</sup>An internal audit should evaluate business processes, perform an objective assessment of the effectiveness of risk management and the internal control framework, systematically analyse and evaluate business processes and associated controls, and provide a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.<sup>111</sup> An internal audit plays an important role in providing assurance to the board regarding the effectiveness of the system of internal controls and risk management of the company.<sup>112</sup> It is suggested that an internal audit charter be formally defined and approved by the board of directors,<sup>113</sup> and that at a minimum the internal audit Professional Practice of Internal Auditing and Code of Ethics.<sup>114</sup> The King III Report recommends further that the internal audit should provide a written assessment of the effectiveness of the company's system of internal control and risk management.<sup>115</sup>It is the audit committee that should be responsible for overseeing the internal audit.<sup>116</sup>

### **Governing Stakeholder Relationships**

The King III Report adheres to the "triple context" or integrated approach, which acknowledges that companies should act with economic, social, and environmental responsibility.<sup>117</sup>Directors should consider economic, should be created where shareholders are not mere speculators, but owners concerned with the well-being of the company in which they hold shares, constantly checking whether the directors are practising good corporate governance.<sup>118</sup>

### Integrated Reporting and Disclosure

The board of directors should ensure the integrity of the company's integrated report. An integrated report means a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability.<sup>119</sup> The integrated report should be prepared every year. Sustainability reporting and disclosure should be integrated with the company's financial reporting. The annual financial statements should be included in the integrated report, and the board should include a commentary on the company's financial results.<sup>120</sup> This commentary should include information to enable stakeholder to make an informed assessment of the company's economic value.<sup>121</sup> The board should ensure that positive and negative impacts of the company's operations, together with plans to improve the positives and eradicate or ameliorate the negatives in the financial year ahead are conveyed in the integrated report.<sup>122</sup>

### LESSONS TO BE LEARNED FROM SOUTH AFRICAN BROADCASTING CORPORATION (SABC) LTD V MPOFU<sup>123</sup>

This case deals with an appeal lodged by the SABC against the judgment of Tsoka J which was dismissed with costs. The full bench of the South Gauteng High Court found that the suspension of Mr Dali Mpofo as Group Chief Executive Officer of the SABC at a meeting of 6 May 2008 was not in accordance with the Articles of Association or good corporate governance. The court found that the board was not properly constituted as three of the directors of the board were excluded from a board meeting at a time a decision to suspend Mr Mpofo was taken. The court also found there was insufficient notice for the three directors to attend the board meeting, that their failure to object when they were sent from the meeting did not amount to acquiescence in that decision. The court also found that Mpofo did have the necessary *locus standi* to seek reinstatement since he was acting in his own personal capacity and not on behalf of the company. Jajbhay J found that *Ubuntu-botho* (Humanity) is deeply rooted in our society. These values should assist in informing corporate decisions made by directors in state owned enterprises. Proper and constructive dialogue would enable better outcomes in the decision making process. This form of governance is underpinned by the philosophy of *ubuntu-botho*. The time is right to incorporate the views of *umuntungumuntungabantu* in the King code of good governance

The court ruled that a crucial point is whether the board in making the decision to suspend the respondent (Group Chief Executive Officer) was mindful of and indeed applied proper corporate governance principles in coming to their decision. The central issue of corporate governance is the accountability of senior management and the board of a company because of the extensive powers vested in them.<sup>124</sup> The King Report II on Corporate Governance for South Africa 2002 deals with public sector enterprises. The SABC is a public company and is a public sector enterprise as defined in terms of PFMA. Companies and their boards are required to measure up to the principles set out in the Code. King recommends that public enterprise should try and apply the appropriate principles set out in the Code. The Code sets out principles and does not determine detailed conduct. The conduct of public enterprises must be measured against the relevant principles of the Code and must adhere to best practices. The Code regulates directors and their conduct not only with a view to complying with the minimum statutory standard but also to seek to adhere to the best available practice that may be relevant to the company in

its particular circumstances.<sup>125</sup> The board and its directors are ultimately accountable and responsible for the performance and affairs of the company. King noted that given the synergy which takes place between individuals of different skills, experience and background, the unitary board structure with executive and non-executive directors interacting remains appropriate for a South African company.<sup>126</sup> In terms of the King Code, board meetings should include mechanisms that are efficient and timely. Board members should be briefed prior to meetings and board members should take the responsibility of being objectively satisfied that they have been furnished with all the relevant information and facts before making a decision. Although non-executive directors may meet separately the attendance of executive directors at board meetings is of value. The diversity of views is important. The board has a collective responsibility to provide effective corporate governance and should exercise leadership, enterprise, integrity and judgment in directing the company.<sup>127</sup>

The court further ruled that integrity is a key principle underpinning good corporate governance. Good corporate governance is based on a clear code of ethical behaviour and personal integrity exercised by the board, where communications are shared openly. There are no opportunities in this environment for cloaks and daggers. Such important decisions are not made in haste or in anger. There must be ethical behaviour in the exercise of dealings with fellow board members. These dealings must be dealt with in such a manner so as to ensure due process and sensitivity.<sup>128</sup> The Constitution of the Republic of South Africa recognises the importance of good governance. Section 195 deals with basic values and principles governing public administration. In terms of this section there must be a high standard of professional ethics. In fact this standard must be promoted and maintained. These principles apply to organs of state and public enterprises.<sup>129</sup>

This is not surprising, given our history and the advent of our new democratic era. Our Constitution compels government in all of its forms, both through government departments and organs of state (including state-owned enterprises) to adhere to principles of good governance. State-owned enterprises such as the SABC are included in the definition of "*organ of state*". It is for this reason that the provisions of the Constitution as well as the legislation enacted in terms thereof are applicable to state-owned enterprises.<sup>130</sup> Our Constitution has enshrined certain rights that also have a direct bearing on the corporate governance of state-owned enterprises. The PFMA was promulgated to give effect to Chapter 13 of the Constitution.<sup>131</sup> According to the then Minister of Finance, "The aim of this Act is to modernise the system of financial management in the public sector. It represents a fundamental break from the past regime of opaqueness, hierarchical systems of management, poor information and weak accountability. The Act will lay the basis for a more effective corporate governance framework for the public sector."<sup>132</sup> The Constitution imposes a number of general obligations on all organs of state to promote cooperative government. In particular, organs of state involved in intergovernmental disputes are required to make every effort to settle the dispute and exhaust all other remedies before approaching the courts. This does not prevent organs of state seeking relief from the courts and is therefore a workable model."<sup>133</sup> In state-owned enterprises, like other organisations, good corporate governance is ultimately about effective leadership. An organisation depends on its board to provide it with direction, and the directors need to understand what that leadership role entails.<sup>134</sup>

## CONCLUSION AND RECOMMENDATIONS

From the discussion above it is evident that public sector is not exempted from the principles of corporate governance. It is when the public servants are held accountable and responsible for the activities of their department that governance are improved in the public sector. Within this context, it is suggested that a department should have a reporting system to support good governance. This would prevent public servants from using their positions for personal gain, which normally is monetary gain. The principles corporate governance should be welcomed in that they ensure that the public servants are skilful and able to implement the vision and mission of the department. The legal framework also plays a significant contributory role to the lives of ordinary people as it lays basis for the corporate governance principles framework for the public.

Whilst the principles and legal framework of corporate governance may be viewed to be intact but what appears to be the determining factor of a successful corporate governance in the public sector is the functioning of institutions and structures of governance because governance in general and public finance in particular must be driven and supported by institutions. These institutions must aim to operate within the ambit of the PFMA to avoid poor governance in the departments. It is suggested that workshops should be conducted for public servant to ensure that there is always adequate compliance with the PFMA. It is the interpretation, understanding and implementation of the PFMA by public servants that determines the potential failure of governance in the department. There is no doubt that corporate governance is a key element in improving economic efficiency and growth as well as enhancing investor confidence. The King III report and the Code provide useful guidance to public sector institutions and directors on how to direct and control the business of the company or institutions and make decisions on behalf of the company/institutions.<sup>135</sup>

This paper recommends that the companies which are not listed in the JSE and which are not state-owned entities must voluntarily consider these principles. These principles will improve their control systems, governance, risk, audit, IT, financial reporting, stakeholder engagement and ethical issues which will contribute to the growth of the company and makes it profitable and sustainable.<sup>136</sup> This paper further recommends that public sector institutions must consider the corporate governance principles since it will assist with the governance in the public sector. This paper recommends that the legislations, codes and regulations must make it compulsory for all institutions and companies operating business in South Africa to apply these principles. These principles if applied correctly will assist the government to achieve its objectives of job creation and alleviating poverty. These principles must always be adhered to by people who are responsible for running of the SOEs, government departments, government agencies and municipalities.<sup>137</sup>

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- 135 Clarke and dela Rama *Corporate Governance and Globalisation* (2006) London sage publications.
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  - 137 Koma "Conceptualisation and contextualisation of Corporate Governance in the South African Public Sector: Issues, Trends and Prospects" 2009 *Journal of Public Administration* (44) 451- 454.
  - 138 Abetz, Senator "The Role of Corporate Governance in improving transparency and accountability in the public sector" 2003 Speech prepared for the International Quality Productivity Centre Conference 11 June 2003 [www.dofa.gov.au/scripts/media](http://www.dofa.gov.au/scripts/media) (accessed 18 January 2013).
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  - 140 Esser and Havenga "Shareholders Participation in Corporate Governance" 2008 *Speculum Juris* 74; Becht, Bolton, and Roell "Corporate Governance and Control" (2002), ECGI Working Paper Series in Finance No 02/2002. Berle, and Means "The modern corporation and private property" (1932), Macmillan,

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- Company law is essentially concerned with: first, making available the corporate form to facilitate and regulate the process of raising capital (corporate finance or capitalisation of a company); and, secondly, imposing controls on persons whose power is derived from the finance that the users of the corporate form have put at their disposal (i.e. corporate governance), see Nevondwe "Corporate governance principles: lessons to be learnt" 2012 *The Thinker Political Journal* (44) 16.
- Department of Public Enterprises "Protocol on Corporate Governance in the Public Sector" (2002) 2 <http://www.info.gov.za/view/DownloadFileAction?id=70233> (accessed 2 January 2013).
- Ibid.*
- Ibid.*
- Ibid.*
- The Protocol was first published in 1997 with a view to inculcating the principles of good governance in the SOE's and the Protocol constitutes a substantial revision thereof in light of the King Code and international developments.
- Department of Public Enterprises "Protocol on Corporate Governance in the Public Sector" (2002) 3.
- Ibid.*
- Department of Public Enterprises "Protocol on Corporate Governance in the Public Sector" (2002) 4.
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- King III Report, *para* 12; See also Nevondwe *op cit* 17.

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- <sup>94</sup> Department of Public Enterprises *op cit* 9.
  - <sup>95</sup> Annex 2.2 of the King III Report.
  - <sup>96</sup> Annex 2.3 of the King III Report; *Fisheries Development Corporation of SA Ltd v Jorgenses, Fisheries Development Corporation of SA Ltd v AWJ Investment (Pty) Ltd* 1980 (4) SA156 (W) 165.
  - <sup>97</sup> Haupt and Malange "Corporate Law for Commercial Students" (2010) 63.
  - <sup>98</sup> Nevondwe *op cit*.
  - <sup>99</sup> In *Fisheries Development Corporation of SA Ltd v Jorgenses and Fisheries Development Corporation of SA Ltd v AWJ Investment (Pty) Ltd* (1980, 4 SA156).
  - <sup>100</sup> Nevondwe *op cit* 17.
  - <sup>101</sup> *Ibid.*
  - <sup>102</sup> *Ibid.*
  - <sup>103</sup> *Ibid.*
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  - <sup>105</sup> Nevondwe *op cit*.
  - <sup>106</sup> *Ibid.*
  - <sup>107</sup> *Ibid.*
  - <sup>108</sup> *Ibid.*
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  - <sup>110</sup> Van der Nest *et al* "Audit Committees and Accountability in the South African Public Sector" 2008 *Journal of Public Administration* (43) 549; Mayne "Corporate Governance Principles and Recommendations with 2010 Amendments" 2007 Corporate Governance Council (Australia) 27-34 [http://www.asxgroup.com.au/media/PDFs/cg\\_principles\\_recommendations\\_with\\_2010\\_amendments.pdf](http://www.asxgroup.com.au/media/PDFs/cg_principles_recommendations_with_2010_amendments.pdf) (accessed 19 January 2013).
  - <sup>111</sup> *Ibid.*
  - <sup>112</sup> *Ibid.*
  - <sup>113</sup> *Ibid.*
  - <sup>114</sup> Van der Nest *et al op cit* 546.
  - <sup>115</sup> Van der Nest *et al op cit* 547-548
  - <sup>116</sup> Chapter 5 of King III Report.
  - <sup>117</sup> Nevondwe *op cit* 18.
  - <sup>118</sup> *Ibid.*
  - <sup>119</sup> *Ibid.*
  - <sup>120</sup> Corporate and Commercial/King Report on Governance for South Africa – 2009 <http://www.library.up.ac.za/law/docs/king111report.pdf> (accessed 3 December 2012).
  - <sup>121</sup> *Ibid.*
  - <sup>122</sup> Principle 4.3 of the King III Report.
  - <sup>123</sup> Principle 4.3.2.2 and 4.3.2.4 of the King III Report.
  - <sup>124</sup> King III Report *para* 20.
  - <sup>125</sup> Principle 4.3.2.4 of the King III Report.
  - <sup>126</sup> Principle 4.10 of the King III Report.
  - <sup>127</sup> Principle 4.10.2 of the King III Report.
  - <sup>128</sup> Van der Nest *op cit* 550.
  - <sup>129</sup> Department of Public Enterprises, *op cit* 47
  - <sup>130</sup> *Ibid.*
  - <sup>131</sup> Principle 6.1 of the King III Report. See also Nevondwe *op cit* 18-19.
  - <sup>132</sup> King III Report *para* 21, 91.
  - <sup>133</sup> *Ibid para* 11, 90.
  - <sup>134</sup> Principle 6.1.2 of the King III Report.
  - <sup>135</sup> Principle 6.2 of the King III Report.
  - <sup>136</sup> Principle 6.2.2 of the King III Report.
  - <sup>137</sup> Principle 6.3 and King III Report, *para* 14, 90.
  - <sup>138</sup> Principle 6.4 of the King III Report.
  - <sup>139</sup> Principle 6.4.6 of the King III Report.
  - <sup>140</sup> Principle 6.4.7 of the King III Report.
  - <sup>141</sup> King III Report *para* 23, 91.
  - <sup>142</sup> Principle 7.1 of the King III Report.
  - <sup>143</sup> Principle 7.1.2 of the King III Report.
  - <sup>144</sup> King III Report *para* 12, 25.
  - <sup>145</sup> Principle 7.1.3 of the King III Report.
  - <sup>146</sup> Principle 7.1.4 of the King III Report.
  - <sup>147</sup> Principle 7.3 of the King III Report.
  - <sup>148</sup> Principle 7.4 of the King III Report.
  - <sup>149</sup> King III Report *para* 18, 22.
  - <sup>150</sup> Nevondwe *op cit* 19.
  - <sup>151</sup> King III Report *para* 1, 108.
  - <sup>152</sup> Nevondwe *op cit*, 19.
  - <sup>153</sup> *Ibid.*
  - <sup>154</sup> *Ibid.*
  - <sup>155</sup> [2009] 4 ALL SA 169 (GSJ).
  - <sup>156</sup> *Para* 28 of the judgement.
  - <sup>157</sup> *Para* 29 of the judgement.
  - <sup>158</sup> *Para* 30 of the judgement.
  - <sup>159</sup> King Report III.

- <sup>128</sup> *Para 64 of the judgement.*
- <sup>129</sup> *Para 55 of the judgement. See also section 195(2) of the South African Constitution.*
- <sup>130</sup> *See Goodman Brothers (Pty) Ltd v Transnet Ltd 1998 (4) SA 989 (W).*
- <sup>131</sup> *Para 56 of the judgement.*
- <sup>132</sup> *Former Minister of Finance, Trevor Manuel, in the foreword to the Public Finance Management Act, 1 of 1999. He is now the Minister in the Office of the President and the Chairperson of the National Planning Commission.*
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# FINANCE, DEVELOPMENT AND GROWTH IN NIGERIA: OBSTACLES, STEPS ADOPTED AND DOHA RECOMMENDATION

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## ABSTRACT

The definition of both economic growth and economic development are related and shows that a nation cannot achieve economic development without having achieved economic growth. The consideration of economic development involved a look at those characteristics of the economy which made sustained and cumulative growth in real per capita income possible. Among such characteristics are: qualitative improvement in labour, a rational system of resource allocation and so on. Despite the fact that Nigeria is one of the richest and most populous countries in Africa, deepening poverty; inadequate capacity for socio-economic management; relatively low life expectancy at 50 years, and a low per capita income still exist. These are seen as indication of low level of development in the country despite its rich resources. This paper therefore used analytical technique and descriptive statistics to examine some of the problems of economic development in Nigeria, steps taken by the country to provide financial resources for increasing per capita income and identified some other areas of need for growth of the country. There was banking reform in Nigeria to create better financial system for development. Recommendations by Doha Review Conference for country leaders were presented for consideration. The effect of the implementation of the recommendations of the conference in other countries like South Africa had revealed that changes are possible if positive actions are taken.

**Keywords:** Economic growth; development; financial reform; GDP; Nigeria

## INTRODUCTION AND BACKGROUND

Financial indicators are just one of the many potential determinants of economic growth and various studies in Africa and worldwide have confirmed relationship between financial sector development and economic growth. The relationship between financial developments and economic growth models is concerned with the sense that financial market will raise savings, investments and hence the growth rates. The mechanisms through which financial markets influence economic growth are: efficient resource allocation and information channel, used in monitoring of managerial performance. Thus, there is need for establishment of financial institutions to mobilize unconsumed income to encourage savings for effective growth or development of other sectors of the economy. Growth and development represent challenge for many countries in the world.

*Economic Growth* is said to occur if an increase in an economy's productive capacity, sustained over a reasonable period of time, leads to a greater output of goods and services in the economy as a whole to the extent that there are more goods and services available per person on the average. Economic Growth could then be defined as a sustained increase in the country's major macroeconomic variables that is, the Gross Domestic Product (GDP) or per capita GDP accompanied by increase in consumption, government spending, investment, net exports (Olajide, 2004).

*Economic development* on the other hand is the process whereby the real per capita income increases over a long period of time. Thus, it was defined as a general and sustained improvement in the social economic wellbeing of a nation arising from the structural transformation of the economy associated with reduction in poverty, unemployment and inequality over time (Olajide, 2004). On a general

term, development is considered as growth culminating in high degree of self-reliance, optimum utilisation of natural, changes in social cultural, Political and institutional arrangements of an economy.

Growth can take place without development but, a nation cannot achieve economic development without having achieved economic growth. Thus, economic growth is a subset of economic development as economic development is not purely an economic phenomenon. The definition above shows that economic growth and economic development are related. The consideration of economic development involves a look at those characteristics of the economy which make sustained and cumulative growth in real per capita income possible. Among such characteristics are: qualitative improvement in labour, a rational system of resource allocation in the interest of efficiency, the development of administrative, political and physical infrastructure, a distribution of income conducive to national integration, and the creation of both conducive political environment and efficient administrative framework. Development can therefore be measured quantitatively using gender related index, human development index, human poverty index, infant mortality, literacy rate etc. while growth can be measured quantitatively by real GDP

In Nigeria, growth rate is low Despite Nigeria's natural wealth, the civilian government of Nigeria inherited problems of economic decline, deepening poverty and inadequate capacity for socio-economic management. Also, Nigeria which is one of the richest and most populous countries in Africa has a relatively low life expectancy, at 50 years, a low per capita income, high level of unemployment and inadequate admission into higher institution for youth with educational finance bellow internationally recommended percentage of annual budget. In addition, the Foreign Direct Investment (FDI) and foreign loan to Nigeria significantly alleviate poverty unlike the positive relationship confirmed in other countries (Okpe & Abu, 2009). These are seen as indications of low level of development in the country despite its rich resources.

The Previous studies focused extensively on the relationship between economic growth and financial development, but this paper examined the reasons for the negative relationship confirmed by those studies, that is, the problems of economic growth in Nigeria and the solutions to the problems in the country. This is by identifying. This paper therefore provided answers to the following questions: Why is Nigeria having low economic development or negative relationship between development variables and growth that are positive in other countries? What steps have been taken by the country to ameliorate the obstacles to growth? How can the problems be solved from global perspective? The objectives of this study are therefore to: examine the problems of economic development in Nigeria; identify the steps already taken by the country and investigate some other areas of need for growth of the country with focus on steps suggested by DOHA International Conference.

This study is therefore considered necessary because various empirical studies revealed positive relationship between financial development and economic growth in various countries like South Africa, Namibia, Botswana (Ashpala & Haimbod, 2003) but negative in the context of Nigerian economy from the study by Ayogu (2000). Thus, this paper will provide policy makers with the steps the country can take or the policies to put in place in order to remove the obstacles to economic growth in the country with emphasis on the DOHA International Conference for Development. This study will also be of help to other African countries in finding solutions to their growth problem.

## **FINANCE, DEVELOPMENT AND GROWTH: LITERATURE OVERVIEW**

Lumbia (2005) identified the importance of trained human capital, investment climate stemming from a well-developed infrastructure, lower country risk and stable microenvironment in economic growth. Ewe-ghee (2001) further confirmed the importance of Federal Direct Investment (FDI) and the determinants of FDI as market size, quality of infrastructure, political/ economic stability and free trade zone. Asiedu (2005) identified investment restrictions, macroeconomic instability, corruption and political instability as having negative impact on FDI while he further identified large market, lower inflation, good infrastructure, educated population, political stability, openness to FDI and reliable legal system to promote FDI. The empirical study by Lensink (1999) found evidence that countries with a more developed financial sector are better able to nullify the negative effects of policy uncertainty on economic growth. Most scholars believe that increase in government expenditure on socio-economic and physical infrastructures encourages economic growth (Nurudeen & Usman, 2010).

## **METHODOLOGICAL DESIGN**

This section presents the approaches adopted in achieving the objectives of the study and their application. The section includes theoretical framework upon which the analysis is based, techniques of analysis and specific ways of addressing the issues raised, and presentation of the results of the issues raised based on application of the techniques. The theoretical framework of the study was based on the Endogenous Growth Theory. The theory emphasised the importance of financial intermediaries in enhancing economic growth through its influence on savings and investment decision. The theory equally shows that economic growth performance is related to financial development, technology and income distribution.

The costs of acquiring information, enforcing contracts, and making transactions create incentives for the emergence of particular types of financial contracts, financial markets and financial intermediaries which are motivated by different types and combinations of information, enforcement, and transaction costs in conjunction with different legal, regulatory, and tax systems across countries and throughout history. The functions provided by all financial systems could be classified into five: (a) production of ex-ante information about possible investments and allocation of capital; (b) monitoring of investments and implementation of corporate governance after providing finance; (c) facilitating the trading, diversification, and management of risk; (d) mobilization and pooling of savings; and (e), easy the exchange of goods and services (Levine, 2012). Financial development involves improvements in the five functions. Each of these financial functions may influence or ease information, enforcement, transactions costs, savings and investment decisions and hence economic growth. Corporate governance is central to understanding economic growth in general and the role of financial factors in particular. The degree to which the providers of capital to a firm can effectively monitor and influence how firms use that capital has ramifications on both savings and allocation decisions (Levine, 2012). In principle, it is the role of the financial system to provide optimally designed contracts with the comparative advantage of financial intermediaries contain in the implementation and enforcement of these contracts.

Techniques of analysis for the study relied on the GDP method and social indices like supply of infrastructural facilities to examine the growth of the country in comparison with another African country: South Africa using real national income. The real national income according to Olajide (2004) refers to the

country's total output of final goods and services in real terms. The study is based on descriptive analytical technique and descriptive statistics. The study is theoretical research using secondary data obtained from World Bank and report of DOHA international Conference for development based on Endogenous Growth Theory.

## RESULTS OF THE ANALYSIS

### Problems Hindering Economic Growth in Nigeria

Despite the international aid for public investment in Nigeria and the oil boom finance of public investment, there is low level of economic growth due to financial and economic crisis hindering growth in country. In Nigeria, some of the economic crises hindering growth have been in the area of qualitative improvement in labour, system of resource allocation in the interest of efficiency, high and increasing population and low level of industrialisation. Growth of output has not only been very low, but inadequate to prevent declining living standards. Indeed, per capita income for Nigerians was higher in 1975, but has reduced drastically leading to high level of poverty in the country. The problem of labour has been inadequate educational facilities for youth seeking admission into the university system as less than 35% of students seeking admission are admitted (Satope & Oladeji, 2012). Other problems are: acquiring information, enforcing contracts and transactions costs leading to non- completion of contracts awarded.

*Low Capital formation:* This means low investment in both physical and human resources. In terms of finance, resource allocation to education has always been below the United Nations Educational Scientific and Cultural Organisation (UNESCO) recommended 26% of the budget.

*Population:* Also, the population is estimated to have increased from 57 million in 1975 to about 104 million in 1997, over 140million in 2006 (over 167 million in 2013) while poverty is estimated to affect over 40 per cent, or some 60 million, of this populous country. This, in brief, is the challenge and key parameter that the new civilian Government of Nigeria had inherited, and aimed to overcome. With the recent return of democracy, and civilian government, in Nigeria expectations are naturally high. High population growth rate without corresponding growth in capital formation is a major hindrance to growth.

*Gross Domestic Product:* Historically, from 1961 until 2011, Nigeria GDP averaged 50.07 USD Billion. However, the GDP has been fluctuating over years reaching its peak during oil boom in 1970 as indicated in table 1 (World Bank, 2012). The gross domestic product (GDP) measures the national income and output for a given country's economy. The gross domestic product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time.

*Industrialisation:* Better living standards resulting from Economic growth in Industrial nations are envied by people throughout the world thus, industrialisation is considered as a necessity for economic growth and development. Nigeria has been able to put a lot of policies for industrial development in place like (a) import substitution industrialisation to reduce over-dependence on foreign trade immediately after independence; (b) the Indigenization policy in 1972 and the ammendment in 1977, to foster widespread ownership of enterprises among Nigerian citizens, create opportunities for indigenious bussinessmen and encourage foreign investors to move to areas where large investments are needed; (c) Structural Adjustment Programme (SAP) in 1986 to promote investment and industrial efficiency; (d)Trade and Financial Liberalization policy in 1989; (e) Bank for industry (BOI) in 2000 to accelerate industrialisation and also in 2000, the policy of: Small and Medium Industries Equity Investment Scheme(SMEIS) to increase

per capita income, output and employment.

**Table 1: Nigeria GDP growth (annual %)**

Year	GDP annual growth rate %	Year	GDP annual growth rate	Year	GDP annual growth rate
1960	-	1976	9.0	1997	2.7
1961	0.2	1977	6.0	1999	1.1
1962	4.1	1978	-5.8	2000	5.4
1963	8.6	1979	6.8	2001	3.1
1964	5.0	1980	4.2	2002	1.5
1965	4.9	1982	-0.2	2003	10.3
1966	-4.3	1983	-5.3	2004	10.6
1967	-15.7	1984	-4.8	2005	5.4
1968	-1.2	1985	9.7	2006	6.2
1969	24.2	1990	8.2	2007	6.4
1970	25.0	1991	4.8	2008	6.0
1971	14.2	1992	2.9	2009	7.0
1972	3.4	1993	2.2	2010	8.7
1973	5.4	1994	0.1	2011	6.7
1974	11.2	1995	2.5	2012	6.6
1975	-5.2	1996	4.3	2013	6.9

**Source:** World Bank, 2013

Despite all these policies Nigeria has not been able to make appreciable progress in industrial development due to policy failure resulting from failure to carry relevant stakeholders along and leaders driven by desire to maintain political power. The high level of corruption has also led to the close down of most of the government enterprises thereby reducing the rate of industrial growth. Poor monitoring of investments, implementation of corporate governance and inefficient allocation of resources all influence the performance in various industries owned by the government and also keep capital from flowing to profitable investments. This is because the degree to which the providers of capital to a firm can effectively monitor and influence how firms use that capital has ramifications on both savings and allocation decisions which is having major influence on Nigerian situation.

*Transportation System and Infrastructure Development:* In addition, Nigeria's transportation infrastructure is insufficient to meet the aspirations of vision 20:2020. Vision 2020 and the infrastructure is in a state of disrepair. More than 50% of the roads are dilapidated; almost 90% of current inter-state movement are done by road and 3500km of narrow gauge rail lines. South Africa's transport sector is a key contributor to her competitiveness in global markets and is increasingly being seen as a crucial enabler of economic growth and social development compared with Nigerian situation as presented in tables 2 and 3.

**Table 2:** Transportation system and infrastructure development

	Nigeria	South Africa
<b>Transportation System</b>	<ul style="list-style-type: none"> <li>o Roads are primary means of transportation but are largely in a state of disrepair</li> <li>Rail infrastructure remains in dilapidated state</li> <li>Sea ports are currently concessioned to private sector</li> </ul>	<ul style="list-style-type: none"> <li>Extensive, quality road and rail network</li> <li>Rail networks connect to other countries in Southern Africa</li> <li>Sea ports serve as hubs for traffic to and from Europe, Asia, the Americas</li> </ul>

Source: CIA Factbook, Wikipedia

Although South Africa is not without its own transportation challenges South Africa's transport infrastructure is considerably more developed than Nigeria's own.

**Table 3:** Development in transportation system

Criteria	South Africa	Nigeria
Land Area (sq. km)	1,214,470	910,770
GDP (2009)	\$ 285.9bn	\$ 168.9bn
GDP per Capita PPP (2009)	\$ 10,291.3	\$ 2,150.1
Road Network (km)	362,099	193,200
Road Density (km of road per 100 sq. km of land area)	29.8	21.2
Rail Network (km)	20,872	3,505
Rail Density (km of rail per 100 sq. km of land area)	1.7	0.4
Number of Airports	85	22
Number of Seaports	8	13
Cargo Throughput (Million tonnes) -(2008)	185	65

Sources: World Bank Development Indicators; CIA World Factbook; Transnet, Nigerian Ports Authority

### Banking Sector Crisis

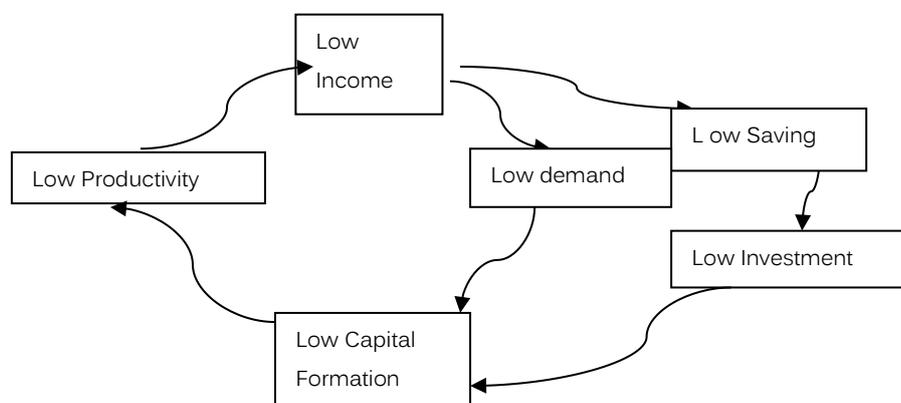
The Central Bank of Nigeria (CBN) governor: Soludo, a specialist in risk management, swung into action because barely a month after he took over the helm of affairs of the bank, a report was issued by an international organisation that only four Nigerian banks were strong. The report, which caused huge panic among Nigerians, prompted governor to appoint external auditors to examine the books of all the Banks. The outcome of that exercise paved the way for the post-consolidation reforms of the banking sector. The reports of the special examination team carried out by CBN and the Nigerian Deposit Insurance Corporation revealed that almost 42% of the banks were in a critical situation, most of the smaller banks were family-owned and privately held, however, the industry was heavily concentrated, with only 10 largest banks controlling 50 per cent of the assets and deposits in the Nigerian banking system.

In Nigeria, most of the banks had a low capital base, less than 10 million US dollars; the local banks in Nigeria had low capacity and were not also very efficient causing: poor mobilization and pooling of savings and the government to depend a lot on the foreign banks and discouraging savings in banks

by individuals. Most banks in the country also depended upon the public sector deposits which were lowering their capital base thus, indicating that the government failed to provide a sound banking system.

*Leadership Problem or Political Instability:* Most leaders in Nigeria are without, dishonest, corrupt and lead by deceit and even committed to their personal needs resulting to political instability. Specialists in regional and local economic development have long recognised public investment as a possible growth policy but this is not in effect in Nigeria due to high level of corruption. Thus, instead of using the larger share of external and internal loan on public investment for the provision of adequate public infrastructure which will promote economic growth, they were being misappropriated or embezzled. Such was the situation with the Education Rights Campaign (ERC) rejection of allocation of the 2010 appropriation bill passed by both houses of the National Assembly as it failed to address funding of vital social services most especially education.

**Figure 1:** Vicious cycle of poverty



The 2010 budget was increased, which every progressive minded Nigerian would have assumed that the large sum added to the budget would go into funding vital social services like education, health and other vital sectors but was used to increase allocation to National Assembly members, fictitious debt servicing, and other non-productive sectors. Secondly, the sum allocated to the education sector fall short of the UNESCO recommendation (ERC, 2010). Also, there is high leadership turnover reducing continuity in plan and policy implementation in the country.

*High Poverty level:* High poverty results from low per capita income leading to low demand, low saving and resultant low investment leading to low capital formation causing low productivity and low income known as “Vicious Cycle of Poverty” (figure 1).

#### 2.4.2. Steps Taken in Nigeria for Economic Development:

The empirical studies and economists confirmed that: countries with better developed financial system tend to grow faster, meaning that causal relationship exists between finance and economic growth (Kehinde & Adejuwon, 2011). So, Nigeria embarked on financial reform because the condition of the financial institutions then had reduced the level of savings of the citizens. Apart from the financial reform, Nigerian government has introduced poverty alleviation programmes to reduce the level of poverty in the country by providing financial assistance to business men. Emphasis this day is on gender

balance by providing space for women in the administration of the country. Also, to increase industrialisation and encourage personal development among Nigerian youth, Entrepreneurship Education is being introduced into the Nigerian University system.

*Financial Development* as one of the requirements for sustainable economic growth in any economy has taken place to certain extent in Nigeria through banking reform as the supply of finance to various sectors of the economy will promote growth in a holistic manner to make development and welfare improvement proceed at a faster rate. The Central Bank of Nigeria finance development initiatives involving the formulation and implementation of various policies, innovation of appropriate products and creation of enabling environment for financial institutions to deliver services in an effective, efficient and sustainable manner (Central Bank of Nigeria, 2013)

The financial institutions are well positioned to assist the economy in promoting growth thereby improving the well-being of the populace by accepting deposits from individuals and institutions and making such funds from those with surplus available to other sectors of the economy in need of them based on laid down principles. That is, financial system vigorously seeks out and attracts the reservoir of savings and idle funds and allocates same to entrepreneurs, businesses, households and government for investments projects and other purposes with a view to get returns. The role of finance in economic development has been a key focus in the 21<sup>st</sup> century for economic growth.

Thus, Banking Sector Reform in Nigeria had been introduced in 2004 with the government aim of establishing a reliable and efficient banking sector so that it could guarantee the safety of the depositors' money. The governor of the Central Bank of Nigeria(CBN) announced the new policy to increase the minimum paid in capital of banks to ₦25 billion (US\$ 173 million) from ₦2 billion (US\$ 14 million). Banks were required to obtain this capital by roughly 18 months after the policy announcement. The clear intention of the policy was to consolidate the existing banks into fewer, larger, and financially stronger banks. The best capitalised bank had capital of \$240 million as compared to Malaysia where the least capitalised bank had capital of \$526 million at the time.

The result of this new, much larger capital requirement was the consolidation of banks into larger entities. During the 18-month period, there were a number of mergers and acquisitions among Nigerian banks and introduced a regulatory framework based on some rules in order to meet this new capital requirement. In the end, the 89 banks that existed in 2004 decreased to 25 larger, better-capitalised banks. Thirteen banks did not meet the deadline for increasing their capital and their banking licenses were revoked.

On August 14, 2009, the CBN announced the results of the examination of 10 banks and determined that five banks were bankrupt with 40.81 per cent of non-performing loans. In addition, these banks were chronic borrowers at the Expanded Discount Window (EDW) of the CBN, indicating that they had little cash on hand. CBN as the lender of last resort, injected ₦420 billion (roughly \$2.8 billion) into these banks in the form of a subordinated loan to improve the banks' liquidity (Punch, 2011).

To effect the reform, the government established a web portal for all the citizens to share any confidential information with the Central bank regarding the banking systems; an automated process was developed to report the bank returns and the government revised and updated the banking laws to make the banking system more effective and easy. The CBN also asked banks to adopt International Financial Reporting Standards (IFRS) by the end of 2012, a circular detailing the type and format of financial

information that must be disclosed by banks in their yearly financial statements was issued and . As illustrated by these actions, the CBN is aggressively pursuing accounting reforms to improve disclosure to regulators, investors, and depositors regarding the financial health of Nigerian banks by taking actions like asking all banks to follow the same accounting year by 2009 because, different reporting years for Nigerian banks made financial comparison difficult among banks and limited transparency of bank financial results. There was also regulation to improve corporate governance of Nigerian banks by avoiding the situation where bank executives manage the bank as a personal business as opposed to a publicly held corporation accountable to shareholders, depositors, and government regulators.

The CBN plans to categorise banks by function and allow variety of banks to operate in Nigeria with varying levels of capital depending on the bank's function which was expected to encourage the development of an increased number of financial institutions in Nigeria. The reform programme advocated by CBN governor rests on four pillars: enhancing the quality of banks, establishing financial stability, enabling healthy financial sector evolution, and ensuring that the financial sector contributes to the real economy. The rapid regulatory reforms since July 2009 have resulted into significant changes in the structure of the Nigerian banking industry. As a result of the reform, several banks were able to increase their capital base. By merging some banks the government established an efficient and disciplined banking system. Many local banks emerged; through banking sector reform the government of Nigeria has been able to move their economy forward.

## **RECOMMENDATIONS FOR GROWTH AND DEVELOPMENT**

### **From Doha Review Conference**

The follow-up of international conference on financing for development held from 29<sup>th</sup> November to 2<sup>nd</sup> December 2008 in Doha, Qatar, resulted in the adoption of the Doha declaration on Financing for Development. The four day conference was attended by Officials from more than 160 countries, including nearly 40 Heads of State or Government. It addressed the challenges of financing for development in the spirit of global partnership and solidarity. The countries were once again committed to eradication of poverty, achievement of sustained economic growth and promotion of sustainable development so, should it be for Nigeria.

Furthermore, they reaffirmed the commitment to provide and strengthen support to the special needs of Africa and stress that eradicating poverty, particularly in Africa, is the greatest global challenge facing the world today. The importance of accelerating sustainable broad-based economic growth, which is pivotal to bringing Africa into the mainstream of the global economy, was underlined. The conference also reaffirmed the commitment of all States to establishing a monitoring mechanism to follow up on all commitments related to the development of Africa as contained in the political declaration on "Africa's development needs". They also emphasised that all commitments to and by Africa should be effectively implemented and given appropriate follow-up by the international community and Africa itself.

The country must decide to implement development policies in key areas of economic frameworks as a way of mobilizing domestic resources for higher levels of economic growth by eradicating poverty and pursuing sustainable development in its economic, social and environmental dimensions, and by ensuring the necessary enabling environment for mobilizing public and private resources and expanding productive investments. Greater efforts are required to support the creation and

sustenance of a conducive environment through appropriate national and international actions. It was also reaffirmed that national ownership and leadership of development strategies and good governance are important for effective mobilization of domestic financial resources and fostering sustained economic growth and sustainable development considering the characteristics of the country.

Also, a dynamic, well-functioning and socially responsible private sector was also recognized as a valuable instrument for generating economic growth and reducing poverty. In order to foster private-sector development, the government shall endeavour to promote an enabling environment that facilitates entrepreneurship and doing business by all, including women, the poor and the vulnerable. The international community, national governments and regional economic groups were encouraged to continue to support these efforts. The government is to continue to pursue appropriate policy and regulatory frameworks at their respective national levels and in a manner consistent with national laws to encourage public and private initiatives, and to foster a dynamic and well-functioning business sector, while improving income growth and distribution, raising productivity, empowering women and protecting labour rights and the environment.

*Human Resource development:* Human development remains a key priority, because human resources are the most precious and valuable asset that countries possess. The realization of full and productive employment and decent work for all is essential and that government should continue to invest in human capital through inclusive social policies on health and education, in accordance with national strategies. Investment efforts should be enhanced to upgrade the skills and technical capabilities of human resources. The importance of fostering diverse local and supporting industries that create productive employment and strengthen local communities were also emphasised.

*Provision of Financial and Credit Facilities:* The provision of, and access to, financial and credit services to all is also important. The development of a sound and broad-based financial sector is central to the mobilization of domestic financial resources and should be an important component of national development strategies. They also strive for diversified, well-regulated financial systems that promote savings and channel them to sound growth generating projects and further declared as appropriate, the supervisory and regulatory mechanisms to enhance the transparency and accountability of the financial sector. In addition, they aimed at increasing the domestic supply of long-term capital and promote the development of domestic capital markets, through multilateral, regional, sub regional and national development banks. They recognized that microfinance, including microcredit, have proven to be effective in generating productive self-employment, which can contribute to the achievement of the internationally agreed development goals, including the Millennium Development Goals. They underlined the need to appropriately support, in a coordinated manner, the efforts of developing countries, in capacity-building for their microfinance, and microcredit institutions.

*Gender equality and women's empowerment* were also emphasised as essential to achieve equitable and effective development and to foster a vibrant economy. They thus, reaffirm the commitment to eliminate gender-based discrimination in all its forms, including in the labour and financial markets, as well as, in the ownership of assets and property rights.

*Capital flight*, where it occurs, it is a major hindrance to the mobilization of domestic resources for development. They therefore, strengthen national and multilateral efforts to address the various factors that contribute to it like the problem of illicit financial flows, especially money-laundering. The conference

also laid emphasis on Implementing policies to prevent the transfer abroad of stolen assets and to assist in the recovery and return of such assets, in particular to their countries of origin, consistent with the United Nations Convention against Corruption, as well as to prevent capital flows that have criminal intent. Fight against corruption at all levels is a priority. Progress among countries has varied since 2002. Corruption affects both developed and developing countries, and both the public and private sectors. They are thus determined to take urgent and decisive steps to continue to combat corruption in all of its manifestations in order to reduce obstacles to effective resource mobilization and allocation and avoid the diversion of resources away from activities that are vital for development. They welcome the increased commitment of States that have already ratified or acceded to the United Nations Convention against Corruption, and, in this regard, urge all States that have not yet done so to consider ratifying or acceding to the Convention. The conference emphasised the importance of all the steps and they are to be reinforced by international support for capacity building, including through financial and technical assistance, and United Nations operational activities for development in accordance with national development strategies and priorities. In development cooperation policies, special attention is to be paid to the efforts and specific needs of Africa,

*Investment:* Governments were advised to encourage foreign direct investment (FDI), which has been enjoyed by some countries, by providing an enabling domestic and international investment climate which is fundamental to fostering domestic and foreign private investment. As they will continue to put in place transparent and appropriate regulations at the national and international levels. Also, efforts should be enhanced to improve the availability of finance for enterprise, facilitate public-private consultative mechanisms and promote corporate social responsibility. Countries are also to enhance efforts in mobilizing investments from all sources in human resources, transport, energy, communications, information technology and other physical, environmental, institutional and social infrastructure that serve to strengthen the business environment, enhance competitiveness and expand trade in developing countries. As the factors influencing FDI were identified as quality of infrastructure, political/economic stability, openness, trained human capital, investment climate etc. (as in already discussed) then, Nigeria needs to effect all these.

*Expansion in the Exports:* A successful result should support the expansion in the exports of developing countries, reinforce the potential for trade to play its due role as the engine of growth and development, and provide increased opportunities for developing countries to use trade to support development.

*Official Development Assistance (ODA):* It was emphasised that it is important to make progress in key areas of the Doha Development Agenda of special interest to developing countries of which Nigeria is one. They urge those developed countries that have not yet done so to make additional concrete efforts towards the target of 0.7 per cent of GNP for Official Development Assistance (ODA). ODA to developing countries, including the specific target of 0.15 to 0.20 per cent of GNP for ODA to least developed countries.

*Democratic Governance:* To build on progress achieved in ensuring that ODA is used effectively, they stressed the importance of democratic governance, improved transparency and accountability, and managing for results and strongly encouraged all donors to establish, as soon as possible, rolling indicative timetables that illustrate how they aim to reach their goals, in accordance with their respective

budget allocation process. They stressed the importance of mobilizing greater domestic support in developed countries towards the fulfilment of their commitments, including through raising public awareness, and by providing data on aid effectiveness and demonstrating tangible results.

*Better Coordination by Relevant Ministries in all Countries:* They encouraged better coordination and enhanced coherence among relevant ministries in all countries to assist in the formulation and effective implementation of policies at all levels and called on all countries whose policies have an impact on developing countries to increase their efforts to formulate policies consistent with the objectives of sustained growth, poverty eradication and sustainable development of developing countries. In addition, they encouraged continued cooperation and coordination among the regional development banks.

*Based on Identified Problems and Endogenous Growth Theory (EGT):* In order for all of the reforms to succeed, the pervasive corruption in the Nigerian economy and the weak rule of law should be addressed. For economic growth, there is need for creating more dynamic entrepreneurship, capital accumulation, population policy and appropriate institutions to increase savings and investment as stipulated by EGT. There is need for proper monitoring of awarded contracts and investment in Nigeria because, the extent to which shareholders and creditors effectively monitor firms and induce managers to maximize firm value, will improve the efficiency with which firms allocate resources and make savers more willing to finance production and innovation. Hence, the Nigerian government should establish Institutions for monitoring government investments and allocation of resources for investment so as to ensure effectiveness. The Education Rights Campaign (2010) rejection of the 2010 appropriation bill could be performed by such institution for effective allocation and monitoring of investment in all sectors of the economy for better performance. Development experience worldwide suggests that industrialization plays a significant role in the process of establishing rapid and sustainable growth. Therefore, there is need for restructuring the existing manufacturing sector whose structure and efficiency level are not suitable for the growth of the economy.

## CONCLUSION

Observing all the steps recommended by DOHA International Conference for Development, Nigeria has taken some steps like banking reform, democratic governance and better entrepreneurship with introduction of the course in Nigerian Universities. Since the wealth of Nigeria does not provide for economic growth then, we could see that there is need for efficient and effective manipulation of the wealth through proper allocation and better operation of all the recommendations by the DOHA International Conference to allow for the country's economic growth and development. The implementation will help to provide needed fund for Entrepreneurial students after graduation for better industrialisation and investment in the country resulting to increased employment and reduced poverty level. The effect of the implementation of the recommendation of the conference in other countries like South Africa has revealed that changes are possible if positive actions are taken. So, Nigeria should access the recommendations and put them into action for the development of the country.

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## WHERE DOES FINANCIAL ACCOUNTABILITY OF PUBLIC FUNDS LIE? INDICATORS FOR OVERSIGHT AND SEPARATION OF POWERS IN SOUTH AFRICA

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### ABSTRACT

The Constitution of South Africa is a description from which the doctrine of Separation of powers is implemented. The contemporary discourse on whether a strict separation of powers between the legislature, judiciary and executive constrain or fast track development remains a contested matter. The Constitutions guide how government should function in order to transform society, develop and grow the local economy. The fundamental matter is that the separation of powers must be respected and all oversight structures in Legislature and municipalities should perform their roles within this framework. The Constitution clearly states that the executive and legislative authority of a municipality is vested in its Municipal Council and secondly Members of the Executive are individually and collectively accountable to the Legislature. This paper is written from the Legislature's perspective and applies the experiences gathered in the process of law-making, public participation and oversight. The establishment of oversight structures in Legislature and Municipal Council are very critical for financial accountability as they enhance local economic development. These structures should undertake their oversight responsibility within the respect for the doctrine of separation of powers. Equally important, these structures must be capacitated to understand key indicators and performance information that is used in the Annual Performance Plans and Integrated Development Plan. Understanding of disciplinary knowledge as used by Auditor General is critical for public accounts committees to hold the executive accountable. Their robustness and understanding the own powers and roles will logically lead to economic development of communities.

**Keywords:** Financial accountability; public funds; oversight; separation of powers; Annual Performance Plans; Integrated Development Plan; South Africa

### INTRODUCTION

The Constitution of the Republic of South Africa is a description from which the doctrine of Separation of powers is implemented in South Africa. The contemporary discourse on whether a strict separation of powers between the legislature, judiciary and executive constrain or fast track development remains a contested matter. Montesquieu, John Locke (1632-1704), Madison and many other framers of the Constitution worldwide recognised that separating the judicial, executive and legislative powers would enhance the liberty but of importance must promote good governance. These philosophers argued that the Constitutions should guide how government should function in order to transform society, develop and grow the local economy. The fundamental matter is that the separation of powers must be respected for state to function without tensions. Oversight structures by Legislature and Municipal Councils must be established and respected in order to enhance liberty and promote human rights.

This paper is written from the Legislature's perspective and applies the experiences gathered in the process of law-making, public participation and oversight. It has been noted that the work of legislature is inherently insulated within the notion of separation of powers. The establishment of oversight structures in Legislature and Municipal Council are very critical for financial accountability as they enhance local economic development. Questions of oversight by Legislature on municipal councils and

respect for the separation of powers in the process of public participation and oversight are always been raised. These questions remain critical due to incomplete infrastructure development of local communities which the Legislature is always encountering by petitions or public participation. It should be noted that from the Constitutional and Legislature perspective, municipalities constitute a local sphere of government and therefore matters of accountability are critical.

The total infrastructure budget for all municipalities in South Africa is R120 billion and yet in many municipalities there has been lack of established municipal oversight committees and capacity constraints. State the number of municipalities with qualified audits, disclaimers, etc. Municipal Councils receive 'support' from the provincial department of cooperative governance and traditional affairs as well as funding from the national fiscus. In terms of the Constitution of South Africa Section 114(2), a provincial legislature must provide mechanism for oversight of any provincial organ of state. Further, Sec115 provides that a provincial legislature or any of its committees may summon any person before it to give evidence or to produce documents and require any person or provincial institution to report to it. Considering the vested powers in the Legislature including the fact that COGTA as an executive department is accountable to the Legislature, the institution that should play direct oversight and financial accountability public funds is raised.

The administrative fact that is worth mentioning repeatedly is that *structure is important*. Structure and separation of powers permeates every branch of state are intertwined and it is argued that proper oversight on each sphere enhances local economic and infrastructure development. Every layer of state or sphere of government requires separation of duties and powers. This paper focuses on roles of the two important committees established to oversee public spending; namely SCOPA and MPAC. The paper illuminates some key indicators on what constitutes what should be overseen by these committees. Unless these public accounts committees exist and are fully capacitated to implement their functions within their powers, oversight will be compromised. Knowledge of the separation of powers is the framework within which these committees must function.

#### **LEGISLATURE OVERSIGHT COMMITTEE ON PUBLIC ACCOUNTS (SCOPA)**

In terms of the Constitution of South Africa of 1996, parliament and legislatures as one arm of government at the provincial spheres play a crucial role in ensuring amongst others:

- Conduct oversight S 114(2)(b), 133(2)(5) and the PFMA;
- Hold the executive accountable - S 114 (2)(a); and,
- Protect and ensure maximum realization of the values of transparency, accountability, and open democratic process with respect to parliament itself

The above constitutional provisions empower the Parliament and Legislature to provide '*mechanisms*' to maintain '*oversight*' of any organ of state and Legislatures have responded to this key mandate by establishing portfolio on Cooperative Governance and Traditional Affairs (COGTA) and standing committee on Public Accounts (SCOPA) to play an oversight function over the executives. These committees undertake their work in the name and on behalf of the Legislature.

#### **MUNICIPAL COUNCIL PUBLIC ACCOUNTS COMMITTEE (MPAC)**

Municipalities in South Africa are at the coalface of public service delivery because they are often

the first point of conduct between society and government. They make concrete decisions about the provision of services for the betterment of poor communities. Their decisions, of course, directly affect the lives and livelihoods of individual citizens, organisations and the private businesses. However, studies points to weak oversight and accountability within this sphere of government.

The Auditor-General of South Africa report (2010) identified lack or poor quality of the municipal oversight and accountability within the system of local government as this demonstrated by high rate of disclaimers, adverse opinions and or qualified audit outcomes As a consequence, the national government has resolved that Municipal Public Accounts Committees be established in terms of Treasury Note and that the quality of oversight work conducted by the in collaboration with other oversight structures needs to be beefed up. Municipal Public Accounts Committees (MPAC) similar to Standing Committee on Public Accounts (SCOPA) must be established at the local sphere of government in all nine provinces of South Africa not only to enhance oversight but to close the financial accountability loop existing in the municipalities.

The Constitution provides for co-operative governance, which involves elements of the relationship between local government and other spheres of government. The national and provincial governments provide assistance; support and monitoring in order to build the capacity of municipalities to fulfil their functions provided in the sec 34 of Municipal Finance Management Act, 2003 and section 154(1) of the Constitution.

Section 79 of the Municipal Structures Act (Act No. 117 of 1998), section 129 of the Municipal Finance Management Act (Act No. 56 of 2003) and the Constitution (1996) state that Municipal Council has an important oversight and policy making role to make, and a wide range of other responsibilities. However, cognizance is taken of the fact that there is conflation of legislative and executive powers within the Municipal Council. For example, Section 151(2) of the Constitution clearly states that "the executive and legislative authority of a municipality is vested in its Municipal Council" but who actually has executing authority between the Speaker and Mayor. Do the Municipal Speaker has similar powers to the Speaker in the Provincial Legislature? As municipal public accounts committees are established, should the Mayor account to the Speaker? Or should the municipal council account to the relevant Legislature?

The conflation of executive responsibilities within the Municipal Council has been viewed as problematic and having challenges, particularly because this separation of powers between the role which executive authority undertaken by Section 80 Municipal Mayoral Committees and Section 79 Municipal Council Committees. In terms of the Municipal Systems Act the Municipal Mayor is the executive authority, and because the Mayor often endorses or recommends administrative decisions, the mayor together with senior management (Section 59 Managers) becomes the accountable to MPAC committee established for oversight and mechanism.

The National Treasury Report (2006) points out that the Municipal Council and its oversight committees should provide political leadership - not administrative decisions - by being responsible for policy formulation and outcome, and also hold the municipal administration accountable for policy implementation and outputs. With the establishment of MPACs, Treasury guideline for the establishment of Municipal Public Accounts Committees recommends that the Mayor, Deputy Mayor, Speaker, Chief whip and a Member of Mayor Committee, a member of the Executive Committee should not be serve on the MPACs. This is in view of strengthening oversight and accountability.

## **WHO ACCOUNTS TO THE LEGISLATURE?**

We have thus far outlined legislation and structures in place that are meant to play meaningful oversight on the executive. Lack or poor oversight structures continue to question whether there is an adequate legislation to deal with oversight and accountability issues. Section 155 (6) (a) and (b) of the Constitution (1996) clearly indicates that the provincial sphere or the provincial legislature must provide for the monitoring and support of local government in the province and also promote local government capacity in order to enable it to perform its functions and manage its own affairs. On the contrary, the local sphere of government is constitutionally considered an autonomous sphere. This essentially mean that a municipality has the right to govern, on its own initiative, the local government affairs of its community, but subject to national and provincial legislation, as provided for in the Act (section 151(3) and (4) of the Constitution).

The question of having municipalities to account directly to the Provincial Legislature may be in contravention of provisions the Constitution, and other relevant legislation (for example, Municipal Systems Act, 2000) governing municipalities and the doctrine of separation of powers. These legislations make provision of where municipalities should account. Section 2(a) of the Municipal Systems Act (2000) states "a municipality is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government: Municipal Demarcation Act, 1998". Local sphere of government is an autonomous organ of state which its status and rights should not be compromised or impeded by the other higher spheres of government.

In similar vein, Bekink (2006: 66 cited in Department of Justice, 2008) conclusively provide an argument based on section 151(4) of the Constitution, that neither the legislative authority nor the executive authority of national or provincial government may compromise or impede the rights or abilities of municipalities that are protected in terms of the Constitution. Therefore, neither the Municipal Systems Act nor the Constitution obliges a municipality to account directly to the Legislature in the exercise of its powers and the performance of its functions. The two legislations and other legislation governing local government expressly provide for the 'monitoring' 'support' and 'strengthening' of municipalities by the higher spheres of government.

## **THE PRINCIPLE OF CO-OPERATIVE GOVERNANCE**

It must however be stated that the principle of co-operative governance, which involves elements of supervision and intervention, underpins the relationship between local government and other spheres of government. The national and provincial governments provide assistance; support and monitoring in order to build the capacity of municipalities to fulfil their functions (see sec 34 of Municipal Finance Management Act, 2003; and section 154(1) of the Constitution). According to the Department of Justice & Constitutional Development (2008), the word 'monitoring' has been legally interpreted not to mean the power by provincial government to intrude on the domain of local government, but rather the power to measure at intervals performance and compliance with either national or provincial legislative directives of this sphere of government. This suggests that the provincial powers to intervene in local government in terms of the Constitution is not absolute and is dependent on clearly defined circumstances and procedures set out in the supreme law of the land. For example, provincial executive authority's intention

to intervene in local government matters has to be in writing and approved by the provincial Legislature and the National Council of Provinces (NCOP).

Moreover, in accordance with section 139 (Constitution, 1996) where the provincial power to intervene is exercised, the duties/powers and functions of a municipality get either completely taken over thus implying that a municipality becomes directly accountable to the provincial Legislature. According to the Department of Cooperative Governance & Traditional Affairs (2011), there have been 21 cases of provincial government intervention in line with section 139(8) in the domain of local government. Section 139(8) provides that national or provincial legislation may be enacted to regulate the process/implementation of intervention established by law. However, such intervention by the provincial executive authority and accountability by the municipality to the provincial legislative authority is of limited nature until such time that the identified problems have been adequately addressed and the municipality then being deemed fit to resume all its constitutional functions and powers. We argue that the provincial government's monitoring and support obligations explicitly give the Legislature opportunity to establish mechanisms, process and procedures for overseeing municipal performance with regard to execution of its powers and functions - but not to intrude, interfere or micromanage.

The rationale and process of establishing Municipal Public Accounts Committees in all municipalities arose due to a number of reasons in order to strengthen municipal oversight and accountability as thus;

- Weak monitoring, evaluation and enforcement of compliance by municipalities;
- Inadequate accountability mechanisms;
- Poor service delivery to the communities, as illustrated by sporadic service delivery related protests; and
- Poor financial management in the municipalities.

The question becomes what is needed to enable Municipal Councils to function very well? In order to build the capacity and function very well, Municipal Councils require support not only from other government institutions supporting democracy, but they need to be supported with a dedicated team of coordinators, researchers and legal advisors (Makhado *et al*, 2011). Mansura (2011: 4) agrees that in order for committees to fulfil their constitutional mandate, members of either the legislature or municipality require support services such as procedural advice, research capacity, library and information services, legal opinions and record keeping. Apart from the institutional researchers, political parties represented within the municipality should also recruit on merit rather than patronage their own party researchers to research party-specific issues. Oversight committees of the municipality require relevant, appropriate and specialised information rapidly in order to fulfil their constitutional functions within a national, local, and international context. This is because the type of information required ranges from simple, factual information and statistics to conceptual and analytical research papers, policy and budget analysis requiring various specialised expertise and knowledge (Mansura, 2011).

In order to adequately build the capacity of municipalities to strengthen oversight and accountability it is important to recruit and appoint municipal officials on merit rather. MEC for Provincial Treasury Limpopo Province (2011: 8) correctly points out that "one of our obstacles to achieve clean audit is due to the appointment of people without required technical skills". Similarly, many scholars argue that

replacing patronage political system for the state bureaucracies by a professional bureaucracy is necessary, though not sufficient, condition for the state to be developmental. Evans (1989) argues that meritocratic recruitment and appointment of the state bureaucracy assist to build professional institutions thus enhance bureaucratic performance and growth. There is no doubt that Municipal Councillors need information in order to monitor the success of on-going programs and to identify areas of weakness for improvement in relation to service delivery, financial management and local development. The importance of political principals' capacity to enhance organisational performance and quality should always be emphasised.

## **INDICATORS FOR PUBLIC ACCOUNTS COMMITTEES**

Work of parliament and legislatures has generated a great deal of interest within the various stakeholders, business, Non-Governmental Organisations, taxpayers, etc. Equally important, the executive arm of government considers the oversight role of legislatures as it individually and collectively accountable to the Legislature. Portfolio Committees are bound to represent the public through oversight in view of improving the quality, usefulness and relevance of government information. The Performance Information Handbook from National Treasury and the creation of the Department of Performance, Monitoring and Evaluation are as a result of government taking initiatives to improve performance information and to create a space for proper monitoring and evaluations of government programmes. The Auditor General has also begun to focus on performance information as a measure of performance as contained in the strategic documents Annual Performance Plans, Quarterly reports and Annual Reports and are critical elements for parliamentary oversight, accountability and observance for the separation of powers.

The quality of strategic documents and Annual Performance Plans has improved over the years but there are some aspects that need to be sharpened such as producing performance indicators that are useful, precise, unambiguous and measurable. Another critical aspect is the relevance of indicators in addressing the mandates and the development agenda of the country.

The quality of expenditure has also improved over the years and this can be clearly seen from the payments of contractors and transferring of grants from national departments to provincial departments within 30 days as provided by the PFMA. Unlike previous years when a contractor would receive money in bulk presently payments is done in tranches and depends solely on the work done. Even with grants to provincial governments it is done in tranches and evidence on work done has to be produced in order to receive more funds. These are some of the ways that government is encouraging public funds to be utilised in a manner that it can easily account to parliament and legislature which is appropriating them.

## **INDICATORS FOR ANNUAL PERFORMANCE PLANS AND INTEGRATED DEVELOPMENT PLANS**

### **Treasury Reporting Frameworks for APPs and Strategic Plans**

The National Treasury Regulations specify all aspects of planning in government. For example the National Treasury Regulations chapter nine entitled 'Planning' specifically outlines that the Accounting Officer must ensure that the organisation has a strategic plan, an annual performance plan, an operational plan and in the case of government entities listed in Schedule 2 and 3 of the PFMA should submit a corporate plan.

All strategic documents must be aligned to a five year electoral cycle. Only one strategic document in a form of a Strategic Plan must be submitted once every five years. It is a requirement for each department to submit strategic documents to the Legislature, Office of the Premier and the Provincial Treasury. This provision is clearly outlined in the Public Service Act 1994. The HOD must report performance in terms of the guidelines provided by the Premier. All Strategic documents in structured in terms of the following documents from National Treasury:

- National Treasury: *Frameworks for APPs and Strategic Plans.*
- National Treasury: *Framework for managing programme performance information.*

The format prescribed by the Treasury allows performance information is audited by the AG, every APP has been drafted in line with the above guidelines. After five years it is important that the Provincial and National government can be able to measure not only the outputs of the strategic plans and objectives but will be able to measure the outcome of service delivery. The resources of the department must be clearly outlined on how they will result in intended outputs. Furthermore emphasis is put on the fact that strategic documents are a political agreement on the desired outcomes by the ruling government.

Since outcomes are influenced by the political agreement in terms of the election manifesto and other policy documents, it is the responsibility of executive authority to decide on the method of reporting on the implementation of strategic objectives. In the Public Service Act (1994) section 7A(4)(c) it is clearly stated that “executive authorities determine the reporting requirements of the heads of government components including public entities, to the head of the principal department to enable oversight of the component in respect of policy implementation, performance, integrated planning, budgeting and service delivery” (National Treasury, 2011).

The National Treasury has taken the initiative to give direction in terms of phrasing performance information in order to ensure that oversight, monitoring and evaluation of performance indicators are accurate and succinct. The Programme Performance Information Framework was developed to ensure that government performance indicators are generated through a system instead of being “thumb-sucked”. Over the previous years performance targets were broadly outlined as percentages and this element was not easily measurable.

Baseline information from statistical information sources should be used to establish the status quo for each item. In case baseline information is not available, previous years trends should be used as an indicator for the each financial year. Ambiguous performance indicators will result in ambiguous targets; this has a ripple effect on the budget and outcomes in five years. Targets must be linked to budget and human resources capacity. The question is: does the department have the requisite human resource capacity to achieve the set targets?

National Treasury has suggested a Performance Information manual to direct this process that may take each component within a department months to generate a performance indicator. For example one department generated a performance indicator that it will implement the rural safety plan in a Strategic Plan and targets were allocated to this indicator. However, the rural safety plan has so many aspects to it that involve transversal involvement of other departments. This performance indicator is not a good indicator, because it is not an indicator but a strategic objective. Hence this strategic objective was meant to be allocated with activities that will ensure that this becomes the outcome in five years.

At the policy level, indicators are used for monitoring how effectively and efficiently public resources are

used, whereas at the service management level, indicators give feedback on local programme strategy. Worth noting is that the Performance Information framework is clear on the processes that will generate performance indicators and the purpose of generating a PI is outlined below:

- Collect, verify, store and use data to produce the required PI
- Target, calculate, interpret, analyse and use PI in departmental decision making
- Report on the PI
- Review the PI framework

These steps clearly show that data has to be used in order to generate any PI and the information can be used to make decisions within the department. Lastly, the PI framework has to be constantly reviewed to improve the PI.

### **Annual Performance Plan and Integrated Development Plans (IDPs)**

Annual Performance Plans (APP) are yearly plans of the department outlining in specific details on how they will execute their mandates in order to contribute to the five year strategic plan. The Annual Performance Plan is tabled in the Legislature just as the IDP is tabled in the Council and once is adopted by the House it becomes LAW. It binds all directorates as it becomes a roadmap and blueprint for the MEC, Mayor, HOD, Municipal Manager and Senior Management. Any deviations arising from the non-implementation or over-expenditure must be authorised by the same House or Council that approved it. Under the current conjectural conditions the APPs are tabled after the main Appropriation Bill has been tabled and this has been a concern to Portfolio Committees. As a consequence, most of the time Departments are send back to align their respective APPs to the priorities as stipulated in State of the Nation Address, State of the Province Address and the Election Manifesto.

Whilst giving consideration to the notion of Separation of Powers between the Legislature and Executive, whether the Legislature should be consulted as the APP is drafted to allow committees to shape the provincial agenda because the Legislature is accountable to the public is often raised. This is similar to the practice of local government drafting of Integrated Development Plans (IDPs). The Legislature or Municipal Council is accountable to the people/public and should therefore shape the direction of service delivery in the respective portfolios as well as agreeing on oversight direction during the year or term in question.

In the light of the above, performance information has become very critical with regard to accountability especially where resources are involved. Performance information has been prescribed by the Auditor General of South Africa in 2008/09 financial year as indicator of monitoring service delivery targets. This prescription is in contrast to monitoring compliance on the spending of the budget and rather seeks to establish value for the money. Departments report their strategic plans and performance against predetermined objectives to demonstrate that they deliver services effectively and efficiently. This supports their accountability to Parliament and Municipal Council to the public for responsibly using the public resources and regulatory powers entrusted to them.

Many commentators have raised matters of "quality" when it comes to performance indicators, for example, "outputs are measured without consideration of quality". It should be noted that the structure and design of APP is confined within the quantitative methodology. It is more about numbers, targets and indicators which underlying paradigm is positivism. All the components of an APP as a strategic

document must be measurable according to Treasury guidelines and templates. There are some truths in the statement that what you cannot measure you cannot control, manage or improve. The *SMART* principle is therefore critical when designing APPs as provided by Treasury guidelines which informed the drafting of any APP or business plan.

The debate focusing on quality of indicators and targets is a theoretically compelling argument indeed; however it is likely to fail the test when issues of measurability and accountability are raised during auditing. It should be noted that the qualitative method as underpinned by the theory of constructivism may not be mixed with the quantitative method rather be used for purposes of triangulation, validation, etc. The two cannot be mixed but be juxtaposed to enhance the debate on the findings or logical conclusions. It may not be easy to measure data elicited through the usage quantitative method and as such the AG requires to audit performance information which is specific, measurable and unambiguous. The question of quality is inherent as it is contained in the quality of policies, procedure manuals, and so on.

The performance indicators and targets in the APP/IDP must be generated from the strategic document of the department. The annual performance plans must include some of the following: updated situational analysis that may hamper service delivery (such as change in policy and amendments of Acts), expenditure outcomes, performance outcomes and targets. All targets must adhere to the following principles as stated below: specific; measurable; achievable; relevant; and, time-bound. Informed by Treasury guidelines and template, the APP does not contain everything (simply because those aspects have budgetary implications); hence the operational plan was designed to cater for the above. The fact that an issue or area of interest is not in the APP/IDP does not mean that it is less important. The inclusion of all indicators will place an institution in a difficult position when issues of accountability are raised and the linkage to the core mandates is established. The inclusion of indicators must be guided by need and capacity to realize them. Some indicators like issues "raised by the AG in the management letters, rate of spending in line with the budget, overall performance of the institution", "percentage of the implementation of the risk management plan" do not have to be reflected in the APP as they are adequately covered in the relevant documents such as the audit plans, audit strategy, budget, in year monitoring reports, quarterly reports and operational plans. Needless to say, the APP/IDP should capture the most essential aspects, the *raison d'être* of programmes and sections.

### **Performance Indicators and Targets**

In previous years oversight Committees had questioned many performance indicators and targets in terms of their accuracy to measure the intended purpose and outcome. An indicator on relocating an institution or office block, the target of this indicator is shown in percentages whereby each quarter the department will relocate by 10%. Firstly, at face value the relocation involves a breakdown of activities and these cannot easily be measured in percentages, instead the department has to clearly state it in processes. Secondly, when the portfolio committee asked the department on what the percentages meant it was realised that even the department could not understand the usage of this indicator. Moreover that the department could not link this indicator to any form of budget hence, the targets and performance indicators do not meet any of the criteria stated for both PIs framework and targets; therefore making it difficult to conduct oversight or any monitoring on such an indicator.

The strategic plans of government are meant to flow from national government to provincial government and local government sphere. This gives effect to the provision of hence co-operative governance of the Constitution of South Africa. However, it seems difficult to see this flow in the strategic documents of all spheres of government from national to local government. For example the national strategic plans of the Department of Public Works will not show how each province will contribute to the national output on EPWP jobs. Hence, it makes it difficult for provinces to be monitored on their progress on certain targets at national level. It is true that equitable share budget is distributed to provinces and provinces will decide on how it distributes the budget to each department. The PI framework and the Department of Performance and Monitoring seek to close this gap in different spheres of government in order to contribute positively on national targets.

A complex issue with regard to targets relates not only to the issue of alignment but cases where a target has been set at the national level only to find that no budget has been allocated at the provincial level to ensure the implementation of the nationally generated targets. This has in many instances led to the frustration of provincial departments. Such cases are prevalent through Conditional Grants especially in the largest social cluster departments namely, Health and Education, where in provincial APPs national targets are indicated. Departments have expressed complexities and frustration during appearance before Portfolio Committees. Progress for each PI should be reported on quarterly basis. Data indicates that progress on some performance indicators may be unreported for 2 quarters, and this relates to PIs that are nationally generated such as ABET/FET. However, budget continues to be spent. The quality of APPs hinges on the rigour of planning. This includes oversight institution validating and triangulating information in the APPs. Someone driving from point A to B must mention in specific terms what time he/she will arrive at point B. It can't be left 'we shall see'. Every directorate should fully comply with the roadmap to adhere to the targets to avoid amongst others irregular and unauthorised expenditure.

### **Expenditure**

Societies, such as South Africa, have become more conscious of the usage of public funds and requiring that government utilises funds properly to benefit all as politically agreed in the election manifesto. Skenjana (2010) showed that in 2007/08 financial year some governmental departments under spent their budget by more than 7%, which translates into millions of rands. The national Department of Housing under spent its budget by R395.6 million in 2007/08 financial year and the national Department of Health also under spent by R300 million in the same financial year. These budgets were supposed to benefit the impoverished communities in that specific year and this means this was not achieved.

Public Service Commission have shown that those departments that fail to utilise their entire budget tend to engage in fiscal dumping in the last quarter of the financial year. The fiscal dumping shows a huge spike in expenditure in the fourth or last quarter of the financial year in the departments during 2005-2007 financial year in order to ensure that funds do not return to National Treasury. The National Treasury has shown that control over the budget expenditure in government is an important factor. The Report by the Minister of Finance in Parliament, shows that "overall expenditure of government at the end of the second quarter of each financial year needs to be at 50 per cent." (National Treasury, 2011) If this norm is maintained it will improve the quality of expenditure and will not lead to unauthorised spending or fiscal dumping. Despite that departments do not spend their budget in a similar manner the minister

cautioned that if the budget is not at 50% expenditure at the end of the second quarter this may mean that the department should be carefully monitored.

## CONCLUSION

The establishment of oversight structures in Legislature and Municipal Council for financial accountability are very critical for enhancing local economic development. These structures should undertake their oversight responsibility within the respect for the doctrine of separation of powers. Further, these structures must understand the key indicators that should be included in the design of the Annual Performance Plans and Integrated Development Plan. Disciplinary knowledge on performance information as used by Auditor General and Treasury will assist political arm to hold the executive accountable.

This paper focused on roles of the two important committees (SCOPA and MPAC) established in terms of the Constitution and other related legislation. Their robustness, capacity, and understanding the own powers and roles will logically lead to economic development of communities. The Constitution clearly states that "the executive and legislative authority of a municipality is vested in its Municipal Council" and the Members of the Executive is individually and collectively accountable to the Legislature.

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## TOWARDS SOCIAL RESPONSIBILITY MEASURE FOR SMALL BUSINESSES

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### ABSTRACT

Socially-responsible business and ethical behavior of companies have been of interest to academia and practice for decades, but the focus has almost exclusively been on large corporations. Small businesses have traditionally been overlooked in corporate social responsibility studies. Small business social responsibility research may have been hampered by the assumption that limited opportunities exist for small firms to exercise their social responsibilities. The purpose of this study is to bring to sharp focus SME corporate social responsibility (CSR), by defining CSR using current literature and insights derived from annual reports of small businesses listed in the JSE Alt Exchange. Using content analysis the study generated a sample of items to construct the content domain of SME Corporate Social Responsibility. Interview questions were administered to thirty SME key informants to tap into their insights with respect to their understanding of small business CSR initiatives. The process resulted in a conceptually sound definition of SME CSR. The paper concludes by providing avenues for further research.

**Keywords:** Corporate social responsibility; Small and Medium Enterprises (SMEs); Measurement instrument; company behaviour

### INTRODUCTION

The relationship between business and society has been a topical issue for a long time. Scholars have been examining and analysing concepts and theories concerning the responsibilities of business in society. As early as in 1975, Sethi (1975) expounded an idea of viewing enterprises as integral part of the society. Sethi (1975) proposed a model that explains corporate behaviour in terms of increasing levels of commitment by enterprises on their social obligations and societal congruent norms that would render enterprises socially responsive. Other authors, for example Lucas, Wollin & Lafferty (2001), recognised the need to promote and encourage socially responsible business practices. These authors looked at how business entities could align business objectives with social objectives.

As pointed out by Porter & Kramer (2006) corporate social responsibility (CSR) has emerged as an inescapable priority for business in the 21<sup>st</sup> century. This notion is buttressed by the launch of the United Nations (UN) Global Compact in 2000 (United Nations, 2013) and later the introduction of ISO 26000 standards on social responsibility (International Institute on Sustainable Development, 2013) to business literature. The ISO 26000 standards as well as the UN Global Compact, is testimony to the importance of ensuring that businesses are grounded on social responsible values systems. The terms social responsibility and corporate social responsibility tend to be used interchangeably in literature. Given that the term CSR was coined with large corporates in mind, and given that the focus of this study is on small businesses the study adopts the term social responsibility. Notwithstanding the issue of nomenclature, past literature has focused almost exclusively on large corporations, while small businesses have not received as much attention. Small businesses encompass a very broad range of firms, from established

traditional family businesses employing over a hundred people (medium-sized enterprises), down to the survivalist self-employed from the poorest layers of the population (informal microenterprises).

Among the numerous theories that have been applied to explain social responsibility engagements for small and large business, stakeholder theory stands out as the most well-founded theories in the CSR literature. Proponents of stakeholder theory (Brenner & Cochran 1991; Jones & Wicks 1999) view management choice as a function of stakeholder influence and they therefore argue that organisations address a set of stakeholder expectations by participating in social activities. Mitchell, Agle & Wood (1997) uses this theory to develop a stakeholder salience model and ranks business stakeholders on the basis of their legitimacy, urgency and power. They further propose that businesses prioritise issues according to the level of their stakeholders' salience.

### **GAP IN KNOWLEDGE AND PROBLEM STATEMENT**

The UN Global Compact takes cognisance of the numerous terms used to describe social responsibility of business (UN Global Compact, 2013). These include corporate citizenship, corporate sustainability, social responsibility, sustainability, business responsibility, corporate social investment, corporate social responsibility amongst other terms. Following the inception of the concept in the United States by Berle & Means (1932) and its later development by Bowen (1953), CSR was seen as a tool to control the misuse of corporate power in bigger organizations and to redirect them to produce social goods. Traditional CSR, which developed from these ideologies, has been perceived as 'luxury good' (Spence et al. 2003) that only large companies could indulge in. As a result, conventional literature related to business behaviour has underestimated the impact of Small and Medium Enterprises (SMEs) on society. Hunt (2000) recognized the need to promote and encourage socially responsible business practices among the 90 per cent or more of the world's businesses that are classified as small, medium and micro enterprises (SMMEs).

Lack of consensus and clarity on what is social responsibility poses questions on whether the essence of social responsibility in terms of motivation and practices is the same for large and small business. Observers have reached a variety of conclusions about the differences between SMEs and large organisations in respect to the extent of their CSR participation and their intentions. Some have argued that bigger firms are more socially responsive because of their larger resource slacks, visibility and operational scales (Johnson & Greening, 1999; Brammer & Millington, 2006). Others have disagreed, stating that the same characteristics actually motivate smaller firms to behave responsibly (Mezner & Nigh, 1995). Commentators such as Perrini (2006) argue that small businesses do participate in CSR in an informal manner which is termed "sunken CSR". The divergent views presented above demonstrate a need for further research to clarify the definition of CSR from the perspective of small business. Accordingly, this work seeks to address two question: what does the concept of social responsibility mean for your company?; and, what is your company's initiatives in the area of CSR? The purpose of the paper is to crystallise the nomenclature that defines how small businesses view and participate in social responsible initiatives. As such, this work is organised around two key objectives: (a) to establish the conceptual domain of CSR by determine the sunken and observable CSR activities that small businesses engage in; and (b), to define CSR from the perspective small businesses.

## CORPORATE SOCIAL RESPONSIBILITY: A LITERATURE ASSESSMENT

Corporate social responsibility (CSR) has been practised since as early as the late 1800s at least in the USA (Sethi, 1977). It was legitimate insofar as it directly benefited the shareholders. Accordingly, corporate donations were mostly on the agenda of those companies that could afford it (Sethi, 1977). Today's concept of corporate social responsibility was developed primarily during the 1960s in the USA with the notion that corporations have responsibilities that go beyond their legal obligations. The evolution of the conceptions of CSR is captured in table 1 (see appendix). In 1960, William Frederick clarified the social responsibility paradigm by indicating that businesses need to do more than just conduct their economic functions. Even though the literature of the 1960s is not strongly discussed in the CSR discourse, there was significant formalisation of the concept during this period. Some prominent writers such as Davis (2001), McGuire (1997) and Frederick (1978) unanimously agree on the fact that business responsibility should exceed the economic interests of the organisation. Davis (1960: 70) suggests that "social responsibility refers to the businessmen's decision and action taken for reasons, at least, partially beyond the firm's direct economic and technical interest". CSR being a nebulous idea, he believed, could possibly bring enduring economic gains to the organisation as a return for its socially responsible stance.

In 1961, Eells & Walton (1961) also expressed their concerns about corporate power by explaining CSR in terms of problems that arise when a corporate enterprise casts its shadow on the social scene and the ethical principles that ought to govern the relationships between the corporation and society. Frederick's (1960) explanation of CSR indicates that the responsibility of management is not just creating wealth for the business, but for the society too. Further attempts by McGuire (1963) to elaborate the construct "CSR", support Frederick's approach by focussing on the firm's obligations extending beyond the economic and legal domains, to include employee and community welfare and the political and educational needs of the society. Following this, the notion of "voluntarism" was acknowledged for the first time by Walton (1967) in his book *Corporate Social Responsibilities*. Walton was of the opinion that the social responsibility of a corporation always includes a certain degree of voluntarism, since companies have to accept that costs are involved in social actions without any measurable economic return (Walton 1967).

Friedman (1962) strongly opposed the doctrine of CSR as subversive. According to Friedman, the only responsibility of the management is to maximise the profits of its owners and shareholders. As an economist, Friedman believed, only individuals can have social responsibilities. However, there were numerous criticisms from various authors challenging his extremist view. As formal CSR concepts started evolving, most of the literature documented in the 1960's was in response to the emerging structure of large corporations and their responsibilities beyond their legal and economic interests. The early writings of Bowen (1953), Davis (1960), Frederick (1960), McGuire (1963) and Walton (1967) indicate that firms and businessmen are expected to look at concerns that are wider than the technical and economic aspects of the organisation. Such theories can be considered as the basic foundations of the modern CSR which were refined in later years.

In the 1970s, the number of authors writing and making reference to CSR increased rapidly. One of the most important contributions to the definition of CSR was made by the Committee for Economic Development (CED) in 1971. The CED articulated a triple concentric model of the concept with the inner circle including the clear-cut basic responsibilities for the efficient execution of economic functions like

productivity, job and economic. The intermediate circle encompasses responsibility of economic function in regard to changing social values and priorities, such as environmental conservation, employee relations and more rigorous expectations of customers for information, fair treatment and protection from injury. The outer circle outlines newly emerging responsibilities that the business should assume to become more broadly involved in actively improving the social environment.

In response to the CED's (1971) separation of economic and the broader social responsibilities across stakeholders, Davis (1973) contended that CSR is a firm's response to issues beyond the narrow economic, technical and legal requirements of a firm and therefore it begins where the law ends. Other researchers of this period had similar views. As they noted, CSR was distinguished by its long (as opposed to short) term managerial focus (Steiner, 1971) and by its discretionary rather than mandated actions (Manne & Wallich 1972). The concept of community in CSR literature was introduced by Eilbert & Parker (1973). They define CSR using the term "neighbourhood:" "perhaps the best way to understand social responsibility is to think of it as good neighbours" (Eilbert & Parker, 1973: 7). Until the 1970's, CSR was viewed as being either a reactive (corporate social responsibility) or a proactive (corporate social responsiveness). The question still remained, however, of reconciling the firm's economic orientation with its social orientation. A step towards addressing the divergent views in literature was taken by Carroll (1979) after putting forward a comprehensive explanation of CSR. Carroll (1979) developed a four-part corporate social performance model that accommodates Friedman's (1970) view of the responsibilities of the firm. In its first conception Carroll's (1979: 500) framework was developed from a retrospective developmental perspective, based on the claim that the "history of business suggests an early emphasis on the economic and then legal aspects and later a concern for the ethical and discriminatory aspects".

Global influences on CSR continued in the 1990s as the roles of business and government continued to blur. Along with the development of global business, literature in the 90's moved away from a western dominated discourse to a more international one. Authors such as Maignan & Ralston (2002), Aaronson (2003), Perrini *et al.* (2006) and Lucas (2001) looked at CSR from a multinational perspective. These authors extended the debate and compared national perceptions of CSR along with its role in the global society. Jenkins (2004) and Castka (2004) were among the first few authors who criticised the word "corporate" in the term CSR as misleading because it fails to accommodate and appreciate socially responsible actions undertaken by smaller organisations. Brenkert (2002: 34) goes as far as saying that "business ethicists have treated the ethics of entrepreneurship with benign neglect." In 2006, Francesco Perrini came up with a suggestion for the use of theories to investigate CSR. He suggested that CSR in large firms should be based on stakeholder theory while CSR in SMEs should be understood through the application of social capital theory.

### **A Word on Method**

To get a holistic view of this topic and a clearer understanding of CSR, quantitative methods would not have been adequate. The applied qualitative methodology was used to obtain "real," "rich" and "deep" information which is considered important, relevant and significant for this type of investigation (Lincoln & Guba, 1985). Data was collected from SMEs listed on the Johannesburg Alternative Exchange (AltX). The alternative exchange, is a division of the JSE Limited, is a parallel market focused on good quality, small and medium sized high growth companies. AltX provides smaller companies not yet able to

list on the JSE Main Board with a clear growth path and access to capital. To be eligible for listing, a company must appoint and retain the services of a registered advisor who plays a similar role to the current JSE sponsor. They also have to comply with other quality controls such as director education. Purposive sampling was used to select small companies that posted their annual report from 2008 to 2012.

**Content Analysis Findings**

Table 2 below, shows nine terms associated with social responsibility in the annual reports of companies listed in the AltX. The most frequently cited term is ‘Sustainability’, cited 144 times in annual reports from 2008 to 2012 followed by corporate social investment which was cited 29 times during the same period.

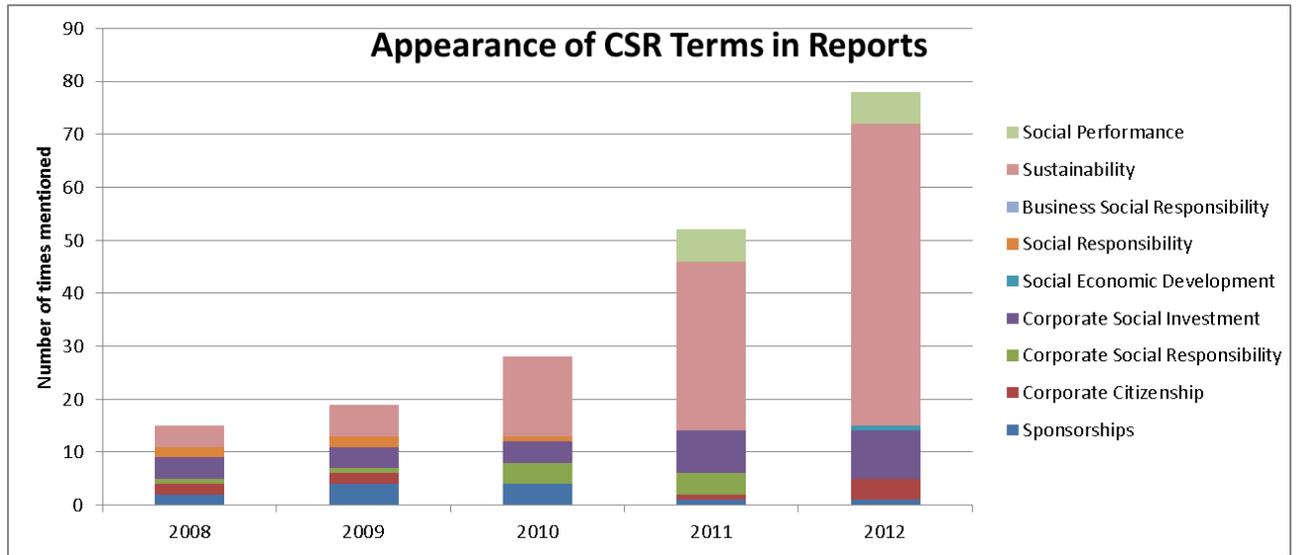
**Table 2:** Content analysis of corporate social responsibility terms in annual reports

Terms vs. Year	2	3	4	5	6	
	2008	2009	2010	2011	2012	0
Sponsorships	2	4	4	1	1	12
Corporate Citizenship	2	2	0	1	4	9
Corporate Social Responsibility	1	1	4	4	0	10
Corporate Social Investment	4	4	4	8	9	29
Social Economic Development	0	0	0	0	1	1
Social Responsibility	2	2	1	0	0	5
Business Social Responsibility	0	0	0	0	0	0
Sustainability	4	6	15	32	57	114
Social Performance	0	0	0	6	6	12

**Total** **192**

As depicted in figure 1, the use of the word “Sustainability” has increased by more than three fold from 2010 to 2012, while the terms “Corporate Social Responsibility” and “Social Responsibility” disappeared from annual reports in 2012.

Figure 1: Appearance of CSR Terms in Annual Reports of Small businesses



### CONCLUSION AND AVENUES FOR FURTHER RESEARCH

In the attempt to explore, develop and critique the new societal balance from the perspective of corporate social responsibility, the “grandness of the small business” is overshadowed by a focus on the more conspicuous merits or scandals of large multinational companies. It also matters considerable for the global economy to understand the extent and modalities small businesses engage in social responsibility activities. Small businesses’ social responsibility engagement deserves more attention due to its potential impact on the global economy. As mentioned earlier, small businesses make up the largest business sector in most world economies. They are dominant in terms of absolute numbers, and are also the key drivers of employment and economic growth (Jones, 2005).

In view of the limited research that has been conducted on the social responsibility of small enterprises, further research needs to make a meaningful contribution towards expanding the body of knowledge on social responsibility in a number of ways. Firstly, an in-depth study that explains how motivation is linked to social responsible activities of small business is necessary. Secondly, a study provides a conceptual domain of observable and sunken social responsible activities within the context stakeholder theory and social capital theory is needed. Further research also needs to also look at the determinants of socially responsible behaviour of small businesses.

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**Appendix**

**Table 1:** Conceptual domain of Corporate Social Responsibility

SOURCE	DEFINITION	ANALYSIS/COMMENTS
KPMG (2002)	“the concept in which the company with its business practices creates a healthy balance between people, planet and profit in the short, medium and long-term”.	It includes time as a factor.
Carroll (1979)	“the social responsibility of business encompassing the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”.	In order for the business to fully address their obligation to society, all these four categories of expectation on the economic, legal, ethical and philanthropy (discretionary) must be met. Carroll (1979, 1991) showed all these four in a model called the Pyramid of CSR.
The European Union (EU)	“CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large.”	This broad, all-encompassing definition focuses on the “beyond legislation,” voluntary approach to CSR, which has become the dominant rhetoric around CSR for the EU.

<p>European Commission, (2001)</p>	<p>“a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” and “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”</p>	<p>This responsibility affects employees and more generally all the stakeholders under the corporate umbrella. It means that organizations should integrate economic, social and environmental concerns into their business strategies, their management tools and their activities, going beyond compliance and investing more into human, social and environmental capital.</p>
<p>Waddock, (2004)</p>	<p>The subset of corporate responsibilities that deals with a company's voluntary/discretionary relationships with its societal and community stakeholders.</p>	<p>Emphasis added on voluntary actions and stakeholders.</p>
<p>Carroll (1999)</p>	<p>The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time.</p>	<p>Emphasis added: these four categories or components of CSR might be depicted as a pyramid.” “The CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen.”</p>
<p>WBCSD (1998)</p>	<p>“CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large</p>	<p>The above definition was developed in 1998 for the first WBCSD CSR dialogue in The Netherlands. Stresses that in pursuing their economic interests, managers of businesses (irrespective of size) need to be conscious of the needs of other stakeholders besides their shareholders, because these people are capable of impacting positively or negatively on the primary business objective of increasing shareholder wealth.</p>

Owen (2006)	The voluntary actions that a business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of the wider society."	This definition means that conformance to the minimum ethical standards as prescribed by law is not enough for a business to be classified as being socially responsible. Rather, it means a business has to do more than what the law prescribes. Thus for example, a firm that pays only the minimum wage cannot really be classified as being socially responsible. At best, such a business is only being ethical. On the other hand, a firm that pays more than the minimum wage deserves to be classified as being socially responsible - to its employees.
Bowen (1953)	its refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society".	The focus was on large companies characterized by a progressively widening range of activities. The public was becoming wary that corporate power was expanding much too rapidly.
Davis (1973)	Firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm.	<p>"It is the firm's obligation to evaluate in its decision-making processes the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks." (p. 313)</p> <p>"It means that social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do."</p>

<p>Jones (1980)</p>	<p>Notion that corporations have an obligation to constituents groups in society other than stockholders and beyond that prescribed by law and union contract.</p>	<p>Two facets of this definition are critical. First, the obligation must be voluntarily adopted; behaviour influenced by coercive forces of law or union contract is not voluntary. Second, the obligation is a broad one, extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers, and neighbouring communities."</p>
<p>Sethi (1975)</p>	<p>"Thus social responsibility implies bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values, and expectations of performance." Social responsiveness by contrast is – "...the adaptation of corporate behaviour to social needs."</p>	<p>Distinguishing social obligation, social responsibility, and social responsiveness:</p>
<p>Drucker ( 1984)</p>	<p>But the proper 'social responsibility' of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth."</p>	<p>Drucker's view seems to echo the model articulated by William Norris, Chairman of Control Data in the late 1970s and early 1980s</p>
<p>Peyton (2003).</p>	<p>BSR is a company's commitment to operating in an economically and environmentally sustainable manner while recognising the interest of its stakeholders. Stakeholders include investors, customers, employees, business partners, local communities, the environment, and society at large</p>	<p>Stresses that in pursuing their economic interests, managers of businesses (irrespective of size) need to be conscious of the needs of other stakeholders besides their shareholders, because these people are capable of impacting positively or negatively on the primary business objective of increasing shareholder wealth.</p>

## DEVELOPMENTAL STATE FOR SOCIO-ECONOMIC TRANSFORMATION IN SOUTH AFRICA

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### ABSTRACT

The African National Congress (ANC), as the ruling party in South Africa, has committed itself towards the process of building the so-called developmental state. Such a commitment is undoubtedly premised on the idea of a state-led development, which propagates that the state should assume an active and decisive role in the economy, as crucial component of development efforts. Proponents of this development trajectory hold that it is crucial for realising the objectives of transformation and development efforts. The mantra of a developmental state is considered by policy makers and academics alike, as a crucial instrument required for the transformation of the country's socio-economic challenges. These challenges include, but not restricted to, reducing the high levels of poverty, inequality and unemployment; growing the economy and improving the livelihoods of the great majority of South Africans who continue to endure the unpleasant effects of apartheid system of governance. So by invoking the notion of a developmental state, the ANC seeks to ensure that the state is strategically located at the centre stage of socio-economic transformation and development. The purpose of this paper is therefore to analyse the literature on the subject of a developmental state in order to argue that whereas the building of developmental state is critical for facilitating the achievement of socio-economic transformation in South Africa, there are however, numerous governance weaknesses inherent in state institutions that hinder government's capacity and ability to lead the socio-economic and development agenda. Unless and until there is a positive and noticeable progress in terms of addressing these challenges, the aim and commitment of building a developmental state will remain a pipedream. These weaknesses can be addressed through making sure that state institutions have the requisite skills and professional competencies essential for realising this important developmental mandate. To this end, the paper concludes by proposing measures to be considered in efforts of building a developmental state in South Africa.

**Keywords:** Developmental state; socio-economic transformation; development; African National Congress; South Africa

### INTRODUCTION

There is a considerable debate in South Africa as well as in many developing countries about the prospects of future development. This debate largely emanates from the realisation that the current development path pursued by these states does not yield the desired benefits for the majority the population of the third world. Development in most of these countries is said to be stagnant. The paper seeks to make a contribution on the current debate concerned with the challenge of building a developmental state in South Africa. It posits that the building of a developmental state, with requisite abilities and capacities to lead and direct the development process, is complicated by a combination of numerous challenges. These include, although not restricted to, ineffective bureaucracy, inadequate political will as well as corruption. There is no doubt therefore that if efforts of building a developmental state, which is capable of making decisive interventions in the economy with the prime purpose of promoting socio-economic development and transformation, are to succeed, these challenges need to be systematically addressed. The paper commences with an attempt to conceptualise and trace the

originative context of the notion of a developmental state, then advances the need for state-led developmentalism and further discusses the potential benefits of developmental state for socio-economic development and transformation as well as the issues and challenges of building a developmental state in South Africa.

## **CONCEPTUALISATION AND THE ORIGINATIVE CONTEXT OF THE NOTION OF A DEVELOPMENTAL STATE**

The concept of a developmental state has become a mantra for government officials, policy makers and academics (Andani, 2012). This is understandable because the usage of the concept in the public administration discourse in South Africa is fairly new (Dlamini, 2008; Dassah, 2011; Netshitenzhe, 2011; Maserumule, 2012). In spite of it being “a relatively new concept” (Dlamini, 2008: 14), the concept of a developmental state has generated a widespread debate among policy makers and academics from across various academic disciplines. However, despite its widespread usage, the meaning of the concept is still a highly contested terrain. To better understand the gist of the current thinking on developmental state, it is of critical importance that the originative context of term be established.

According to Madumo (2012), the current thinking on the discourse of a developmental state originated in East Asia in the 20<sup>th</sup> Century. The concept of a developmental state was coined by Chalmers Johnson in 1982 (Dlamini, 2008; Kauzya, 2008; Dassah, 2011) to describe Japan’s successful “development scenario and industrial process” (Dassah, 2011: 590). Johnson’s description primarily appreciates and acknowledges the critical and transformative role played by an “active and interventionist” state (Dassah, 2011: 590; Tsheola, 2012) of Japan in leading and directing a successful and impressive development trajectory. Johnson credits the Japanese state, and not the market forces, for the country’s high and sustained economic growth rates and development that has contributed immensely towards realising the development needs of Japan. The socio-economic successes of East Asian countries have drawn a considerable attention to the concept of a developmental state as a possible model for developing countries. According to Nkuna (2011: 636), “much of Johnson’s work was aimed at laying out the instrumentality of the developmental state to characterise the roles that the Japanese state played within the institutional context of Japanese’s economic history between the years 1925-1975”. For this reason, it is important that the notion of a developmental state be understood within its proper context.

Maserumule (2012) points out that the concept is convoluted by the fact that it is enmeshed in numerous misconceptions. “A few examples of misconceptions inherent in the contemporary discourse on theorising South Africa as a developmental state are that it is a democratic state, or that it is antithesis of democracy, a service delivery state or soviet-type socialism and or that all states are developmental” (Maserumule, 2012: 180). The first misconceptions somehow assume that democracy is a necessary precondition, without which development can not to take place. This is a misplaced argument because it ignores the fact that the current thinking on the subject of a developmental state emerged from within authoritarian systems of political governance in East Asian Countries such as South Korea and Singapore (Dlamini, 2008; Maserumule, 2012). The second misconception is that of using the concept as an antithesis of democracy. This is similar but not the same with the first because it equally assumes that because the current model of a developmental state was achieved primarily in non-democratic systems of governance. It is because of this consideration that some scholars seem to think that development can

only take place in authoritarian states. However, this does not necessarily imply, as some scholars suggest, that all authoritarian regimes are developmental or that states need to be authoritarian in order for them to be developmental (Fritz & Menocal, 2006; Maserumule, 2012). Another misconception is that a developmental state is primarily viewed as a service delivery state (Maserumule, 2012). This view treats effective and efficient service delivery as a developmental state and not as a one of the salient features characterising a developmental state. This is one of the reductionist arguments that seek to reduce and elevate some constituent parts of the concept as whole. The last misconception is that all states are developmental and therefore all states can be described as developmental states (Netshitenzhe, 2011; Maserumule, 2012). Netshitenzhe (2011) further explains that this view is fallacious because it is based on constructs which extensively ignores the fact that the concept is relatively a new phenomenon used by scholars to describe the "riddles of growth and development trends of such magnitude and consistency that countries have climbed from one rung of industrial and socio-economic development to another.

It is worth noting however that in spite of all these misconceptions, there is a general agreement that the promotion of a developmental state is buttressed by a strong sense of realisation that it could contribute immensely towards addressing the numerous socio-economic hardships facing the significant majority of the people in South Africa. This point is emphatically articulated by Dlamini (2008) who argues correctly that developing countries, especially those in Africa, will not be able to overcome the monumental challenges of reducing poverty, inequality and unemployment without a systematic creation of socio-economic development opportunities. Flowing from this perspective, it could therefore be argued that a state-led development is even more relevant for addressing the pressing socio-economic and development challenges facing South African communities, especially those in rural areas with significant developmental needs. It is partly because of this critical consideration that the debate about the building of a developmental state in South Africa has been gaining currency as a critical instrument for effecting socio-economic transformation. It is therefore not surprising that developmental state is beginning to feature predominantly as important part of a strategic policy objective for the transformation of the state in South Africa (Maserumule, 2012). It is an approach that represents a significant, fundamental and required departure from the market-orientated liberal approach that has shaped and dominated the contents of state policies since the late 1990s in South Africa. Proponents of developmental state argues that "it is through direct state intervention in the economy that the national economy will become globally competitive, promote investments and subsequently achieve high economic growth" (Dlamini, 2008: 15) with the hope that these will translate into meaningful and noticeable qualitative socio-economic changes in the lives of the majority of the downtrodden masses of the South African society. The ANC's engagement with the notion of a developmental state is largely based on the constructs that describe the socio-economic progress made by East Asian countries in realising their developmental needs. However, the ANC places a considerable emphasis on the democratic character of such a state, specifically to underline the different and defining political conditions under which a developmental state was carried out in East Asian Countries. Given the considerable amount of interest that most scholars have shown in attempting to influence the process of building a developmental state, it is therefore critical for the necessity of state-led developmentalism in South Africa to be comprehensively explained.

## **THE NECESSITY OF A STATE-LED DEVELOPMENT IN SOUTH AFRICA**

In the years following their independence, political parties, which took over power from colonial administrations, in many African countries were faced with the monumental tasks of nation-building as well as pursuing socio-economic development and transformation (Meyns & Musamba, 2010). This is especially true for post-apartheid South African government which had to grapple not only with addressing the legacy of colonialism but also had to strengthen efforts towards a process of building a nation that was fractured and deeply divided by many years of apartheid system of governance, which thrived on segregation and separation of South African people on the basis of racial considerations. Such segregation served as a salient feature or criterion of distributing resources in communities. Consequently, white communities were prioritised in terms of socio-economic and development opportunities at the expense of other racial groupings, albeit both Indian and Coloured communities were given very little consideration. African or black communities on the other hand were significantly neglected (Manyaka & Madzivhandila, 2013). These arrangements created unequal levels of socio-economic developments in South African communities. It is on the basis of the above that the immediate task of post-apartheid South African government was focused on reconstruction and development. Reconstruction and Development Programme (RDP) was to serve as a guiding document for realising these important objectives. However, it appears that in the early years of democracy, government focused too much on nation building that was not underpinned by state-led development efforts required for obtaining the desired socio-economic transformation. The premature abandonment of RDP as comprehensive policy framework for guiding the development efforts is a case in point. The RDP, in spite of its transformative and developmental agenda, was dropped by government in favour of Growth, Equity and Redistribution (GEAR). The fundamental weakness with GEAR was that it placed too much emphasis on economic growth at the expense of economic development. This is understandable because even though the objective of increased economic growth rates was attained, such growth rates did not translate into actual socio-economic development. This can be better understood against the ideological backbone upon which GEAR was rooted. GEAR was formulated on the basis of neo-liberal constructs that premised on the idea that a meaningful development cannot occur without sustained high levels of economic growth. However, the outcomes of GEAR pointed to the opposite direction. This was evident in that whereas acceptable economic growth was obtained and sustained for a brief period, it has yielded little results about meaningful and noticeable changes in the lives of the majority of South African citizens. These unintended outcomes effectively deferred the collective dream of a better life for many South Africans.

The current debate on the necessity of building a developmental state has brought back the state as a concept to the centre of international policy debate (Fritz & Menocal, 2006). It set out to locate and clarify the role of the state in development. To this end, it should be pointed out that the notion of a developmental state is not an entirely new concept in theorising the state, it has gained prominence and currency for propagating state-led developmentalism, amid the persisting socio-economic hardships that could be attributed, in part, to the recent global financial crisis (Maserumule, 2012), and to the legacy of South Africa's divided past. It is within this context that the need for a state-led developmentalism in South Africa cannot be overstated as it is a critical and required initiative for addressing the apartheid legacy of unequal provision of services and distribution of services.

Dlamini (2008) argues correctly that the concept of a developmental state represent a commitment towards influencing not only the nature and direction of the economy but also the pace of

socio-economic development through direct state interventions in the economy rather than simply relying on the un-co-ordinated and unreliable influence of market forces to allocate and redistribute economic resources. This is true for the prevailing socio-economic challenges facing post-apartheid South African society. As Manyaka & Madzivhandila (2013) argue, the apartheid state made purposeful interventions in the economy to influence the nature and pace of socio-economic development to the benefit of the White minorities at the expense of the African majority. There is no question therefore that a deliberate or a purposeful intervention by the state in the economy is critical if a collective dream of a better life for all is to be attained. This should be based on the understanding that the existing socio-economic conditions in African communities have been deliberately created by the apartheid government through its skewed and segregate development policies.

In South Africa, it is specifically “because of the pedestrian nature of economic growth and rather the sluggish progress in reducing poverty and inequality, that the concept of a developmental state has captured the imaginations of decision-makers across various sectors of the society (Netshitenzhe, 2011: 7). There has been a sharp increase in unemployment and poverty levels in South Africa since the advent of the democratic dispensation in 1994 (Madumo, 2012). This is as a result of the slow pace of development that is convoluted by inadequate delivery of public service, which has given rise to a society that is saturated by high levels of unemployment, poverty and inequality (Tshishonga & Mafema, 2010). The slow pace of economic growth rates would not assist the efforts of addressing the pressing socio-economic and development challenges facing South Africa. In attempting to obtain consistently high rates of growth, and ensure that the benefits of such growth are equitably shared (Netshitenzhe, 2011); the South African government has committed itself towards the process of building a developmental state (Madumo, 2012). This commitment emanated from the concomitant commitment of the ANC, as a ruling party, towards the same process. This is understandable because the ANC has, in its National Conference held in 2007 in University of Limpopo, Turfloop campus, “elaborated extensively on the need and the desire to build a developmental state in South Africa” (Netshitenzhe, 2011: 7). This was informed by a realisation that the current socio-economic challenges in South Africa frustrate the gains of Political freedom (Tshishonga & Mafema, 2010).

The idea of a developmental state has been popularised as an accepted response to the sharp increases of the treble challenges poverty, unemployment and inequality. By so doing, the ANC sought out not only to expose their desire and unflinching commitment towards the process of building a developmental state, it also wanted to set the tone for this significantly new development trajectory and open the debate on the current thinking on the subject of a state-led developmentalism in Public Administration discourse. A notable number of Public Administration scholars have since jumped on the bandwagon, with the prime purpose of contextualising the notion of a developmental state and also to determine its anticipated outputs and outcomes. To this end, it could be argued that the ANC played a crucial role in placing the debate about the need for building a developmental state at the centre of public administration discourse. It is precisely because of this reason that Maserumule (2012) argues that the ANC, as a ruling party, remains a critical “source of influence” on the nature and character of a developmental state in the South African context. This is understandable given its potential benefits for bringing about a meaningful and noticeable socio-economic transformation in South Africa (Andani, 2012). It is important to note that socio-economic transformation in East Asian countries was primarily

facilitated through increased economic growth rates and enhancing opportunities to participate in the modern economy (Fritz & Menocal, 2006). This is essentially what the South African state should emulate if it is to address the treble challenges of poverty, unemployment and inequality. To this end, it is crucial to explain the potential benefits of building a developmental state for socio-economic transformation in South Africa.

#### **POTENTIAL BENEFITS OF DEVELOPMENTAL STATE FOR SOCIO-ECONOMIC TRANSFORMATION**

Although a case for developmental state, that is able to play an active role in the economy, has been convincingly made by various scholars (Dlamini, 2008; Kauzya, 2008; Dassah, 2011; Nkuna, 2011; Andani, 2012; Madumo, 2012; Maserumule, 2012; Tsheola, 2012), it is important to acknowledge that not all state-led development efforts have succeeded (Dassah, 2011). In spite of this important consideration, it is equally important to note that there is no state, in which socio-economic transformation has taken place, without decisive state interventions in the economy (Dassah, 2011; Basheka, 2013). This point is correctly articulated by Maphunye (2009: 14) who states that “countries which are presently considered to be developed in terms of the dominant paradigm [have] themselves benefited from state-led injection of vital resources in their initial stages of development”. This undoubtedly illustrate that the state plays an essential role in any countries’ socio-economic development efforts. It is for this reason that the notion of a developmental state places more emphasis on the capacity of the state to guide socio-economic development, through direct and decisive state interventions in the economy, to redistribute the resources of a country to meet the developmental needs of the people.

State-led developmentalism could yield enormous results for socio-economic transformation if it is properly carried out. This undoubtedly makes a developmental state, with a democratic posture and orientation, an inevitable and critical salient feature of Africa’s development. As Dassah (2011: 588) argues, there is “no continent [that] is in greater need for sustained development than Africa”. This is understandable because “much of the continent consists of largely poor, agrarian and underdeveloped countries that require significant state interventions and support” (Maphunye, 2009: 14) if they are to succeed in realising a collective dream of a better life for all. Sub-Saharan African countries continue to experience a persistent development crisis (Meyns & Musamba, 2010). This crisis points out to the inability and incapacity of the state to meaningfully address the high levels of inequality, unemployment and poverty. The failure to address these treble challenges, facing many African countries today, undoubtedly compromises the prospects of socio-economic transformation. Hence, there is a general consensus that a developmental state offers ample opportunities for African states to tackle these challenges and create a better life for their citizens. Developmental state is increasingly seen as a critical instrument for addressing South Africa’s monumental socio-economic challenges. As, Meyns & Musamba (2010: 37) argues, “developmental state in Africa is informed by the aim of strengthening development efforts under the guidance of the state and harnessing the productive forces of the market towards the national goal of improving the peoples’ living conditions” Approached from this perspective, developmental states will not be rendered a panacea for the development crisis. It should not be seen as be-all and end all in efforts for realising socio-economic transformation. It should rather postulates that the state could play a central role in leading and directing the development agenda and process.

## CHALLENGES OF BUILDING A DEVELOPMENTAL STATE IN SOUTH AFRICA

### Corruption

Corruption in its various manifestations is said to be a global phenomenon because it affects all the sectors of the economy. There is a widespread recognition by public administration academics, practitioners and civil society alike that corruption in the South African public sector has an adverse impact on public service delivery (Manyaka & Sebola, 2013). Corruption does not only undermine the development goals of the country but it hits the poor the most as resources meant to assist them out of their needy conditions are diverted to the benefits of the few elites who are politically correct and connected. Accordingly, there is a growing world-wide concern over the phenomenon of corruption. With the increased awareness of the detrimental effects of corruption, it has become a dominant subject in the media, academia, the public, in civil society organisations and business. The increased public interest and concern over this problem of corruption has resulted in a large amount of scholarly research on the subject. In South Africa citizens increasingly "rate corruption as a major concern" (Kroukamp, 2006: 209). All sectors of our society are all concerned about the seeming rise of the scourge of corruption rightly because corruption threatens the livelihood of everyone by crippling service delivery, undermining economic growth and eroding the legitimacy and the functioning of the state.

Kroukamp (2006:207) points out that "corruption is especially harmful in developing countries such as South Africa due to the fact that these countries tend to have fewer resources and need to use these scarce resources in the most effective way as well a lack of confidence in the government". Flowing from this perspective, it can be argued therefore that the overall goal in the fight against corruption in the public sector is to improve service delivery. This can be achieved by bringing sustainable reduction in corrupt behaviour and improving good governance. In fighting corruption effectively and efficiently, the government will also save a lot of money meant for public service delivery. South African public sector losses a huge amount of public funds every year. According to Consumer Goods Council (2006), South Africa loose between R50 Billion to R150 Billion annually due to fraud and corruption. Under these circumstances, structural inequalities are reinforced and the rich get richer as the poor get even poorer

### Inadequate Political Will and Leadership

African countries require leadership that is not only committed towards the process of establishing a developmental state but also a development-orientated leadership. According to Fritz & Menocal (2006), the phenomenon of a developmental state exists when the state possesses the vision, leadership and capacity to bring about a positive transformation of society within a defined period of time. Leadership commitment in the public sector is a pre-requisite for a successful programme or intervention. Meyns & Musamba (2010) identifies what they call a development-orientated political leadership as a critical defining feature of building a developmental state in Africa. The African continent is generally confronted with the numerous serious challenges related to socio-economic development. As Dassah (2011: 588) argues, "no continent is in greater need for sustained development than Africa". Kauzya (2008) states that a developmental state is a state that has both capabilities, the willingness to address the pressing socio-economic and developmental challenges facing its people. There is a need for a development-orientated leadership that evolves from a clear consensus, between both the political and administrative leadership, over the scope and direction of development. This development-orientated

leadership will ensure existence of calls an active state that decisively in the economy to maximise the redistribute effect of socio-economic gains (Maserumule, 2012). In attempting to address these challenges, there is a widespread consensus that the building of developmental states in African countries will not only require effective bureaucracies, there is also a need of a strong sense of political will to lead the development trajectory. The capacity of the bureaucracy cannot generally increase if a developmental commitment among state leadership is missing or insufficient (Fritz & Menocal, 2006).

### **Weak and Ineffective Bureaucracy**

The creation of autonomous and effective bureaucracy has been identified by numerous scholars as a requisite feature for realising the objectives of a developmental state (Dlamini, 2008; Dassah, 2011; Maserumule, 2012; Tsheola, 2012). However, it is worth noting that numerous concerns have been raised by scholars regarding the efficiency and effectiveness of the South African bureaucracy. One of these concerns is the issue of cadre deployments in the bureaucratic machinery. As Thornhill (2012: 137) argues, this is “an issue requiring serious consideration”. Cadre deployment as a manifestation of spoils systems (Manyaka & Madzivhandila, 2013) entails the appointment of former cadres to senior posts in government in recognition for their contributions to the freedom struggle without due regard of whether they have the requisite skills and the required capacity to optimally perform the tasks associated with such appointments (Ngamlana, 2011; Thornhill, 2012). The concerns on the impact of cadre deployment on capacity of the state institutions to carry out their developmental mandate emanate from the realisation that in post-apartheid South Africa, the phenomenon has been overly institutionalised and extended to almost every sector of the economy. Cadre deployment policy of the ANC has severely compromised and weakened the capacity of the public sector (Ngamlana, 2011).

The paper does not however seek to ridicule and advocate for the abolishment of “deployments” in public sector institutions. This is based on the conviction that deployments are not inherently wrong, given the nature of our electoral system, which allows for the election of people into the public service through a political party. The victorious political party ordinarily or organically deem it is necessary to put in high echelons of power, cadres who understand the fundamental objectives of such a political party, as outlined in the manifesto. Approached from this perspective, deployments allows for strategic placement of cadres in high positions as way of maintaining a control regarding the achievements of key strategic objectives of the ruling or governing party. However, this approach, like many, is open to abuse. For instance, when a political party is rocked by factionalism, deployments become an instrument of electioneering, wherein political allies, are considered for placement, in all levels of an organisation, without requisite qualifications and experiences, not for strategic considerations but for political considerations. When these happen, public service institutions are rendered ineffective and at worst dysfunctional.

### **Ineffective Oversight of the Legislative Institutions**

Closely related to the weak and ineffective bureaucracy is ineffectiveness of legislative institutions in carrying out their oversight responsibilities over the executive. The Constitution of Republic of South Africa 1996 spells out the three spheres of government as national, provincial and local (Republic of South Africa, 1996; Black, Calitz & Steenkamp, 2008; Kahn, Madue & Kalema, 2011). It further assigns to each of

the three spheres of government certain powers and functions. The most salient feature of the democratic system of governance is that government is answerable to elected political representatives in legislative institutions for the performance of its functions. The surest way to hold government accountable is to ensure that those who are entrusted by the society with the societal resources remain accountable to the legislative institutions, which are in turn accountable to the electorate. Legislative institution made up of representatives of people collectively known as Members of Parliament (MPs) at the national sphere of government and Members of provincial Legislature (MPL's) at the provincial sphere of government and councillors in local government. The process through which the legislative institutions hold the executive accountable is referred to as oversight. Oversight is one of the major functions of the activities of modern legislatures throughout the world (Fashagba, 2009).

Whereas the legislative institutions in all the three spheres of government could play a crucial role of improving the efficiency and effectiveness of bureaucratic state machinery, it is worth noting that their ability to carry out their functions is constrained by numerous shortcomings such as capacity constraints and complex politics-power plays. The capacity constraints can be partly attributed to inexperience's and inadequate training of MP's MPL's and Councillors to perform their duties. Another issue requiring attention is the issue of complex politics-power plays that are inherent in state institutions (Manyaka & Nemutanzhela, 2013). This describes complex politics power relations between political seniors in the executive and their juniors in legislative institutions. For example, in South Africa, the State president is also the head or president of the ruling party. Majority of members of cabinet (in which the executive authority is vested) occupy highly influential positions in the National Executive Committee (NEC) of the ruling party, which is considered to be the highest decision making body between conferences. A great majority of Members of Parliament (MPs) who are from within the ranks of the ruling party are mostly junior to those in the executive. Similar arrangements exist also in the provincial and local spheres of government. At the provincial level, the premier and members of the executive authority are in most instances the provincial leaders of the ruling and those in the Provincial Parliament are mostly juniors in terms of positions they occupy organisationally. Equally, at the local sphere of government, the mayor and members of the executive committees are regional or sub-regional leaders while those in the municipal councils are their juniors. These arrangements complicate the process of performing oversight functions. This is so because the juniors in (Parliament, Provincial Legislatures and Municipal Councils) are likely to be lenient or submissive to the whims of their political masters or seniors (in the executive). Any act of independence on their part may risk their future deployment (job security) because in South Africa, the electoral system does not allow for the direct election of MPs, MPL's by the electorate with the exception of the electoral system in local government which is partly allows for such. For this reason, MPs, MPL's and Councillors, are to a large extent seen to be implementing the mandate or instructions from party bosses than from members of the public. They are beholden to the authority of party bosses majority of whom are members of the executive.

#### **MEASURES FOR BUILDING AN EFFECTIVE DEVELOPMENTAL STATE IN SOUTH AFRICA**

The literature on the subject of a developmental state in Public Administration discourse have shown that in order to achieve the outcomes and primary objectives of a developmental state, the following critical issues need to be given considerable attention namely: state capacity and the existence

of an efficient and or competent bureaucracy. There are no ready made solutions that could succeed in building a developmental state for socio-economic transformation. However, it is worth pointing out that some lessons can be drawn from other countries about how to successfully build a developmental state. According Ngamlana (2011), any attempt of building a developmental state is to a large extent based on the responsiveness and performance of state institutions required in carrying out their developmental mandate. The professionalisation of the bureaucratic machinery should be considered an essential component of capacity development if efforts of building developmental states are to succeed. This should be based on attracting and retaining high quality staff in public institutions as a foremost prerequisite in attempting to build developmental states. Effective anti-corruption work is critical for promoting good governance in a developmental state. This is however not yet the case, South Africa is not there yet. More efforts are seemingly invested into investigations and resolution of corrupt cases rather than prevention and detection. The risk of focusing too much on investigations and resolutions of corruption cases than on prevention and detection is that it is reactive. It appears as if it is meant to appease the public and political opponents that the government is committed in its fight against corruption. The implication of neglecting prevention and detection is that the government allows corruption to thrive by failing to close the floodgates of corruption. To achieve all of the above, leadership is critical. This is consistent with the thinking on the current debate of building a developmental state, which emphasises among other things, political leadership and commitment as the foremost prerequisite.

## CONCLUSION

The paper sought out to contribute on the current debate about the necessity of building a developmental state in South Africa. To this end, it has been argued that the creation of a developmental state, with the requisite capacity required for making decisive interventions in the economy, could contribute immensely in realising socio-economic transformation in South Africa. However, the building of such a state is convoluted by number of factors such as corruption, weak and ineffective bureaucracy, ineffective oversight by the legislative institutions as well as inadequate political will and leadership. All these are seen as issues and challenges that make it difficult for the creation of developmental state in South Africa.

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# PERFORMANCE INFORMATION AUDIT (PIA) AS A NEW PHENOMENON IN THE SOUTH AFRICAN PUBLIC SERVICE INSTITUTIONS

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## ABSTRACT

This paper examines how performance information audit (PIA) could be performed with specific reference to the Auditor-General South Africa (AGSA)'s approach towards the audit of non-financial information. In the recent past, a new dimension known as PIA or an audit of performance information, has been introduced. This requires the AGSA, which, since its formation, was previously solely concerned with auditing financial information, to additionally audit performance information, and express an opinion on the non-financial information reported by management. This paper additionally articulates that the audit of non-financial information stems from organisational strategies and it furthermore attempts to examine the manner in which PIA assurance is provided by the AGSA. The methodological approach is based on the theoretical review of related literature and discussions concerning the roles and responsibilities of the AGSA towards PIA. The findings suggests that amidst, the AGSA should perform detail testing of compliance and begin to understand that the PIA starts from the budgeting process to the set performance standards and to the realisation of service delivery. The significance of this paper is that it will contribute to the body of knowledge with regard to audit practitioners in the public and private sectors, internal auditors, the public sector managers, audit committees, performance audit committees and the knowledge base of the public at large. Finally, it endeavours to contribute to the debate by identifying the types of non-financial information for PIA.

**Keywords:** Performance Information Audit; AGSA; internal audit; performance audit Committee; performance measurement; performance targets

## INTRODUCTION

An audit in the public service institutions is a tripartite process which involves the preparer of information (management), the validator of information (auditor) and the receiver or beneficiary of information (public or citizenry). Historically, an audit has been known to deal with financial information where the external auditors are expected to express an opinion on the financial statements of the institution being audited. Given how the process interrelates, Lonsdale, Wilkins and Ling (2011: 95) affirm that an audit is "evidence based activity". This approach is used in financial audit and it provides a useful guide regarding how any audit of non-financial information in the public service institutions should be executed (Carlin & Guthrie, 2001; Pérez, Hernández & Bolívar, 2005; Admiraal & Turksema, 2009; Griffiths, 2010). The focus of this article is primarily concerned with the introduction of the performance information audit (PIA) at the various public service institutions in South Africa, which include national departments, constitutional institutions, trading and public entities, municipalities and municipal entities (Republic of South Africa, 2005). In this regard, a topical statement recently made by the outgoing AGSA, Mr Nombembe, that "...the public service institutions will be subjected to PIA" (RSA, 2007a) is very pertinent. The introduction of PIA had additional attention drawn to it by the fact that the AGSA is accorded a constitutional mandate in terms of section 20(2)(1)(c) and 28(1)(c) of the Public Audit Act of 2004 to audit

performance information (RSA, 2004; RSA, 2007a). To date, however, minimal implementation of PIA across the public service institutions has occurred.

The PIA is used to measure institutional performance against predetermined criteria (Mannion & Keepence, 1995; RSA, 2007a, 2007b; KPMG, 2009). It is clear that in this case, the non-financial information in the public service institutions needs to be aligned to the strategic agenda of government, as outlined in accordance with the National Development Plan (RSA, 2011a), in order for it to be audited.

In addition to this, the National Treasury has developed processes on how the non-financial information should be reported (RSA, 2011b). However, many public service institutions have little knowledge on how to report their non-financial information against the predetermined objectives which may be attributed to poor SMART (specific, measurable, attainable, reliable and time bound) requirements (Mannion & Keepence, 1995). According to Rampersad (2001:217), "...SMART requirements are derived from the vision and mission of the organisations..." and therefore the usefulness of the PIA will become apparent if used in conjunction with the SMART requirements.

Against this backdrop, this paper, relying on the conceptual information drawn from different sources of literature, argues that the PIA is able to lead to an enhancement of quality service delivery in the public service institutions. As a result, the public or citizenry would be able to understand how these institutions' planned budgets are used and spent. The remaining sections of this paper address the following issues: performance information and its background to audit; consequences and challenges; the AGSA's approach; the need for PIA; the current state of affairs and conclusions.

## **PERFORMANCE INFORMATION AND ITS BACKGROUND TO AUDIT**

Performance information is defined as systematic information describing the outputs and outcomes of public programme (Guthrie & English, 1997: 156; Pollitt, 2006: 39), whereas an audit of information is used "to discover, monitor and evaluate an organisation's information resources in order to implement, maintain and improve the organisation's management information" (Buchanan & Gibb, 2007: 159). Given that the PIA is a new factor in the South African public service institutions, it may be defined as an audit of performance information presented and reported by the stewards in the public service institutions to measure their track records of service delivery against the SMART way of doing things (RSA, 2007a, 2007b). Buchanan and Gibbs (2007) concur with this approach when they say that performance information exists in all public service institutions and is able to be audited to ensure accountability among the stewards, as do Moynihan and Ingraham (2004). The auditors, KPMG (2009), explain that PIA contributes toward the value chain of management assistance in developing measurable performance indicators. The performance information could enable the parliament, provincial legislatures, municipal councils and the public citizens to track government performance and hold the public sector stewards accountable as regards those SMART requirements they have set for themselves (RSA, 2007b). However, providing accurate information for an audit involves gathering all the information by holding interviews; developing and processing questionnaires and discussion with public groupings to ascertain that the stewards have indeed delivered the services to the people. In this manner the PIA could be used as an instrument to measure the performance of public service institutions against their own set standards.

Within this broad definition of the PIA, the National Treasury has introduced a number of criteria (RSA, 2011b) for the PIA which should be adhered to in accordance with all the relevant laws, the

frameworks for managing programme information and the pertinent circulars and guidance issued by the departments of the National Treasury and the Presidency. However, it could be further argued that the PIA in the South African public service institutions may be performed in line with Government's strategic agenda. It is for this reason that the AGSA provides an assurance to enhance the degree of confidence amongst the public regarding the PIA in the public service institutions, as exists from the government strategies laid down to fulfil the PIA's responsibility and accountability in providing good services to the communities at large.

The background of PIA in South Africa may be traced back from the government plans and strategies. Thus, the Performance Management Monitoring and Evaluation (PMME) is an umbrella function to monitor the government strategies in the public service institutions concerning their ten (10) priorities: "...economic growth; infrastructure; rural development; food security and land reform; education; health; fight against crime; cohesive and sustainable communities; promotion of better communities sustainable resource management; and improving the public service" (RSA, 2007c; RSA, 2011a). Therefore, the PIA should be used as a mechanism of accountability in the public service institutions (Buchanan & Gibb, 1998; Boyne, Gould-Williams, Law & Walker, 2002). To this end, it is essential to the PMME to use the outcomes of the PIA as evaluate the performance of government strategies.

## **CONSEQUENCES AND CHALLENGES OF PIA IN THE PUBLIC SERVICE INSTITUTIONS**

In considering the content of the literature on PIA, it is possible to understand that the objectives of the PIA are to identify an organisation's information resources and information needs (Buchanan & Gibb, 2007). It is also important to understand that the PIA is planned to review information generated by the organisations through their strategic plans, giving the stakeholders assurance that they will meet expectations on deliverables. However, (Buchanan & Gibb, 1998; Botha & Boon, 2003; Audit Commission, 2007) pointed out that the PIA could face challenges concerning information presented for audit. These may include the objectives highlighted in the strategic plan but not addressed within the prescribed time; not clearly presented in the annual integrated reports; inconsistent reporting against predetermined objectives and inaccurate information being sent for auditing.

Based on the literature reviewed, this article clarifies that PIA in the South African public service institutions stems from the government's strategic agenda (RSA, 2007c; RSA, 2011a) and suggests that the PIA should be based on information that is accurate and supported (Botha & Boon, 2003). This information should also be valid, reliable, relevant and complete (Botha & Boon, 2003; Audit Commission, 2007; SAICA, 2012/2013). Different authors who have written on PIA related issues such as: Guthrie and English (1997); Buchanan & Gibb (1998); Boyne, Gould-Williams, Law & Walker (2002); Buchanan & Gibb (2007) as well as the auditing firm, KPMG (2009) share a common emphasis on the need for accountability with regard to performance information.

### **The AGSA's Approach towards PIA**

Previous studies showed that an information audit entails the systematic examination of the information resources, how information is used, how information flows and how information is managed at different levels of the organisation (Guthrie & English, 1997; Both & Boon, 2003; Griffiths, 2010). Effectively, this process of evaluation could enable the AGSA to conduct the PIA with respect to the overall

management performance, strategic and operational planning of the organisation (KPMG, 2009). Against this backdrop, the AGSA had introduced credible steps to follow when dealing with the PIA in the public service institutions (RSA, 2007b):

- to obtain an understanding of internal control relating to performance information;
- to document system descriptions for the systems relevant to reporting on performance information;
- to further determine the stages of performance information reporting by evaluating aspects such as the existence of and reporting against the predetermined sets of objectives (that are specific, measurable and time bound) and consistent towards the recorded objectives in the strategic plan, budget, quarterly reports and annual reports;
- to ensure the proper format and presentation of the performance information in the annual report; and,
- to compare the reported achievement of performance against objectives to the information sources.

From the above, it is clear that the objectives need to be SMART in order to be verifiable. Table 1 depicts the layout of a logical process before the non-financial information is subject to audit.

**Table 1:** Phases of non-financial information.

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Step 1: Mission, vision and strategic objective
Step 2: Operationalising strategies
Step 3: Implementation and execution of strategies
Step 4: Accountability and providing information to users

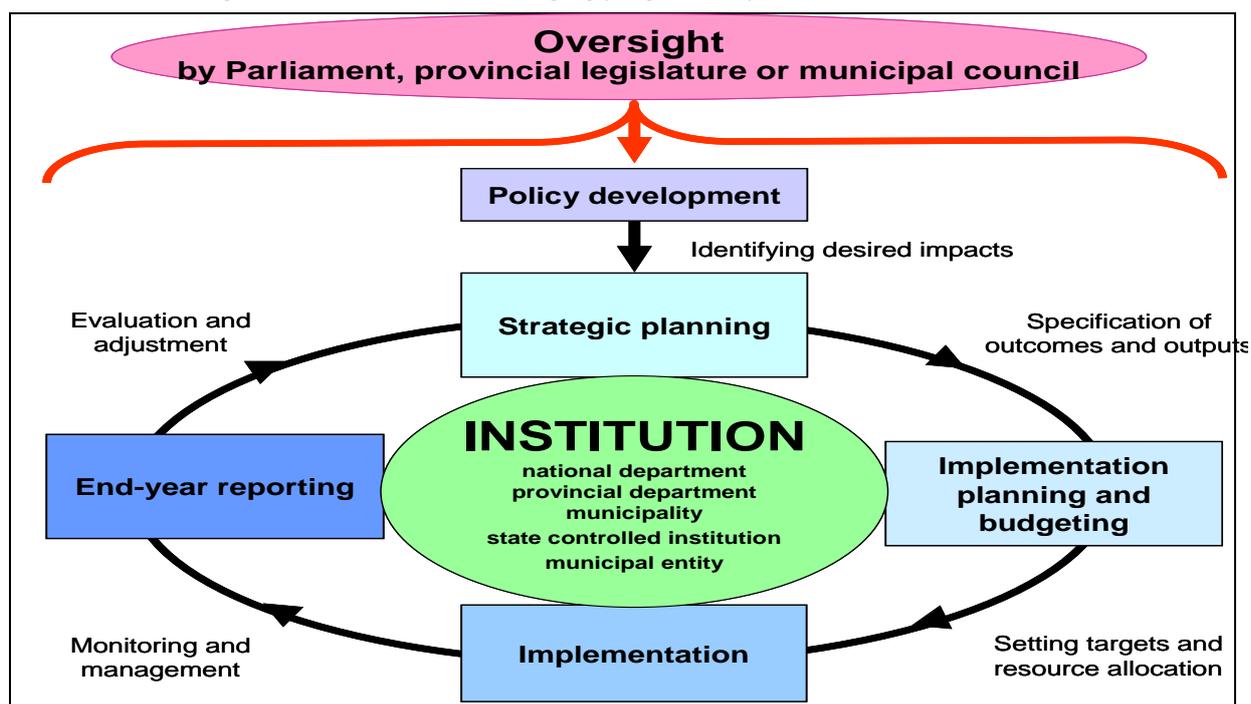
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**Source:** Adapted from RSA, 2007b.

The above phases of non-financial information indicate that a PIA cannot be selected and evaluated individually, but needs to be tied to the mission and goals of the organisation. In deciding upon the types of information to be audited, it is necessary that the "...person who must perform an information audit must also consider the first and the last aspect of the phase" (Botha & Boon, 2003: 35). Therefore, the mission, vision and strategic objectives should be used as a baseline to prepare performance information for audit purposes.

Monitoring performance in public service institutions could increase accountability with regard to service delivery, in order to evaluate where and how executive and senior managers, operating managers and operating employees are functioning (Mackay, 1998). According to Jackson (1993: 14), it is "...part of management practices to ensure that systems are in place to realise the strategic objectives". However, such strategies could influence an individual's responsibilities from top down and bottom up in the organisation (Mackay, 1998). A useful starting point for the AGSA to approach the PIA is illustrated below (see figure 1).

Figure 1: Framework for managing programme performance information



Source: RSA, 2007b: 4.

### Need for PIA in the Public Service Institutions

The framework for managing programme performance information (RSA, 2007b) aims to: clarify definitions and standards for performance in support of regular audits of information; improve integrated structures, systems and processes required to manage performance information and define the roles and responsibilities for managing performance information and promoting accountability by providing parliament, provincial legislatures, municipal councils and the public with timely, accessible and accurate performance information. This is in terms of the mandate of the Minister in the Presidency for PMME, the aim of which is to develop an evaluation framework and other guidelines and support structures to help with the implementation of evaluation systems across the public sector (RSA, 2009).

The public needs to know how its money has been used and or for what purpose it has been allocated (Perez *et al.* 2005) and also needs to be provided with information that is complete, understandable, comparable, relevant, and reliable (RSA, 2007a; SAICA, 2012/2013) on a timely basis. In the public service institutions, the PIA is an important contributor to accountability regarding non-financial information. Hence, the PIA as regards non-financial information could better enlighten the public and taxpayers on how their money is set to be spent. Thus, the auditor, in providing assurance on the reliability of non-financial information with regard to predetermined strategies, will be able to fulfil (this) role in providing the necessary assurance as to whether there are clear frameworks for auditing the information. In the South African public service institutions, these frameworks are detailed in the National Treasury Performance Information Handbook (RSA, 2009), which provides that the AGSA is expected to audit performance information based on all relevant laws and regulations, the frameworks for managing performance information and also the circulars and guidance issued by the National Treasury and the Presidency regarding planning, management, monitoring, evaluation and reporting.

Despite the number of PIA evaluation tools suggested, section 85(2)(c) of the Constitution gives the Department of the Presidency a legislative mandate to exercise authority with other members of the Cabinet by coordinating the functions of state departments and administration (RSA, 1996, Section 85). These may best be understood as a need for PIA in the public service institutions, since the evaluation is set to be aligned to the service delivery objectives (Hall & Rimmer, 1994). Propper & Wilson (2003) indicate that this implies that the audit of performance information may be undertaken at various levels of government in order to improve accountability in the public sector.

Performance evaluation in public service institutions correlates with Treasury Regulation 5 (RSA, National Treasury, 2002, para 5.2.2(d)) which requires the strategic plan to include the measurable objectives, expected outcomes, programme outputs, indicators and targets of the organisation's programmes. The aim of the performance evaluation framework in public service institutions is to encourage public service institutions to regularly evaluate their programmes; offer guidance on the approach to be adopted when conducting evaluations and provide for the publication of the results of evaluations (RSA, 2009: 16). In public service institutions, the audit appears to offer considerable potential for the promotion of accountability and improving government performance (Md Ali, Gloeck, Ali, Ahmi & Sahdan, 2007). Halachmi (2002: 65), however, cautions that anything that needs to be measured should be understandable, controllable, awardable, sustainable and recognisable. It is therefore recommended that South African public service institutions should align their strategies to the activities of outputs, outcomes and accountability in order to realise their service delivery targets.

With reference to Treasury Regulation 5, the National Treasury (2002: 15) mandates Accounting Officers to establish procedures for quarterly reporting to the executive authority in order to facilitate performance monitoring, evaluation and corrective action. In addition, and to qualify the content of this regulation, public service institutions should develop monitoring and evaluation systems that will enable them to monitor progress on the issues of service delivery (RSA, 2009).

### **Current State of Affairs**

The AGSA has a constitutional mandate and, as the Supreme Audit Institution of South Africa, it exists to strengthen the country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence. Over the past several decades supreme audit institutions around the world have moved from only carrying out financial audits to a wide range of value-for-money and/or performance audits. Less widely known is the gradual growth of another "line of business", namely that of providing assurance on performance information produced by governments for tabling in legislatures and Parliaments. This was necessitated by, *inter alia*, public sector reform in certain countries, such as South Africa, which included significant initiatives to improve public reporting.

Globally, performance reporting is increasingly becoming an integral part of an effective accountability framework. In South Africa, as in many other countries, it is a legislative requirement for accounting officers to report annually on the performance of the entities against predetermined objectives, in terms of the financial management instruments such as the Public Finance Management Act of 1999 and the Municipal Finance Management Act of 2003. As part of the legislative accountability framework, performance reports are primarily used by legislatures, members of the public and other interested parties

to assess the success of service delivery in the use of funds approved by the legislatures.

Since 2010/2011, no separate audit opinion on performance information in any audit report has appeared, but an indication of the impact of the audit opinion would have been forwarded by the Auditor General as part of the management report. As in 2011, the Auditor General was expected to issue one audit report containing an audit opinion on the organisation's PIA. In some spheres of government however, the Auditor General, has not yet issued an opinion on the performance information.

## CONCLUSION

This paper examined how the PIA could be performed in the public service institutions. It highlighted that strategic information is a fundamental prerequisite for a PIA and further reveals that an audit of performance information should be focused in four phases of non-financial information. This includes the mission, vision and strategic objectives; operating strategies; implementation and execution of strategies and accountability and providing of accurate information to the users. Given that there have been few academic literature reviews of the PIA in the public service institutions, this article presented arguments that the auditor's approach towards the audit of non-financial information should focus on evaluative criteria, such as the conciseness, accuracy, reliability and comprehensibility of information presented for audit. This paper suggests that the auditors should perform detailed testing of compliance when dealing with the audit of performance information. It further suggests that such an audit should start from the process of budgeting and be tracked from the set performance standards up to the level of service delivery. This paper therefore offers avenues for further discussion to explore the possible approach suggested, with regard to the performance information audit in the public service institutions.

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# Track 3

Pages 220-239

A pair of glasses and a pen resting on a document with a bar chart. The glasses are silver-rimmed and the pen is black. The document features a bar chart with vertical bars of varying heights. A red curved line arches over the glasses, and a gold and red curved line arches under the bar chart.

**MULTILATERAL DEVELOPMENT AID AND FOREIGN  
DEVELOPMENT FINANCE**

# MULTILATERAL DEVELOPMENT AID IN AFRICA: A SYNTHESIS INTO ETHICAL LEADERSHIP DEVELOPMENT

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## ABSTRACT

Multilateral development aid in Africa is a necessary tool for addressing a number of developmental issues, help alleviate extreme poverty and where necessary address humanitarian challenges. However, more often than not these funds are misused and misdirected to benefit the few elite as opposed to the needy majority. In some countries the multilateral development aid form a huge part of a national budget as it may be made available as a soft loan. It thus contributes to dependency syndrome as officials do not generate innovative practices that can help build their economies. Therefore, this paper probes into the use of multilateral funds in relation to ethical leadership development in Africa. Ethical leadership is suggested as an ideal model of addressing corruption and other mal-administrative issues in the region. This is because the ethical leadership model focuses on the good character and right values that leaders should possess, as well as on the relationship that the leader has with his followers. Thus, a comprehensive framework that covers the holistic view on ethical leadership development is proposed out of an extensive literature review. The paper further argues that through ethical leadership model, multilateral development aid will be better managed. Ethically sound leaders have the capability to focus on the needs of others and give meaning to life-experiences. The ethical leadership model which is proposed offers a fresh view on the management of multilateral development aid in Africa.

**Keywords:** Multilateral development aid; ethical leadership; development; poverty; Africa

## INTRODUCTION

Africa is one of the richest continents in natural resources and yet the poorest. Rodrick (2011: 1) observed that from the North to the South, East to the West, Africa is known as one of the richest parts of the world when it comes to natural resources, yet it is also the poorest region despite the natural wealth and aid flow. Most African countries have the population living below \$1 per day because of extreme poverty which is brought amongst other things by constant conflicts and wars. Luiz (2006: 11) states that 60% of African leaders left office by being overthrown in a coup, invasion, and war or by assassination. Only 7% were removed from office by election. Other leaders have been in office for over a decade and thus their effectiveness in governance is questionable. Mngomezulu & Molapo (2013: 22) also agree that in the history of post-colonial Africa only six heads of states stepped down voluntarily, the rest were removed violently and others are still holding on to power. However, Chedeya (2003: 1) argues that Africans could be better off if they had access to their own resources. He further argues that production of gold, diamonds and the columbite-tantalite-largely benefit the Westerners.

Africa's problems also lie within its leadership which more often than not fail to handle the wealth of the continent properly. Leadership crises, corruption, lack of clear economic policies and poor governance deter investors from Africa. Investors are sceptical about African leadership and the way business is conducted in the continent; this and many other factors, negatively affect development and economic growth. Mckean & Hobson (2013: 8) argue that global investors still have a perception that the risks of investing in Africa are higher than in other emerging markets like China and India. Thus, as a result Africa becomes marginalised in many aspects of the global economy. Furthermore, Africa also faces a

number of challenges in relation to poverty, sicknesses, diseases, technological evolutions and global competition as countries and companies compete for resources. A growing concern in Africa is also on the ability to halve extreme poverty by 2015 as stipulated by the United Nations Development Programme. Preuss (2013) observed that poverty increases in highly concentrated fragile, conflict-affected states where government fails to meet the expectations of their populations. Therefore, governments have to be legitimate and show commitment to poverty alleviation and sustainable development.

Development requires governments to put systems in place that will encourage transparency and do away with corruption. Corruption has made many global leaders to be cynical of Africa's commitment to development agenda. Corruption has undermined various economic processes such as revenue collection and it has led to diversion of resources from their intended purposes. More often than not funds which include multilateral aid are misdirected in many areas. Thus, African corruption affects other continents as it manifest in macro-economic imbalance and scant contribution to global issues such as technological development. Miozzo & Walsh (2006: 1) observed that globalization brings increasing interdependence of economic organizations across countries and regions, affects the development and diffusion of innovation across national borders. Therefore, this paper argues that corruption erodes African resources and causes an imbalance in global development. It further argues that it is through ethical leadership development that resources including multilateral developmental aid can be well administered. Most of African challenges can be addressed through the development of ethical leadership. This is achievable since Africa has already produced the world renowned leaders like Nelson Mandela, Kwame Nkrumah, Kamuzu Banda, Julius Nyerere, Kenneth Kaunda and many more. Thus, ethical leadership will facilitate effective use of natural as well as human resources. Luiz (2006: vii) believes that if Africa is going to take advantage of its human and natural resources in the 21<sup>st</sup> century, it is vital that those guiding institutions have effective leaders, sound managers and insightful entrepreneurs.

## **THE EVOLUTION OF MULTILATERAL DEVELOPMENT AID AND ITS IMPACT ON AFRICA**

Multilateral aid started immediately after the First World War when the United States of America used their aid funds to help rebuild Europe and to contain the Soviet expansion in the aftermath of World War II. Kingsbury, Mckay, Hunt, McGillivray & Clark (2008: 1) believe that people and governments of industrialised countries acknowledged that they had some responsibility to stabilize economies of the affected countries, support their economic development and assist the poor. Then during the 1960's and the 1980's foreign aid was used to support client states in the developing world, however, that ideology evolved over the years and the focus came on the poorest nations. Schneider & Tobin (2010: 2) state that in September 2000, 192 members of the United Nations and over 23 international organizations came together in New York City and committed themselves to the Millennium Development Goals, a plan to reduce extreme poverty by the year 2015. This was a new paradigm of aid as partnership between different states emerged.

Over the years United States of America, France and United Kingdom accounted for three quarters of the total official development assistance. Kharas (2009: 2) states that today these countries account for only 40 per cent of the official development assistance. This is because other countries have become active in assisting development. These include middle countries such as China, India, Brazil and Turkey. Kharas (2009: 2) pointed out that there are other 20 countries that form part of the main donor's

club and their activities are coordinated by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD). Gurria (2011: 1) also agrees that global development perspective have been changing rapidly in recent years as the centre of economic gravity is moving from advanced to the large emerging economies. Multilateral aid plays an important role in responding to global challenges such as food security, climate change and conflict management. Nyatoro (2013: 1) states that aid can be given out through bilateral means –government to government, or through multilateral institutions like United Nations Children's Fund (UNICEF). Thus, development aid can also be given out through international aid agencies and through multilateral institutions such as the World Bank, International Monetary Fund and agencies in the United Nations to different destinations. The aid is given either through grants, whereby no repayments are expected or as concessional loans where interest rates are lower than market rates. Nelson (2012) highlighted that Multilateral Development Banks provide financial assistance to developing countries, typically in the form of loans and grants, for investment projects and policy-based loans.

Policy-based loans provide governments with financing in exchange for agreement by the borrower country government that it will undertake particular policy reforms. In most cases, the borrower country government must implement the specified economic or financial policies to facilitate the disbursement of the policy-based loan. Thus, the major proportion of aid is in one way or another tied. More often than not, the donor nation mandates that the receiving nation spend on products and expertise originating only from the donor country. Kingsbury et.al (2008:1) has also observed that development assistance is seen as a way to persuade poorer countries to come into one of the two major ideological camps that dominated the cold war era-the West and the Communist bloc. The main powers of each bloc used development assistance to maintain the support of poorer countries in order to keep them in their sphere of influence.

Furthermore, developed countries provide aid so that they can enhance their own economic and political interests. They do that through encouraging their own exports or shaping the economic policies or political persuasion of recipient countries. Hunt (2008: 19) agrees that rich countries control international institutions which push developing countries to liberalise every facet of their economies and yet impose barriers to fair trade on the developing world. Africa has the responsibility of cleaning up its domestic issues. Boone (1996: 389) pointed out that critics of foreign aid programmes have long argued that poverty reflects government failure to serve its people and that aid does not significantly increase investment nor benefit the poor. On the other hand developed countries should abandon their hypocritical acts of giving aid and then shutting off markets. Abegaz (2005) agrees that inequalities and inefficiencies in development aid arise from donor-recipient motivational conflicts, agency problems and institutional deficiencies. The donor-recipient relationship has its own challenges as it has led to the dependency syndrome amongst many underdeveloped communities. The dependency syndrome is characterised by a pervasive psychological dependence on developed countries to meet the needs of undeveloped communities, both emotionally and physically. Nyatora (2013: 1) defines dependency as a process that exists when one party relies on another without the reliance being reciprocal. Aid dependency has reached a point where it is counterproductive and is doing nothing to generate process that would obviate the need for it. Curtain (2012: 1) agrees that foreign aid has had limited impact on the rate of economic growth and so the discussion note of the World Bank calls for donors to move away from a

narrow preoccupation with promoting economic growth and to focus aid instead on achieving better socio-economic outcomes.

On the other hand aid has created loop holes for corruption. Abuzeid (2009: 19) suggests that aid indirectly harms governance by inducing an increase in the size of the government sector, which in turn increases opportunities for corruption. Influx of foreign aid is observed through a high contingency of Non-Governmental Organizations (NGO) in the recipient country. The influx of foreign aid may create an impression amongst the recipient nationalities that there will always be money to sustain the government. Sometimes the recipient governments reallocate the resources which were meant for specific projects elsewhere and conceal some of the surplus.

#### **THE ROLE OF ETHICAL LEADERSHIP IN THE MANAGEMENT OF MULTILATERAL DEVELOPMENT AID**

Mazzucelli & Fagnoli (2010) argue that no deliberate human activity is devoid of moral responsibility, being it in politics, education, finance or law. Thus, ethics serves as the systematic framework within which all the institutions assess the moral dimension of human conduct. Ethics serves as the reflection of the moral fibre of every society, and they play a vital role in development. A nation that is engrossed in moral decay is in most cases devoid of progression. There is a general belief that international relations are ruled by cohesion, fraud and secret intrigue with little consideration of moral issues. Naidoo (2012: 657) contend that some of the political and administrative leadership entrusted with state resources enrich themselves instead of acting as custodians of the state. "There is no doubt that there is crisis in leadership in modern society" (Stuart 2012: 88). However, the 21<sup>st</sup> century leadership theories assert that leaders have the responsibility of moral and ethical conduct. Good leadership does not only focus on competence but also on transforming people's lives. Ethical leadership is leadership that is effective, responsive and morally grounded. It does not only focus on competence but also on transforming people's lives. Each leadership and administrative decisions that are made affect people, either positively or negatively. It is therefore imperative for leaders to take decisions that restructure and positively influence human lives. Management of development aid should thus enhance the beneficiaries and not the selected few that redirect and misuse the funds.

#### **COMPREHENSIVE FRAMEWORK FOR ETHICAL LEADERSHIP DEVELOPMENT**

Ethical leadership development has its own benefits and should thus be treated in a holistic perspective. The following steps should be considered when developing ethical leadership within organisations that administer multilateral development aid.

##### **Self-awareness**

Every moral aspect begins with the self; self-awareness being at the centre of serving people better.

##### **Internalised Moral Perspective**

Organisations that administer multilateral development aid should develop zero tolerance to corruption. This can be achieved if people are encouraged to internalise the moral issues. Organisations should clearly state what they value and what they stand for; such values should then be reflected in the

day to day operations.

### Transparent Processes

More often than not organisations that misdirect foreign aid do not have clear policies or transparent processes of handling the aid.

### Accountability to the Beneficiaries

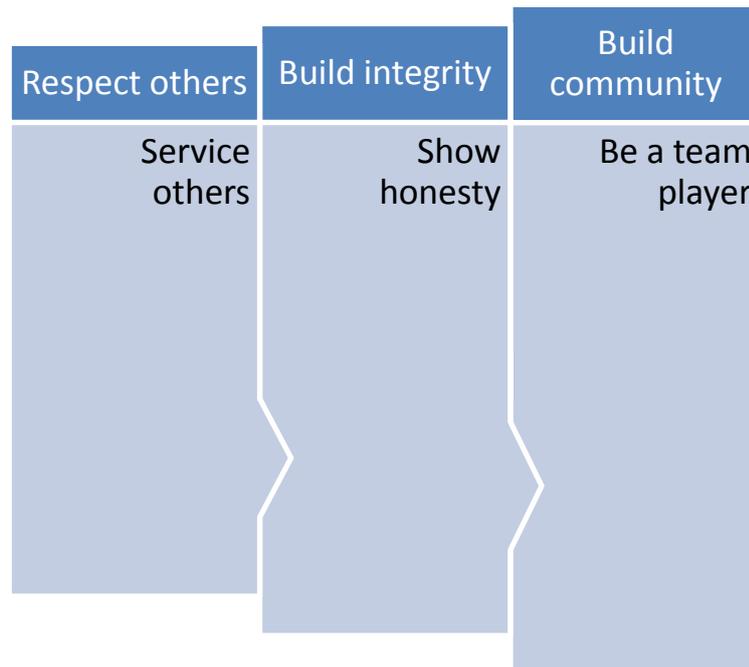
Organisations that are likely to misuse multilateral development aid are those that do not feel obliged to account to the beneficiaries; the focus is more on writing donor reports rather than updating the beneficiaries.

### BENEFITS OF ETHICAL LEADERSHIP

Ethical leadership has many benefits for organisations and public at large. Some of the benefits are outlined as follows: higher customer satisfaction; better cooperation amongst the stakeholders; innovative practices; high development of trust; and, efficient utilisation of resources.

### PROPOSED ETHICAL LEADERSHIP MODEL

The study proposes the following ethical leadership development model:



The above model as created through literature review argues that ethical leadership begins with respect for others as indicated in the first block. A leader that shows respect to others is the one that will provide better service. It is therefore the responsibility of various communities to put in position leadership that has respect for humanity. It is essential that Africans exercise their voting rights effectively. Freeman & Stewart (2006: 2) pointed out that leaders see their constituents as not just followers, but rather as stakeholders striving to achieve that same common purpose. The second block which interacts with the other blocks

and which also forms a link is build integrity. Legitimate leadership manifests in building integrity; one of the characteristics of a good leader is honesty. Thus, one cannot provide good service or build the community without being honest. The last block focuses on a leaders being a good team player so that he can build and unite the community. This is because a leaders that is dishonest, divides and steals from the community. Therefore, this model if well adapted and applied can lead to a better management of multilateral development aid. The model serves as a reflection tool for a leader that has zeal to service the community and to make a difference in people's lives. Freeman and Stewart (2006: 2) argue that most leaders want to be effective in their roles and to leave their organizations and the world a better place, creating value for those whose lives they affect. This model also serves as an evaluation tool for communities that would like to make the right decisions when putting people into leadership positions.

## CONCLUSION

Ethical leadership is an important component of managing multilateral aid. Research has shown that since the inception of multilateral development aid in Africa, limited impact has been achieved. This is because amongst other factors, corruption and political instability is rife in the continent. Corruption deter investors as it works against what the foreign aid is trying to achieve, elimination of extreme poverty and development of economic growth. Most African countries have been receiving aid for many decades and yet their economies are still underdeveloped, hence the dependency syndrome. It is clear that some nationalities cannot survive without aid; they emotionally and physically depend on foreign assistance. Foreign aid is meant to assist battling economies and move on, however it looks like their stay in Africa will not come to an end anytime soon. It is vital for Africa to deal with its domestic issues which will enable it to be one of the major players in the development and economic arena. African organisations and politicians should begin to take moral issues seriously. Moral and ethical issues play an important role in shaping the economy and in securing the trust of investors.

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### ABSTRACT

Over the past decade the debate on aid effectiveness following the Paris Declaration has taken a new dimension with many commentators seeking answers, not about where development aid goes, but how effective it is in reducing poverty. In Africa, the debate has been polarising with one camp calling for increased aid, while the other extreme view calls for an end to aid to African governments, arguing that aid has created dependency, hence a colonising machinery. Despite these polarising views, there is less reflection on how the two views can be balanced in order to “enhance aid dependency”. This paper aims to contribute to this on-going debate by arguing that there exists a possibility in which developing countries can ‘graduate’ from aid dependency. First, this requires an understanding of the politics of aid. Second, it needs a radical approach that emanates from the local contexts (country-led) by progressively introducing measures that weans countries from aid dependency. This may include measures such as a “zero deficit” approach. Third, there is also a need to de-centre the management of foreign development assistance (FDA) by allowing local government structures the ultimate authority to oversee the planning, design, implementation, monitoring and evaluation of development initiatives. To achieve this, the paper argues that developing countries need to engage in mass radical development education; that is, education that unpacks the subtleties of the colonizing and patronising nature of FDA, the legacies of colonisation and the neo-colonial agenda of donor countries and agencies and, finally, deconstructing various development discourses by exposing the “hidden” agendas behind such development discourses.

**Keywords:** Foreign development assistance; colonisation; aid dependency; education; Africa

### INTRODUCTION

The agenda of ‘making poverty history’ without understanding the history of poverty, is an issue which the world grapples with today. As the international community commits itself to global development agreements such as The Millennium Development Goals (MDGs); The Paris Declaration on Aid Effectiveness, and many other international instruments, there are more reasons to be worried as the traditional donor agencies undergo a difficult financial phase in the global “North”. Meanwhile, as the world ponders on how to reduce poverty through development financing which, ultimately, is expected to engender economic transformation, progress thus far is mixed. In some parts of the developing world, some countries fare differently from others in their development endeavours. The inconsistencies in the progress towards aid effectiveness and poverty reduction have had obvious repercussions. The critique about the failure of development financing has become obvious with two polarising views. For example Paul Collier (2007: 179) takes an optimistic view that “Aid-yes, certainly, and on a substantial scale ... but more effective than in the past”. Moyo (2009: 28) takes a rather leftist (albeit making a clear distinction between aid to government and emergency assistance) view arguing “...aid has not lived up to expectations...Aid is not working. Moyo continues her analysis pointing out that “The problem is that aid is not benign – it’s malignant. No longer part of the potential solution, it’s part of the problem – in fact aid is the problem”. Amidst all these opposing views are volumes of books that simply highlight the intensity of the debates but offer very little alternatives to how to graduate from aid dependency.

This paper aims to contribute to this on-going debate by arguing that there exists a possibility in which developing countries can “graduate” from aid dependency. First, this requires an understanding of the politics of aid. Second, it needs a radical approach that emanates from the local contexts (country-led) by progressively introducing measures that weans countries from aid dependency. This may include measures such as a “zero deficit” approach. Third, there is also a need to de-centre the management of foreign development assistance (FDA) by allowing local government structures the ultimate authority to oversee the planning, design, implementation, monitoring and evaluation of development initiatives. To achieve this, I argue, developing countries need to engage in mass radical development education - that is, education that unpacks the subtleties of the colonizing and patronising nature of FDA, the legacies of colonization and the neo-colonial agenda of donor countries and agencies and, finally, deconstructing various development discourses by exposing the “hidden” agendas behind such development discourses.

### FOREIGN DEVELOPMENT ASSISTANCE IN CONTEXT

Foreign (International) Development Assistance (hereafter referred to as “aid”) has a long history (Fanon, 1963; Furedi, 1996; Hayter, 1971; Moyo, 2009). In the 1940s, aid giving became an international policy issue mainly as a follow-up to what is known as “The White Man’s Burden” (Easterly, 2006a). According to Pritchett (1997) aid giving arose from the fundamental changes to the global economy. First, it was due to the Great Divergence and, second, proliferation of states. With increased global economic diversity over the past two centuries from 4 to 1 in 1820 and to 100 to 1, at the present (see Maddison, 2008), the ever-increasing gap between the rich and the poor has meant that inequality has soared, rendering many nations incapable of providing the much needed basic social services to its citizenry.

International Development Assistance needs to be understood within the context of colonization and World Wars. In Africa, for example, the British and French empires left a trail of marginality as many of the ethnic communities were fractured under the principle of divide and rule. The collapse of social capital through the introduction of alien cultures and unequal trade rules, plunged Africa further into a state where the continent is highly dependent on western donor agencies (although there is a significant shift from the “West” to the “East”) to finance its development programs (Gordon & Gordon, 2012). Worse still, the aftermath of the Second World War witnessed increased marginalisation of nations from mainstream development with many countries of the “South” recovering at different pace. To set things in motion, the popular Harry Truman’s inaugural speech of 1949, is highly significant.

In part, Truman echoed: *“We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available to the improvement of underdeveloped areas”* (<http://www.presidency.ucsb.edu/ws/?pid=13282#axzz2fP1NkKzI>). The ripple effects of the speech were far-reaching. The ensuing bilateral and multilateral aid has steadily progressed even into the post-independence era with speed and ambivalence. For example in 2006, \$103.3 billion of International Development Assistance has been given to developing countries (Williamson, 2010). According to Easterly (2006a), over the past 50 years, over \$2.3 trillion has been disbursed in the name of development. Akanor (2008) estimates, for example, that over \$600 billion of foreign aid has been disbursed to Africa. However, to date the effectiveness of such aid to many developing countries, especially those in Africa, remains an issue of contentious debate. Why?

**Table 1:** The history of aid

ERA	REASON FOR AID
Colonisation	-Export of capital and manufactured goods in exchange for import, especially raw materials. -Loans from colonizers to the colonized not for ordinary citizens but for the urban elite.
Post-War Development (1944-46)	-World Bank and other International Financial Institutions (IFIs) used as fund- raiser for the reconstruction of Europe but later spilled over to developing countries.
Modernization and Industrialization Era (1949)	-Advancement of Truman doctrine- modernization of underdeveloped countries of the third world. -Modernization & Industrialization viewed as panacea for poverty reduction
Decolonization Era 1959s-1960s	Emergence of nations of developed vs. developing. The binaries that fortified the need for aid giving to enhance industrialization
Human Needs Approach (1970s)	Aid targeting social issues & services such as health, education etc rather than macro-economic growth. -Change from trickle down philosophy to direct social service support.
The Lost Decade of Development (1980s)	Recession and debt crisis cause havoc in both developed and developing countries -Aid targeted structural/ reform through privatization and deregulation.
Millennium Development Goals (2000)	Aid given in response to failures of growth focused development approach. -Aid given to reduce poverty in targeted areas (see MDGs)
The Paris Declaration (2005)	Aid shifts from growth to effectiveness through ownership, alignment, harmonization, managing for results and mutual accountability

Source: AIDWATCH, nd.

The history of aid can be explained in eight phases, colonial era, post-war era, modernization and industrialization, decolonization, human approach, the Lost Decade of development, Millennium Development Goals, and the Paris Declaration (AID WATCH, nd.). Without necessarily demonising the debate, it is important to acknowledge that in some cases aid is given with good intentions. It depends on who gives it, for what reason, and, with or under what conditions. Ultimately, its well-intended outcome is to contribute to human well-being. At the centre of all this, the final questions are: Has aid helped to improve the condition of recipient target? Has it made any impact? In what ways can we measure the impact? In the absence of answers to some, if not all of these questions, what have become common are claims and counter claims of whether aid works or not.

While attempts have been made to provide concrete answers on aid effectiveness (see Cassen,

1994; Riddell, 2007; Mavrotas & McGillivray, 2009; Moyo, 2009; Oxfam, 2010; Dervis, Kharas & Unger, 2010; Fengler & Kharas, 2011; Makuwira, 2013), the evidence on the ground has had varied impact as even the lauded MDGs targets are far from being met by 2015. For example, Oxfam (2010: 5) records that in 2007, nine million children under the age of five died from preventable diseases. Furthermore, every year 350,000 women and girls die of complications emerging from child-bearing. The majority are from the developing world. The intensity of the current debate is an indication of the complexity of the development field, especially with reference to aid modalities. As argued earlier, for those who argue against aid ineffectiveness, the arguments have been that aid encourages economic dependency, stunts economic growth, and encourages corruption and laziness (Oxfam, 2010). However, while these reasons are valid, the optimists point out that without aid, four million people who depend on aid for HIV/AIDS treatment would be dead. In addition, there are now 33 million more children whose access to schooling has been enhanced. This comes against the backdrop of missed MDG targets in many of the developing countries. While in recent years the international donor community has taken a step in the right direction by drawing lessons from around the world—by linking aid to results; opening channels of accountability and transparency; instilling fiscal discipline through governance structures, the \$200 billion industry still reels with myriad challenges. Where do we get it wrong? The next section takes the issue further by examining some of the issues on Aid conditionality, The Paris Declaration and how the NGDO sector operationalises them.

### **Attaching Conditions to Aid Giving**

I have so far argued that aid giving has both negative as well as positive aspects. One of the most contentious debates about the current aid modalities is “conditionalities” – a set of rules to be followed before aid is dispatched to a recipient. For example, over the years, aid recipients have often been told to devalue their local currencies; privatise their public institutions; liberalise the economy; cut spending on basic social services such as health and education; and remove trade barriers, just to name a few (Cornia, 1991). One of the popular debates in the current aid conditionality debate is *tying of aid* to, say, procurement (Cunningham, 2012). Data on how much aid is tied remains difficult to gather. But a glimpse of this based on country data, provides some ideas on how pervasive the issue is in international development. Note has to be made that some of the statistics may have changed over time as some of the countries like Australia are claiming to have completely “untied” its aid. The data presented here is predominantly based on bilateral aid – government to government.

It has to be noted that while the debate on conditionalities has been divisive, conditionalities have to be looked at from a broader context of who benefits from them. On the one hand, the debate on making poverty history is about enhancing development effectiveness—that is, how to ensure that development is sustainable. Yes, on the other, aid effectiveness debate is about producing results, essentially based on stand-alone development projects. It is the latter category that governments find themselves in. Because many governments are donor dependent their operation, by inference, are largely influenced by these conditionalities to the extent that very often their original plans get shifted as they continue to negotiate the approval and, also, how to effect the programs.

Tying aid to national interests is very common in food aid. For example, U.S. Public Law 480, also known as “Food For Peace” (FFP), is the funding mechanism through which U.S. food can be incorporated

into overseas aid packages. Cunningham (2012) notes that food aid is part of a larger phenomenon called “tied aid,” that must be spent within the donor country.

**Table 2: Tied aid by donors (percentage tied aid, 2008)**

No.	Donor	Tied Share (%)	No	Donor	Tied Share (%)
1	Greece	62	14	Japan	4
2	South Korea	57	15	Australia	3
3	Spain	30	16	Switzerland	3
4	United States	25	17	Germany	2
5	Italy	20	18	Denmark	1
6	France	18	19	Sweden	0
7	Austria	18	20	Norway	0
8	Portugal	11	21	Ireland	0
9	Belgium	8	22	Luxembourg	0
10	Canada	8	23	United Kingdom	0
11	Finland	8	24		
12	New Zealand	7	25		
13	Netherlands	7	26		

**Source:** OECD in Moss, 2011: 151

For example, 93% of USAID funding is tied and that in 2012 USAID awarded 59% of its \$14.5 billion in foreign assistance spending to U.S. contractors. The sentiments by Mark Ward, the Director of the Office of Foreign Disaster Assistance, provide a nuanced view of the debate when he said:

“The United States Government, through USAID, requires the NGOs we fund to ‘brand’ the assistance they provide to people in need with the Agency’s handshake, logo and the words ‘From the American people’ in local languages. Branding is not just required by law; it ensures transparency when America provides aid. We believe that the people we help have a right to know where their assistance is coming from” (Ward, 2010 cited in Cunningham, 2012: 105).

The food aid and other examples cited above are vital in understanding the complexity of the politics of aid. Branding or no branding; flexibility or not, at the heart of the matter lies issues of power. Even when one locates the debate within the context where the flow of resources is from donors to recipients, the major issues is “control”. It is from this background that I argue for a radical reform to balance the act. The sections that follow highlight three key departure points to the current aid architecture. First, the “zero deficit budget” approach. Second, I argue for the implementation of radical development education and,

third, the localization of aid in-country.

### **ZERO-DEFICIT BUDGET (ZDB)**

It was in June, 2011, when the then Minister of Finance in the Mutharika government in Malawi, presented a “zero-deficit budget” to the Malawian parliament. The move came amid mounting pressure from the international donor community who demanded that Malawi must reform and adhere to good governance principles and the rule of law. The truth of the matter though is contained in The OECD funded evaluation “A Country Evaluation of the Declaration of the Paris Declaration for Malawi” (Government of Malawi-JIMAT Development Consultants, 2010: 11-12), which aptly articulates the issue:

“Malawi’s heavy dependence on aid pre-dates Paris Declaration (PD) implementation as back as since independence in 1964. Most of the development budget has been made up of external resources, averaging 40% of the total development resources. Foreign aid continues to constitute a significant proportion of the total public expenditure. For instance, in 2008/09, 44.3% of the revised national budget estimated at US\$1.8 billion, was funded by international aid grants (35.2%) and loans (9.2%). Donor aid was generally above 40% of the government budget in the period 2004-2008. Donor aid is also significant in augmenting Malawi’s limited capacity to generate foreign exchange earnings.”

The picture painted in the quote above is the centre of my argument and, indeed, those whose views on zero deficit budget or, as I would interchangeably call it, zero-based budgeting, I share. I am using the Malawi case study in this paper for two major reasons. First, is to highlight an idea from its philosophical as well as theoretical foundation. Second, I want to provide a practical example which, despite its poor execution of the zero-deficit budget, still holds the potential for long-term solution aid dependency.

### **Foundations and Principles of Zero Deficit Budget/Zero-based Budgeting**

From a lay-person’s foundation, a zero-deficit budget is understood as an approach to economic financing where the government finances all its recurrent expenditures using its own resources ([en.wikipedia.org/wiki/zero\\_deficit\\_budget](http://en.wikipedia.org/wiki/zero_deficit_budget)). While there are significant similarities between zero-deficit budget and the zero-based budgeting, the latter’s use in the public sector needs a bit of elaboration. Sarat (1979) defines ZBB as a technique which largely complements and links to existing planning, budgeting and review processes by seeking alternative and efficient methods of utilising limited resources. As can be seen, both ZDB and ZBB have one underpinning principle - the use of and maximum utilization of local resources. This is living within one’s means. The introduction of this idea in a country heavily reliant on foreign aid was received with ambivalence. Two counts emerged. On the one hand there were those who welcomed the idea, including the president (Bingu WaMutharika) who strongly hinted that the ZDB would allow Malawi to prosper without “begging from donors” (Wroe, 2012). Other supporters posited, for example, that ZDB: is the only way to graduate from aid dependency; will change creativity and diversity of thinking on economic matters; will enhance ownership of development processes; and, is the only way to fight neo-colonialism.

The critics of ZDB on the other hand argue that that it would be very difficult for a country that even with donor support, has been recording budget deficit, to implement a zero-deficit budget. According

to Chiyembekeza & Mzale (2011: 1) the zero-deficit budget left some financial analysts puzzled on how government will “eliminate deficits in one part of the budget (recurrent), but leave the other (development) unbalanced and still call the whole plan deficit-free budget”. Truly one can also argue that it may increase domestic borrowing which essentially is counter to the foundational thinking of the idea. Commentaries on both sides of the debates have firm foundation which I now turn to in advancing my argument for balancing the act. I must point out that my arguments are not purely in economic terms as I am not an economist but are rather pragmatic and future-focused in light of the current global trend of dwindling development resources. My case is about the “principle” underpinning the zero-deficit budget and how, if well planned and executed, can transform African economies into African tigers. Three aspects are suggested by Lweya (2011) who contends that one way of doing it is the actual principle of cutting spending to match the prevailing local resources. The second option has to do with maintain or increasing spending budget patterns but at the same time increasing resources by widening the local resource base. The third option is to go for a combination of both – that is, cutting spending while broadening the resource base.

While these sound to be noble propositions, such approaches require long-term strategic planning. Importantly it requires the participation of the donor agencies themselves to understanding the agenda, provide back-up plans in the event where unpredictable factors may militate against such ambitious undertaking. Crucially, such an agenda should carefully be communicated to the public without alarming them. This is about being pragmatic more or less in the same way a parent will nurture their child until such a time when they claim independence. It must be noted also that employing such a seemingly suicidal agenda may prove costly politically. Development is politics. The measure of success of any incumbent government is based on how it provides its citizenry with the basic social services. Another point crucial to the success of the implementation of the ZDB is “capacity”. Does the state have the capacity to plan, negotiate, implement and adjust to a cocktail of unorthodox measures? A series of radical steps that can be employed may include but not limited to:

- Negotiating fair trade principles while at the same time increasing inter-state and regional trade;
- Instituting fiscal discipline measures by, for example, cutting in government spending on presidential and ministerial travels, fringe benefits, cuts in lucrative salaries, reducing the number of ministerial portfolios by merging them into departments;
- Creating an enabling environment for the mushrooming of small and large business enterprises and the nurturing of entrepreneurial spirit;
- Diversification of commercial crops using the “Green belt imitative”;
- Job creation.

The implementation of such an ambitious “programme” will most certainly require service leadership – a culture that empowers a nation to engage in strategic thinking on a strategic process and engage its people in a proactive quest for competitive advantage. Such a leadership will need to be open-minded and use collective approach to harnessing domestic resource for the common good. For this to happen “development education is essential.

## **RADICAL DEVELOPMENT EDUCATION**

The current development thinking and financing needs disrupting. I take comfort in the wisdom of

Brehm & Silova (2010: 32) who, in their reflection in the current "logic of rescue" contend that:

*"The logic of rescue is perhaps the most striking manifestation of the gap between the knowledgeable and the unintelligent, the presupposition made by Jacotot's "stultifying master": "the master presupposes that what the student learns is that same thing as he teaches him" (Lanci re, 2004, p. 7). The teacher holds knowledge students have yet to learn, and only at the correct time will the stultifying master explicate this knowledge to the unintelligent. This knowledge is transmitted homogenously, without variation. But as students progress by learning the master's knowledge, it becomes apparent that the student will never know everything the master does. The master controls knowledge and has the power to distribute it at will. International aid acts in a similar fashion. The gap between those who are "helping" and those who are "helped" is no different than the stultifying master and student: helpers (development experts, development agencies, developed countries, and ordinary citizens) presuppose that (1) help is actually needed; (2) their approach is correct for the situation; (3) the people receiving help cannot help themselves; (4) their help (if followed directly) will result in a better outcome. Inherent in this logic of rescue are clear spatial demarcations and distances between "good" knowledge, "bad" knowledge, and "no" knowledge. Helpers control "good" knowledge and see it as their responsibility to pass it on to the perceived unintelligent."*

At the centre of today's development financing are issues of power and control. Yes, many developing countries, especially those in Africa, may be independent politically and theoretically but are still in perpetual colonial bondage through their dependency on their colonial masters for the financing of development programs and budget support. Emancipation from the grip of the "uppers" (Chambers, 1997), those that hold the view that their "approach is correct for the situation" and that "the people receiving help cannot help themselves", requires us to engage in a radical development education.

Right from the outset, I need to set the tone right. The term "radical", in this article, is NOT associated with the extremism that is popularly linked to violence. Rather, it is, in the words of Hicks (2004), getting to the roots of things. My usage of the term "radical development education" is to posit an argument that for the developing world to wean itself from donor dependency, there is need to embark on a bold program of mass education about the politics of development financing – an ideology that questions the dominant practices and beliefs about aid. This is about questioning the status quo. A radical development thinker must be driven by the fundamental principles of social justice because, by definition, "a radical ideology is defined by what it *against* as well as what it stands *for*. Radical are driven by their vision of what a better society could look like and the need to act in order to bring this about. They oppose injustice and inequality and abuse of power and the privilege. They challenge all forms of disempowerment (lack of control over one's life chances)" (Hicks, 2004: 3).

If the current development finance is broadly disempowering, what the recipient of aid need to do is to embrace emancipator views through an approach that provides broader understanding of the intricacies of the development ideology and the politics of development financing. This calls for a concerted effort in the design and approach. First, an understanding of the purpose of radical development education is needed. In fact, a good starting point is to map out the strengths and weaknesses of public education which often reproduces the social, political and economic norms of the

dominant ideology of the “uppers”, those who view their “knowledge” as superior and assimilate the “other” through education financing with strings attached as to what that form of education should constitute.

The technicalities of how to tackle “helpers” who control “good knowledge” is to understand how helpers operate under the pretext of doing good. The case of my personal experience at the Institute of Education highlights how power operates. The funding mechanism and their associated set of “rules”, one of which is to use “expert advisers”, is *the* strategy donor agencies use to exercise their power over their recipients. But then, this is not all. These set of rules are deployed using certain words. “capacity building”, “partnerships”, “participation”, “empowerment” and other related discourses accompany certain grand narratives such the Millennium Development Goals, Education for All, Vision 20:20, The Paris Declaration on Aid Effectiveness, just to name a few. In effect, the discourses and narratives are centred on the notion of inclusion. However, Popkewitz (2008) and Brehm & Silosi (2010) have argued that by using such discourses which presupposes inclusion of those considered unintelligent or excluded, simply reinforces the inequality that legitimises the expert-novice; developed-developing; North-South mentality.

For countries considered “developing”, radical development education will aim to unpack the hidden meanings behind such popular discourses and highlight that the challenge behind underdevelopment and control is not to be associated with institutions such as the World Bank, IMF, or bilateral donors but rather the “the discourses and practices that mesh together to produce a social administration; [discourses and practices] they have the power to produce docile individuals” (Sarup, 1983, 98-99). Thus, radical development education becomes an awareness-raising process; an ambitious undertaking of long-term plan to educate the oppressed. The means through which such an education can be mediated is a challenge which needs to be looked at from various vantage points. One point is clear; schools are not neutral for such kind of education. I thus propose this kind of education to be promulgated by such entities as NGOs and academic institutions through tailor-made curriculum that highlights power issues.

## **DECENTRALISING AID OPERATIONS**

A plethora of literature abounds on the role of decentralisation in development (see for example Conyers, 1983; Crook, 2003; Olsen, 2007). In Africa, for over three decades, decentralisation as a strategy for enhancing service delivery and democratisation has been implemented with mixed results (Okidi & Guloba, 2006; Chinsinga, 2008; Caldeira, Foucault & Rota-Graziosi, 2012). In particular, The World Bank has viewed this devolution as one of the major economic reform agenda in response to the failure of centralised state apparatus to lead states’ development. In some cases, decentralisation has been perceived as a way to ensure political stability, to improve accountability and responsiveness of local leaders, to increase the efficiency of public policies, and ultimately, to reduce poverty. If indeed decentralisation is, by definition, “the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector” (Olsen, 2007: 4), then a question whose answer remains elusive is: how does this form of local governance enhance aid ownership and effectiveness? This section of the paper critiques this definition in trying to argue the case for localised aid administration. This time, not necessarily as the way the concept is conventionally understood but as a way of radicalising the aid

administration from a recipient perspective. Politically, fiscally and administratively the recipient countries need to have the ownership of decision-making power to administer the aid the way perceived fit for their development agendas. Yet what we have seen over the past five decades is how the so-called “Third World” has been patronised through Structural Adjustment Programs (SAPs) and, now, “The Poverty Reduction Strategy Papers” (PRSPs) which, while seeking a clear development agenda from the potential recipient countries, masks power and control through a language that shapes the recipients’ agenda and follow the conditions stipulated against such instruments.

In decentralising aid operations, the dimensions of control are transferred from the donor to a recipient. However, within recipient countries, there are also mechanisms which have to be employed to “hold the giants to account” (Siddiquee & Faruqi, 2009). Part of the role of radical development education is to raise the awareness through capacity of local ordinary people to know that the ‘aid’ governments get is *their* money. Radical development education is assumed to engender an empowered community, a community that can “discover that they have the capacity to solve problems they face, control the means to do so, and have final, authoritative say in decision making” (Perkins, 1995 in Rubin & Rubin 2001: 77). Therefore, states’ success in controlling aid ownership and effectiveness has to emanate from below. Unless the complete whole is complete, there will remain a “docile” people who will end up in positions of decision-making but have means to argue their case as they will remain “unintelligent” about the political economy of aid and development. Hence, to decentralise aid ownership at a country level is also to be able to build the structures and institutions of transparency and accountability to monitor and hold “stewards” to account. That can only happen if development education is offered to ordinary citizens and those in positions of power – those who can read between the lines and make a choice whether to accept aid or refuse and opt for zero-deficit budget.

## CONCLUSION

The suggestions in this paper are no magic bullet. What I have argued in the paper is the foreign development assistance has, so far, created a skewed partnership with the donors dictating and controlling their recipient counterparts – a practice that is counterproductive to the whole agenda of reducing poverty. The act of balancing these relationships is largely dependent on how much awareness there is among aid recipients, about power and control. For recipients of foreign development assistance to be in control of things, the paper suggests long-term strategy of gradually broadening the local resource base and at the same time scaling down dependency on donor funding by employing a zero-deficit budget. While this is politically lethal, it is how the agenda of exiting from donor dependence is planned, communicated to the ordinary people and executed with everybody on board. For many African countries whose ability to penetrate the global trade and market is rather difficult, balancing the act may entail strengthening inter-state and regional trade activities. The success of this agenda can strengthen the implementation of zero-deficit budget among recipients of foreign development assistance.

I have also argued that radical development education is necessary as an awareness-raising process of the politics of development financing. Again, this is not a quick-fix. Rather, it is long-term strategy or a project that requires a national commitment and non-partisan politics. It is a long-term investment for the future generations. As I have argued, the domination of aid and its auxiliary instruments and institutions is a power game. Power is not something that can be acquired, seized, or shared. Rather it

is *exercised* from various vantage points in a set of unequal, shifting relations. To effect radical development education is to promulgate a message that the agenda to make poverty history through aid is also a “class” struggle. Power, in Foucauldian conception, is an effect of the operation of social relationships between groups and individuals who are socially stratified. Therefore, in essence, the need for a ‘kind of education’ to uncover the subtleties of the complexities of foreign development assistance cannot be overemphasised. It is then, and only when the ordinary men and women have the knowledge, awareness and capacity to hold the giants to account, can locally-based decision-making and control can take place. It is only then that we can talk about decentralised development and governance.

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# Track 4

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A pair of glasses and a pen resting on a document with a bar chart. The glasses are in the upper left, and the pen is in the upper right. The bar chart is in the lower half of the image. A red curved line arches over the glasses and pen. A gold and red curved line arches under the bar chart.

**POLITICAL-ECONOMY OF DEVELOPMENT FINANCE AND  
ECONOMIC TRANSFORMATION**

# NYGPYRAMID THEORY AND DEVELOPMENT: APPROACHES TO ECONOMIC GROWTH AND DEVELOPMENT

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## ABSTRACT

In the last 80 years political economists, development experts and policy makers have endeavoured to weave viable development theories but only a few countries globally are wealthy and developed. International institutes of development studies and economics coined up a plethora of models to shape economic trends but still a few countries remain opulent and the rest atrociously poor. Slavery, colonialism and imperialism underdeveloped most parts of the world although it is not prudent to use that as a scapegoat of failure to implement development programmes. Poor governance which is propelled by lack of sufficient levels of economic and fiscal independence has had its fair share of disrupting economic growth initiatives in the less developed world. The State has very little powers and authority in the economic affairs of the country while most multilateral supranational organisations are influential in determining the economic future of borrowing nations. The result of too much borrowing is huge debt. Most countries that have succeeded in attaining high levels of development exercise greater influence on their economic front. This paper argues that while the private sector is critical, the State-led initiatives are fundamental to engender economic development and growth. The state can use its legislative fiscal and monetary powers to facilitate development. The Egyptian Pyramids are still standing because the State through royalty was involved and led to their establishment. That is the essence of the NyGPyramid theory. Most western countries take full responsibility of the shaping and modelling of their macro-economic frameworks but most less-developed countries and even middle-income countries permit external economic and financial influence to penetrate their local economic planning strategies and thus the result the production of externally-influenced economic development packages which produce little or no impact on economic development and growth.

**Keywords:** NyGPyramid theory; development; empowerment; state-led initiatives

## INTRODUCTION

Half a century of 'development' troubles humankind today than ever before. Increasingly, the conflicting debate about the extent to which foreign development assistance improves the lives of the poor has intensified. In addition, the dominant ideology of our time which suggests that markets and globalization are the lynchpin of economic prosperity have been, and continue to be, questioned amid pervasive poverty worldwide. In fact, the whole idea of 'development', Wolfgang Sachs argues, "Stands like a ruin in intellectual landscape. Delusion and disappointment, failures and crime have been the companions of development and they tell a common story: it did not work" (Sachs, 1992: 1). These sentiments reflect cumulative frustrations over half a century of minimal development progress. Nevertheless there still remains an intellectual debate in the academy and the field of practice about the role of human agency in development. Two critical questions follow: What is development? Why do people matter in development? This paper seeks to critically examine the notion of the NyGPyramid and "people-centred development" from historical, theoretical and practical angles. This paper argues that

while the concept of people-centred development has gained ascendancy over the past three decades, it remains problematic both in theory and practice largely because of the role of the State. Markets are limited to profitability, competitiveness, and competition as useful tools for their survival and most companies in the private sector are accountable to the Board of Directors periodically but the State has a civil and political mandate to ensure that economic growth and development projects are implemented. The NyGPyramid theory maintains that the State can propel development and economic growth because of its fiscal and monetary muscle.

## UNDERSTANDING DEVELOPMENT

Development, as a modernist idea, remoulds the world we live in. In the words of Cornwall (2010), it is full of trajectories and dissonant agendas. Moreover, it is loaded with many perspectives (see for example Peet & Hartwick 1999; Thomas 2000; Nustad 2007; Handelman 2011; Wills 2011). In his landmark publication, *"The Development Dictionary"*, Sachs (1992: 1) argued that "development is much more than just a socio-economic endeavour, it is a perception which models reality, a myth which comforts societies, and a fantasy which unleashes passion". Robert Chambers, one of the well-known development theorist and practitioner, views development as "well-being for all" humans (Chambers 1997: 9) while Simons (1999: 2) views it as something that enhances the life on an individual or a group of people in an empowering and sustainable way. Other scholars (see Deginbol-Martinussen 1997); Yamamori, Myers, Bediako & Reed (1996) view development as a culturally grounded process formulated by 'insiders' rather than outsiders. It is about the development of indigenous cultures as well as a process of sustainable change rather than a specified level of achievement. The work of Arturo Escobar (1995), in particular, has highlighted how words are deployed to socially create and recreate the world in which poor people live. Escobar notes that development as a concept was a post cursor to the Second World War. He views development as a response to the problematisation of poverty rather than a natural process of knowledge leading to the discovery of the problems. He adds that development was a discursive process governed by modernisation thinking and premised on the belief that development could only occur if capacity investment was increased.

## THE NyGPyramid THEORY AND DEVELOPMENT

Within the African continent most pre-colonial kingdoms were very economical prosperous and had greater levels of food security even though most of them were subsistence farmers. They owned huge undivided land, animals, and natural water, energy, mineral and agricultural resources. Slavery depleted most of the able-bodied man thus leaving these kingdoms without capable human resources to run the economies. With the advent of colonialism most of the resources were annexed by the colonialists and their companies which served their metropolitan countries of origin. Lusophone colonies were exploited by Portugal, Franco-phone states by France and Anglophone colonies by Britain. Intensive mineral exploitation took place accompanied by labour exploitation. The labour markets were controlled by the colonial governments. Thus the colonial state exercised labour market regulation duties during the colonial epoch. The result of all this was underdevelopment in the colonies for the local inhabitants. In some colonies like South Africa underdevelopment of black areas was both legal and constitutional. Various pieces of legislation were passed in pursuance of separate development in South Africa and that

explains why in formerly white only areas ,the infrastructure is first world while in blacks only areas the conditions of living are that of a third world country. In Indian and Coloured Areas development took the form of a half–baked cake. While the living conditions were better than in black homelands but they were not good enough for human settlement. The infrastructure that exists in the former colonies was primarily built by the colonial governments and very little essentially has changed positively in these states. The colonial state influenced both development and economic growth during the colonial times. It also practised underdevelopment of black settlements and South African homelands are good examples.

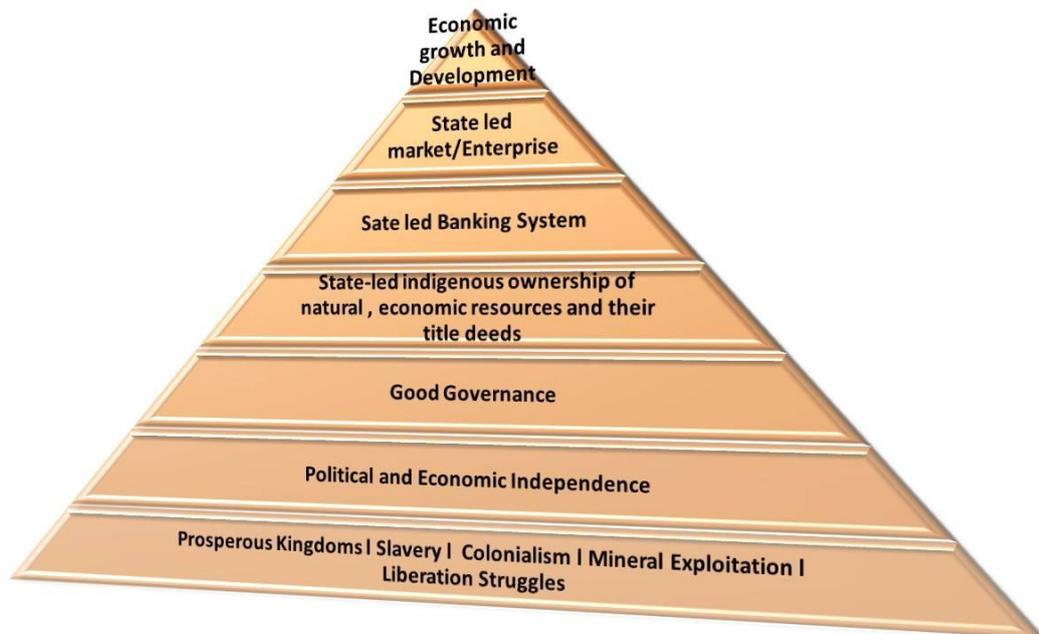
The colonial state facilitated mineral trade and sales at all levels .Thus the multinational corporations that operated during the colonial epoch enjoyed state support. Most black people in the former colonies were left landless and asset-less. The only form of survival was to work in a farm or mine. In most cases forced mine–labour was practised. The natural result of all this was armed liberation wars which where supported by both Socialist and Communist regimes across the world. Most of the states have political freedom but struggle to acquire economic freedom which is imperative for development .As long as former colonies do not possess economic freedom ,they will no attain development and economic growth because most of the capital-generating resources are foreign controlled and owned. They repatriate all their profits abroad leaving nothing locally. These resources include, water, energy, mineral, citrus, game and agricultural resources. The state in Norway has a firm grip on its resources and owns majority shares in most companies that operate in the oil and gas sectors. Norway has invested the profits it makes in the oil and gas sectors in more than 8000 fortune 500 companies. The profits gained in such efforts are used for purposes of economic growth and development. Norway has the lowest poverty and unemployment ratios in the world. It has the best living standards in the world as well. The open secret is that Norway has achieved both political and economic independence, hence the state has the power to stir economic development and growth. It is impossible to have good governance without political and economic independence. Most countries have political freedom but do not have economic independence .This means that they lack the econo-financial muscle to finance the creation of an effective and efficient legal good governance architecture. The infrastructure for good governance requires adequate fiscal resources which are a result of economic freedom. Multinational entities own and control the exploration and processing of critical natural resources in South Africa. Thus the government has limited fiscal resources to finance human capital development programmes critical for good governance.

Most of these entities owned these resources since the colonial era and they are less likely to support the idea of developmentalism if it means government shareholding in the those entities. Where do African governments get money to finance development and economic growth? .Traditional taxation methods are not enough! Governments must increase their share ownership of most of the enterprises operating in the natural critical resources area. Mining resources, citrus, energy, water, game and agricultural resources are zones where government share-ownership is more pronounced. A small medium gold mine earns profits of not less than 100million American dollars annually. So if government can just get 40%, it quite substantial amount to add to the fiscals. The model argues that to propel economic growth and development the State must play a pivotal and fundamental role in the economy especially in the economic productive sectors such as those mentioned above. Governments must facilitate the transfer of the ownership of resources to the local people using its fiscal and monetary

legislative powers. The state must then play a leading role in the banking sector by owning a sizable amount of shares in all private banking houses and creating new ones that are wholly state –owned. This facilitates the state to engage in enterprise at macro-level, meso and micro-level of the economy. The collapse of the banking system as evidenced by the recession is a sign that markets cannot insulate the economy from such negative development. South Africa is in this trajectory already with the envisaged creation of an Infrastructure bank. This model is about bringing political reality into economic practice. The Egyptian pyramids still exist after so many centuries of existence because it was a State-Led Initiative. The State creates enterprises or purchases majority share in any market enterprise in critical state sectors. The State will then be able to utilize its fiscal and monetary powers to influence economic transformation and growth. The NyGPyramid theory (WARES, 2013: 449) (figure 1) argues for a greater role of the State in economic development and growth especially in newly-independent states and developmental states. People-centred development is possible with greater participation of the State. I must admit that it took me 6 years of full time study, interacting with public administration theory and almost 18 years of imparting tuition in public administration theory and research to be able to discern that the development trajectory is always pyramidal as depicted by the (NyGPyramid) model below.

Figure 1: the NyGPyramid model

## (NyGPyramid) Model



Source: Gumede, 2013: 449.

## **MODERNISATION THEORY**

The demise of European colonialism in the 1950s and 1960s produced a host of new independent states in many parts of the developing world (Gordon & Gordon, 2013). This wave of change ignited a series of conceptual and theoretical understanding of development. The 'modernisation' theory of development emerged. Since then the theory has occupied the development space and continues in a more subtle form through development agencies that claim to people-centred development. Handleman (2011) observes that modernisation theory mainly focused on deficiencies. Isbister stresses that modernisation theory paid more attention to such things like the absence of democratic institutions, of capital, of technology, of initiative, and then speculate upon ways of repairing these deficiencies (Isbister, 1991: 33). Modernisation protagonists viewed underdeveloped countries as being held back by traditional society. Modernisation scholars, according to Burkey (1993), strongly believed that the cure for this stagnation and backwardness was to embrace social, cultural and economic systems of the developed countries by emulating, more or less, every aspect of the Western thinking and 'doing', in order to achieve a growth-based innovation which, up until now, is viewed by the developed world as essential to poverty reduction. In addition, modernisation scholars believe that the potential for the poor to live better lives can be achieved through good policies and practice (Kapoor, 2008). Their optimism, which is more tuned to economic growth, is that improved trade and tariff policies, planning techniques, increased agricultural production and pricing policies, use of monetary and fiscal policies, and deployment of appropriate technologies will improve the condition of the underdeveloped countries. However, this view has been challenged by the 'dependency' theorists.

## **Dependency Theory of Development**

The failures of development are but one dimension of the whole process of development. Dependency theory provided perhaps one of the earliest challenges to the myriad assumptions and effects of modernisation thinking. The fundamental principles of dependency theory, which emanated from Latin American economists and social scientists, and is believed to be an outgrowth of Marxism (Isbister, 1991), are that economic growth in some of the rich countries has resulted in the impoverishment of the underdeveloped world through internationalisation of capitalism, which progressively began to grow in influence and dominated world trade. The theory critiques and questions the assumed mutual benefits of countries on the "periphery" of international trade and those of the "centre". Peet and Hartwick (1999) and Burkey (1993) concur with Isbister (1991), noting that European development was merely based on destruction through colonialism and resource control, ultimately leading to what they call a "Global Geography of European First World Centre" and "non-European Third World Periphery" (Peet & Hartwick, 1999: 107). Since then, the centre-periphery dichotomy has been used as a means of social, economic and cultural control. The unequal power relations between the developed and the underdeveloped nations have led to the former being more developed and further underdeveloping the latter. The monopolistic tendencies of the developed nations today explain the rift between rich and poor countries. This state of affairs has therefore led to the current emergence of notions of "Third World," "developing world" and "poor" countries which largely depends on the developed countries for most of its development programs.

While the modernisation school sees the rich countries as having the potential to relieve the

suffering of the poor nations, the dependency theorists sees modernisation as the major obstacle to the well-being of the poor. The pro- and anti-capitalist sentiments from the two ideological standpoints also pose a significant challenge to the way they respond to alternative means of mitigating the challenge. One suggestion (Isbister, 1991: 51) is to “fight fire with fire, to transform capitalism from the enemy of the Third World to its saviour”. In other words, the ‘underdeveloped’ nations should attempt to mobilise local resources in order to create local industries that challenge those from capitalist North. However, bearing in mind the inequality that may ensue from this approach, others in the dependency school think that while capitalist free enterprise may be the way to go, state control should also be exercised through state – led economic planning and tariff barriers against foreign imports.

### **A People-centred View of Development in a Nutshell**

The concept of “people-centred development” occupies the centre stage of development discourse and is known by various names. “Bottom-up” development approach, “human-centred development,” “community-(based) development”, “participatory development”, “grassroots development,” and many other terms are used in one way or the other to emphasise the importance of “people” in development. To understand the premise upon which the idea of people-centred development is founded, a sober reflection of Korten’s (1990) view of development needs to be brought into perspective. Korten asserts that development is a “process by which the members of society increase their personal and institutional capabilities to mobilise and manage resources to produce sustainable and justly distributed improvements in their quality of life consistent with their aspirations (Korten, 1990: 67). Korten’s definition reflects the United Nations Human Development Report 1990 whose “Overview” starts with the following:

“This Report is about people - and about how development enlarges their choices. It is about more than GNP growth, more than income and wealth and more than producing commodities and accumulating capital. A person’s access to income may be one of the choices, but it is not the sum total of human endeavour. Human development is a process of enlarging people’s choices. The most critical of these wide-ranging choices are to live a long and healthy life, to be educated and to have access to resources needed for a decent standard of living. Additional choices include political freedom, guaranteed human rights and personal self-respect. Development enables people to have these choices. No one can guarantee human happiness, and the choices people make are their own concern” (Chandler, 2011: 1, emphasis in the original).

Korten’s idea of development contains no ambiguities as to what the emphasis is – “people”. The United Nations Human Development Report’s emphasis on *people’s choices* signals the importance of people in the development. A choice is a conscious decision one makes over something. The process of making a choice is, by and large, owned by the chooser. Thus, people-centred development is a kind of development that emanates from below; is conceived and determined by ordinary people in local communities. People-centred development is a social transformation and evolutionary – as such, is a process of active engagement. Crucially, people-centred development is a process where the “participation” of each and every individual who is affected by a development project contributes in one way or the other, in the decision-making

process (even those that are controversial or otherwise) of their preferred future. People-centered development “enables” people to embark on a process of skills and confidence-building through a process of collective cooperation and sharing of mutual learning (Cooke and Kothari, 2001; Kapoor, 2008; Eyben, 2012). People-centred development is about letting people govern the process of development in order to engender “sustainable” outcomes. It focuses on improving people’s self-reliance, social justice and call for changes in the social, political, economic, environmental values and practices (Cornwall, 2011; Wills, 2011). In summary people-centred development is theoretically viewed as development that is:

- Participatory
- Empowers ordinary people to make their own decisions
- Sustainable
- Builds on people’s capacities.

### **Participation and People-centred Development**

Problematic as the concept of development is, ‘Participation’ has now become the darling of development discourse. The idea of ‘participation in development’ evolved in the 1960s when the World Bank, USAID and other similar agencies were forced to reexamine their development strategies in the wake of persistent failures of orthodox and linear development. Its conception was by no means a solution to the ills of dominant development. Glyn William (2004), inspired by the wisdom of one development critic, worriedly queried: If development is indeed an “anti-political machine” (Ferguson, 1994), the claim is that participation provides a remarkably efficient means of greasing its wheels. But do participatory practices and discourses necessarily represent the depoliticisation of development?” (Ferguson, 1994: 557). In development there are two conceptualizations of participation; first the pragmatic view and, second, the Marxist view (Manyozo, 2012). The pragmatic view is concerned with a human agency – that of “education” or, at times, as a research strategy where the main concern is taking on board the interests and needs of development stakeholders. The Marxist view of participation is that of class struggle for social justice; a process in which those at the margins of society are brought into the mainstream or centre stage of development.

### **Sustainability and People-centred Development**

Sustainability as a development discourse, has gained currency over the past four decades. Starting with the 1972 United Nations Conference on the Human Environment in Stockholm, to the 1992 United Nations Conference on Environment and Development (UNED) in Rio de Janeiro; also known as “The Earth Summit,” the debate about sustainable development has ensued with speed and intensity. One of the outcomes of UNED was the Rio Agenda 21 which placed human beings at the centre stage of sustainable development. The spark to go beyond conventional development practices was due to the realisation that poverty and the environment are inseparable bedfellows. Sick (2009) acknowledges that while there is a moral imperative to alleviate poverty, the task prior to that is to ensure environmental sustainability because humans directly depend on the use of natural resources. Because of the relationship that exists between humans and the natural environment, *sustainability development*, as an idea, has become critical to sustainability of human survival. But the question that ought to be asked is:

what has sustainability got to do with people-centred development? There are many ways in which *sustainability* and *sustainable development* (commonly used interchangeably) are understood. In its basic form, sustainability simply means “lasting change within institutions, communities and projects” (Servaes *et al.*, 2012). This meaning has direct relevance to the concepts of participation and empowerment. Two underlying principles to all three is the emphasis on “humans” and “participation”. Therefore, sustainable development can be said to be:

- Development that does not exploit but sustains the environment so that it can continue to sustain life.
- The ability to make development sustainable – to ensure that it meets the needs of the present without compromising the future generation to meet their own needs.
- Efforts and projects that will keep going when the developer withdraws.

The last point is crucial considering the challenges of aid and development projects that are purely dependent on donor funding. In her acclaimed book, *Dead Aid*, Dambisa Moyo (2009) argues that one of the reasons why poverty persists in places like Africa is the dependency on aid. She argues that the nature of development programs and/or projects, are not sustainable because of poor strategies for continuity, aside from rampant corruption. Sustainable development does not require a ‘one-size-fits-all’ approach. Rather, it requires a country – or project – specific approach while, at the same time, conscious of the global social, economic, political and environmental dynamics which may directly impact local efforts. Local actions, for example, are important in influencing sustainable development in three different ways:

- Use of information and how this information feeds into policies and practices related to sustainable development.
- Community empowerment and capacity development
- Local actions as an educational tool to raise awareness of the implications of global development dynamics and their impact on locally-initiated development projects (Plummer, 2005).

While it is undeniable that sustainable development is complex, its success depends on how the various actors use information. As argued earlier, participatory decision-making is powerful in that local people can use local and indigenous knowledge systems to generate a process of information gathering and exchange. These knowledge systems can then be used to contribute to local natural resources management. The catch, however, is that it requires people who are empowered to in terms of their ability govern their local settings by actively mobilising people for a common concern; identify local assets or capitals such as social, human, natural, physical and financial and, in so doing, build upon these locally available assets to harness sustainable development (Emery *et al.*, 2006). Part of the problem of engendering sustainable development is lack of awareness about the complex linkages between poverty, environment and development. This is why the Rio Declaration emphasizes education (UN 1992). Williams, Meth & Wills (2009) observe that while the definitions of sustainable development define the goals of a kind of education that “meets the present without compromising the ability of the future generations to meet their own needs”, it is difficult to achieve such an ambitious goal in the absence of knowledge about the environmental consequences of a decision. Plummer (2005) adds that local knowledge has its own limitation when the greater part of the environmental damage is done by the extractive nature of some development institutions whose economic development models exploit the

environment without due regard to sustainability of the environment upon which humans rely to sustain their livelihoods.

## CONCLUSION

It is the contention of this paper that the State plays a key role in development and economic growth. However people are critical because in the first place development is supposed to benefit them. Most developing nations fail take full control of their economic destinies largely because of lack of adequate State-Led economic growth initiatives. Developmental states can only make it successfully if their States take full control of key economic and productive sectors of the country .To deny that they was never slavery or colonialism and their attendant results, will not help most less developed countries. However, to also blame slavery and colonialism for underdevelopment without doing anything, is illogical and misleading. Less developed state must endeavour to control their economic future and eschew dependence on external funding for development. The essence of the NyGPyramid theory is that the State in the post-colonial epoch much stir development supported by people-centred approaches. The socio-economic infrastructure that was developed by colonialists still exists with little or no improvements by the post-colonial leaderships. In fact very little has been done but instead most post-colonial Leaderships inherit and do not develop. Poor governance has corroded prospects of development. Reliance on external aid has crippled locally-generated development initiatives.

The State is not only fundamental but critical in the development discourse across the world. Western countries have the Political Will to orchestrate economic growth and development in their continent while in less developed states the Political Will is minimal. Economic growth and development is pyramidal and the State is not only primary but a fundamental aspect of the process. When national economies suffer acute economic recessions the State has the legislative and fiscal muscle to bail the distressed entities out, whether they are private or public or semi-public is immaterial. It essential to realise that this discourse has discussed various development paradigms and posits that without State-Led Initiatives and without the People's involvement then development is a chimera. It is very unfortunate that most LiMEs (Liberation Movements Elites), in the post-colonial and post-apartheid countries inherit the colonial socio-economic architecture and infrastructure and do very little to propel development to greater heights but maintain the status quo and ferociously defend their positions because they benefit economically and financially. In fact they formulate economic empowerment policies which on a larger scale promote their interests and their liberation movements. The saga of economic growth and development is a tragedy in such post-colonial and post-apartheid countries. This paper posits that albeit all these shortcomings, the state is pivotal, crucial and critical in the development discourse.

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# THE EFFECTS OF BLACK ECONOMIC EMPOWERMENT IN SOUTH AFRICA'S MINING INDUSTRY

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## ABSTRACT

The purpose of this paper is to investigate the role of Black Economic Empowerment (BEE) in the mining industry and also to analyse the effects that BEE has with regard to employment preferences in local communities. This paper argues that there are inconsistencies between the mining industry and the local communities as to whether the sector is beneficial in creating employment to rural people. Therefore this paper is conceptual and it will use the available literature to argue that Black Economic Empowerment was introduced by the South African government as a means to redress the inequalities of apartheid by giving all disadvantaged groups of the South African citizens an economic privilege that was not made available to them in the past, but irrespective of that there are still challenges in terms of employment equity, management, skills development and ownership. It is well known that BEE's main concern was to ensure among other measures, skills development, ownership and socio-economic development in the country. BEE should serve as a means to resolve the economic disparities that was created by the apartheid policy which favoured white business owners only and separated black business owners. However since the introduction of BEE, most local businesses are still facing challenges in terms of growth in our country and this include lack of support for small medium enterprises in rural areas.

**Keywords:** Black Economic Empowerment; mining industry; local community; South Africa

## INTRODUCTION

In South Africa Black Economic Empowerment (BEE) is seen as a way of social economic transformation and is supposed to help in reducing poverty and inequality. The introduction of BEE now Broad Based Black Economic Empowerment (BBBEE) was supposed to be a strategy aiming at building and improving South African nation. However BEE is the central part of South Africa's economic transformation strategy. Irrespective of its transformation, criticisms that arises with BEE is that it aimed at transferring white ownership companies to black owned businesses and specifically to those with connection to the African National Congress (ANC) as the government of the day (Ntim & Soobaroyen, 2012). Currently in South Africa, specifically in the mining sector, the management is whites dominant whereas blacks are the ones that are working underground. Sanchez (2011) adds that BEE newly Broad Based Economic Empowerment Strategy should serve as strategy aimed at increasing the number of black management, ownership and control enterprise in the country.

The inception of BEE in the mining sector is supposed to be a mechanism or strategy aimed at creating equality of the workforce of South African citizens as a whole by enforcing the advantaging of the previously disadvantaged and the disadvantaging the previously advantaged. This paper will use available literature to argue that BEE progress in the mining sector does not really promote employment equity and this is enforced by political constituencies. The article will further attempt to raise questions as to what is the role of BEE in the mining sector and determine whether local communities are given preferences in terms of employment in the mining industry. Therefore the paper will conclude that BEE in the mining industry does not only promote black ownership but rather it promote white ownership in terms of skills development and provide employment to local communities who are not well educated.

However BEE should correct the social imbalances & racial divisions including women, workers, youth, people with disabilities and people living in rural areas in the country.

### **CONCEPTUALISING BLACK ECONOMIC EMPOWERMENT**

Black Economic Empowerment in South African has been viewed generally as a form of nationalisation. The South African government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities. However many South African businesses view BEE as a government strategy aiming at ensuring that black people such as African, Indian, and Coloured are given a stake in the economy. Fauconnier & Mathur-Helm (2008: 2) indicated that BEE in South Africa is a strategy aimed at realising the country's full economic potential, increasing the skills development levels and a mechanism for job creation while at the same time reduces poverty. The notion of BEE is seen most as means to do away with the apartheid legacy and introduce all the disadvantaged groups of all levels, categories and different sectors in the economy. BEE is the cornerstone of the South African government to overcome the legacy of racial discrimination in the country. However Sibalukhulu, (2012: 2), argue that BEE itself cannot work, because its main focus is on transferring the existing companies shares to blacks rather than emphasising on building the entrepreneurial ability of black people in general. Sanchez (2011) on the other hand emphasis that, BEE is aimed at developing and involving black people in the economy rather than simply transferring the existing companies to blacks. South Africa still has huge backlog between the rich and the poor, because the rich are getting richer and the poorer are getting poorer every day. Hence Dunnigan, Fazaeli & Spies (2005: 2) argues that BEE in South African can only be recognised in its theory but the practical part of it is impeded by the political constituencies, because it only benefit those who are well connected to empowerment deals. BEE must have an impact on the lives of those purposefully and systematically excluded from the economy. It must also influence the life of all woman and youth from running their livelihood activities in rural areas.

Generally BEE newly BBBEE should serve as means to end the apartheid legacy by giving the disadvantaged an opportunity in the country's economy and this include support for the small medium enterprises in remote rural areas. BEE should be a way of wiping away all the inherited social and economic inequalities in the country. Arguments which aroused in defining the meaning of BEE tends to prove that there are positive and negative effects of BEE in productivity and investment and hence on the growth at large. Thus many critics argue that BEE's aim was to attempt to create equality of the workforce of South African citizens and enforcing the advantaging of the previously disadvantaged and the disadvantaging the previously advantaged. BEE is therefore known to have a positive impact to dominate the need for economic transformation in the country.

### **THE ROLE OF BLACK ECONOMIC EMPOWERMENT IN THE MINING INDUSTRY**

Mining in South Africa has been the main driving force behind the history and development of Africa's most advanced and richest economy. South Africa's mineral industry, largely supported by gold, diamond, coal and platinum production, has made an important contribution to the national economy. In

South Africa the mining industry is one of the sectors of employment charters. Leon (2012: 1) noted that BEE in the mining industry is promoted through the elements of ownership, employment equity, human resources development, mining community development, housing and living conditions of the local communities and sustainable development growth. The Department of Trade and Industry as a department which is involved in promoting economic development and Black Economic Empowerment defines the main objectives of BEE *Firstly* as empowering more black people to own and manage enterprises. However many arguments in the country has therefore aroused with black ownership specifically in the mining industry. According to Kruger (2011), South Africa has almost 50% of black ownership dominated mainly in Small Medium Enterprises. On the other hand Congress for South African Trade Unions (COSATU) report (2012) indicated that more than 80% of the Johannesburg Stock Exchange is accounted for by the large enterprises such as banks and mining and energy. However the report made by Dovená (2010) indicated that the mining industry has almost 18% of black ownership. Therefore the government target of black ownership is still of target because statistics cannot really reveal the actual percentage of black ownership in the country and the reason behind could be political connections. It was argued generally in the country that irrespective of the introduction of BEE in the mining industry, South Africa's mineral resources are only accessible only to those who are politically connected in the ANC (Ntim & Soobaroyen, 2012). While BEE has assisted black businesses that may not have had the opportunity prior to the introduction of the broad-based black economic empowerment strategy, there is still only a handful of black businesses that are competing with former white businesses.

The *second* objective of BEE is to achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises. This is still questionable specifically in the mining industry, because it is believed that the introduction of BEE in the sector has some positive and negative benefits. In the study conducted by Acemoglu, Gelb & Robinson (2007) the negative benefits of BEE is that even though blacks can acquire educational qualifications, they might still not be involved in ownership and management of enterprises because of the perceptions which says blacks are less productive in their work than whites. *Thirdly*, BEE's objective is to empower rural and local communities by enabling their access to economic activities, land, infrastructure, ownership and skills. It is well known in the country that most local businesses particularly in rural areas lack proper finance to make it in the economic activities. *Lastly* BEE increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills.

According a case study of BEE in the South African mining industry with special focus on Exxaro Limited conducted by Fauconnier & Mathur-Helm (2008: 4), the introduction of BEE in the mining sector was to; promote equitable access to the country's mineral resources to the citizens of South Africa, substantially and meaningfully expand opportunities for historically disadvantaged South Africans (HDSA), including women to enter the mining industry and minerals industry and to benefit from the exploitation of the country's mineral resources and promote employment and advance the social and economic welfare of mining communities. There has been more debates in the country about the implementation of BEE in the mining sector and it was concluded by the President of the South African Mining development Association Bridgette Radebe, that because the country does not nationalise mines, it's only the minority of the people who benefited from the country's mineral wealth and BEE laws in the mining industry was not

properly implemented. Irrespective of the main objectives of BEE, currently in South Africa, specifically in the mining industry, there are arguments that the introduction of blacks in the industry may cause some serious harm to the industry as South Africa still has people who are unskilled. Acemoglu, Gelb & Robinson (2007: 19) emphasises that the introduction of BEE objectives such as empowering more black in most firms, can increase the firm's productivity only if the productivity of the firms is racially dominated by Africans who are less productive in their jobs.

The *Black Economic Empowerment, first Codes of Good practice and the strategy document, 2003*, outlined the pillars of BEE as follows:

- **Ownership Empowerment:** this emphasises on empowerment of historically disadvantaged South Africans. Direct empowerment focuses on the percentage share of economic benefits. An example includes ownership of at least 25% of black ownership targeted by the government.
- **Management Control:** ensures the right to the ability, to direct or otherwise control the majority of the votes attached to the shareholder's issued shares. For example a percentage of blacks holding managerial positions
- **Employment Equity:** removes unfair discrimination in the workplace and ensures the equitable representation of previously disadvantaged groups at all level, categories and different sectors of the workforce. For example employing people with different race, gender and people with disabilities.
- **Skills Development:** focuses on the development of the employees of an enterprise and measures as the Rand spent as a percentage of payrolls on skills development. An example in this regard will be empowering skills to employees to acquire higher levels of training and education to migrate from lower skilled jobs to higher-skilled ones.
- **Preferential Procurement:** Preferential procurement measures what a company spends on purchasing goods and services from black-empowered companies, qualifying small enterprises and exempted micro enterprises.
- **Enterprise Development:** Enterprise development looks at how much larger companies invest in supporting and developing small, black-run companies, through various means such as skills development or facilitating access to credit.
- **Socio-Economic Development:** Socio-economic development looks at a company's corporate social investment (CSI). An example would be a mining company running adult basic education and training (ABET) programmes in the communities from which they draw their labour.

The above mentioned pillars must also be ensured in the mining industry of South Africa. However many critics about BEE in the mining industry aroused and others believe that BEE in the mining industry doesn't work because opportunities are granted to those who are connected, while on the other hand others believe that BEE should be made to work because it benefits the HDSA in participating in the country's economic growth. According to the study on the state of BEE in the mining sector conducted by Wu and Krugel (2004: 3) indicated BEE progress as at 2004 based only on the three elements of BEE namely: BEE corporate activities, management representation and employment equity. The study revealed that in terms of BEE corporate activities in the mining sector black's participation in and ownership of the mining industry estimated at 26% before the mining charter was anticipated. After the mining charter was introduced in the year 2002, there was a change in the year 2004. An estimated 74% of BEE corporate

activities including joint ventures took place after the mining charter was negotiated. The authors wanted to check the state of BEE in the mining industry and they found that the sector does comply with BEE pillars of transformation. The study also revealed management representation stands at 16% of black directors and in terms of employment equity, the mining sector stands at 3% of black women, 2% of white women, 13% of white men and 82% of black men. Additionally in South Africa specifically in the mining sector there are more men than women. As far as BEE is concerned this should be addressed because it emphasizes on removing unfair discrimination in the workplace and ensure equitable representation of the previously disadvantaged groups. The country's ownership target is estimated at 25% by the year 2017 as set out by the government regulations on BEE (Dovena, 2013: 1). South Africa's ownership and equity target is still off target, and this proven by the report made by the country President, Jacob Zuma last year (2012) that whites in the country still control South Africa's economy.

### **BLACK ECONOMIC EMPOWERMENT AND EMPLOYMENT PREFERENCES IN LOCAL COMMUNITIES**

In South Africa the emerging debate about the issue of company ownership and control is a hot debate, because one of the aims of the government empowerment initiative is to have almost 40% of shares on the JSE Securities Exchange owned by black business. The emerging of BEE in South Africa is seen as a strategy that aimed at improving and giving blacks who were disadvantaged an opportunity in the economy of the country. Its main aim is to empower the previously marginalised group and this includes ensuring a focal change which will open the economy and adjust racial composition and employ people of different race and people with disabilities. Kruger (2011: 212) acknowledged that even after ten years of the country's democracy BEE is not progressive and this highlights that poverty, unemployment and inequality in the country still remains a critical challenge. On the other hand Levitt (nd.: 1) noted that the mining industry must focus on BEE as a strategy aimed at empowering the previously disadvantaged group in the country and redress historical and social inequalities as it is stated in the Constitution of the Republic of South Africa, 1996. As far as BEE is concerned with benefiting the previously marginalised, it is still questionable in the country as whether the mining sector does comply with the aims of BEE. A central issue with regard to employment of HDSA currently is the fact that employment preferences in the mining sector projects are often based on migrant workers. However immigrants are not the beneficiaries of BEE.

Therefore it becomes a challenge to address unemployment gaps specifically in local communities, because the mines should benefit the local communities but they benefit the immigrants. Hence economically, South Africa is noted among countries which has a high number of unemployment and that first preference of employment is given to individuals who have migrated because viable employment cannot be found in their countries. The mining industry is the sector that contributes to the country's economic growth in terms of employment and therefore it should benefit the local communities irrespective of their localization of the workforce. However employment preferences are not given to the local communities. The introduction of BBEE aims to: "promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy and promote a higher growth rate, increased employment and more equitable income distribution, but this is still off target in the country. BEE must have an impact on the lives of those purposefully and systematically excluded from the economy. It must also influence the life of all woman and youth from running their livelihood activities in rural areas.

## CONCLUSION

This paper argued that the introduction of BEE in South Africa was to address inequality and lack of sufficient growth to reduce poverty. Irrespective of the main aim of Black Economic Empowerment, specifically in the mining sector, the strategy benefits only those who are politically connected. South Africa has a good legislations and government policies which should provide strong and incentives to achieve a high level of HDSA. It is highlighted in this paper that BEE is one of the government strategy which aims at achieving the country's constitutional rights to equality calls the private sector to restructure itself and create opportunities for the historically disadvantaged South Africans (HDSA). However the challenge is government is struggling to find partners who can afford to acquire 26% of their equity. From the provided discussion BEE in the mining sector does not bring positive results but rather negative results to the society, because it benefits immigrants and the politically connected individuals. Whites are still dominant both in ownership and management control of mines in the country. BEE's effect in the mining industry does not address its aim but rather provide a channel to the rich. It is therefore evident that the government's target of declaring almost 26% of HDSA in 2014 participating in the mining industry still off target. Therefore there is a need to rethink the mining empowerment.

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# TRANSPORT INFRASTRUCTURE DEVELOPMENT AS TAKE-OFF FOR RURAL SOCIO-ECONOMIC DEVELOPMENT IN SOUTH AFRICA

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## ABSTRACT

The purpose of this paper is to analyse the potential role of road infrastructure in enhancing sound socio-economic development in South Africa. Majority of rural population in Africa, live far from reach of all-season roads, cutting them from socio-economic activities that could relieve them from poverty traps. Road transport infrastructure provision remains a significant feature of socio-economic development in South Africa. Rural roads infrastructure is thus pivotal, for improving mobility, accessibility, and socio-economic development. This paper uses literature, to argue that development of rural areas in South Africa is greatly hindered by inadequate investment in road infrastructure. The paper, therefore, concludes that rural villages in South Africa should be transformed beyond being agrarian logistical hubs, to sound economic locations.

**Keywords:** Road infrastructure, transport; socio-economic development, rural areas; South Africa

## INTRODUCTION

Infrastructural development has been generally regarded as a pillar to development ever since the theoretical modelling of development has been engaged (Chapman, Stephens & Swanson, 2002; Poter, 2002; Starkey, Ellis, Hine & Ternell, 2002; Banjo, Gordon & Riverson, 2012). Development is thus a quest for industrialisation with focus on greater economic output in order to buy out social constraints, such as unemployment, ill-health, inadequate education, and unstable social security (Davids, Theron & Maphunye, 2009). On the other hand sustainable development also, seeks to attain the same, without harm to the environment, for the sake of future access to a healthy and productive environment (Meier & Rauch, 2005; Rodrik & Rosenzweig, 2010; Todaro & Smith, 2011). Urbanisation influence concentrated developments in such a way that a distinction between developed and underdeveloped areas becomes clearly visible. Physical, economic and social features could then be used to show the difference between the developed and the underdeveloped societies of the globe. Consequently in most African countries including South Africa, urbanised areas were reserved for white minority dwelling, segregating blacks to remote and inaccessible rural areas, where small-scale farming activities were the main survival mechanisms of the local communities (Porter, 2007; Todaro & Smith 2011).

In South Africa the separation of people across different regions, was done through the apartheid policy, a race based development policy which was based on the racial classification among whites, blacks Asians and colourds. Urban areas were strictly reserved for whites, providing them with an ample socio-economic choice and placing blacks in the rural areas, formally known as the Bantustans or homelands, which turn to be the extreme of highly developed urban areas. This distinct gap between rural and urban created an possible environment for transport to serve as an intermediary between urban and rural, for access to various life impacting activities such as the market and social welfare undertakings (Lebo & Schelling, 1998; Fan & Chan-Kang, 2008). Economic and social transactions which are almost impossible in rural areas were well developed in the urban areas, which then led to travel demand, for rural people. On the basis of the body of literature, this conceptual paper argues that rural development in

South Africa is greatly behind, due to inadequate investment in road transport infrastructure and that of various socio-economic activities (Juma, 2012a; Naidoo, 2013). It further contends that in a wider development perspective, transport infrastructure should be seen as the first link in a complex supply chain, which is essential for maintaining a regional long term socio-economic security objective. The paper discusses the following subtopics: Road Infrastructure and Socio-Economic Development; The Nature of Rural Traveling and Socio-Economic Complexities; and lastly The Pivotal Role of Road Infrastructure as a Development Take-Off in South Africa

## **ROAD INFRASTRUCTURE AND SOCIO-ECONOMIC DEVELOPMENT**

A proper transport service requires sufficient infrastructure provision, which midpoints the discussion of this paper. Shen, Jiang & Yuan (2012) argues that development of rural areas in developing countries, including South Africa, is generally behind as compared to that of urban areas. This can be partly attributed to inadequate investment on infrastructure and various economic activities. Emanating from the rapid speed of urbanisation provision of road transport infrastructural linkage between urban and rural area has become an imperative issue in the developing world (Starkey, Paul, Ellis, Hine & Ternell, 2002; Banjo, Gordon & Riverson, 2012). Road transport infrastructure development remains critical for socio-economic development in rural South Africa, (Grimsey & Lewis, 2002; Fan & Chan-Kang, 2008). While the World Bank recognises Infrastructural deficit as one of the most significant barriers to sustaining Africa's growth, and is thus far paralysing progress in the developing economies, both socially and economically (Banjo, Gordon & Riverson, 2012). Juma (2012b) articulates that Africa's inability to stimulate rural entrepreneurial development can be explained by poor infrastructure, including that of transportation, energy, irrigation and telecommunication. The case remains similar in South Africa where poor transport infrastructure and services, is greatly a concern for development (South Africa, 1998; Perkins, Fedderke & Luiz, 2005). With the recent attraction of the South African ruling party, the African National Congress (ANC) to the notion of a developmental state, infrastructure is therefore crucial for the realisation of the objectives of inclusive growth, envisaged by the notion of developmental state. Turok (2010) argues that developmental state needs to harness the power of governments at various levels, in such that each part of the country builds on their strengths and develop to own potential. This view is therefore at a broader concern, a developmental state should promote the highest potential development at a country's totality, inclusive of rural areas. The understanding that transport in particular rural road infrastructure is fundamental for decent livelihood, is thus necessary for greater accomplishment of a developmental state in South Africa.

### **Rural Socio-economic Development**

In development, theory and practices have paid attention on either rural or urban issues, with little regard to the interrelationship between the two extremes. The interchange between urban centres and the countryside includes movement of people, goods capital and other social transactions. Therefore it plays a pivotal role in processes of rural and urban change as well as the circulation of socio-economic beneficitation between the two setups (Tacoli, 1998). There has been no real consensus on what should constitute the definition of a rural settlement. Typically in African countries; different criteria are being used to identify a rural dwelling. In South Africa, there has been a use of municipalities to separate rural

settlement from urban, i.e. municipalities with little or no ability to generate revenue, were regarded as rural municipalities and thus operate in a rural area setting. While on the other hand places under the traditional authorities and much of the former Bantustan. Furthermore also graded parts of the land on the basis of services, thus those areas that receive the lowest access to government services may be regarded as rural (Maramba & Bamberger, 2001). However for the purposes of this paper rural dwelling, refer to a settlement, traditionally composed of a traditional authority, with a communal ownership of land, with high urban socio-economic dependency. Even though it is not always the case, rural life is associated with farming activity, which in most African countries such activity serves as a major employment base for rural dwellers separated from where their households are settled (Porter, 2007).

With this background, on the inevitable distinctions and inequality gaps between people and centres of socio-economic benefits, improved motorised transport may prove to be the solution to rural socio-economic problems. This road based solution also have consequential impacts particularly that of increasing costs of living, in a form of adding transport cost on the per capital production costs (Maramba & Bamberger, 2001). This is evidently more problematic where there is inadequate road infrastructure and strategic transport service provision. Poor road infrastructure in South Africa is a critical barrier to economic growth and advancement of social welfare in general (Juma, 2008). Mobility and accessibility has a greater influence in the socio economic progress of any society. Woman and girl children, in remote rural areas in the sub-Saharan Africa, have been relatively reflected to be constrained by accessibility to basic and services and the market due to immobility. These constraints include access to education, maternal health and off-farm income (Maramba & Bamberger, 2001; Porter, 2008). As such access to education and health service both have implications not only in terms of immediate health and educational outcomes, but also for subsequent livelihood opportunities and life chances. Improved accessibility can therefore be achieved through road infrastructure improvements and thus improve motorised transport service.

### **Road Infrastructure**

Juma (2008) described infrastructure, as the facilities, structures and associated equipment that facilitate the flow of goods and services among individuals, firms and governments. Conventionally infrastructure is considered to include, public utilities, public works, the transport sector and research facilities. Grimsey & Lewis (2002) argue that infrastructure is easily recognised than being defined. And therefore it is basically considered a fundamental element to provide basic services to industry and households. Transport infrastructure is regarded as a key input to the economy by ensuring mobility accessibility of the commanding pillars of any countries economic activity, and thus having an impact on the economy. However, it is worth noting that definition, identification and classification of infrastructure varies from country to another. Basically infrastructure includes that of energy (power generation and supply), Transport (toll roads, light rail systems, bridges, air ports and harbours), water (sewerage, waste water treatment and water supply), telecommunications, and social infrastructure (hospitals, prison, courts, museums, schools and government accommodation). Infrastructure consider common character such as that relating to its duration being of long-lived and having long gestation process, illiquid, capital intensive in the sense that infrastructure projects are large in scale and are highly geared, and that valuation of such projects is difficult, because of its taxation and pricing principles, embedded options and

guarantees (Murawski & Church, 2009: 103).

For interactive use of all the mentioned types of infrastructure transport infrastructure remain the one that performs the integrative duty, that is made available by the space between points and the demand for access fostering the need of mobility. Transport infrastructure therefore refers to the infrastructure that is made available for the promotion of a transport system that complements the travel needs of a specific country. This infrastructure may in many cases include that of road, rail, maritime and aviation. Road infrastructure refers to all the features and facilities used to operate road transportation, these features include road, bridges, packing, public transport stations, and road furnisher. Traditional transportation activity is undertaken by road in South Africa, and thus the reason why in this paper, road infrastructure is considered a take-off stage for rural socio-economic development in South Africa (Lebo & Schelling, 2001:1). This paper however promotes that in a wider development perspective, transport infrastructure should be seen as the first link in a complex supply chain that is indispensable for maintaining a regional long term socio-economic security objective.

### **THE NATURE OF RURAL TRAVELING AND SOCIO-ECONOMIC COMPLEXITIES**

Rural areas in developing countries are characterised by isolation and impoverishment, with serious access constraints to markets and social services points, due to a considerable gross unavailability of mobility means. During wet seasons many parts of rural South Africa become inaccessible because of inadequate infrastructure. While studies on the relationship between improved transport and socio-economic development, reflects that accessibility is a key factor for rural development, provision of rural roads in African countries, including South Africa, is significantly a neglected area in policy. However, it is worth noting that policies on improved and integrated transport decorate office space in most of the African countries (Murawski & Church, 2009: 103). Lack of commitment to implementation, corruption and lack of political good will is amongst the reason for Africa's inability to strive for success in infrastructure provision. "The nature and complexities of transportation and infrastructure in Africa could be understood taking off from a historical basis of transportation in Africa" (Poter, 2002: 285). Basically travel was undertaken in a non-motorised form, whereby mobility would be facilitated by walking or use of animal body. After the European colonisation to Africa, transport development came about. The Europeans came to Africa in the 1400s and in the 1600s road network were dominant in Africa (Abubamound, Rahmat & Ismail, 2011: 51). These roads are said to also have been used to transport slaves in the trans-Atlantic era, with the use of horse-drawn carts or ox-drawn carts. During the colonial era of Africa, a decline in road construction was experienced due to the European interest in the rail transportation (Muhammad, 2003). This interest was facilitated by the high profitability of rail transport against the road transportation, thus the Europeans return on investment in rail was higher than that of road transport. This rail was mainly developed to promote raw material mobility.

The current scenario, in Africa, varies from country to country in coverage of transport facilities. However there remain one character that define rural transport and the complexities of their socio-economic deficiencies. This relates to lack of mobility and access resulting from lack of transport infrastructure and services. Abuhamound *et al.* (2011) promote the notion that facilities like road infrastructure, appropriate vehicles for the right place and right time is a crucial factor in determining quality of transport system, which is also having a significant impact on the life quality of people. Ever

since development in particular urbanisation has opened a gap of progress between urban developed and rural underdeveloped, the travel requirements between the rural settlements and the urban have increased. Therefore improved road infrastructure, contains a high volume of improved socio-economic facilitation that could be beneficial to the welfare of the people.

### **Rural Socio-economic Practices and Complexities**

Rural dwelling in Africa and across the developing world gains thirty five to fifty percent of income from nonfarm activity (Rupprecht, 2011: 16). Agricultural households depend on nonfarm economic activity, to reduce enterprise risk. Non-agrarian function of rural people forms a growing part of rural economies, contributing to employment and income growth (Haggblade, Hazell & Reardon, 2009). While agriculture has overwhelmingly been considered, a large contributor to rural economy, it is worth noting that farming is the basic source of employment, not an activity to be seen as a business owned by rural people. In the absence of clarity of what constitute rural villages; scholars of rural development have to a greater extent concluded that farming is what constitutes rural living. A distinction between farms and rural household should be provided when defining what is rural (Banjo, Gordon & Riverson, 2012). Rural development should be contextualised in a formula of human centred socio-economic development, with specific focus on improving quality of life, as well as sectorial integration, with off-farm methodologies. Non-agrarian engagements should be clustered with other practices and be seen as an alternative to absorb the high rural labour.

### **Transport Infrastructure as the First Link in a Complex Supply Chain Process**

Physical proximity is a potential barrier to access socio-economic opportunities of rural South Africa (Naidoo, Hilton & Malzer, 2005). Proximity to socio-economic facilities in South African rural society is an issue that have been addressed by localising social welfare facilities such as clinics, police stations, schools and recently shopping centres. However economic facilities remain in selected semi or urban areas, which present a challenge to access the rural population. This barrier is strongly aggravated by lack of proper road transport infrastructure and services in the rural South Africa. South Africa's quest for promotion of local economic development has been a prominent priority of government since the 1994 democratic transition. Lack of infrastructure has been noted among others to be a critical limitation to the growth enterprise in particular at the rural villages (Banjo, Gordon & Riverson, 2012). The White Paper on Promotion of Small Enterprises in 1995 recognises in its objectives the need to facilitate a greater equalisation of income, wealth, economic opportunities, in the country. This view is to say that opportunities in the economic chain must be distributed to everyone living in the land with less regard to geographical settlement.

Road infrastructure places a significant importance to both household and business, and as far as social welfare is concerned. Availability and quality of infrastructure in rural South Africa can result into different decision to invest and may influence immigration and business establishment. Infrastructure though not easy to define, economists in their early work already stressed that transport infrastructure is important to the economic development of any society. Road transport in rural South Africa should, as at usual terms be understood as basic public infrastructure, which forms the substance to the foundation of the society and their economy. With reference to the World Bank (2006), infrastructure including that of

road transport is an umbrella term for many activities, which plays a significant role for industry, economy and the overall socio-politic processes of any nation. The complex role of road infrastructure, informs road transport infrastructure as a basic link for the complex supply chain of socio-politic and economic processes of the country (Ellis & Biggs, 2001). Therefore as the rural presentation of infrastructure shows discrepancies, road infrastructure remains the missing basic link in the socio-economic and political processes of rural South Africa. Investment in road infrastructure in South African rural areas will change immigration and business development behaviour, as it will increase access to the rural market. Rural population in South Africa though not most thought of in general terms could depend on rural industry developments.

### **Extent and Location of Road Infrastructure**

In South Africa, roads can be classified into different operational systems, functional classes, or geometric types. Thus road inventory is classified in terms providers responsibility (National, Provincial or Municipal) or the connection role (either it's a cross boarder or a local connecting road). These classifications are vital for communication among authorities and the general public. Different classification schemes have been applied for various purposes in different regions, and these vary from province to province. Roads are generally 'numbered' or 'designated' as being under the control of a specific road authority. However there remain significant lengths of unnumbered or undesignated roads with no obvious ownership by any road authority. Development Bank of South Africa in 2012 reported that South Africa's total road network consists of approximately 154 000 km of paved roads and 454 000 km of gravel roads, which are proclaimed as national, provincial or municipal roads. Un-proclaimed roads account for 140 000 km, or 33% of the total gravel network of 593 000 km. The un-proclaimed roads are predominantly in rural areas, have not been officially recorded in road inventories, and no authority is responsible for their maintenance and upgrading (South African Bitumen Association, 2010). The total road network is in the order of 750 000 km in length (Development Bank of South Africa, 2012). The condition of South Africa's roads has deteriorated due to over-utilisation and under-investment.

### **THE PIVOTAL ROLE OF ROAD INFRASTRUCTURE AS A DEVELOPMENT TAKE-OFF IN SOUTH AFRICA**

The need and the role of transport infrastructure in social and economic development cannot be overstressed. This need for transport infrastructure arises from the fact that there is a greater need for accessibility and smooth mobility of socio-economic produce and services from various locations to destinations of social, economic, rural and urban importance for societies (Umoren, Ikurekong, Emmanuel & Udida, 2009). Extensive improvement of transport network in rural Africa through infrastructural development is imperative.

### **Economic Development**

Transportation activity bears a direct influence of the flow of economic activities of any country, despite of income classification. Transport cost directly influence market price (Juma, 2008). Thus changes in transport cost based on conditions, or influence by factors such as fuel prices and bad operation condition, including bad transport infrastructure, may lead to high cost of commodities requiring transportation. Even though public fiscals may be limited, provision of sustainable infrastructure may have

opportunity costs in terms of other alternative investment (Boopen, 2006). Creation of employment, in infrastructural projects, may increase African gross production per capital. And in essence roads provide economic opportunities for people living in rural areas by linking them, to various economic destinations. Provision of road infrastructure, further informs attraction of investment and mainstreaming of rural-urban economic cooperation and marketization. Boopen (2006) argues that reduces transportation cost and increased accessibility, are the primary benefits rural road infrastructure. These primary benefits filter down to enhance productivity and economic growth, through reorganisation and rationalisation of production, better productivity and higher level of private investment, wider markets, increased specialisation and economies of scale and also labour market supply, labour cost and labour productivity. A typical example can be that of Uganda, where transport costs add up to 80% tax on clothing exports (Juma, 2008).

### **Social Transformation**

The Millennium Development Goals (MDGs) have served as a global framework for action and cooperation on development since 2000. The focus was on world's community in achieving significant, measurable transformation of social conditions (United Nations, 2006: 1). Despite its pervasive influence on the efficiency and effectiveness of other sectors to deliver their objectives, transport contribution to economic growth, can be translated into social transformation, particularly its contribution towards achieving the MDGs (Njenga & Shute, 2012). Of lately there was a recognition that failure to primarily recognise the need for transport infrastructure and services, within the MDGs framework had adverse consequences in mobilising financial and technical support, that could have advanced the contribution of transport to various MDGs. The cross sectorial nature of transport, promotes it as a critical catalyst in the realisation of the MDGs (Hook & Howe, 2005). Transport policies should be mainstreamed to cater for human development needs, and various ways. Transport or mobility can be a limitation to social accessibilities, including education, housing and health. Improved transport policy is thus a catalyst to the realisation of the MDGs, in particular those of health and education. Rural transport infrastructure forms an important factor in advancing the MDG on poverty reduction. Transport infrastructure has a role to play in food security by improving transportation in the agrarian productivity over a medium and a long-term, as population growth, environmental stress and climate change converge to challenge food security, globally (Banjo, Gordon & Riverson, 2012). Therefore the role of road transport infrastructure plays a greater deal in improving comprehensive development of rural communities.

### **Improved Mobility and Accessibility**

Murawski & Church (2009) define accessibility as the spatial interaction between centres and assumes accessibility to be related to the size of centres and distance between m centres. Basic access is the minimum level of road transport infrastructure network service required to sustain socio-economic activity. Basic access is perceived as a basic human right with equivalence to the provision of basic education, health and protection. According to the World Bank (2006) there is a growing body of evidence that rural transport infrastructure is an essential tool for development, however it is not sufficient, for rural socio-economic development, because there is an existing need to skilled labour to provide the service as well as entrepreneurial investments. Rural transport intervention requires a more holistic understanding of

the mobility and access needs of such rural communities (Potter, 2002). Getting to market to sell (non)farm produce, getting to school, obtaining medical care, finding employment are the primary objects that makes transport infrastructure a pivot to rural mobility and accessibility which may be seen as pillars of socio-economic development.

### **Employment**

Unemployment (particularly youth unemployment) in Africa is recognised as a potential source of political and social instability. Unemployment is thus a significant contributor to Africa's social insecurities and peace keeping challenges. In South Africa the youth, as the most viable work force, is faced with skills shortage challenges. Development policies in South Africa have challenged and engaged skills development as fundamental for development of human capital. However criticisms have been presented that while skills development of course is one of the developmental problems in the continent, policies have enormously paid attention to skills development as a means of addressing joblessness (Juma, 2012b). South African policies attribute less regard to the creation of labour space within its infrastructure investment plan. As such these policy formations fail to recognise infrastructure as the motherboard of job creation. Arguably it has been established that investing in infrastructure development can stimulate growth, by injecting much needed finances into the local economy and creating labour space. Increase in infrastructural works investment has been considered by both developed and non-developed countries with the hope of reducing unemployment rate and economic innovation. Kidanu (2011) mention that such options were considered by countries with deferent economic backgrounds, which includes South Africa, the United States of America, Germany, China, and India. South Africa could utilise infrastructure investment to drive employment creation and combating poverty. Such options according to Kidanu (2011) have foundational bases, following four facts: first it is that, infrastructure development works consume huge investment, which can be used to boost employment, since most of developing countries' infrastructure expenditure accounts for 40-60% of their annual budgets. Secondly, infrastructural labour spaces are relatively easy to organise and yield results that are both immediate and visible. Thirdly, "unemployment and poverty threaten the peace and stability of a country, and stifle long-term economic growth. Lastly government is a last resort employer, when all market forces fail to function, then government is obligated to intervene in policy to undertake strategic programmes and stabilise such situations. Government therefore should recognise the need for creating labour space in infrastructure development and offer skills development programmes to ensure more absorption of nationals in to the infrastructure provision industry.

### **Rural-urban Integration**

Transport is not a means to an end by itself, however it is a demand driven activity. Thus transport needs, are not for the sake of traveling itself but emanates from people's needs to access various points of socio-economic important. Urbanisation and land use through development has created distance between various sectors, social facilities and human settlements. As such colonisation and social inequalities coupled with segregations in Africa, has opened a distinction between urban and rural dwelling (Kotze, 2012). The difference between the two extremes is explained by the socio-economic inequalities that exist amongst the two. Urban areas were well known of comprising an interns well

defined economic and social infrastructure, with its people engage in sound economic activities as well as wage employment (Tacoli, 1998). While at the other hand rural areas are characterised by lack of infrastructure, immobility, lack of access to social and economic infrastructure, while its people economic activity are for survival, these rural population are challenged social and economical to depend on the urban area (Kidanu, 2011). The role of transport therefore will be to promote sound socio-economic cooperation and integration between the rural and urban. It is therefore important to define critical infrastructure to ensure accessibility of both rural and urban markets and social facilities. This may also boost private investment in rural areas, emanating from the definition of travel network between the two (Rasmussen & Broegaard, 2011).

## CONCLUSION

The notion of rural transformation beyond being agrarian logistical hubs, rather, into even and sound economically viable locations, is motivated taking from the abnormal concentration of researchers on farming in rural development as a single character of rural economies. In developing and transitional economies, rural non-farming activities are part of a diversified livelihood portfolio of the rural communities. An important share of income is derived from rural non-farm activities. A good transport system relies on the availability of appropriate infrastructure and services at the right time and place. It is for this regard that transport should be viewed as a greater component of development and be perceived as long term to various socio-economic insecurities. Transport should provide long-term security to food, in both urban and rural societies through its integrative efforts. To this far rural transport consists of three elements namely; transport service, allocation and quality of facilities and transport infrastructure. With this understanding focus of policy intervention in African countries should attend to all the three variables not only the latter. There is quite a need for policy intervention that strengthen the relationship between transportation with the wider perspective of development in Africa, in particular that of rural socio-economic benefit. Gearing investment and stakeholder involvement may strengthen both policy and impact of such infrastructure provision and its service on the socio-economic spectrum of African rural conditions.

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### ABSTRACT

The decentralised approach to development assumed to improve the provision of services to the poor at the local level. In South Africa, after the democratic election of 1994, the government has been promoting decentralised service delivery through a new system of developmental local government and integrated development planning approach. It is believed that decentralisation enhances the provision of services at the local level through increasing the responsiveness of local authorities to the needs of the community at large. Decentralisation is also expected to increase institutional capacity with regard to financial resource availability and administrative capability of local governments. Local authorities, in South Africa, however are struggling to deliver adequate and quality services for grass root people. This paper analyses the significance of decentralised service delivery approach in South Africa and its effects on the access to basic services by beneficiary households. Firstly, the paper attempts to discuss the conceptual frameworks of "decentralisation" and "service delivery". Secondly, it explains the effects of decentralisation process on service delivery. Thirdly, the paper analyses the transformation of local governments and the new developmental mandates in South Africa. Fourthly, the paper discusses the access to basic services by beneficiary households and finally it provides concluding remarks on the significance of decentralised approach to service delivery at the local level.

**Keywords:** Decentralisation; service delivery; local government; integrated development planning

### INTRODUCTION

Local governments in South Africa are legally mandated to provide basic services towards transforming the social and economic situation of the community at large. To that end, the government has been promoting decentralised approach to local planning and implementation in relation to participatory decision making with regard to the type and level of services to the poor. The fundamental purpose of decentralised approach is to accelerate basic service provision to the poor. This entails that developmental local governments should be proactive in exploiting all the opportunities provided through decentralised service delivery in the country. In practice, the local authorities are struggling to meet the needs of the poor in terms of basic services. As Koelble & Siddle (2013: 343) commented:

"Decentralisation has not fulfilled its promises. Sixteen years after the adoption of the constitution, municipal governance in South Africa is in a state of paralysis, service delivery failure, and dysfunction".

This paper therefore analyses the decentralisation process in South Africa and its effect on the access to basic services.

### CONCEPTUALISING DECENTRALISATION

The meaning of decentralisation is complex and broad which embraces a variety of sub-concepts and ideas (Rondinelli *et al.*, 1983; Oxhorn *et al.*, 2004). The meaning differs depending on the type of disciplines and the type of individuals and organizations involved in conducting a research on the value of decentralised approach for development planning and management. Moreover, the application of the concept also varies according to the contextual realities of countries which design and implement

the approach (Rondinelli *et al.*, 1983). The concern in decentralised approach is more related to the question of why, how and to whom power should be transferred in order to enhance the benefits of this approach in governance and development. Regarding this concerns, Rondinelli (1981a) suggests that responsibility should be transferred for planning, management, and resource utilization and allocation from central government to local level authorities and agencies in the form of deconcentration, delegation, devolution, and privatisation. The aforementioned definition is vital in addressing the key questions on decentralisation. However, it is broad in relation to whom power must be decentralised because it includes other agencies, particularly the private sectors. The definition also focus on sharing administrative and managerial responsibility and lacks clarity on the extent of power sharing for making key decisions, the authority which usually remains at central level.

Conyers and Hills (1984) argued about the extent and level of power sharing in decentralisation process for development planning. They indicated that decentralisation mainly entails, *inter alia*: a continuum process from highly centralised to highly decentralised system; the power to make decisions; and the spatial hierarchy with regard to the depth of decentralisation. What matters most, according to this clarification, is an empowerment of local level authority, including community and community based organizations by sharing key decision making power from central to local governments. Regarding the different dimensions of decentralisation, there is inconsistency in literature. However, the classification generally may take three forms: political, administrative and fiscal decentralisation or a mixture of these (UNDP, 1998; Jütting *et al.*, 2004). First, the main objective of political decentralisation is to improve relationship between local government and the community at large. This relationship is reflected in terms of distribution of power. Hence, political decentralisation also called democratic decentralisation or devolution entails the transfer of powers and authorities from central government to elected local representatives (Rondinelli, 1986; Smith, 1996), who are given autonomy to determine all their local process of development (Smith, 1996). The key characteristics of political decentralisation include some of the issues such as (Barnett *et al.*, 1997; Ribot, 2002): implementing legal reforms to devolve power; increasing local government ability to act; increasing local government's accountability, transparency, and responsiveness; enhancing the role of civil society; and active participation of community in development.

Therefore, political or democratic decentralisation is more related to promoting people-centered development approach, which aims to achieve people's quality of life through focusing on important values such as empowerment, capacity building, participation and sustainability. Secondly, administration refers to the capacity for planning, organizing, leading and controlling functions. Administrative decentralisation is therefore, more concerned with improving functionality in terms of administrative capacity and capability. To put it differently, capacity building (human, financial, and institutional capacity) is the main priority of administrative decentralisation. Administrative decentralisation mainly refers to transfer of policy making, planning and management responsibilities from central to local levels, it can be in the form of de-concentration and delegation (Rondinelli, 1986). According to Rondinelli, (1986), the types of administrative decentralisation can be classified as de-concentration and delegation. De-concentration refers to transfer of administrative authority and responsibility to lower levels within the same organization; while, delegation involves handing over managerial responsibility for specifically defined functions to organizations that are not directly controlled by national government such as public corporations, regional development agents, special function authorities, semiautonomous project implementation units, and a

variety of parastatal organizations.

Thirdly, fiscal decentralisation refers to the redistribution of financial management responsibilities (Rondinelli, 1986). Fiscal decentralisation is more concerned with improving access to financial resources at local level. The aim is to empower local government by providing them with more powers over decision making, especially in income generation (revenue collection) and allocation of expenditures. The key elements in fiscal decentralisation include (Rondinelli, 1986; UNDP, 1996): intergovernmental transfer; autonomy of expenditure allocation; revenue collection through taxes, user fees and contributions; and authorization of local borrowing. Analysing the various dimensions of decentralisation, such as administrative, fiscal and political aspects, assists to understand the level and degree of power sharing among different actors.

### **UNDERSTANDING SERVICE DELIVERY**

Service delivery refers to a series of activities by various institutions that mobilize resources and present them to a target group of people in a satisfactory and sufficient manner. Therefore, the services delivered should be of great value to the target group (Mubangizi, 2010). Likewise, the notion of service delivery also embraces issues of good quality health care and decent primary education by government to the people (Fetcher, 2005). These definitions imply that: basic services are delivered to the people; local government is responsible to provide basic services to the people; the entities of basic services differ from individual to individual and from organization to organization; basic services enhance the quality of life of people; and, the level and standard of basic services. The constitution of Republic of South Africa Act 108 of 1996, states that everyone, the rural and urban dweller, has the right to access to basic services including the clean drinking water, electricity, sanitation, waste removal, housing and similar items. However, the issues of quality education and good health care are still debatable as mandatory services by local government in the country.

### **THE EFFECTS OF DECENTRALISED SERVICE DELIVERY**

Decentralisation of service delivery mandates to the lower structure of governance is based on three assumptions. First, it is believed that local governments will be more responsive to the needs of community regarding the type of services to be delivered, the level of resources required, and ensuring effective delivery. Secondly, financial resources will be available to support the provision of services at the local level through a combination of central government transfers and local taxations. Thirdly, it is expected that local administrative capacity will be adequate to deliver the expected increase in the prediction of local services (Robinson, 2007). Though the devolution of power and responsibilities to local authorities assumed to improve service delivery, in practice, decentralisation has failed to achieve intended objectives. For example, in South Africa, "Decentralisation has not fulfilled its promises. Sixteen years after the adoption of the constitution, municipal governance in South Africa is in a state of paralysis, service delivery failure, and dysfunction" (Koelble & Siddle, 2013: 343). Different studies have been conducted to establish the relationship between decentralisation and public service delivery by local governments in developing nations of Asia, Latin America and Africa. Generally, the findings of the researchers vary in reporting of the impacts of decentralisation on service delivery.

Singh and Ghuman (2013: 9) carried out meta-analysis of various studies in Asia. The researchers indicated, "Out of 32 sample studies, the meta-analysis technique has shown that in 13 studies impact of decentralization on public service is positive whereas in 11 studies the impact of decentralization is reported to be negative and eight studies have revealed mixed results". Furthermore, they have pointed out factors responsible for enhancing local government's service provisions, namely, education, roads, sanitation, housing, irrigation, water, street light, and health in decentralised system. Accordingly, determinants of improved service delivery include: devolution of power and responsibilities; fiscal autonomy at local level; autonomy to local governments in Human Resource Management (HRM) matters; performance based incentive structure; promotion of minimum standards to enhance quality of services; transparent decision making process; participatory governance model; and dissemination of information and accommodating the voices of citizens in policy and planning process.

On the other hand, research revealed that negative impact of decentralisation in enhancing development role of local government in service delivery. Conyers (2007) noted the inadequate contribution of decentralisation to improve the quantity, quality and equity of public services in Sub-Saharan Africa region. As Robinson (2007: 2) indicated, "in most cases reported from Africa, Asia and Latin America the quality of public services has either declined or remained unchanged as a consequence of democratic decentralisation". Analytical review shows that decentralisation has not improved service delivery (Scotz, 2009). According to Scotz, factors influencing the impact of decentralisation on service delivery are, namely: political incentives in terms of commitment to genuinely devolve power and responsibility, limited administrative capacity in relation to functionality and management of public finances, and, limited supply of financial resources. The analysis of current literature on successes and failures of development-oriented decentralisation initiatives in different countries has helped to understand the gap between theories and practices. It has also created an opportunity to spot key factors underpinning the effectiveness of local authorities in local development. Additionally, the above cases make clear the effects of decentralised approach on aspects of local development such as local participation, poverty reduction and service delivery. The overall impressions of these studies are that local governments have an important role in local development. It also became evident that decentralised approach can enhance local government's role in local development as long as certain key factors are taken into consideration during the design and implementation of development-oriented decentralisation process.

In South Africa, after the democratic election of 1994, the government has adopted a new system of developmental local government and integrated development planning to promote decentralisation. The fundamental objective behind South Africa's decentralisation towards achieving development since 1990 was to address higher level of poverty and inequality at local level as a failure of apartheid system to strengthen the local authorities to address the needs of community. Ameir Issa (2004: 17) explains the characteristics and impact of racial-based local government of apartheid as follow:

"At the down of democracy in 1994, South Africa inherited a fragmented system of local government organized along racial lines. This system was characterized by skewed distribution of resources and uneven infrastructural development in favor of white communities. As a result, the system bequeathed the legacy of huge infrastructure backlogs, declining service delivery, poverty

and lack of legitimacy for local government among black communities. These created high levels of resentment, and from the mid 1980's black communities began to wage civic protests in endeavor to demolish this racially segregated local government system".

The focus of decentralisation was to transform structure and system of local government towards people centered approach to services and local development. The reason includes that local government in South Africa during apartheid period was described as discriminatory and unequal in terms of provision of services to the local people (Thornhill, 2008). The apartheid system mainly institutionalized discriminatory policies and practices (Magubane, 1993) in order to marginalise socially and economically the majority of black South Africans. Some of these policies included the Bantu Education Act in 1953 institutionalised to offer inferior quality of education for black African children and the Group Area Act for separate areas for different races Black, White, Coloured and Asian. It is crystal clear that the legacy of apartheid had left a huge challenge for the new government of South Africa to redress past inequalities and abolish discriminatory policies and practices (Samuel, 1991).

### **THE TRANSFORMATION OF LOCAL GOVERNMENT**

The transformation of the old system of local government was started early 1990s. During this period, the initial step taken was to establish Local Negotiation Forum (LNF) to facilitate the establishment of Transitional Local Councils (TLC). The local government negotiation forum composed of mainly the members of African National Congress (ANC) and National Party (NP) and other civic groups. The negotiation forum was focused on replacing discriminatory policies and legislations with the democratic reforms to encourage the formation of new system of local governments in post-apartheid South Africa. The outcome of negotiation process was the Local Government Transition Act (LGTA) of 1993 towards establishment of various municipalities including metropolitan, district, transitional local, and rural councils (RSA, 1993). The institutionalization of local democracy was the significant stage in transformation of racially based local authorities in South Africa.

Meanwhile, the South African government had also gone through the transformation process of local planning and implementation of development initiatives. First, the democratic government of South Africa introduced the comprehensive socio-economic development policy. The primary socio-economic policy was the White Paper on Reconstruction and Development Programme (RSA, 1994). It aimed to promote socio-economic development through meeting the basic needs of people, including job creation, land reform, housing, water, sanitation, energy, transport, nutrition, healthcare, the environment, social welfare and security (Nel, 2001). Secondly, the new government adopted the Development Facilitation Act (DFA) (Act 67 of 1995). The act focused on shifting of top-down, fragmented and inconsistent approach to development planning. To that end, government had appointed the National Development and Planning Commission (NDPC) and it is through this process that the idea of integrated development planning was initially originated in South Africa (Koma, 2012).

The basic principle of the transformation of local authorities was to devolve decision making power to local government in order to promote effective planning and implementation of development initiatives. In 1996, the new democratic government put in place the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996). It clarifies the concept and functions of local governments as one of three spheres of government which encompasses municipalities that are instituted for each demarcated area

and cover the whole territory of South Africa (RSA, 1996). Nel (2001) indicated that the role of local governments has shifted from an exclusive service delivery towards a broader development orientation.

### **THE NEW MANDATES FOR SERVICE PROVISION**

The constitution of democratic South Africa section 40(1) clearly identifies three interrelated, interdependent, interconnected spheres of government, namely the national, provincial and local government. It also identifies powers and functions of these local authorities as spheres of government not subordinate to other spheres of government (RSA, 1996). According to the Constitution, local governments have a significant role to play in respect of promoting the social and economic development of local communities, and participating in national and provincial development programmes (Nel, 200). In Section (151) the constitution provides the establishment of new system of local government: the local sphere of government to consist of municipalities which must be established for the whole territory of the republic; the legislative and executive authority of a municipality to be vested up on its municipal council; a municipality has the right to govern on its own initiations, the local government affairs of its community subject to national and provincial legislations as provided in the constitution; and the national and provincial spheres may not compromise or impede municipality's ability or right to exercise its powers or perform its functions. Concerning the role of local government, section 152 of the constitution describes the primary objectives for the newly to be established local governments. The constitution requires local government to give priority to the basic needs of community in their administration, budgeting and planning processes in order to promote social and economic development (section 153). These roles include: provide democratic and accountable government; provide services in sustainable way; promote social and economic development; promote a safe and healthy environment; involve community and community organizations in local government affairs; structure and manage its administration, budgeting and planning process to promote social and economic transformation of community.

According to the constitution, the local government in South Africa has got three types of municipalities. Section 155 (1) provides for the following types of municipalities: category "A" also called "metropolitan municipality" is a municipality that has exclusive municipal executive and legislative authority in its area of jurisdiction; category "B" or "local municipality" is a municipality that shares a municipal executive and legislative authority in its area of jurisdiction with category "C" municipality within whose area it falls; and, category "C" or "district municipality" is a municipality that has municipal executive and legislative authority in area that includes more than one municipality. Hence, local government institutions are close to community and have great responsibility on improving the living standard of the people. Besides the constitution, national government put in place different types of policies and legislations to guide the transformation towards decentralised local development planning and implementation such as the White Paper on Local Government 1998 (RSA, 1998), Municipal Demarcation Act 1998 (RSA, 1998), Municipal Structure Act (RSA, 1998), and Municipal Systems Act 2000 (RSA, 2000). As part of its mandate to guide and support local development process in municipalities of South Africa, the national governments further clarified the mandates of local government as identified in the constitution of 1996. The objective is to identify priority areas and motivate local government's initiatives for social and economic transformation at grass root level development. Additionally, national government has to play supervision and monitoring roles to assist the functions of local authorities. The policy document that

contributed for understanding of local government and its role in development is the White Paper on Local Government (RSA, 1998). The White Paper stipulated the development role of local governments in South Africa. So, all local authorities are required to be development-oriented in nature. The White Paper on Local Government (Act of 1998) devoted considerable attention to developmental local government (Nel, 2001).

Developmental local government, according to the White Paper, refers to a local government that must be committed to work with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives. It should target especially those members and groups within communities that are marginalized or excluded, such as women, disabled people and very poor people (RSA, 1998). Therefore, improving participation, social and economic development and sustainable approaches, and prioritising the needs of the poor are the key development agendas for local authorities. Provision of services, promotion of local economic development, and community empowerment and redistribution are some of the key responsibilities of developmental local government. Developmental Local Government has the policy mandate to maximize social development and economic growth. A municipality must make sure that the people and the economy in its area are healthy and well taken care of. In particular, municipalities are responsible for providing services that meet the basic needs of the poor in their communities, in a cost-effective and affordable manner (RSA, 1998).

According to the White Paper, for municipalities to become developmental in nature, they have to change the way that they work. The following are some tools that municipalities must apply to assist them to be developmental (RSA, 1998): Integrated Development Planning (IDP) and budgeting as planning method to assist municipalities to develop a coherent, long-term plan for the co-ordination of all development and delivery in their area. Performance management as a system to make sure that all sections of the municipality co-operate to achieve the goals and targets. Performance management is of critical importance to ensure that plans are being implemented, that they are having the desired development impact, and that resources are being used efficiently. Working together with local citizens and partners. Building local democracy is a central role of local government, and municipalities should develop strategies and mechanisms to continuously involve citizens, business and community groups in processes such as planning and budgeting. This section clarified the motivation behind South Africa's development-oriented decentralisation, conceptual framework on developmental local governments, and the key goals and targets as well as strategies for developmental local governments in South African context. This elaboration provides fundamental theoretical basis for analysing conditions the achievements of developmental local governments in South Africa towards realizing their developmental policy mandates.

## **HOUSEHOLD ACCESS TO THE BASIC SERVICES**

It has been clear that the local municipalities in South Africa are mandated legally to provide adequate services to the people. Accordingly, the Polokwane Local Municipality has been providing various types of services to the households in its area of jurisdiction. The municipality had contributed a lot regarding the provision of clean drinking water to its households. According to Capricorn District Municipality (CDM) (2010), the number and percentage of households who had access to clean drinking

water in the municipality has increased from 101 817 (81.4%) in 2001 to 162 830 (89.6%) in 2010. On the other hand, the level of backlog had decreased from 21 183 (18.6%) in 2001 to 18 796 (10.4%) in 2010. The municipality had contributed significantly with regard to the houses which were connected to the grid. The number and percentage of households who had access to electricity in the municipality had significantly increased from 79 901 (63.6%) in 2001 to 157 735 (86.8%) in 2010. On the other hand, the level of backlog had decreased from 45 096 (36.4%) in 2001 to 23 891 (13.2%) in 2010. Concerning toilet facilities, the municipality had poorly contributed with regard to the access of households to sanitation (toilet) facilities. The number and percentage of households who had access to toilet facilities in the municipality had significantly decreased from 490 015 (39.1%) in 2001 to 72 327 (39.8%) in 2010. On the other hand, the level of backlog had increased from 75 983 (60.9%) in 2001 to 109 299 (60.2%) in 2010 (CDM, 2010).

The municipality had also limited contribution with regard to the access of households to refuse removal by municipality. The number and percentage of households who had access to refuse removal in the municipality had slightly increased from 42 824 (58.9%) in 2001 to 54 913 (33.9%) in 2010. The level of backlog had increased from 82 174 (41.1%) in 2001 to 126 713 (66.1%) in 2010 (CDM, 2010). Likewise, the Molemole local municipality has been providing various types of services to the households in its area of jurisdiction. The municipality had limited contribution regarding the provision of clean drinking water to its households. The number and percentage of households who had access to clean drinking water in the municipality has slightly increased from 20 784 (74.5%) in 2001 to 22 956 (72.7%) in 2010. On the other hand, the level of backlog had slightly increased from 7 186 (25.6%) in 2001 to 8 610 (27.3%) in 2010 (CDM, 2010).

The municipality had contributed significantly with regard to the houses which were connected to the grid. The number and percentage of households who had access to electricity in the municipality had significantly increased from 20 962 (74.8%) in 2001 to 30 485 (96.6%) in 2010. On the other hand, the level of backlog had decreased from 7 186 (25.2%) in 2001 to 1 081 (3.4%) in 2010 (CDM, 2010). Concerning toilet facilities, the municipality had poorly contributed with regard to the access of households to sanitation (toilet) facilities. The number and percentage of households who had access to toilet facilities in the municipality had slightly increased from 7 549 (27.2%) in 2001 to 8 433 (26.7%) in 2010. On the other hand, the level of backlog had increased from 20 420 (72.8%) in 2001 to 23 133 (73.3%) in 2010 (CDM, 2010). The municipality had also limited contribution with regard to the access of households to refuse removal by municipality. The number and percentage of households who had access to refuse removal in the municipality had slightly decreased from 1 807 (5.1%) in 2001 to 1 726 (3.7%) in 2010. The level of backlog had increased from 26 162 (94.9%) in 2001 to 29 840 (96.3%) in 2010 (CDM, 2010). It is believed that decentralisation will enhance the provision of services at the local level by increasing responsiveness to the needs of the poor. Moreover, decentralised approach is expected to increase institutional capacity with regard to financial resource availability and administrative capability of local governments. The aforementioned evidences show that local authorities have implemented different initiatives to meet the basic needs of the poor. Nevertheless, there is much to be done by local authorities with regard to expanding access to beneficiary households. The evidences also suggest that the effectiveness of decentralised approach towards improved service provisions to the poor people is being affected by various local factors. The local governments have performed relatively well in terms of delivery of some services (for example, electricity).

## CONCLUSION

Decentralised service delivery has been practiced in South Africa since the 1994 democratic election. The decentralised approach has provided local governments with new developmental mandates for accelerating quality services at the local level in order to transform the socio-economic situation of grass root people. The situation also poses a huge challenge to local governments to increase the access to services by households so as to reduce the existing level of backlogs. It has been argued that the decentralised service delivery has provided opportunities for local government to promote service delivery interventions. The decentralisation of services has enhanced access to electricity services by households. However, there is a lot to be done by local authorities to improve access, particularly in relation to clean water, toilet facilities and refuse removal. It is necessary to conduct further research to identify the impact decentralised service delivery on household level and the analysis should also focus on identification of the local factors that affect the effectiveness of decentralised approach towards improved services.

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## FINANCIAL VIABILITY OF THE SOUTH AFRICAN MUNICIPALITIES: SOME OBSERVATIONS ON LEGAL COMPLIANCE

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### ABSTRACT

The South African local government sphere is often characterised by service delivery failures, poor audit outcomes and financial management challenges. This paper seeks to explore the financial viability and status of municipalities in South Africa. The paper argues that the municipalities are not financially viable, particularly rural and poor municipalities. The main causes of this financial anomaly are identified to include inadequate financial skills, lack of commitment and inappropriate procurement practices. The final argument is that in order for municipalities to address the huge service delivery backlogs, incapacities due to scarce skills and lack of commitment; drastic steps ought to be taken including punishing non-compliers with the legal provisions such as Municipal Finance Management Act, 2003 (Act 56 of 2003).

**Keywords:** Municipalities; financial viability; skills; procurement; service delivery backlogs; South Africa

### INTRODUCTION

The local sphere of government plays a significant role in the democratic South Africa in that it provides essential goods and services including clean water, and refuse and sewerage removal to members of their respective local communities. However, Nyalunga (2006: 4) argues that local government inherited enormous challenges and huge responsibility for service delivery, primarily because South Africa is characterised by a public sector that is fragmented and grossly unequal. Motshekga (2008: 1) also correctly points out that while acknowledging the critical role of municipalities in reshaping and strengthening local communities, as the basis for a democratic, integrated, prosperous and truly non-racial society, there is also a necessity to bear in mind that the current local government inherited a chaos of administrative, financial, economic and political difficulties emanating from a legacy of decades of apartheid rule. South African municipalities continue to face challenges posed by the reality of having significant number of households that are without access to the basics that are to be provided for by this local sphere of government. It is important to argue that, for local government to deliver on its constitutional mandates invariably has financial implications (Khalo, 2007: 186). Whether it is the extension of infrastructure for basic services or promotion of economic development, municipalities require resources (including financial) to perform their constitutional provisions (Chipu, 2011: 53).

In order to provide these goods and services to their respective local communities, municipalities require financial resources (Khalo, 2007: 200). While there are many individual municipalities with prospects of remarkable success and a display of exceptional efforts, many still do not appear to be responding effectively to these challenges. The Department of Cooperative Governance and Traditional Affairs (2009: 54) is of the view that this may have to do with non-compliance with financial management system which is a constant challenge for many municipalities in South Africa. This paper argues that many municipalities in the country are not financially viable. Financial viability refers to the availability and sustainability of revenue sources, underpinned by a three-pronged concept of availability, viability and revenue base. The paper further argues that there is a little effort by these municipalities to change the status core.

## STATE OF FINANCES IN SOUTH AFRICAN MUNICIPALITIES

There are two main sources of municipal revenue, namely, internally-generated income and transfers from national and provincial government in the form of grants and subsidies (Statistics South Africa, 2012: 2). These internally generated income comprises of service charges (sales of water, electricity and gas, refuse removal and sewerage and sanitation charges); property rates (residential, commercial or business, state and other properties); and other income (fines, interest, rental of facilities and equipment). However, the disadvantage is that municipalities in metropolitan areas such as Tshwane, Cape Town and eThekweni, and those in secondary cities such as Polokwane, Mbombela, and Kimberley are better off as compared to rural municipalities such as Umhlabuyalingana, Mbhashe and Fetakgomo which are characterised by high levels of poverty. The diversity of services rendered by a municipality also impact on financial self-sustainability; and that has a diverse revenue base which will more likely be self-sustainable than a municipality that does not render a range of services.

During the 2010/2011 financial year only 13 of the 283 municipalities (now the number is 278) in South Africa (including district municipalities and metros) achieved clean audits. The reasons for this poor state of affairs are vary from one municipality to another, but the main contributing factor is that the basic principles of good financial management are not adhered to (Deloitte & Touche, 2012: 1). Many municipalities are failing to execute their budgets and comply with existing financial management and reporting practices as provided for by *Municipal Financial Management Act, 2003* (Act 56 of 2003) (hereafter referred to as *Municipal Financial Management Act*) and other legal prescript which will be discussed later (Josie, 2008: 23). There are inadequacies in terms of revenue projections, revenue collection and credit control systems. Makananise (2011: 35) also concurs that there's inability in most municipalities to undertake effective expenditure planning, budgeting and financial management. Audit reports are constantly poor for over half of the municipalities in South Africa, and the origin of this anomaly is often due to inability to manage their Annual Financial Statements and the systems and processes described in the *Municipal Financial Management Act* (Department of Cooperative Governance and Traditional Affairs, 2009: 54). The main causes of this poor state of financial affairs in most South African municipalities are inadequate financial skills, lack of commitment and inappropriate procurement practices by the respective municipalities. The three main causes are discussed in detail below.

### Financial skills

There's often non-compliance with the applicable accounting standards which may be attributed to municipalities' inability to attract and retain scarce financial skills. Basic financial management procedures and internal control processes are therefore neglected. As a consequence, this can impact negatively on the municipality's financial viability and service delivery capacity (Deloitte & Touche, 2012: 1). This lack of financial management skill also results in the suspense accounts not being reconciled or cleared which may contribute to failure to can easily lead to abuse and the hiding of fraudulent activities in the municipality. However Deloitte and Touche (2012: 1) also argue that regarding municipalities in the rural areas, financial viability may be attributed to their revenue base which is often depleted by a culture of non-payment, corrupt supply-chain management and weak accountability mechanisms. Kanyane (2012) is of the view that South African municipalities do not have the same capacity to raise revenues, as

levels of poverty vary considerably and are particularly high in rural municipalities.

Lack of adequate skills often causes ineffective contract and procurement management, and as a consequence it results in massive losses and leaves the door open to fraud and corruption (Deloitte & Touche, 2012: 1). According to Chipu (2011: 70), the lack of capacity to spend available budgets is evident in most municipalities. Chipu's overall observation is that the problem is not only a lack of funding from the national government to assist municipalities, but also the lack of capacity by municipalities to effectively spend available funds to deliver a basic infrastructure to support service delivery. However, the National Treasurer and the Financial and Fiscal Commission has also observed that under-spending may not only be due to lack of financial skill, but can be attributed a lack of proper project planning, ineffective project management, a lack of capacity for managing Municipal Infrastructure Grant (MIG) funds and the late approval of projects. All of this is negatively affecting municipal service delivery (Josie, 2008: 23). The challenge is to have capable and wise technocrats as well as collaborative politicians who have the interest of the citizens at heart and openness to the technical challenges of managing service delivery (Cadogan, 2008: 38). Many local government structures suffer from a shortage of skills, particularly in the financial and administrative areas, which compromise deliver of public service (Motshekga, 2008: 2).

### **Commitment to Improve State of Financial Affairs**

Even though inadequate skills play a significant role in the municipal financial viability, lack of commitment by relevant municipal authorities (senior managers and the municipal council) makes a momentous contribution as well. According to Deloitte and Touche (2012: 1), accounting officers (Municipal Managers) are not taking reasonable steps to prevent unauthorised, irregular, and/or fruitless and wasteful expenditure. This failure cannot be attributed to financial skills but to a lack of commitment and disregard for financial management and supply chain legal framework and a lack of accountability and good stewardship of public resources (financial). Inability of municipalities to pay creditors (who rendered a particular service) within the prescribed 30 days after receipt of statements or invoices may also be attributed to a lack of commitment on the municipal administrative leadership. Due to lack of commitment, 1821 of non-payment queries were reported with the presidency hotline against public sector institutions including municipalities, even though the president of the republic had committed to ensure that payments are done to small, medium and micro enterprises (SMMEs) within 30 days of invoice (Business Unity South Africa, 2009: 16; Government Communications and Information Systems, 2013). Poor planning, insufficient credit control and debt collection may also have devastating consequences for SMME suppliers (Deloitte & Touche, 2012: 1). The Auditor-General (2012: 1) agrees that, with the commitment of the leadership, any size of a municipality could achieve clean audits, as already proven by a few determined ones. The Auditor-General further stated that "where appropriate action is taken by leaders and key officials, we are beginning to see results", referring to the municipalities with clean audits.

### **Procurement Practices**

Procurement refers to the acquisition of goods and services at the best possible total cost of ownership, in the right quantity and quality, at the right time, in the right place generally via a contract (Ababio, Vyas-Doorgapersad & Mzini, 2008: 10). Despite the reform processes in public procurement and

the employment of supply chain management (SCM) as a strategic tool, there are still challenges in the South African public procurement practices, namely, non-compliance with procurement and SCM related legislation and policies as well as tender irregularities (Ambe & Badenhorst-Weiss, 2012: 243). Public procurement in South Africa still faces enormous predicaments which include, among others:

- Lack of proper knowledge, skills and capacity. Skills and capacity shortages have been identified as the single greatest weakness to the success of public procurement in South Africa including in the municipalities. Adequate capacity in the form of appropriate structures with fully skilled and professional SCM personnel is a key success factor for proper SCM implementation (Ambe & Badenhorst-Weiss, 2011).
- Non-compliance with SCM policy and regulations. Van Zyl (2006) posit that there is a lack of appropriate bid committees; use of unqualified (without capacity) suppliers, passing over of bids for incorrect reasons; utilisation of the incorrect procurement process in respect of the thresholds; extensions of validity periods; and incorrect utilisation of the limited bidding process.
- Inadequate planning and the linking of demand to the budget. Demand management is an integral part of the SCM process; however, many municipalities are still faced with the challenges of improper planning and linking demand to the municipal budget (Ambe & Badenhorst-Weiss, 2011). Poor planning and budgeting have negatively affected the implementation of SCM. It is therefore vital that SCM practitioners adequately link demand to the municipal budget.
- Unethical behaviour, accountability, fraud and corruption. Without transparent and accountable systems, the vast resources channelled through public procurement systems run the danger of being entwined with increased corruption and misuse of funds (Jeppesen, 2010). Fraud and corruption cost South African tax payers hundreds of millions of rand each year.
- Ineffectiveness of the black economic empowerment (BEE) policy. Current BEE provisions have in many instances failed to ensure a broad-based approach, instead imposing significant costs on the economy without supporting employment creation or growth. The present BEE model remains excessively focused on transactions that involve existing assets and which benefit a relatively small number of individuals (Ambe & Badenhorst-Weiss, 2012: 249-253).

These preceding challenges confronting the municipal procurement system in South Africa contributes significantly in rendering many municipalities not financially viable. This however often affects rural and poor municipalities. There are elements which may be attributed to a lack of skills as well as to commitment level including the inability to contain expenditure within the approved budget. This can be indicative of both poor budgeting and poor financial management practice guidelines, or pure disregard for legal prescripts governing budget, procurement and expenditure in the public sector. These relevant legal frameworks are discussed below.

#### **LEGISLATIVE FRAMEWORK GOVERNING MUNICIPAL FINANCIAL MANAGEMENT**

There are several legislative and policy framework that contains government's intentions regarding financial management including at the local government sphere (Khalo, 2007: 191). Section 151 of the *Constitution of the Republic of South Africa* of 1996 (hereafter referred to as the 1996 *Constitution*) provides that a municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation. This provision includes a municipality

developing its own by-laws which will assist regarding the provision of services, collection of tax, debts and basically how to increase its own revenue base. Section 215 of the 1996 *Constitution* further posits that municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management (RSA, 1996). In terms of Section 227 of the same constitution, local government and each province is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it; and that it may receive other allocations from national government revenue, either conditionally or unconditionally.

*Municipal Finance Management Act* was enacted to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government. According to section 101 of the *Municipal Finance Management Act*, the accounting officer of a municipality (or its entities) ought to report any under collection of revenue due, shortfalls in budgeted revenue, overspending of the municipal budget, delay in the payments of creditors, and/or overdraft in any bank account of the municipality for a period exceeding 21 days to the municipal council (RSA, 2003). Any steps taken to rectify such financial problems must be reported as well. If the accounting officer of a municipality is unable to comply with any of the said responsibilities in terms of this *Act*, he or she must promptly report the inability, together with reasons, to the municipal council. Each official of a municipality exercising financial management responsibilities must take all reasonable steps within that official's area of responsibility regarding system of financial management and internal control (Republic of South Africa, 2003: 108). The said financial measures are meant to ensure that municipal resources are utilised effectively, efficiently, economically and transparently, and that any irregular expenditure, fruitless and wasteful expenditure and other losses are prevented

According to section 73 of the *Municipal Systems Act, 2000* (Act 32 of 2000) (hereafter referred to as the *Municipal Systems Act*), municipal services (basic needs) must be given priority and provided in a manner that is economic, efficient and effective use of available resources as well as financially sustainable. Section 96 of the *Municipal Systems Act* provides that the council of a municipality (be it rural or urban) has the right to finance its affairs by charging fees for services rendered and collect all monies that are due and payable to it in terms of this *Act* and any other applicable legislation. For this purpose a municipality must adopt, maintain and implement a credit control and debt collection policy that is consistent with the *Municipal Systems Act* (RSA, 2003). Section 78 (ii) of this *Act* further posits that the municipality should assess its own capacity and its potential future capacity so as to find out whether it has the necessary skills, expertise and resources in order to provide service to its local communities. This view is supported by section 152 of the 1996 *Constitution*, which states that a municipality must strive, within its financial and administrative capacity, to achieve the objective of providing the services to communities in a sustainable manner.

Income derived from property rates is a critical source of revenue for South African municipalities (as previously indicated) to achieve their constitutional objectives, especially in areas which were neglected in the past (pre-1994) due to racially discriminatory laws. Section 26 of the *Local Government: Municipal Property Rates Act, 2004* (Act 6 of 2004) (hereafter referred to as *Municipal Property Rates Act*) provides that a municipality may recover a rate (either on an annual, monthly basis or less often) as may be prescribed in terms of the *Municipal Finance Management Act* and such a rate is payable on or before a date determined by the municipality (RSA, 2004). The main purpose of the *Municipal Property Rates Act*

is to regulate the powers of a municipality regarding the rates on properties and to make provision for fair and equitable valuation methods of properties (Khalo, 2007: 193).

Non-compliance with these legislative frameworks governing municipal financial management contributes negatively to municipal viability. Often South African municipalities fail to comply with the provisions of the said legislative framework. The reasons for this non-compliance differ from lack of requisite skills to lack of commitment by municipal leadership to act against non-compliance with the above legislative framework. However, it is important that all municipalities in the country comply with the legal provisions because they serve as the guideline on issues related to budgeting, procurement, expenditure and general financial administration. As a result of the non-compliance with legislative framework discussed above, municipalities are confronted with the financial challenges with are discussed in detail hereunder.

### **CHALLENGES OF FINANCIAL MANAGEMENT**

The municipalities in South Africa face exactly the same types of challenges as other municipalities in the developing world. It is argued that many South Africa municipalities are financially in dire straits (Ababio, Vyas-Doorgapersad & Mzini, 2008: 6). In the public discourse, the focus is often on operational issues such as poor revenue collection, unsustainable debt burdens, and lack of financial management capacity instead of root causes of the problem. Many municipalities are not in a position to meet their developmental mandate due to an inadequate economic base or high levels of poverty and unemployment (Department of Cooperative Governance and Traditional Affairs, 2009: 57). According to Kanyane (2012), one of the greatest challenges facing South African local government sphere is the collection of the revenue for services rendered to various consumers. Some of the most contributing factors include inappropriate taxes and tariffs due to unreliable billing systems (mostly in rural and poor municipalities); water pipe leakages; illegal electricity connections (mostly in the informal settlements); high unemployment rates; and ratepayer boycotts and riots aggravated by a culture of non-payment. Evidence suggests that, in aggregate, the demands of a growing economy are no longer being met by the levels of municipal investment (Department of Cooperative Governance and Traditional Affairs, 2009: 55). These, combined with factors such as unreliable postal services; inaccessible payment and enquiry facilities; political opportunism; lack of incentives and sanctions to encourage good payment; a volatile economy; and the current world economic fallouts (recession in recent years), pose a significant challenge to smaller municipalities (particularly rural ones) (Kanyane, 2012). Kanyane further argues that the culture of non-payment in South Africa has increased the outstanding debts level of municipalities and other public institutions to alarming proportions and has far-reaching implications, not only for the concerned municipalities, but also for every South African citizen. It should be a concern to the country because it results in municipalities (mostly rural) being dependent on national and provincial government for sustainability.

In view of service charges being the main source of revenue to most municipalities, challenges experienced with enforcing debt collection, as well as a high level of indigents and the culture of non-payment impact hugely on their financial viability (Department of Cooperative Governance and Traditional Affairs, 2009: 60). Many local municipalities are reporting losses in both water and electricity charges due to illegal connections which mostly happen in the informal settlements. This renders the majority of local

municipalities not financially viable and unable to upgrade and maintain their infrastructure. During 30 June 2008, there were at least 85 municipalities with debtor levels higher than 50 per cent of own revenue according to National Treasury Reports (Department of Cooperative Governance & Traditional Affairs, 2009: 61). In addition, 43 municipalities reported negative opening cash positions for the third quarter ending 31 March 2009. This is a strong indicator that these municipalities are at serious financial risk, especially if there is an on-going deteriorating trend. According to Erasmus (2008: 403), financial performance in government is more closely related to service delivery. This assertion by Erasmus is necessary as there are a lot of community protests associated with service delivery in South Africa. There are still many instances of poor financial management or poor financial performance, which are related to poor service delivery.

Poor financial management, lack of proper controls and accountability systems in any municipality impacts negatively on the delivery of service to local communities (Department of Cooperative Governance and Traditional Affairs, 2009: 55). This includes provision of clean water, electricity and proper sanitation to inadequate funds for technical equipment for servicing basic infrastructure. Deloitte & Touche (2012: 2) also concurs with this view and posits that lack of sound financial management will have a direct adverse impact on service delivery as there is a strong correlation between sound financial management and effective service delivery. In some cases these challenges are due to revenue that is overstated, resulting in unrealistic budgets (Kanyane, 2012). Other challenges are attributed to late submission and approval of technical reports; late registration of projects; lengthy procurement process due to implementation of the supply chain management regulations; appointment of service providers who cannot deliver; council decisions take too long to approve projects budget (Ababio, Vyas-Doorgapersad & Mzini, 2008: 6). There are delays in transferring funds to municipalities and provinces have no control over how municipalities spent their income and have no monitoring mechanisms (lack of skills as well) to enforce appropriate spending. The severity of the foregoing financial challenges differs from one municipality to another often due to geographical location of such a municipality. The urban municipalities are likely to attract more skilled and capable human resources than rural municipalities. The challenges discussed above often contributes to the negative audit findings by the Auditor-General which are discussed in detail below

## **MUNICIPAL AUDIT FINDINGS**

The Auditor-General's report (2008) has identified a lack of controls, mismanagement and lack of governance principle as the key reasons for the state of despair in municipalities (Department of Cooperative Governance and Traditional Affairs, 2009: 56). Although there has been a reduction in the number of disclaimed and adverse audit opinions for municipalities, from 99 disclaimed opinions in 2007 to 86 (35%) in 2008, more than a third of the 283 (the new total for municipalities in South Africa is 278) municipalities obtained either disclaimers or adverse opinions. A further 57 municipalities received a qualified audit opinion in 2007/8, which bring the total of municipalities with qualified, disclaimer or adverse opinions to 152 (54.4%) (Department of Cooperative Governance and Traditional Affairs, 2009: 55-56). The Auditor-General (2012: 1) also indicated that only four municipal entities registered clean audits, which represents a decline from 10 the previous year (2011). According to the Auditor-General (2012: 2) the slow progress towards clean audits in local government is underpinned by three prominent causes:

- 57% of municipalities have shown a slow response to Auditor-General's messages and the implementation of key controls;
- A lack of consequences for poor performance and transgressions at more than 70% of auditees; (municipalities and municipal entities) and
- A lack of minimum competencies of officials in key positions (most evident in the financial discipline) at 72% of auditees.

These foregoing factors indicated by the Auditor-General have contributed to the poor and stagnant audit outcomes for municipalities in South Africa. As a result the Auditor-General indicated that the desired progress towards clean audits is at risk if these root causes are not addressed (Auditor-General, 2012: 2). Furthermore, forty-five per cent of municipalities (67) compared to 38% in the prior year (2007) had findings of unauthorized and fruitless and wasteful expenditure leading to qualifications in this regard (Department of Cooperative Governance and Traditional Affairs, 2009: 55-56). These may be as a result of serious capacity constraint in most municipalities (Ababio, Vyas-Doorgapersad & Mzini, 2008: 6).

A poor relationship between national and local sphere of government may lead to a budget approval process which is cumbersome, lengthy and often not based on any formally defined procedural guidelines. The district municipalities are often not able to spend a chunk of their available budget, due to own implementation capacity constraints as indicated above in this paper. There is a lack of proper planning regarding project life cycle. Thirty five municipalities overspent their total adjusted budgets to the total amount of R2.6 billion while 182 municipalities underspent to the amount of R19.1 billion. When analysing the capital adjusted budget spending, 177 municipalities underspent to the amount of R7.3 billion and 32 municipalities overspent to the amount of R350 million (Department of Cooperative Governance and Traditional Affairs, 2009: 62). Based on this evidence, municipalities are showing a poor ability to accurately plan and spend their credible budgets. Analysis of the operating adjusted budget indicates that 24 municipalities overspent their operating budget to the value of R2.6 billion while 166 municipalities under spent to the value of R12.3 billion. A very significant risk going forward is that municipalities' spending plans outstrip realistically collectable revenues (Department of Cooperative Governance and Traditional Affairs, 2009: 62). A worrying trend was identified in Limpopo province (by the Department of Cooperative Governance and Traditional Affairs) which might be indicative of a lack of capacity to adequately plan (budget), particularly the projection or estimation of revenue. The budgeting process is often not properly aligned to integrated development planning and is not always open to community participation. The picture painted above regarding the poor and stagnant audit outcomes by the Auditor General requires to be urgently addressed in some way. These negative audit findings cannot go unnoticed, and this paper suggests possible solutions in order to address the constant negative opinions in the municipalities.

#### **POSSIBLE SOLUTIONS TOWARDS MUNICIPAL FINANCIAL VIABILITY**

Department of Co-operative Governance and Traditional Affairs launched an "Operation clean audit 2014" campaign in 2009. The aim of the initiative was to address audit queries in a sustainable way to improve service delivery and ensuring that by 2011, all municipalities and provincial departments have dealt with the causes of disclaimers and adverse opinions (Department of Cooperative Governance and Traditional Affairs, 2009: 56). The initiative was a good step towards a promising future regarding

municipal direction in South Africa. However looking at the 2010/11 and 2011/12 financial years, audit report by the Auditor-General, the set objectives of the 2009 campaign have been realised. The state of municipalities requires an urgent attention to address these anomalies. Below are some of the major areas municipalities ought to focus on to facilitate basic internal controls required to support sound and effective financial management and municipal viability.

### **Basic Financial Skills**

It is imperative that municipal stakeholders, such as municipal officials, mayors, ward councillors, traditional leaders and interest groups have a sound basic knowledge and application of the *Municipal Finance Management Act*, *Municipal Systems Act*, *Municipal Properties Rates Act* and other related legislative framework (Kanyane, 2012).

### **Correct Prioritisation**

Municipalities ought to reduce their expenditure patterns by effectively prioritising and striking a balance between taxes raised and expenditures incurred. One way to increase the revenue is to increase its property tax. The question is to what level the property rates can be increased before formal resistance from the ratepayers result in mass refusals to pay? (Steyn, 2004: 22). They must be kept within what is affordable to the community and also considering sustainability as well. It is important that municipalities seek a permanent solution which will broaden their tax base and therefore increase revenue from other sources than direct property tax, while on the other hand prioritising their budgets in such a way to deliver only the services it can afford.

### **Record Keeping**

It is of utmost importance to implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Sound record management is fundamental for good governance, effective and efficient administration. Records management also provides a basis for accountability. However, to support continuing service delivery and provide the necessary financial accountability, municipalities should create and maintain authentic, reliable and usable financial records (Deloitte & Touche, 2012: 2). Municipalities should also ensure that the integrity of the records is protected for as long as they are required as evidence of business operations.

### **Financial and Performance Reports**

Reliable financial statements and reports assist in better decision making, ultimately impacting service delivery. Further, the preparation of monthly/quarterly financial statements ensures that shortcomings are identified and addressed timeously, consequently facilitating better audit outcomes at end of the financial year. Ababio, Vyas-Doorgapersad & Mzini (2008: 12) also argue that financial reporting forms part of the budget control process and are a generally-accepted practical instrument for continuous internal financial control. Such reports should not only compare the actual spending with the estimates provided in the approved budget, but also compare the physical results (performance) with the budget objectives. These municipal financial reports should not only identify deviations and discrepancies but

also the reasons for under-expenditure so that such could be corrected (Gildenhuys, 1997: 53). It is also provided for in terms of section 122 *Municipal Finance Management Act* that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. A system of performance assessment that includes consequences due to non-performance should be developed.

### **Compliance with Regulatory Framework**

It is critical that municipal leadership monitor compliance with relevant legislations including *Municipal Finance Management Act* and *Municipal Property Rates Act*. Financial management is a constitutional requirement for all three spheres of government and also for entities created and established by these spheres (Craythorne, 2006: 249). Public financial management must adequately control the level of revenue and expenditure, and appropriately allocate public resources among sectors and programmes. Compliance regarding the provisions by the said legislative framework is paramount in that the viability of municipal finances also depends on it. Policies and procedures should be implemented which reflect performance targets and hold individuals accountable. This should include incentives and rewards for good performance to encourage compliance. A clear financial policy must be adopted to give instructions on how certain financial management issues (including procurement matters) ought to be addressed.

### **Effective Internal Audit Function**

There is a need for better and increased monitoring and oversight to actively address and resolve audit findings by the Auditor General (Deloitte & Touche, 2012: 4). The Auditor General often indicates that it is possible to obtain a clean audit administration if the negative audit findings are addressed through the development and implementation of appropriate action plans (Auditor General, 2012: 1). Internal auditing as a first primary step towards clean administration is also necessary for the daily checking of all financial transactions. In order to ensure that all monies are duly accounted for, it is vital to conduct day-to-day audits of the numerous transactions involved. Further, a performance audit should be employed to determine the efficient and effective use of public funds (Gildenhuys, 1997: 53). However, it must be noted that clean audit opinion on its own is not sufficient, but an achievement of set service delivery targets as determined by the integrated development plan (IDP) is equally important.

### **Sound Capacity Strategy**

There is a critical skills and capacity shortage in most municipalities in the country (South Africa) and as a result municipalities are too reliant on consultants in this regard. It is suggested that each municipality should develop a clear strategy to build the required in-house capacity to deal with all aspects of financial management and reporting. Appropriate recruitment and skills development strategies must be developed (Deloitte & Touche, 2012: 3). Leadership should assess the essential skills required and ensure that competent personnel are employed to perform the required activities. It is also argued by Van der Waldt & Du Toit (1999: 301) that public managers must have a sound knowledge to

control budgets, make cost benefit analyses and estimates in planning, control inventory and use sources of financing optimally. There is a tendency in government to recruit managers who are not qualified and skillful with a hope that they will learn as time goes on. This trend is not good for ailing state of financial affairs particularly in rural and poor municipalities.

## CONCLUSION

The financial status of South African municipalities was discussed, with a particular focus on the financial viability, legislative framework governing municipal financial management, challenges, municipal audit findings, and the possible solutions to the identified challenges. The main finding of this paper is that there is lack of financial management skills, lack of commitment, and inadequate procurement systems in the South African municipalities. If these challenges are not addressed as a matter of urgency, the local sphere of government is still going to be in a poor state of affairs which is due to but not limited to non-compliance to basic principles of good financial management. Sound financial management will positively contribute to a clean audit and will further ensure and promote effective service delivery by facilitating the successful budgeting, planning and implementation of capital and operational projects.

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### ABSTRACT

South Africa is the first country in the African continent to have a legislation that regulates retirement funds. The primary object of a pension fund organisation as defined in the Pension Funds Act read with the Income Tax Act is to provide benefits to members of retirement funds when they retire from employment upon reaching their retirement age. This paper will address the historical background to retirement funds and instances in which a member of a retirement fund can retire and the options available to the member. Finally the paper will further discuss the determinations issued by the Pension Funds Adjudicator on retirement funds complaints.

**Keywords:** Retirement; pension fund; South African Law

### INTRODUCTION

Modern pension funds owe their existence largely to the industrial revolution and the social and technological advances that have since taken place. Although pensions had been paid in one form or another for hundreds of years prior to these advances, particularly in Europe,<sup>1</sup> employees tended to work throughout their lives, and in infirmity were cared for by their extended family unit or by the local community. The industrial revolution saw a major change in the nature of society and the start of mass urbanization. Industrial employers took over the role of work and sustenance provider, and the village and family unit was gradually broken down. As time went on, employers needed to strive for business efficiency and productivity which led to a shorter effective working life, and it was not too long before the more socially conscious employers recognized a need to make provision for those employees who had given them good service but had become too old to keep up with the physical pressures of work in a factory. Later, as competition among employers for skilled employees became a factor, those socially conscious employers who were known to provide some form of provision for their retired employees were able to attract better and more qualified employees, so the provision of basic pensions began to expand as a means of attracting and retaining good employees.

In the early days, development in South Africa tended to follow that in the United Kingdom. Pensions were initially paid out of current earnings, but as their coverage widened and they were increasingly demanded by long-serving skilled employees, prudent employers started to look for ways of pre-funding these expectations. It is interesting to note that the internationally recognized normal retirement age of 65 was first introduced in Germany.<sup>2</sup> Around the early 1920's, governments also saw the advantage of encouraging more formal arrangements as society became more dependent on savings made during employment as a means of survival in old age, rather than reliance on the family or community unit. They also realized, however, that some form of control over how pensions were being provided was necessary, and so, with the introduction of tax incentives to encourage the growth of savings for old age, they used their respective tax legislation to establish rules regulating pension benefits. This resulted in a rapid increase in the number of employers providing properly funded and secure pension benefits.

Funds were set up either as private arrangements where the employer employed his own staff to manage the fund and invest its assets, or alternatively employers often purchased life insurance policies in

the names of individual employees, and in that way removed the risk of the pension not being available should something untoward happen to the employer. Group insured arrangements, where one master policy was issued to provide the benefits for all the employees of an employer were only introduced in the early 1950's. In 1956, the South African Government introduced what is generally recognized to be the world's first ever Pension Funds Act<sup>3</sup> ("the Act") designed specifically to regulate the business of pension funds.<sup>4</sup> The late 1950's and the 1960's saw incredible economic growth among First World countries, and with it the emergence of giant multinational corporations employing thousands of people. The growth in pension funds during this period, and the improvement in the benefits they provided, mirrored this increase in employment and prosperity.

Since then, with the incredible advances in information technology and the growth of available investment vehicles, including the opening of international investment channels, pension funds have become highly sophisticated. This has led to a proliferation of new types of funds, including umbrella funds administered by professional sponsors and open to voluntary participation by any employer, on behalf of its employees, and preservation funds which cater for the "parking" of the retirement funding assets of individual members until they retire or decide to transfer them to another fund. Currently, society world-wide, is on the move again, and employment patterns are changing even more rapidly. Naturally, with changes in social patterns and working conditions come changes in retirement provision, and it is likely that we will see the effects of these changes sooner rather than later in pension funds. We may even find that the pension fund spawned by the industrial revolution gives way to something quite different, and is discarded into the history books. Meantime, attempts are being made by the South African Government, among others, to catch up with current social change and the ever increasing demands of consumer protection and good governance, by re-writing the Act in terms of today's needs for tomorrow's society

According to the discussion paper issued by National Treasury titled preservation, portability and governance for retirement funds on 12 September 2012 "most South Africans do not save adequately for retirement and only about half the country's workers belong to a retirement fund. Preservation occurs when money saved for retirement through pension, provident and preservation funds remain in those funds until the person retires, or is rolled over into another similar retirement savings vehicle without incurring taxes or penalties when a person changes jobs". The discussion paper further alluded that retirement savings, for the average worker, are the single largest source of income post retirement. However, rates of preservation are very low. Cashing out accumulated retirement savings prematurely erodes security in old age, undermines the alleviation of chronic poverty and increases reliance on others.

The paper proposes various options to increase rates of preservation in recognition of the need to protect retirement savings from being misused due to lack of foresight and long term planning when members leave employers prior to retirement, or when non-member spouses receive cash pay-outs at the instance of divorce order settlements. Retirement funds will be required to nudge members to save for the long-term, through the creation of appropriate defaults biased towards saving. For example, all retirement funds will be required to create a preservation fund section and to transfer funds into that section when a member leaves employment, unless the member has indicated otherwise (for example, to withdraw their pension in cash). Also, members who want to withdraw funds should be required to first seek advice. A more significant default could be considered, for example, to make membership to a retirement fund an automatic default, through auto-enrolment, for all those in formal employment. Government currently also

has a system of tax incentives to encourage working South Africans to save for their retirement. Most pension funds provide for payment of the following categories of retirement benefits: Normal Retirement; Early Retirement; and, Late Retirement.

## NORMAL RETIREMENT

What is a normal retirement age? The Labour Relations Act<sup>5</sup> does not deal directly with the issue of retirement age. However, it does say that no one may be unfairly discriminated against because of their age. This means that the employer and employee must agree on a retirement age. Normal retirement age differs from one instance to another. There is a general understanding that the "normal" retirement age is 55, 60 or 65 but this understanding is too vague to be useful in specific instances.<sup>6</sup> Indications of the organization's norm of what constitute a "normal retirement age" can be found in: the rules of a company's provident or pension fund (this is not definitive); and, company policy. On attaining the normal retirement age as stipulated in the rules of a pension fund,<sup>7</sup> the member is entitled to receive a retirement benefit as provided for in the rules. The primary factor affecting the computation of the retirement benefit is whether the pension fund is a defined benefit ("DB") or defined contribution ("DC") fund.

In *Adams v African Oxygen Limited Pension Fund and Another*<sup>8</sup> the Adjudicator succinctly explained the operation of DB funds as follows:

"...in a defined benefit fund such as the Respondent fund, upon the retirement of a member, he is entitled to a benefit computed in terms of a specific formula based on pensionable emoluments and years of pensionable service. Therefore, the member is essentially entitled to a guaranteed benefit as outlined in the formula regardless of the market performance of the assets of the fund."

DB funds use a formula which usually considers the following 3 factors in computing a member's retirement benefit: the member's average pensionable salary close to or at retirement;<sup>9</sup> years of membership of the fund or pensionable service;<sup>10</sup> and, an accrual factor. To illustrate the operation of this formula, take the example of an employee who has worked and contributed to the pension fund for 30 years, with an average salary of R20 000.00 per month in the last 2 years of service. The accrual factor is 2%. The monthly pension receivable will be computed as follows:

$$\begin{aligned} & \text{Accrual factor} \times \text{Average salary in last 2 years} \times \text{Pensionable service} \\ & = 2\% \times \text{R}20\,000.00 \times 30 \\ & = \text{R}12\,000.00 \text{ per month} \end{aligned}$$

In applying this formula it is evident that the longer a member remains in the employer's service the greater will be his retirement benefit. Thus, DB funds tend to reward those members who prefer remaining with an employer for a protracted portion of their working life.

DB funds promise members specified benefits in terms of their rules. Thus, the size of the benefit that will be paid out to a member is predictable or predefined. The pension fund or in most instances the employer, bears the risk rather than its members because the pre-specified benefit must be paid out even when the investment return is poor. It may even transpire that the employer will have to top up the fund so its liability in these instances is uncertain.<sup>11</sup> DC funds do not guarantee or specify the amount a member will receive on retirement.<sup>12</sup> The size of retirement benefit a member will receive is dependent on the underlying investment performance of the fund and is thus subject to the vagaries of the financial markets. Thus, in DC funds, it is the members that bear the investment risk and liability rather than the fund or the

employer. The employer's liability is usually limited to its contribution to the pension fund on behalf of the member. In this regard the Adjudicator noted in *Masingi v Pick 'n Pay Provident Fund*,<sup>13</sup> a matter where the complainant alleged that the retirement benefit he received was too little having regard to his length of service, that:

"It should be noted that the Respondent is a defined contribution fund as opposed to a defined benefit fund. This means that members are provided with no guarantees as to what they will receive on the date of withdrawal from the fund. In terms of the Respondent's rules, each member's individual account is credited with portions of the fund's investment income as is deemed equitable by the actuary. The accumulated credit depends on the performance of the fund's investments for the period of membership."

The Adjudicator found that the complainant in this matter did receive his correct retirement benefit. When a DC fund member retires the benefit he will receive from the fund will depend on the following factors: the amount of contributions paid by the employer and the member until the retirement date; the investment performance of the fund; and, the annuity rate at the time of the member's retirement.<sup>14</sup> It is evident from the above that investment performance is a critical factor in determining the rate of returns of DC funds and consequently the size of the benefit accruing to members. Invariably at times when the financial markets are performing well the benefit paid to a retiring DC fund member will be greater. Unfortunately for DC fund members, when the markets slide downwards their retirement entitlement also tend to decline in line with the markets. This is the risk that is borne by members of DC funds.

## EARLY RETIREMENT

Early retirement refers to instances where a pension fund member qualifies for retirement benefits even though he has not yet reached the normal retirement age as stipulated in the fund rules. In most instances, DB pension funds will pay reduced benefits to members who take early retirement depending on how close they are to normal retirement age. Thus, if an early retiree is near normal retirement age he can expect to receive close to the full retirement entitlement from the fund. Early retirees from DC funds usually receive their share of the fund, so they don't suffer a similar reduction in benefits. Fund rules usually provide for a reduction in the benefit given to a member who retires early. The percentage of the reduction in benefit on early retirement is usually determined by calculating the number of months short of normal retirement age the member is when the member decides to take early retirement. Thus, the further away from normal retirement a member is when electing for early retirement the greater will be the reduction of the retirement benefit the member receives.

The reduction in benefit on early retirement is illustrated by *Wilson v South African Mutual Life Assurance Society Pension Fund and Another*.<sup>15</sup> The complaint related to the early retirement benefit received by the complainant. In terms of the rules of the fund, when a member retires early the benefit is reduced proportionately. The complainant argued that since he did not retire voluntarily, he was entitled to a waiver of the reduction. Rule XVI governed early retirement benefits and determined the reductions as follows:

- "1(a) ...the Pension of an Official who retires or is retired from the service of the Society
- (ii) ...shall for each year of service be two per cent of the average annual pensionable earnings received by him during the last two years of such service.

2(e) The pension payable in the case of an Officer who retires or is retired in terms of either Subsection 2 or 4 of Section b of Rule XV shall be calculated in accordance with the formula:

$$P = B \times F\%$$

in which

P is the pension to be determined

B is a pension determined in accordance with Subsection 1(a)(ii) or 2(b) according to whether the retiring Officer is an Official or a Whole Time Agent, respectively

F is a percentage determined by applying the formula

$$100 - \frac{(A \times 2.5 + B \times 4)}{12} \%$$

Where A is the number of completed months to a maximum of 60 between the Officer's actual date of retirement and his Normal Retirement Age, and B is the number of completed months (if any) in excess of 60 in the aforesaid period..."

The fund calculated the complainant's average salary and the reduction factor of 2.5% was applied for a period of two years and four months, being the period short of the normal retirement age, and reduced his pensionable benefit by 0.0583%. The Adjudicator, in dismissing the complaint, found that the complainant was not entitled to more than the early retirement benefit so calculated in terms of the rules, with the applicable reduction factor and using average salary over the last two years of service.

The rules of the fund may make provision for the payment of an enhancement benefit to a retiree, usually subject to the exercise of trustees' discretion whether to pay such an enhancement or not. In the matter of *Harilall v Maxirand Provident Fund*<sup>6</sup> the complaint related to the computation of an early retirement benefit and whether the complainant was entitled to an enhanced benefit.<sup>17</sup> The Adjudicator held that a member did have a right to the employer and the fund properly exercising its discretion. In this instance the financial position of the employer was a critical consideration when deciding to enhance a benefit. Seeing that the employer suffered severe financial difficulties at the time, the employer's decision not to enhance the complainant's benefit was not an improper exercise of its discretion in terms of the rules of the fund. The Adjudicator was satisfied that the complainant received the correct benefit.

In *Cassette v Sage Group Pension Fund and Another*,<sup>18</sup> a complaint was lodged relating to a decision taken by the complainant's employer not to enhance an early retirement benefit payable by the fund to the complainant. Due to operational requirements, the complainant's employment with the employer was terminated in September 2000. As the complainant was within ten years of her normal retirement date and the employer consented thereto, the fund calculated her benefit in terms of the early retirement rule, in terms of which she was entitled to an annual pension reduced by one-third of 1% for each completed month by which her early retirement date preceded the normal retirement date. The fund rules did however allow for a waiver of the reduction factor provided the employer agreed thereto. The employer decided not to exercise its discretion in favour of the waiver and thus the fund was unable to enhance the early retirement benefit payable. The Adjudicator found that, in this matter, the employer properly exercised its discretion not to enhance the benefit and did not breach its duty of good faith owed to the complainant and in fact went beyond its duty in trying to accommodate the complainant. Therefore, there were no grounds permitting him to interfere with the employer's decision and the complaint was

dismissed.

Again in *Ingold v Alexander Forbes Retirement Fund*<sup>21</sup>, the complainant decided to take early retirement 'as an alternative to retrenchment'. The complainant sought and received a quotation of his fund credit which amounted to R1256 487,36. The fund however stated that by the time the balance of the complainant's fund credit was disinvested the value had been reduced to R 1143 950,64, almost R112 000. The complainant contended that he should not have to suffer the loss of any reduction of his benefits after his retirement, since; he alleges that this is due either to the delay in making payment or to the fund's failure to disinvest his money as at the date of his retirement in order to safeguard the funds.<sup>20</sup> The adjudicator held that the dispute resolves upon the proper interpretation of the rules of the fund. Rule 5.1.1 sets out the amount of the benefit payable on retirement:

"The pension payable to a member on his retirement in terms of rule 5.2 shall be of such amount as can be purchased by his fund credit as the date of his retirement after the exercise of any option in terms of rule 5.3."

The Adjudicator held at paragraph 16 that:

The wording is unambiguous: The amount in question is the member's 'fund credit at the date of his retirement'. Thus his fund credit as it stands at the date of his retirement (obviously after reconciliation by means of the addition of any accrued amounts such as contributions deducted or due for the last month of his employment but not yet paid in to the fund, and the pension which it purchases, are his guaranteed benefits and he cannot receive less than this. The rule clearly indicates not only when the benefit accrues ('payable to a member of his retirement') but also fixes the amount payable (fund credit at date of retirement).

It was found that the complainant is entitled in terms of the rules to payment of his fund credit, being R1255 638,71.<sup>21</sup> Many complaints that are lodged before the Office of the Pensions Funds Adjudicator regarding early retirement shows that the interpretation and application of the rules of the fund tends to be a challenge to both the fund and its members.<sup>22</sup>

## LATE RETIREMENT

It sometimes transpires that an employee reaches normal retirement age but, with the agreement of the employer, still remains in service for an extended period. Pension funds cater for this contingency by providing for a late retirement benefit when the employee eventually leaves the employer's service. Some funds allow for contributions to be continued until the member decides to retire, whilst in others contributions stop and the member becomes a deferred member of the fund. The late retirement benefit becomes payable once the member retires from service.

The case of *Haasnoot v Fundsatwork Umbrella Provident Fund and Another*<sup>23</sup> sets a good precedent on late retirement benefit although it was based and decided on a different principle.<sup>24</sup> In this case the complainant is the widow of the late Mr J P Haasnoot ("the deceased"). The deceased was employed by Premier Fishing SA (Pty) Ltd ("the employer") until 28 July 2009. He was a member of the Fundsatwork Umbrella Provident Fund ("first respondent") by virtue of his employment. The deceased passed away on 28 July 2009. The deceased was still employed by the employer and also a member of the first respondent at the time of his death. Momentum Group Limited ("second respondent") is the administrator of the first respondent.

Upon the deceased's death, the complainant was paid a lump sum death benefit of R172 935.62 by the first respondent. The benefit comprised only of the deceased's fund credit. The complainant requested the respondents to also pay out the risk portion of the death benefit to her because the deceased died while still in service. However, the respondents refused to accede to the complainant's request. The complainant was not satisfied with the amount of the death benefit that paid to her by the first respondent. She stated that the deceased reached the age of 64 on 17 February 2009. She attached to her complaint a copy of a letter dated 13 July 2009 from the employer advising the deceased that he has exceeded the legal and company policy on retirement age and therefore he would retire on the 31 August 2009. However, the deceased passed away on 28 July 2009. The complainant submitted that the deceased falls in the category of late retirement since he was fully employed by the employer at the time of his death. The complainant submitted that according to the "member benefit guide" issued to members of the fund, since the deceased died while in service the death benefit payable to his beneficiaries should be his retirement savings plus group life insurance cover. However, she was only paid the deceased's retirement savings by the first respondent. She contended that there was an outstanding amount. Therefore, the complainant requested the Adjudicator to investigate the matter.

The second respondent submitted a response on behalf of the first respondent in its capacity as its administrator. It stated that the deceased was born on 17 February 1945 and attained his retirement age of 64 years on 17 February 2009. In terms of the special rules normal retirement age is defined as 64 years. The deceased remained in service and hence, in terms of general rule 10.1.2.1, he was within the late retirement provisions. The employer had agreed that the deceased would remain in service until August 2009 at which point his service would be terminated on the basis of a late retirement. On 28 July 2009 the deceased passed away and a lump sum death benefit became available for distribution. The respondent contended that in terms of rule 10.4.1 the deceased retirement savings account amounted to R179 894.54. In terms of rule 10.4.2 the deceased may have been entitled to a risk insurance benefit provided that he died before the last day of the month in which he attained his insurance benefits age, and in terms of the special rules, this date was defined as 64 years. As the deceased had passed this age at the time of his death, his beneficiaries were accordingly not entitled to the risk portion of the death benefit.

According to the second respondent upon attaining the age of 64 years, the deceased had the option to continue to be covered for the risk benefit lump sum by taking out an individual policy from the insurer. In the instant matter, the deceased did not take out such a policy and hence his beneficiaries were not covered for the risk portion of the benefit. Accordingly, the death benefit only consisted of the member's retirement savings account. In this regard, the board of the fund passed a resolution on 8 October 2009 distributing the entire benefit to the complainant.

The complainant in her complaint refers to a member guide that was issued to members, which is not dated and the entire document is not provided. It emphasised that the beneficiaries of the deceased were only entitled to the risk portion of the death benefit prior to the deceased attaining the age of 64 on 17 February 2009. The beneficiaries of the deceased were no longer entitled to the risk portion of the death benefit after 17 February 2009. As the entire benefit guide was not provided, the disclaimer was excluded. Further, in the event that there was a conflict between the member benefit guide and the rules of the fund, the rules will prevail. In conclusion, it submitted that they were satisfied that the death benefit was

correctly computed in terms of the first respondent's rules. The deceased's beneficiaries have received their full entitlement in terms of the said rules. Therefore, it requested that the complaint should be dismissed. The issues are, firstly, whether or not the complainant was paid the correct death benefit by the first respondent in terms of its rules, and secondly, whether or not the member benefit guide document supersedes the rules of the first respondent. The complainant's complaint is that upon the deceased's death, the first respondent only paid out the fund credit to her. She submitted that she was also entitled to payment of the insured death benefit by the first respondent because the deceased died while in service. She further submitted that the respondents were refusing to pay her the insured death benefit and their conduct was contrary to the member benefit guide which confirms that she was also entitled to be paid an insured death benefit.

Section 13 of the Act provides that the rules of a registered fund are binding on the fund, its members, shareholders and officers, and on any person who claims under the rules or whose claim is derived from a person so claiming. Because of the binding effect of the rules on the fund, the fund may only pay out to its members those benefits provided for in its rules. That was emphasized by the Supreme Court of Appeal in *Tek Corporation Provident Fund and Others v Lorentz* [2003] 3 BPLR 227 (SCA), at 239D–E, where Marais JA stated as follows: What the trustees may do with the fund's assets is set forth in the rules. If what they propose to do (or have been asked to do) is not within the powers conferred upon them by the rules, they may not do it. The cessation age of the insurance benefit is defined in the rules of the first respondent as the age specified as such in the special rules in respect of death benefits or disability benefits. In turn, the special rules define risk benefit termination age as 64 years.

It terms of rule 10.4.2 in paragraph 4.2 above the first respondent would only be obliged to pay the insured portion if the deceased died before the last day of the month in which he attained his insurance risk benefit age of 64 years, i.e. before 28 February 2009. He passed away on 28 July 2009. Thus, he had passed the age of 64 years at the time of his death. The facts also indicate that the deceased did not take out an individual policy from the insurer to continue the risk cover in terms of rule 11.4 of the first respondent's rules upon attaining the age of 64 years. Therefore, the first respondent cannot pay a lump sum insurance death benefit to the deceased's beneficiaries because the rules do not provide for such a payment.

It appears the member benefit guide document the complainant referred to in her complaint was inconsistent with the rules of the first respondent. The question which arises was whether or not the member benefit guide document supersedes the first respondent's rules. The powers of the trustees of the fund are set out in the fund's rules. The board of trustees is bound by the fund's rules in the same way as a member or a beneficiary. It follows that the rules of the fund will prevail over any document which is in conflict with its provisions. Thus, the first respondent is not bound by the terms and conditions of the member benefit guide document. In terms of the first respondent's rules there is no lump sum death insurance benefit payable to the beneficiaries of the deceased. Finally, the Adjudicator ruled the complaint cannot be upheld and was dismissed.

## **OPTIONS ON RETIREMENT**

### **Commutation**

Commutation in the context of payment of retirement benefits refers to the payment of a

member's retirement benefit in the form of a cash lump sum. In terms of the Income Tax Act<sup>26</sup> a pension fund member is allowed to commute up to one-third of his retirement benefit. Provident fund members, on the other hand may elect to take their entire benefit as a cash lump sum.<sup>26</sup>

In *Tudor v SAMLAS Pension Fund and Another*,<sup>27</sup> the complainant alleged that the fund refused to allow him to fully commute his retirement benefits so that he could invest in a living annuity product of his own choice. The fund only allowed him to commute one-third of his retirement benefit. The Adjudicator found that the fund had acted correctly, both in terms of its rules as well as the provisions of the Income Tax Act.<sup>28</sup>

### Pension Annuity

Pension funds make provision for the payment of a monthly pension to its retirees. As discussed, a member of a pension fund is only allowed to commute a maximum of one-third of his retirement benefit. The remaining benefit, which will be at least two-thirds, is utilised for payment of the monthly pension that the retiree will receive for the rest of his life.<sup>29</sup> Pension funds are obliged to use the non-commuted portion of the retiree's benefit to either purchase a pension annuity from a registered insurer and pay the member a monthly pension, or transfer the benefit to an insurer, usually of the member's choice, whereafter the insurer pays a monthly annuity to the retiree.<sup>30</sup> The traditional form of annuity available to retirees is the guaranteed life annuity. There are various forms of guaranteed life annuities which can be structured to meet the specific needs of the retiree, but this form of annuity has the following characteristics:

- The retiree receives a monthly pension until he dies. In most cases, following the retiree's death, the spouse continues to receive a monthly pension (usually reduced by a certain percentage) until the spouse also dies.<sup>31</sup>
- The amount received each month will be dependent on several factors, including the age of the retiree, life expectancy, gender, prevailing interest rates and performance of the insurer's underlying portfolio. The retiree ought to consider the various options available in the market because each insurer offers different returns on annuities depending on the above-mentioned factors.
- Following the death of the retiree and the spouse, the pension payments will stop.
- The retiree pays tax at the marginal rate on the full pension received each month.

With fixed or level, annuities the retiree receives the same pension amount each month for the period of the annuity. Obviously when the annuity payments commence they will be comparably higher than that from other types of annuities. However, with the effluxion of time the effects of inflation become apparent and the fixed pension received will invariably be significantly less than that from other annuity choices on the market.

Another option available to a retiree is the so-called living annuity. The main characteristics of a living annuity include the following:

- The retiree makes the underlying investment choices for his investment portfolio. In effect the retiree has the discretion to select and change the underlying investments within the options offered by the linked investment product company. Given that there are numerous investment vehicles on the market, the choices available are wide and varied depending on the risk the retiree is prepared to take with his investment.
- The danger here is that it may eventuate that the choices made by the retiree lead to an erosion of

the underlying capital, which would result in the retiree not having a financially secure retirement despite being initially under the impression that he had made proper provision for old age and would be well taken care of in retirement.

- A monthly pension of between 5 and 20 percent of the annual capital value of the annuity must be taken. This annuity amount is reviewable every year.
- The residue of the investment is passed on to the beneficiaries of the estate following the death of the retiree.

So, whilst the living annuity may offer greater returns to those retirees who actively manage their portfolios and have a good understanding of the operation of the financial markets, it may not be such a good option for retirees who do not have a good understanding of the markets and who are unaware of the risks attached to fluctuating markets. Therefore, pensioners, who ought not to put their retirement nest eggs in high risk investments, must carefully consider the desirability of the freedom of choice afforded by living annuity schemes. From time to time pensioners become entitled to receive additional payments in the form of bonuses. This may occur when returns on investment exceed the expectation of the fund managers or extra-ordinary events, for example, funds become entitled to receive proceeds from demutualisations, such as that of Sanlam and Old Mutual. It must be remembered though that these extraordinary proceeds belong to the fund rather than to its members or pensioners.<sup>28</sup> Thus, the categories of members who benefit from demutualisation proceeds would ultimately depend on the manner in which the boards decide to allocate such proceeds.

## CONCLUSION

South Africa has a large and well-developed pension fund industry, which has grown in response to individuals' needs to save, to manage individual irrationality, and to provide a stable source of capital for domestic investment. However, the South African Government has become increasingly concerned about the low savings rate of South African households and their consequent lack of preparedness for retirement. To address these, effective policy must focus both on the preservation of accumulated pension savings to meet retirement needs, and the rate at which individuals access their funds at retirement. The low rate of savings and preservation of retirement benefits by retirees is a concern since majority of retirees will have to rely on old-age grant for survival. The recent proposals made by the Minister of Finance, Pravin Gordhan in his Budget speech which suggests that old age grant will be available to all those who are 60 years of age or older and the means test will be scrapped off is not going to solve the problems of low savings. Considering the high inflation rate and the increases of prices every time, the old-age persons cannot sustain their lives with old-age grant since the amount attached to it is too little.

<sup>1</sup> For example, retiring generals were often given gifts of land or cash by way of payment for loyal service, and the servants of landed gentry were often rewarded in a similar fashion when they were no longer able to carry out their duties effectively.

<sup>2</sup> Statistics at the time indicated that the average life-span of a male worker was 66 years. The benevolent Germans decided, therefore, that all male employees (very few women worked full-time in those days, if at all) would retire on reaching age 65 so that they had one year remaining to enjoy themselves and put their personal affairs in order, before they died. Therefore, the cost of providing pensions was relatively low as those few who actually retired rarely survived much longer.

<sup>3</sup> Act 24 of 1956.

<sup>4</sup> At that time, and for several years thereafter, other countries relied mainly on trust law and various other legal principles, including, of course, the very powerful conditions imposed in their income tax acts.

<sup>5</sup> Act 66 of 1995

<sup>6</sup> Retirement age: What are your rights? online, [http://www.westerncape.gov.za/eng/pubs/public\\_info/r/66371](http://www.westerncape.gov.za/eng/pubs/public_info/r/66371), accessed on 04 April 2013.

<sup>7</sup> Normal retirement age differs from industry to industry. However, the normal retirement age selected by the pension fund is often in line with the employer's view on retirement age.

- [2003] 7 BPLR 4882 (PFA) at 4892G-H.
- Pensionable salary usually includes the member's basic salary or wages together with any other fringe benefits that the board of the pension fund may decide to include. See *Woodruffe v Tongaat-Hulett Pension Fund and Another* [2000] 4 BPLR 454 (PFA).
- The rules of some funds make provision for the "buying back" of service for members, thus allowing them to receive a greater benefit on retirement because there has been a notional increase in the years of service. See in this regard *Page v Cape Municipal Pension Fund* [2001] 3 BPLR 1759 (PFA). In *Bruce-Brand v Durban Pension Fund & Another* [2002] 12 BPLR 4124 (PFA), the Adjudicator determined that the phrase "calendar month" when used in calculating a retirement benefit should be interpreted to mean the period from the first day to the last day of the month. The period falling short of a full calendar month is excluded from the calculation.
- This is one reason why DB schemes are not as popular as DC funds with employers and an explanation for the mass transfers out of DB Funds into DC funds.
- However, many funds place the assets of members approaching retirement age in conservative guaranteed portfolios thereby protecting such members from the volatility of the markets.
- [2002] 1 BPLR 2985 (PFA) at 2987D-F.
- This plays a role where the pensioner elects to purchase an annuity.
- [2000] 6 BPLR 693 (PFA) at 695.
- [2002] 1 BPLR 2933 (PFA).
- The value of the enhancement was to be paid by the employer.
- [2002] 11 BPLR 4026 (PFA).
- *Ingold v Alexander Forbes Retirement Fund* 2002 8 BPLR 3750.
- *Ingold v Alexander Forbes Retirement Fund* 2002 8 BPLR 3750 at para 5D-F.
- *Ingold v Alexander Forbes Retirement Fund* 2002 8 BPLR 3750 at Para 17.
- See also *San Giorgio v Cape Town Municipal Pension Fund* [1999] 11 BPLR 286 (PFA) .
- *Haasnoot v Fundsatwork Umbrella Provident Fund and Another*, PFA/WE/2099/2010/PGM
- See Lufuno Nevondwe , Summary of Pension Funds Adjudicator determinations, Insurance and Tax Journal March 2012 online <http://www.mylexisnexis.co.za/nxt/gateway.dll?f=templates&fn=default.htm&vid=mylnb:10.1048/enu> Accessed on 4 April 2013.
- Act 58 of 1962.
- The tax-free portion of a lump sum benefit is calculated in terms of formulas A and B of the Second Schedule of the Income Tax Act, 1962. Formula A is applicable to pension and provident funds and reads:  $Y = (15/1) \times (N/50) \times (1/3) \times \text{average salary}$ , where N represents the number of completed years of service or years of membership of the fund. Formula B is applicable to retirement annuities. It reads  $Z = C + E - D$ , where E = all member contributions previously not allowed, D = all lump sum retirement benefits previously allowed tax-free in terms of the second schedule and C = the aggregate of the answers arrived at in terms of formula A in respect of each pension or provident fund, plus the annuities actually commuted from retirement annuity funds (max. 1/3) provided that C is then subject to the greater of R120 000.00 or R4 500.00 x N. A maximum of R120 000.00 of the lump sum payment does not attract tax.
- [2003] 5 BPLR 4715 (PFA).
- Act 58 of 1962.
- In practice, many retirees elect to receive the tax free portion in cash (which is often less than one-third of the benefit) and the balance is used to secure a pension.
- In effect the member exits the pension fund once the transfer to the insurer is completed.
- Many fund rules outline certain conditions to be met before a spouse's pension may be paid. See *Zolezzi v Mine Officials Pension Fund* [2000] 8 BPLR 937 (PFA).
- *Whitelock-Jones v Old Mutual Staff Retirement Fund* [2000] 6 BPLR 674 (PFA).

## PENSION BENEFITS FOR DIVORCEES IN THE PRIVATE AND PUBLIC SECTOR UNDER THE SOUTH AFRICAN LAW

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### ABSTRACT

This paper analyse the recent amendments to the Government Employees Pension Law, Transnet Pension Funds Act, Post Office Act, Pension Funds Act and Financial Services General Laws Amendment Act relating to the divorce benefits (the application of clean-break principle). This amendment has brought changes and will contribute positively to the development of South African retirement law. The allocation and payment of a share of a retirement fund member's retirement savings on divorce has been the subject of intense debate in the retirement funding community especially in light of the unfairness to non-member former spouses (who are usually women) of the law in this regard before 1 November 2008. In terms of section 7(8)(a)(i) of the Divorce Act, the former spouse of a member of a retirement fund on divorce could be awarded by the court a portion of benefits that the member would have received had he or she resigned, retrenched, retire or becomes disabled on the date of divorce. However in terms of the Divorce Act read with the Pension Funds Act, Government Employees Pension Law, Transnet Pension Funds Act, Post Office Act, and Financial Services General Laws Amendment Act, the former spouse was only entitled to receive that share when the member became entitled to a benefit in terms of the rules of the fund – that is, on his or her later retirement or termination of membership – which could have been many years after the date of divorce. After the amendments, the benefit is now payable on the date of divorce and is taxable in the hands of the former spouse.

**Keywords:** Pension benefits; divorcee; clean-break principle; South African Law

### INTRODUCTION

This paper analyse the recent amendments to the Pension Funds Act<sup>1</sup> relating to the divorce benefit, particularly amendment of section 37D. This amendment has brought changes and will contribute positively to the development of South African retirement law. The allocation and payment of a share of a retirement fund member's retirement savings on divorce has been the subject of intense debate in the retirement funding community especially in light of the unfairness to non-member former spouses (who are usually women) of the law in this regard before 1 November 2008. In terms of section 7(8)(a)(i) of the Divorce Act<sup>2</sup>, the former spouse of a member of a retirement fund on divorce could be awarded by the court a portion of benefits that the member would have received had he or she resigned on the date of divorce. However in terms of the Divorce Act read with the Pension Funds Act<sup>3</sup>, the former spouse was only entitled to receive that share when the member became entitled to a benefit in terms of the rules of the fund – that is, on his or her later retirement or termination of membership – which could have been many years after the date of divorce<sup>4</sup>. Since 1 November 2008, two legislations have been passed by Parliament to clarify the above position. The Pension Funds Amendment Act<sup>5</sup> which came into effect on 13 September 2007 and Financial Services Laws General Amendment Act<sup>6</sup> which came into effect on 1 November 2008, which stipulates that for the purposes of the Divorce Act, a benefit is deemed to accrue to the principal member on the date of divorce, thus allowing the non-member spouse the right to claim her share of it. The non-member spouse can elect to have it transferred to another fund or paid to her in cash

within 60 days of the date of her election. Section 28(e) of the Pension Funds Amendment Act stipulates that “for the purposes of section 7(e)(a) of the Divorce Act, 1979 (Act No. 70 of 1979), the pension benefit referred to in that section is deemed to accrue to the member on the date of the court order...” Before the enactment of the Financial Services Laws General Amendment Act, lawyers, academics and legal practitioners have argued about whether Pension Funds Amendment Act was applicable to a divorce order granted before 13 September 2007. The Adjudicator has found that it was but her findings do not constitute legal precedent. The debate was disposed of by the enactment of the Financial Services Laws General Amendment Act<sup>3</sup>, which makes it clear that the former spouses of members of retirement funds who divorced those members before 13 September 2007 and to whom shares of the ‘pension interests’ of those members were awarded on divorce will be entitled to claim them from the funds even if no benefits have yet accrued to the members they divorced.

#### **DIVORCE BENEFITS PRIOR TO PENSION FUNDS AMENDMENT ACT, 11 OF 2007 AND FINANCIAL SERVICES LAWS GENERAL AMENDMENT ACT, 22 OF 2008**

According to Jeram and Shrosbree, prior to the enactment of section 7(7) and (8) of the Divorce Act<sup>4</sup>, the spouse of a member of a retirement fund had no right to a share of his or her retirement savings in that fund on divorce unless a benefit had accrued to the member<sup>5</sup> prior to the divorce.<sup>6</sup> This was also confirmed in the case of *Old mutual v Swemmer*<sup>7</sup> where Van Heerden AJA at paragraph 17 said the following:

“It would appear that, prior to 1 August 1989, the ‘interest’ which a spouse who was a member of a pension fund had in respect of pension benefits which had not yet accrued was generally not regarded as an asset in his or her estate or, where the marriage was in community of property, as an asset in the joint estate. This meant that, in determining the patrimonial benefits to which the parties to a divorce action were entitled, the ‘pension expectations’ of the member spouse were not taken into account. The legal position was, however, by no means certain and the rationale for the view that, prior to the occurrence of the so-called ‘defreezing contingency’ whereby the member spouse’s pension benefits accrued to him or her, any interest of the member spouse in respect of such benefits was not an asset in his or her estate, has (in my view, correctly) been described as ‘complicated and not altogether satisfactory.’”

An amendment made to the Divorce Act, however in insertion of sections 7(7) and 7(8) into the Divorce Act in 1989 changed the position. The relevant section is section 7 subsections (7) and (8), which read as follows:

- “7(a) In the determination of the patrimonial benefits to which the parties to any divorce action may be entitled, the pension interest of a party shall, subject to paragraphs (b) and (c), be deemed to be part of his assets.
- (b) The amount so deemed to be part of the party’s assets, shall be reduced by any amount of his pension interest which, by virtue of paragraph (a), in a previous divorce –
  - (i) was paid over or awarded to another party; or
  - (ii) for the purposes of an agreement contemplated in sub-section (1) was accounted in favour of another party
- (c) Paragraph (a) shall not apply to a divorce action in respect of a marriage out of

community of property entered into on or after 1 November 1984 in terms of ante-nuptial contract by which community of property, community of profit and loss and the accrual system are excluded”.

- (8) Notwithstanding the provisions of any other law or the rules of any pension fund –
- (a) the court granting a decree of divorce in respect of a member of such a fund, may make an order that –
- (i) any part of the pension interest of that member which, by virtue of subsection (7), is due or assigned to the other party to the divorce action concerned, shall be paid by that fund to that other party when any pension benefits accrue in respect of that member;
- (ii) the registrar of the court in question forthwith notify the fund concerned that an endorsement be made in the records of that fund that that part of the pension interest concerned is so payable to that other party and that the administrator of the pension fund furnish proof of such endorsement to the registrar, in writing, within one month of receipt of such notification;
- (b) any law which applies in relation to the reduction, assignment, transfer, cession, pledge, hypothecation or attachment of the pension benefits, or any right in respect thereof, in that fund, shall apply *mutatis mutandis* with regard to the right of that other party in respect of that part of the pension interest concerned.

The effect of section 7(7) is to deem the pension interest of a party to the divorce action to be part of his assets for the purposes of the divorce. Section 7(8) then authorizes the court to order that the non-member be paid a share of the ‘pension interest’ when the member becomes entitled to a benefit in terms of the rules of this fund. The reference to ‘any divorce action’ in subsection (a) indicates that the provision applies to all marriages. However section 7(7)(c) excludes from the ambit of the section marriages entered into on or after 1 November 1984 where the spouses have opted for a complete separation of their estates without the accrual system. The section thus applies to the three remaining marriage regimes in South African law, namely: marriages in community of property; marriages to which the accrual system applies; and, marriages entered into prior to 1 November 1984 in terms of an ante-nuptial contract excluding community of property and community of profit and loss. In so far as the effect of section 7(7) read with 7(8) is to render pension benefits capable of being assigned wholly or in part to another person, it constitutes an exception to the prohibition in section 37A(1) of the Act.

#### DEFINITION OF PENSION INTEREST

According to Naleen Jeram, since the inception of the Adjudicator’s Office, the Office has received numerous complaints concerning divorce benefits. Most of the complaints related to the definition of “pension interest”. The cases reveal that many spouses and practitioners acting on their behalf do not understand the meaning of the term pension interest.<sup>43</sup> It is therefore prudent for all spouses and their legal representatives who are involved in a divorce action to fully acquaint themselves with the true meaning of pension interest and its ramifications. “Pension interest” is defined in the Divorce Act in relation to a party to a divorce action as the party who:

- (a) is a member of a pension fund (excluding a retirement annuity fund), means the benefits to which that party as such a member would have been entitled in terms of the rules of the fund if his membership of the fund would have been terminated on the date of the divorce on account of his resignation from his office;
- (b) is a member of a retirement annuity fund which was bona fide established for the purpose of providing life annuities for the members of the fund, and which is a pension fund, means the total amount of the party's contributions to the fund up to the date of the divorce, together with a total amount of annual simple interest on those contributions up to that date, calculated at the same rate as the rate prescribed as at the date by the Minister of Justice in terms of section 1(2) of the Prescribed Rate of Interest Act, 1975 (Act No. 55 of 1975), for the purpose of the Act" (Section 1 of the Divorce Act, 70 of 1979)".<sup>14</sup>

According to Marx and Hanekom, pension interest refers to the notional benefit to which the member spouse would have become entitled had he resigned from employment and exited the fund on the date of divorce. Put differently, pension interest simply establishes a method of ascertaining the value of the 'interest' of the member of the pension or retirement annuity fund concerned as accumulated up to the date of the divorce.<sup>15</sup> Often complainants contend that they are entitled to growth on their portion of the pension interest. A similar contention was raised in the matter of *Blom v FNB Pension Fund and Momentum Group Limited*<sup>16</sup> where the marriage between the complainant and his former spouse, a member of the FNB Pension Fund, had been dissolved by a divorce order which did not expressly order FNB Pension Fund to pay pension interest to the complainant. It is on this basis that the complainant lodged a complaint with the Office of the Pension Funds Adjudicator. The complainant also wanted to know whether he is entitled to growth on his portion of the pension interest as indicated in the settlement agreement (in this matter, the settlement agreement purports to give the complainant growth on the value of his share of the pension interest after divorce).

Following a decision in the matter of *Barnard v Municipal Gratuity Fund*<sup>17</sup>, the FNB Pension Fund paid the complainant his share of the pension interest. The Adjudicator stated that the issue of growth on the portion of the pension interest had to be dealt with reference to the definition of the pension interest. It was concluded that it was clear from the definition of pension interest that it does not include any amount which accrues to a member spouse after divorce. It was also concluded that the divorce order concluded between the complainant and his former spouse is contrary to the law as it is in contravention of the definition of pension interest in section 1 of the Act.<sup>18</sup> This example is one of the clear indications that there is a need for legal practitioners to have a clear understanding of pension interest. Anderson says that:

"Although it appears that a lot more thought goes into the settlements, and that the parties are obtaining legal assistance, the complexity introduced is in many instances not practical and has resulted in more unenforceable divorce orders. It is clear that legal professionals assisting people with divorce orders should improve the advice provided and take practical implementation into consideration. The area is becoming increasingly specialised, and hence lawyers with the right experience should be assisting here."<sup>19</sup>

The pension interest of a member of a pension or provident fund ('an occupational retirement fund') is the withdrawal benefit to which the member spouse would have become entitled had he resigned from employment and terminated his membership of the fund on the date of divorce. Jeram argues that the

fact that in the occupational retirement fund' funds has essentially been equated to a resignation benefit, has led to unfairness and injustice. The unfairness is due to most defined contribution funds (prior to 7 December 2001) on resignation not paying the full "fund credit" (member's contributions plus employer contributions less risk and administration costs plus fund investment returns).<sup>20</sup> Similarly, defined benefit funds also did not pay the "actuarial reserve value" on resignation. Rather, it was common for many funds to only pay the member's contributions plus nominal interest on resignation from service. Thus, the poor and ungenerous resignation benefits offered by funds resulted in low pension interest values.<sup>21</sup>

The pension interest of a member of a retirement annuity fund is defined to mean the total of the contributions to the fund up to the date of divorce plus simple interest thereon up to that date at the prescribed rate. The interest may not exceed the return on the contributions over term. Where the investment is of long duration, the pension interest will usually be substantially less than the actual fund value standing to the credit of the member. According to MacKenzie, this is because over a longer period compounded returns will usually exceed simple interest.<sup>22</sup> The "pension interest" is the maximum amount which may be assigned to the non-member spouse on divorce, the proportion allocated to the non-member spouse being dependent on the order of the court. It is, not permissible to assign to her more than 100% of a member's "pension interest"<sup>23</sup>. In the reports of the South African Law Commission, the following was said:

"A pension interest is not a real asset that is open to division. It is the value that, on the date of divorce, is placed on the interest that a party to those proceedings has in the pension benefits that will accrue to him or her as a member of a pension fund or retirement annuity fund at a certain future date or event in accordance with the rules of the particular fund. The value of the interest is calculated according to a fixed formula and the amount determined in this manner is deemed to be an asset of the party concerned. What we are dealing with here is a notional asset that is added to all the other assets of the party concerned in order to determine the extent of the other party's claim to a part of the first-mentioned party's assets."<sup>24</sup>

Before prescribed minimum benefits became payable by retirement funds registered in terms of the Pension Funds Act on termination of membership before retirement, many paid only the equivalent of the contributions paid to the fund by the member (and not those paid by his employer) plus interest at a low rate.

This meant that the basis on which the 'pension interest' of a member was determined for divorce purposes was iniquitous for non-member spouses, particularly as no provision was made in either the Divorce Act or the Pension Funds Act for the payment to the non-member spouse of interest on the amount of her share, or the returns earned by the fund on its investment before it was paid to her. The inequity is illustrated in the facts on which *Van der Berg v Oranje-Vrystaatse Gemeenskaplike Munisipale Pensioenfondse* was determined by the Adjudicator. In that case, while only 7 months after the date of divorce, the member spouse received his full benefit of over R1000000, the non-member received a meager R35 200.89. It has been highlighted that members often incorrectly believe that the life assurance that will be paid out should they die or become disabled before retirement is part of their accrued retirement savings or pension interest. According to Mackenzie a pension interest may be less than the fund value, or the member's share that typically appears on a member's benefit statement.<sup>25</sup>

## GIVING EFFECT TO THE DIVORCE ORDER

The effect of an order in terms of section 7(8) is that the non-member spouse acquires a claim against the fund subject to the conditions that: (a) the court has ordered the payment of the benefit by the fund; (b) and, it is notified of the court order. There have been cases where the fund has not been notified of the divorce order. When a benefit has accrued to the member spouse and the portion of the pension interest allocated to the non-member spouse becomes payable, the fund, ignorant of the divorce order then paid the entire benefit to the member spouse. If no fault can be attributed to the fund there is no recourse against it. However, if the fund is at fault, it may be liable for damages to the non-member spouse. In the matter of *Maqubela v Municipal Employees Pension Fund (MEPF)*<sup>27</sup> the complaint concerned the failure by MEPF to give effect to a divorce order in terms of which it was required to pay the complainant her portion of her former spouse's pension interest. The marriage between the complainant and her former spouse had dissolved by a divorce order which incorporated a settlement agreement that made provision for, *inter alia*, the division of the joint estate. The relevant section of the settlement agreement for the purpose of this determination, reads as follows: "It is ordered that the joint estate be divided."

MEPF submitted that the divorce order makes no mention of any entitlements to the member spouse's pension interest as envisaged by the provisions of section 7(7) of the Divorce Amendment Act and further does not oblige MEPF to endorse its records of any entitlement as envisaged by section 7(8) of the Divorce Act. The Adjudicator was tasked to determine whether the refusal by MEPF to pay the complainant her portion of pension interest is reasonable and justifiable in terms of the Pension Funds Act, read together with the Divorce Act. The Adjudicator concluded that the relevant clause regulating divorce benefits in the settlement agreement falls outside the ambit of sections 7(7) and (8) of the Divorce Act read together with section 37D(4) of the Pension Funds Act. It follows that the divorce order is not binding on the respondent and this tribunal cannot order MEPF to pay the complainant her portion of her pension interest.<sup>28</sup> Similarly in the case of *kapot v Liberty Group Limited*<sup>29</sup> the Adjudicator held that where a divorce order is silent on the payment of pension interest by a fund to the complainant and where no fund is identified or identifiable in such an order, it would be impossible for the fund in question to pay pension interest to the complainant because the order does not comply with the requirements of section 37D(4)(a)(i)(aa) of the Pension Funds Act. Consequently the fund cannot be compelled to pay pension interest to the complainant.

## PROTECTION OF THE SPOUSE'S SHARE AGAINST THE CLAIMS OF CREDITORS

The reference in the Divorce Act to the applicability *mutatis mutandis* of 'any law which applies in relation to the reduction...' is a reference to, *inter alia*, section 37A of the Act prohibiting the alienation of pension benefits. The assigned pension interest is thereby afforded the same protection as any other pension benefit.

## DISCLOSURE OF INFORMATION BY FUNDS TO NON-MEMBER SPOUSES

In *Smith v Smith en 'n Ander*<sup>30</sup> the non-member spouse had been allocated a portion of the member-spouse's pension interest in terms of the divorce order. The fund however, refused to disclose any information in regard to its value to the non-member spouse relying on what it saw as the member's

right to privacy. The court however, ordered the fund to provide the information requested as it was required by the non-member spouse for the enforcement of her rights. In fulfilling their duty of good faith, funds are obliged to disclose to members and other persons such information as is reasonable for the exercise and protection of their rights. The failure or refusal to do so without appropriate justification would amount to an improper exercise of the fund's powers<sup>21</sup>. Therefore the non-member spouse has a right to access of information<sup>22</sup> relevant to the amount due to him including how the amount is calculated, and the terms and conditions governing payment of the benefits. In *Swemmer case*<sup>23</sup>, the Supreme Court of Appeal stated that the fund need not be joined as a party to the divorce proceedings. The reason for this is that the fund has no direct or substantial interest in the matter<sup>24</sup>.

#### **SHARING OF PENSION BENEFITS UNDER PENSION FUNDS AMENDMENT ACT, 11 OF 2007 AND FINANCIAL SERVICES LAWS GENERAL AMENDMENT ACT, 22 OF 2008**

The Pension Funds Amendment Act<sup>25</sup> read with Financial Services General Laws Amendment Act<sup>26</sup> has introduced amendments which allow a fund to deduct from the amount held by it in respect of a member's unaccrued benefit the share of the 'pension interest' allocated to the non-member spouse on the basis that, for the purposes of the Divorce Act<sup>27</sup>, a benefit is deemed to accrue to the member on the date of divorce. The non-member spouse now has the option to take her share in cash or to require that it be transferred to an approved pension fund within sixty days of the election being exercised<sup>28</sup>. The fact that non-member spouses were in many cases required to wait for many years before they became entitled to their shares of the pension interests, the value of which had diminished in the interim was unfair and undermined the core values of our Constitution. These values include equality and human dignity which are supposed to be protected by law. While the amendment was intended to allow all divorcees, whenever they were divorced, to have immediate access to their shares of their former spouses' pension interests awarded to them by a way of divorce order, whether it had that effect for divorcees before 13 September 2007 remained controversial until the Financial Services Laws General Amendment Act came into effect on 1 November 2008.

#### **THE LAW GOVERNING PRE 1 NOVEMBER 2008 DIVORCEES: *COCKCROFT V MINE EMPLOYEES PENSION FUND*<sup>29</sup>**

This case is a leading case on pension-sharing on divorce following the amendment of the Pension Funds Act, 11 of 2007. In this case, the complainant was the former spouse of Mr Cockcroft, who is a member of the fund. The complainant and Mr Cockcroft were divorced in terms of an order of court on 7 July 2003. The divorce order provided that the complainant would be entitled to 50 percent of Mr Cockcroft's pension interest in the fund and that this amount was required to be paid to her on the finalization of the divorce proceedings or when a benefit accrued to Mr Cockcroft in terms of the rules of the fund, whichever event occurred first. After the Pension Funds Amendment Act came into effect on 13 September 2007, the complainant sought payment of her portion of the pension interest. The fund refused to pay the benefit and argued that in terms of the legislation applicable as at the date of divorce, the benefit could only be paid once a benefit had accrued to the principal member (Mr Cockcroft) in terms of the fund's rules. As no benefit had yet accrued to him, the fund argued, the complainant was not entitled to payment of her portion of the member's pension interest.

The Adjudicator found that the amendments to the Pension Funds Act, in terms of the Pension Funds Amendment Act, applied to all divorcees whether concluded prior to or after 13 September 2007. In her judgment, she pointed out that, from that date, section 37D (a section dealing with permissible deductions from pension benefits) of the Pension Funds Act had been amended by inter alia the addition to subsection (1) of the following paragraph:

- (e) for the purposes of section 7(e) of the Divorce Act, 1979 (Act No. 70 of 1979), the pension benefit referred to in that section is deemed to accrue to the member on the date of the court order..."

The Adjudicator said that the reworded provision was intended "to convert an unquantifiable, future entitlement into a precise present day amount" in order that it can be apportioned and paid (or transferred) pursuant to the non-member spouse's election. This finding is odd in that the amount of the share of the pension interest to which a non-member spouse would be entitled on the accrual of a benefit to the member was never in doubt because it was determinable as at the date of divorce. What the amendment did do was to change the date of "accrual" of the benefit to the member for the purposes of the Divorce Act<sup>6</sup> by deeming "accrual" to have taken place on the date of divorce.

The crisp issue for determination was whether this new provision also applied to divorce orders granted prior to its effective date on 13 September 2007, the concern was whether this would amount to the retrospective application of a statutory amendment. In particular, it was argued that a member who, but for the amendment, would have enjoyed the benefit of the returns earned on the investment of the share of the pension interest awarded to his ex-spouse until a benefit accrued to him, would by the amendment have the period of, and thus the value of, his entitlement to that benefit reduced. This is argued to be retrospective in that it alters the consequences of a divorce order granted in the past, before the law was amended<sup>4</sup>. Does the fact that such order existed prior to its enactment of the amendment render it retrospective in operation. For the reasons that follow, it is argued that it does not. Section 28(b) of the new Act<sup>5</sup> only applies with effect from 13 September 2007. Only from that date, is the non-member spouse entitled to have the divorce benefit deducted from the amount held by the fund as a provision for the member's future benefit and paid to the non-member or transferred to another fund for his or her benefit. The benefit of the returns earned on the investment of the non-member share to the date on which the non-member's election is conveyed to the fund remains with the member. All that is forfeited by him is the future returns that might otherwise have been earned on that share. The non-member spouse, on the other hand, is not entitled to any interest or investment return in respect of the period before her election is conveyed to the fund.

With regard to the above, it appears that the interpretation of the Adjudicator does not properly address the point that the amendment said that the benefit accrued from the date of divorce – and the divorce took place several years before the amendment so it could not have been the legislature intention that it be applicable to such an order (my emphasis). In Cockcroft, the Adjudicator ordered the complainant to exercise her option in terms of section 37D(1)((e)(ii) of the Pension Funds Amendment Act and to notify the fund whether she wanted her share of the pension interest paid to her in cash or transferred to another pension fund. Furthermore, the fund was ordered to implement her election within 60 days of the receipt of the complainant's election. It is apparent from the operation of the amendment that is prospective in effect even if it may reduce what would otherwise have been the value of the member's benefit when it accrues to him. The legislature has accepted that the current wording of section

37D does not make it clear that the amendment to it was intended to apply to divorce orders whether they were granted before or after 13 September 2007.<sup>43</sup> The Financial Services Laws General Amendment Act<sup>44</sup> came into effect on 1 November 2008 and has amended section 37D by inserting the following provision in section 16 (4)(d): "Any portion of the pension interest assigned to the non-member spouse in terms of a decree of divorce or a decree for the dissolution of a customary marriage granted prior to 13 September 2007 are for the purposes of any law other than the Income Tax Act, 1962, including, but not limited to, section 7(8)(a) of the Divorce Act, 1979, deemed to have accrued to the member on 13 September 2007 and must be paid or transferred in accordance with the provisions of paragraphs (a) and (b)' (*very important*). Section 37D(4)(d) of the General Laws Amendment Act states clearly that any portion of the pension interest that is payable to a non-member spouse that was granted prior to 13 September 2007 is deemed to have accrued to the non-member spouse on 13 September 2007. Section 37D(4)(a), in turn, states that the pension interest that is assigned to the non-member spouse is deemed to accrue to the member spouse on the date on which the divorce order was granted.

It is clear from the provisions of the amended section 37D of the Act that it applies to divorce orders that were granted prior to 13 September 2007, which is the commencement date of the Pension Funds Amendment Act 11 of 2007.<sup>45</sup> The intention of the legislature by inserting section 37D(4)(d) in the Act was to address the issue of the alleged retrospective application of the Amendment Act No 11 of 2007 that has been raised by various stakeholders in the pension industry, including pension funds and administrators of funds in matters relating to divorce benefits.

## **PENSION INTEREST TO MEMBERS OF PUBLIC PENSION FUNDS**

The South African retirement industry is largely divided into private funds, which as discussed above, are regulated by the Pension Funds Act as well Public pension funds which are regulated by different legislations. Public pension funds in South Africa include *inter alia*, the Government Employees Pension Fund (GEPF), Transnet Pension Fund (TPF), Post Office Pension Fund (POPF) and Telkom Pension Fund. This is not an exhaustive list.

### **The GEPF**

The GEPF is the largest pension fund in Africa, with approximately 1, 16 million contributing members and 311 345 pensioners and beneficiaries. The GEPF is acknowledged as amongst the 10 largest pension funds in the world, with more than R707 billion of assets under management.<sup>46</sup> All government employees whose conditions of service fall under the Public Service Act<sup>47</sup> are members of GEPF. This includes employees of all national and provincial government departments, as well as employees in the offices of the provincial premiers, the Public Service Commission, Provincial Service Commissions and the Office of the Auditor-General. Employees from these organisations make up around 98 percent of GEPF's membership.<sup>48</sup> Established on 1 May 1996 through the amalgamation of a number of pension funds serving government employees and therefore in existence for 17 years, the GEPF is a juristic entity managed by a Board of Trustees. The law which governs the GEPF is the Government Employees Pension Law, 1996<sup>49</sup> and this statute came into effect on 1 May 1996.<sup>50</sup>

The GEPF is committed to effectively and efficiently provide benefits to members, pensioners and beneficiaries. Core functions include member admissions, contribution collections, members, roll

maintenance, withdrawals (exits) and benefit payments, and the oversight of the investment of the fund's assets to match future liabilities. The administration of the GEPF also administers benefits on behalf of the National Treasury, including medical subsidies, special pensions, military pensions and other sundry benefits. The Public Investment Corporation (PIC) is a state-owned entity which manages the investment of GEPF funds, which comprise 91.7% of the total investments under its administration. The Fund is committed to creating a business environment for its 705 employees that is conducive to their well-being and productivity, with efficient and fair human resource practices. Its Employment Equity Forum consists of employee, management and trade union representatives and identifies and addresses issues as needed on an on-going basis.

All government employees are required to become members of the GEPF, except where membership is excluded according to the provisions of the Government Employees Pension Law (the GEP law) as amended and Rules of the Fund. When a member's spouse divorced, depending on the nature of the divorce order, in majority of cases, the non-member spouse will be entitled to 50% of his pension interest. This benefit will accrue to the non-member as a result of the member's spouse resignation, retirement and in case of ill-health. This means that the GEPF is still applying laws which were applied by all pension Funds before the coming into operation of the two important statutes, the Pension Funds Amendment Act<sup>53</sup> and Financial Services Laws General Amendment Act.<sup>52</sup> The amendments which were introduced by these two statutes applies to all pension funds registered with the Registrar of the Pension Funds and which are also governed by the Pension Funds Act. All the funds which fall outside the above category are not affected by the amendment; this includes the GEPF unless the laws or rules which govern them are amended.

The exclusion of non-member spouse of the GEPF member was regarded as perpetuating inequality that is prohibited in the Constitution. This position was an unsatisfactory state of affairs for non-member spouse in that it undermined also the "clean break" principle following divorce.<sup>53</sup> Nevondwe says that:

"It is just hope that the legislatures or policy makers will realize the impact of the exclusion of government pension fund members, Post Office Retirement Fund members, Transnet Pension Fund members and those members of pension funds which are not governed by the Pension Funds Act. This is a good law which will of course protect the non-members spouses and eradicates poverty since these people were suffering before the amendments since others have to wait for more years for their benefits to accrue."<sup>54</sup>

The provisions of the GEPF regarding the accruing of benefits to the non-member as a result of the member's spouse resignation, retirement and in case of ill-health in the matter of *Wiese v Government Employees Pension Fund and Others*<sup>55</sup> were challenged. The applicant in this matter is the former spouse of a member GEPF. The applicant argued that the differential treatment of a non-member spouse of a GEP Law member to that of a non-member spouse of a member of a pension fund governed by the Pension Funds Act violates section 9(1) of the Constitution, to the equal protection and benefit of the law. More particularly, it was contended that the applicant's right of access to social security as entrenched in section 27(1)(c) of the Constitution is violated.<sup>56</sup> The parties conceded that the applicant's right to enjoy protection and benefit of the law was infringed; however the difference between the parties was with the type of remedy which the court must order. At paragraph 16, the court passed the following remarks:

In the present matter it seems clear that the differentiation is between non-member spouses of funds governed by the PFA (“private pensions funds”) and non-member spouses of members of the Fund (and other pension funds not governed by the PFA). The differentiation arises out of the legislature’s failure to apply the ‘clean break’ principle on divorce to the latter class of persons. Neither the Fund nor the Minister sought to contend that the differentiation in question bears a rational connection to a legitimate government purpose and there is none which readily occurs to me.

The Court found that the GEP Law was indeed inconsistent with the constitution insofar as it fails to afford to former spouses of members of the GEPF the same rights and advantages as are afforded to former spouses of members of funds subject to the Pension Funds Act, more particularly those contained in section 37D(1)(d), (3) (4) and (5), and is invalid to the extent of that inconsistency.<sup>57</sup> The government was directed to submit amending legislation to Parliament to bring the country’s biggest retirement fund, the GEPF, into line with the clean-break principle that applies to private sector occupational retirement funds and retirement annuity funds. The clean-break principle means that a former spouse can receive their share of the pension interest shortly after divorce. With the clean-break amendment to the GEP Law and related changes to GEPF rules, former spouses do not have to wait to receive their portion of the pension interest if certain requirements are adequately met. It appears that the intention of the legislature when amending the GEP law was to remedy the problems experienced by non-member spouse of the GEPF member regarding their opportunity to be put almost in the same position they were under prior divorce. This step can also be said to equality and dignity of non-member spouse, which rights are regarded as the core values of the Constitution.

In its amended form, section 3 of the GEPL Amendment Act introduces a clean-break principle with effect from 1 April 2012 by incorporating section 24A after section 24 of the GEPL. Section 24A is, in effect, similar to section 37D of the Pension Funds Act. Section 24A authorises the Government Pension Fund to make payment of a pension interest upon divorce or dissolution of a customary marriage. It provides, in the relevant part:

“24A(1) The Board shall direct the Fund to reduce a member’s pension interest by any amount assigned from the member’s pension interest to the member’s former spouse in terms of a decree of divorce granted under section 7(8)(a) of the Divorce Act, 1979 (Act No. 70 of 1979), or a decree for the dissolution of a customary marriage.

(2)(a) Subject to paragraph (j), for purposes of section 7(8)(a) of the Divorce Act, 1979 (Act No. 70 of 1979), the portion of a member’s pension interest assigned to the member’s former spouse in terms of a decree of divorce or a decree for the dissolution of a customary marriage is deemed to accrue to the member on the date on which the decree of divorce or the decree for the dissolution of a customary marriage is granted.

(j) Any portion of a member’s pension interest assigned to a former spouse in terms of a decree of divorce or a decree for the dissolution of a customary marriage granted prior to the enactment of this subsection shall, for purposes of any law other than the Income Tax Act, 1962 (Act No. 58 of 1962), including, but not

limited to, section 7(8)(a) of the Divorce Act, 1979 (Act No. 70 of 1979), be deemed to have accrued to the member on the date of enactment of this subsection, and must be paid or transferred in accordance with paragraphs (a) to (i).”

In terms of these amendments, the GEPF shall within forty-five days of the submission of the court order by the former spouse, request him or her to elect whether the amount to be deducted must be paid directly to the former spouse or transferred to an approved retirement fund on his or her behalf.<sup>58</sup> The former spouse shall, within a period of one hundred and twenty days of being requested to make a choice, inform the fund of the manner in which the fund must be dealt with or if the former spouse chooses that the amount must be paid to him or her directly, provide the GEPF with the details that the amount must be transferred to an approved pension fund on his or her behalf, provide the fund with details of that approved retirement fund.<sup>59</sup>

The GEPF shall pay or transfer the amount within sixty days of being informed of the manner in which the amount shall be dealt with in accordance with the former spouse’s choice. In the event that the former spouse fails to make a choice or identify the approved retirement fund to which the amount should be transferred within the period of one hundred and twenty days, the GEPF shall pay the amount directly to the former spouse within the amount thirty days of the expiry of that period.<sup>60</sup> In the event that the GEPF cannot reasonably ascertain the manner in which the payment to the former spouse shall be effected, the GEPF shall retain the amount plus the interest as determined by the Board in the GEPF, until such time as details of the manner in which that payment shall be effected is made available to the GEPF by the member, the former spouse or any other person whom the GEPF is satisfied has the necessary authority and capacity to instruct the GEPF in that respect.<sup>61</sup>

According to Marumoagae members of GEPF had also aspired to have a clean break after their divorce without worrying about the claim(s) that their former spouses might have against their pension funds in the future. By not allowing the GEPF to pay out the pension interest to the non-member spouses immediately after divorce was prejudicial to such non-member spouse of contributing GEPF members. This was so especially if the non-member spouse is unemployed and has contributed substantially towards the life of the member spouse. There was no viable reason why the spouses of the government employees and those of institutions in similar position were not entitled to their share of their former spouses’ pension interest immediately after divorce. While on the other hand, other spouses of members of other pension funds regulated by the Pension Funds Act receive the pension benefits immediately after divorce.<sup>62</sup>

Marumoagae further states that it was a major concern where a member of the GEPF was divorcing a member of a pension fund regulated by the Pension Funds Act. After divorce, the GEPF member was automatically entitled to receive his or her share of the pension interest from his or her former spouse’s pension fund.<sup>63</sup> On the other hand, such a spouse who is the member of a pension fund regulated by the Pension Funds Act was not entitled to receive his or her pension interest share in the GEPF until such time as the member exist. Such position could not be justified as it perpetuated inequalities in South Africa.<sup>64</sup> Ramabulana opined that:

“The financial impact of this arrangement is that the one party who is allowed immediate

payment gets to receive the capital amount and can expect growth before the member leaves the fund, whereas the other party has only a *spes* and also loses out on the growth that goes to the member spouse until the date of exit (which is often the retirement date). A number of questions arise out of this state of affairs with the main one being the equality clause contained in chapter 2 of the Constitution. That is, are state fund members and private fund members equal before the law?"

It was not much of a problem that GEPF and pension funds of some state parastatals are regulated by their own laws. But it became a problem when such laws were effective tools that entrenched inequalities and effectively disadvantaged a certain sector of our society.<sup>65</sup> Marumoagae observes that:

Divorce proceedings are painful by their very nature and it was always ideal for the former spouses to be allowed to move on with their lives after divorce. It is undesirable that after going through the emotional divorce proceedings, then one has to wait for some event in the future to materialise in order to enforce his or her claim against the former wife or husband's pension fund. This clearly ran contrary to the "clean break" principle recommended by the South African Law Commission.<sup>66</sup>

The tax implications of the implementation of the clean-break principle are as follows:<sup>67</sup>

- If an amount becomes payable by a retirement fund on or after 1 March 2012 to a non-member ex-spouse, that person (and not the member ex-spouse) will need to pay tax on that amount.<sup>68</sup>
- No tax will be payable on any amount that becomes payable on or after 1 March 2012 in terms of a divorce order that was issued before 13 September 2007.<sup>69</sup>

It is however important to note that the exemptions above only applied if the non-member ex-spouse claimed the benefit on or after 1 March 2009. The purpose of the exemption was to shield non-member ex-spouses from unanticipated tax consequences that would result if the non-member ex-spouse was suddenly subject to tax on his/her portion of the lump sum benefit.<sup>70</sup> The effect of the transitional rules extended so that any amount that becomes payable on or after 1 March 2012 in terms of a divorce order that was issued before 13 September 2007 will be free from tax. The principle will apply regardless of the timing of the payment to the non-member ex-spouse, and regardless of whether the retirement fund from which the amount became payable has implemented the "clean-break" principle.<sup>71</sup>

### **Transnet Retirement Fund**

Transnet Retirement Fund (TRF) is a state owned entity and was established on 01 December 2000 in terms of the Transnet Pension Fund Amendment Act.<sup>72</sup> The Fund is an independent legal entity, and as such is capable of acquiring its own assets. TRF is specifically governed by: the Transnet Pension Fund Act<sup>73</sup> as amended, and its regulations; the rules of the Fund; and, generally, any other applicable industry legislation. In terms of 7 of the Transnet Pension Fund Act reads: No person or lump sum from the Fund, or right to such a benefit, or right in respect of contributions made by a member or his behalf, shall be capable of being assigned or transferred or otherwise ceded, or of being pledged or hypothecated, or be liable, subject to the provisions of section 7 of the Divorce Act, 1979, to be attached or subjected to any form of execution under a judgement or order of a court of law, and in the event of the beneficiary attempting to assign, transfer or otherwise cede or to pledge or hypothecate a benefit or right, payment thereof may be withheld, suspended or entirely discontinued, if the Fund so determines, provided that the

Fund may make payment of such benefit or of any benefit in pursuance of such contributions or part thereof to one or more of the dependants of the beneficiary or to a trustee for such dependant or dependants during such period as it may direct.

The TRF just like the GEPF has amended their rules in 2012 to implement the “Clean-break” principle. This means that non-member spouse who was previously prejudiced by being disentitled to payment of that share when the benefit accrues to a member spouse does not have to wait for a long period to claim divorce benefits. With the Amendment of the GEP law and the proposed amendment of the Post Office Act, one can confidently say that the Court would have found in favour of the applicant who challenged the provisions of TRF to the extent that they fail to promote equality and dignity of the non-member spouses.

### **Post Office Pension Fund (POPF)**

The recent Constitutional Court Judgement has confirmed that non-member spouse of POPF a clean break principle promotes the equality provisions of the Constitution as it allows members of the POPF to similarly claim divorce benefits upon dissolution of the marriage between parties. In the matter of *Ngewu v Post Office Retirement Fund*<sup>24</sup> the right to equality before the law and equal protection and benefit of the law, as guaranteed by section 9(1)1 of the Constitution was again challenged. This matter addresses the anomaly arising from the failure to afford divorcees of members of the Post Office Retirement Fund (Fund) similar rights and advantages afforded to former spouses of members of funds subject to the Pension Funds Act and the GEPL. It has been demonstrated in this chapter that divorced spouses of members of the pension funds regulated by these statutes can claim their share of their former spouse's pension interest at the time of divorce. This is referred to as the “clean break” principle. However, divorcees of members of the POPF cannot claim the interest that they are entitled to at the time of divorce.

The applicant, Ms Ngewu and Mr Ngewu, were married in community of property in October 1980. Mr Ngewu was at all relevant times employed by the Post Office and by virtue of his employment, he was a member of the Post Office Retirement Fund (the Fund). When they divorced on 27 July 2007, Ms Ngewu was awarded a 50% share of Mr Ngewu's pension interest, but she is only entitled to payment of that share when the benefit accrues to him. This is because the Post Office Retirement Fund Rules (Rules of the Fund), read with the Pension Funds Act and the Divorce Act, do not make any provision for a pension benefit in the Fund to be deemed to accrue on divorce, so that the divorcee's share can be paid on the date of divorce.

During the proceedings in January 2012, the Fund sought postponement for 12 months to enable Parliament to amend the Post Office Act to incorporate the “clean break” principle. The parties eventually reached a settlement agreement which included a suspended declaration of invalidity of the omission of the “clean break” principle from the Post Office Act. In addition, an extensive reading-in of section 24A of the GEPL embodying the “clean break” principle into the Post Office Act was proposed. The reading-in would be triggered only if, after eight months, the legislature failed to amend the Post Office Act to remedy the defect.<sup>25</sup> In its conclusion, the court held that it is not bound by an agreement between parties and therefore it remains the responsibility of the Court to be satisfied that legislation is indeed inconsistent with the Constitution. The court held that:

“Sections 10 to 10E of the Post Office Act, the relevant provisions dealing with the administrative

and financial matters of the Fund, are clearly unconstitutional. Because of the omission of the “clean break” principle there is a differentiation between the payment of divorced spouses’ interests regulated by the Pension Funds Act and the Government Employees Pension Law Amendment Act on one hand, and the payment of divorced spouses’ interest governed by the Post Office Act on the other. The differentiation is irrational as it has no basis. It does not meet the requirement of equality before the law and equal protection and benefit of the law contained in section 9(1) of the Constitution. The respondents furthermore did not submit that the legislation contains a reasonable and justifiable limitation of the right protected in section 9(1) and could hardly do so. Therefore, the omission of the “clean break” principle from sections 10 to 10E of the Post Office Act renders those provisions invalid to the extent of this inequality.”<sup>76</sup>

The Ngewu judgment indeed is a clear indication that the pension funds in the public sector must adopt the “clean break” principles which ensure that there is equal protection and benefit of the law for everyone as contained in section 9(1) of the Constitution. The Ngewu judgement is welcomed and it would be prudent for funds such the TRF to also adopt the “clear break” principle and not wait until provisions which preclude the payment of pension interest to a non-member on the date of divorce are challenged before our courts. By taking this prudent step, such funds will save costs and state resources.

## CONCLUSION AND RECOMMENDATIONS

The Pension Funds Act<sup>77</sup> is 57 years old and has required significant amendment in recent years to reduce its inconsistencies with the values underpinning the Constitution<sup>78</sup>, particularly in regard to the rights of women to equality and dignity. The 2007, 2008 and 2011 amendments to the Pension Funds Act and Government Employees Pension Law have been valuable in reducing the inequalities the former spouses of pension fund members face on divorce. We welcome them since they promote fairness and reasonableness in our law.<sup>79</sup> We also welcome the initiatives of the National Treasury of pushing the implementation of social security and retirement reforms since these will pave the way for the re-writing of the Pension Funds which will incorporate both public and private pensions. The Pension Funds Act has been amended forty times since 1956 and this shows that the Act does not reflect a non-racial South Africa which promotes non-sexism and democratic system of governance.

Based on the amendments, question which needs to be clarified will be what will happen to the investment preserved in the preservation fund or retirement annuity, since those rules made it clear that the benefit accrue on the date of retirement. This means that in case of divorce, the non-member spouse have to wait for the member spouse to retire for her benefit to accrue. These implications will mean that there is a need to amend the Income Tax Act<sup>80</sup> to be in line with the recent amendments. The exclusion of government employee’s pension fund members to be governed by the Pension Funds Act was unfair and it needed to be taken into account for future amendments. The South African Constitution particularly the Bill of Rights stipulates that everyone is equal before the eyes of the law and no one may be unfairly discriminated either directly or indirectly on all grounds<sup>81</sup>. The Pension Funds Act protects the marginalized of which in most cases the majority of those are women. The amendments of the GEP law and the POPF proposed inclusion of the “clean break” principle are a step towards addressing issues which affect both the pensioners and the beneficiaries. The clarification on the clean-break principle is long overdue. The payment of benefits to the former spouse on the date of divorce is a good thing as the non-member

spouse will not have to wait for payment until the retirement, death or resignation of the member spouse who belongs to the GEPF. Before the amendments non-member spouses were placed in a difficult position especially if they were unemployed and forced to wait until a later date to get the pension benefits assigned to them. In some instances, the former spouses are breadwinners in their families and this will assist to curb poverty. These amendments and the taxation clarification have put members of both private and public sector in the same position.

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- Act, 24 of 1956.
  - Act, 70 of 1979
  - Act, 24 of 1956
  - The non-member spouse was not entitled to interest in respect of her share or the returns earned by the fund on its investment during the period from the date of divorce to the date on which it was paid to her. Its value accordingly reduced in the interim.
  - Act, 11 of 2007
  - Act, 22 of 2008
  - Section 28 (e) of the Pension Funds Amendment Act, 11 of 2007.
  - Section 16(4)(d) of the Act.
  - Act, 70 of 1979.
  - See *De Kock v Jacobson and Another* 1999 (4) SA 346 (W), where the issue for determination was whether a retirement benefit consisting of a lump sum and a pension for the member (which accrued prior to the divorce date) formed part of the joint estate. The court held that there was no logical or legal reason as to why both components of the retirement benefit should not ordinarily form part of the joint estate.
  - Jeram N and Shrosbree L, An introduction to pensions law (2005), p75 (unpublished).
  - *Old mutual v Swemmer* 2004 (5) SA 373 (SCA).
  - Jeram N, Divorce benefits payable by pension funds, what are you entitled to? Online www.moneyweb.co.za, accessed 19 March 2013.
  - Section 1 of the Divorce Act, 70 of 1979
  - Marx GL and Hanekom K: *The Manual on South African Retirement Funds and Other Employee Benefits* Vol 1 (2003), 552.
  - *Blom v FNB Pension Fund and Momentum Group Limited*, PFA/GA/35823/2009/SM, unreported.
  - *Barnard v Municipal Gratuity Fund* [2009] 2 BPLR 143 (PFA).
  - See *Blom v FNB pension fund and momentum group limited* PFA/GA/35823/2009/SM para 5.4-5.5.
  - Cameron B , Splitting a pension on divorce online, <http://www.iol.co.za/business/personal-finance/retirement/splitting-a-pension-on-divorce-1.1218453>, accessed 19 March 2013.
  - Jeram N, Divorce benefits payable by pension funds What are you entitled to? Online www.moneyweb.co.za, accessed 19 March 2013
  - Ibid.
  - Cameron B , Splitting a pension on divorce online, <http://www.iol.co.za/business/personal-finance/retirement/splitting-a-pension-on-divorce-1.1218453>, accessed 19 March 2013.
  - *Old Mutual Life Assurance Company (SA) Limited and Another v Swemmer* [2004] 4 BPLR 5581 (SCA) at 5588A-E. In this matter the divorce order purported to transfer the entire proceeds of the retirement annuity benefit. In terms of the definition of 'pension interest', the non-member spouse is only entitled to the total of the contributions to the fund up to the date of divorce plus simple interest thereon at the prescribed rate. See also *Mashilo v Basil Read Group Provident Fund*, case no. PFA/NP/3044/2001/NJ, dated 17 August 2001, an unreported determination of the Pension Funds Adjudicator.
  - South African Law Commission Report on the division of pension benefits on divorce Project 41 (March 1995) and Report on sharing of pension benefits Project 112 (June 1999).
  - [2001] 3 BPLR 1804 (PFA)
  - Cameron B, Splitting a pension on divorce online, <http://www.iol.co.za/business/personal-finance/retirement/splitting-a-pension-on-divorce-1.1218453>, accessed 19 March 2013.
  - *Maqubela v Municipal Employees Pension Fund*, PFA/GA/22242/2008/TD, unreported.
  - *Maqubela v Municipal employees pension fund* PFA/GA/22242/2008/TD at Para 5.5.
  - *kapot v Liberty group limited* PFA/WE/34972/2009/TN.
  - [2004] 2 BPLR 5431 (SCA)
  - See *Noordien v Metal Industries Provident Fund* [2002] 3 BPLR 3236 (PFA)
  - Funds are generally encouraged to promote access to information to interested non-member spouse. However if the fund refuses, then the non-member spouse would probably be entitled to this information in terms of the Promotion of Access to Information Act, provided that there is compliance with this Act.
  - [2004] 2 BPLR 5431 (SCA)
  - See Jeram N and Shrosbree L, An introduction to pensions law (2005), p80 (unpublished). Van Heerden AJA in Swemmer case on behalf of the court made the following comments:
    - "This case cogently illustrates the importance of deeds of settlement and divorce orders relating to pension interests being formulated very carefully indeed in order to ensure that they fall within the ambit of subsections 7(7) and 7(8) of the Act... If this is done, then all that would be required of the pension fund in question is to perform administrative functions to give effect to the order, without the rights of the fund or the relationship between the fund and the member spouse being affected in any way, and it would not be necessary to join the fund as a party to the divorce proceedings." (emphasis supplied)
  - Act, 11 of 2007
  - Act, 22 of 2008
  - Act, 70 of 1979
  - As the judgments of the High Court and the Pension Funds Adjudicator reveal, the old position with regard to divorce benefits was unsatisfactory for the non-member spouse in that it undermined the 'clean break' principle following divorce (see *Mashilo v Basil Read Provident Fund* [2005] 1 BPLR 51 (PFA), *Mouton v Southern Staff Pension Fund* [2003] 4 BPLR 4581(PFA), *Maharaj v Maharaj and Others* [2002] 2 BPLR 3030 (D), *Sempapalele v Sempapalele & Another* [2002] 2 BPLR 3035 (O) and *Schenk v Schenk* 1993 (2) SA 346 (E)). It appears that the intention of the legislature when it amended the Pension Funds Act in 2007 was to remedy the problems evident in the operation of the Divorce Act and the Pension Funds Act in regard to what, for many couples, is their most valuable 'asset',

the retirement savings of the fund member

- [2007] 3 BPLR 296 (PFA). The ruling of *Swart v South African Retirement Annuity Fund and Two Others*, Case No. PFA/GA/19440/2007/RM (unreported) concerned the mode of payment of the non-member spouse's pension interest in a retirement annuity fund in light of the recent amendments to section 37D of the Pension Funds Act, 24 of 1956 brought about by the Pension Funds Amendment Act, 11 of 2007, which came into operation on 13 September 2007. In this determination, the Adjudicator confirmed the Cockcroft decision.
- Act, 70 of 1979.
- See *Bareki v Gencor* 2006 (1) SA 432 (T).
- Pension Funds Amendment Act, 11 of 2007.
- See also these determinations of the Pension Funds Adjudicator, *Barnard v Municipal Gratuity Fund*, PFA/GA/24186/2008/SM (unreported) and *Lessing v Evergreen Pension Fund and Another* [2007] 3 BPLR 334 (PFA). To get the copy of these determinations, visit [www.pfa.org.za](http://www.pfa.org.za) on the section of determinations, 2008.
- Act, 22 of 2008
- See *Barnard v Municipal Gratuity Fund*, PFA/GA/24186/2008/SM (unreported).
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- *Ngewu v Post Office Retirement Fund* (CCT 117/11) [2013] ZACC 4 at Para 15.
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- Section 9 of the South African Constitution.

## DISTRIBUTION AND PAYMENT OF DEATH BENEFITS IN THE PRIVATE AND PUBLIC SECTOR PENSION FUNDS IN SOUTH AFRICA

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### ABSTRACT

This paper will discuss the payment of any benefit payable upon the death of a member of a pension fund organisation in the private and public sector pension funds. The primary object of a pension fund organisation as defined in the Government Employees Pension Law, Transnet Pension Funds Act, Post Office Act and Pension Funds Act read with the Income Tax Act is to provide benefits to members of retirement funds when they retire from employment on reaching their retirement age. If a member dies before he retires, the pension fund must pay the benefit to his beneficiaries. This scenario is dealt with by the above legislations, which prescribes to the board of trustees of a pension fund how it should deal with the member's interest in the fund. The reason behind the payment and distribution of death benefits in the private and public sector pension funds is to ensure that those who were dependent on the deceased's member during his life-time are not left in destitute by the member's death. To achieve this object, the provisions regulating death benefits overrides the freedom of testation, and the board of trustees is not bound by the wishes of the deceased as expressed in the nomination form. For this reason, the death benefit subject to the exceptions outlined in the above legislations are excluded from the estate of a deceased member and placed under the control of the retirement fund thus limiting freedom of testation. The board of trustees is not bound by the deceased's will or nomination form. So although the deceased may have expressed an intention to benefit a certain nominated beneficiary in the nomination form, this does not necessarily imply that the whole amount of the benefit will in fact be awarded to that beneficiary.

**Keywords:** Death benefits; pension; trustees; income tax; South African Law

### INTRODUCTION

Modern pension funds schemes exist as a result of the industrial revolution and the social and technological advances that have since taken place during the 18<sup>th</sup> century.<sup>1</sup> During this period, the industrial revolution brought about change in the nature of society and the start of mass urbanization.<sup>2</sup> A lot of pressure mounted on the employers due to the stiff competition for skilled employees to ensure business efficiency and productivity and as a result of this, socially conscious employers recognized a need to make provision for those employees who had given them good service but had become too old to keep up with the physical pressures of work in a factory.<sup>3</sup> The provision of some form of benefits to retired employees by their employers attracted better and more qualified employees hence basic pensions began to expand as a means of attracting and retaining good employees.<sup>4</sup> South Africa is the first country in the African continent to have a legislation that regulates retirement funds.<sup>5</sup> The primary object of a pension fund organisation as defined in the Pension Funds Act read with the Income Tax Act is to provide benefits to members of retirement funds when they retire from employment upon reaching their retirement age. The reality is that a member may die before he retires in which case the pension fund must pay the benefit to the member's dependents and nominees.<sup>6</sup> In 1956, the South African Pension Funds Act<sup>7</sup> was promulgated into law. It is almost 56 years since this Act was passed.

This Act came into operation during the apartheid system of government and it offers little relief to the majority of the retirees.<sup>8</sup> In 1976, the legislature inserted section 37C into the Act, which deals with the distribution and payment of death benefits upon the death of a member of a pension fund organisation. This section was introduced primarily to ensure that death benefits are paid in accordance with the object of the Act and government policy.<sup>9</sup> Its purpose is to make sure that the dependants of the deceased member are not left destitute upon the death of the member.<sup>10</sup> In order to achieve this, the death benefits are placed under the control of the trustees who are tasked with the duty to distribute the benefits equitably among the beneficiaries. According to this section, death benefits do not form part of the deceased's estate and as a result a beneficiary under the last will and testament of the deceased is not necessarily a beneficiary under section 37C of the Act. The board of trustees will consider a person as a beneficiary if the deceased member has nominated such a person in a valid nomination form.<sup>11</sup> This section therefore overrides the deceased's freedom of testation because the board of trustees are not bound by the deceased's wishes as completed in the nomination form. A nomination form is one of the factors which the trustees have to consider in the exercise of their discretion to make an equitable distribution.<sup>12</sup> The contents of the nomination form only serve as a guideline to the trustees and do not compel the trustees to distribute the benefits in accordance with the nomination form.

There are a number of factors which the board of trustees need to consider when making an equitable distribution. These factors were highlighted in the matter of *Sithole v ICS Provident Fund and Another*<sup>13</sup> (hereinafter referred to as *Sithole* case) wherein it was stated that the trustees must consider; the age of the dependants, the relationship between the deceased and the dependants, the extent of dependency, the wishes of the deceased placed either in the nomination and / or his last will, and financial affairs of the dependants including their future earning capacity. In order to ensure that the objects of the Act are achieved, section 37C essentially imposes three primary duties on the board of management, namely to identify the dependants and nominees of the deceased member; to effect an equitable distribution of the benefit among the beneficiaries; and to determine an appropriate mode of payment.<sup>14</sup>

## ISSUES AND CHALLENGES

The intention of the legislature with section 37C is commendable but this section is not without problems. Firstly, section 37C confers the board of trustees with enormous discretion in the exercise of their duties. This enormous discretion is perpetuated by the fact that this section fails to provide the trustees with clear guidelines to distribute and pay benefits equitably amongst the beneficiaries. Consequently in the absence of clear guidance from this section, a large number of complaints are brought to the office of the Pension Funds Adjudicator, challenging decisions made by the board of trustees. Secondly, there are practical difficulties in determining who is eligible and who is not eligible to receive death benefits and in addition the section is rather silent on the order of priority in which the dependants should receive benefits. Trustees are therefore placed in a difficult position as they are obliged to make an equitable distribution in the midst of these challenges, which again leads to a large number of complaints brought to the office of the Pension Funds Adjudicator challenging decisions made by the board of trustees. Thirdly, section 37C provides that a dependant or a nominee has to be traced within a period of twelve (12) months. The latter is however not easy to achieve due to the practical

difficulties faced by the trustees when tracing the dependants, especially with the dependants who reside in remote rural areas. Fourthly, this section does not indicate the steps which the trustees must take in order to establish the existence of the dependants, their whereabouts, and the extent of their dependency and which occasionally creates difficulties to the trustees to perform their duties both timeously and efficiently. Fifthly, section 37C read in conjunction with section 30I of the Pension Funds Amendment Act<sup>15</sup>, fails to provide a remedy or condonation if a complaint is lodged outside the three-year period. The implications are that those dependants who lodged their complaints outside the three-year period would not be able to access the benefits, which then is contrary to the object of section 37C to protect dependency. Sixthly, Section 37C(2) provides that payment by a registered fund for the benefit of a dependant or nominee to a trustee contemplated in the Trust Property Control Act<sup>16</sup>, shall be deemed to be payment to such a dependant or nominee. The problem with this provision is that the fund is relinquished of its responsibility towards the beneficiary once payment is made to a trust. In other words the relationship between the fund and the beneficiary ceases. This, in essence, has dire consequences towards the beneficiary in that more often than not payments to trusts do not have proper governance structures in place which is prejudicial to the beneficiaries. This problem has partially been resolved by the introduction of the 2008 amendments to the Pension Funds Act which introduces the beneficiary funds which replaced the trusts. Lastly, the interpretation and application of this section brings about confusion especially towards the nominees of the deceased. The nominees often contest that being nominated in the nomination form means that they are entitled to benefits. This section does not expressly state that a nominee is not automatically a beneficiary on the basis of being nominated in the nomination form but rather only qualifies for consideration in the distribution phase.

The decisions which the Adjudicator often delivers can be said to put a lot of emphasis that section 37C is a social security measure for the dependants of the deceased to escape destitution. Social security is one of the important aspects of socio-economic rights. It is evident that the Pension Act forms part of the Social security legislations but does that mean that section 37C promotes social security? According to Manamela this section is a social-security measure because it places the benefit payable on a member's death under the control of the fund, which has to pay it to the member's dependants in such proportions as it deems equitable.<sup>17</sup> Manamela further holds the view that this section is a mechanism that enforces the right of dependants to support, additional to the common law duty resting on certain people to support others, for example, the duty of support existing between parents and children, and additional also to the power of courts to grant maintenance orders in favour of certain people, for example, divorced people and illegitimate children.<sup>18</sup> This view seems to suggest that a person can claim support or maintenance from the deceased's death benefits through section 37C.

However the person must prove that he or she falls within the definition of dependant in order to have a successful claim. This means that the person must be either a legal dependant of the deceased, where a duty of support emanates from a statute or common law, or non-legal dependant of the deceased, where the deceased is under no legal duty to support the claimant but the claimant was dependent on the deceased during the deceased's lifetime; and future legal dependant, where the deceased would have become legally liable to maintain the claimant at some future date had he or she notionally survived his or her death. It is therefore safe to conclude that Manamela supports the phenomenon that section 37C offers social protection to the dependants of the deceased by ensuring that

dependants still have financial support upon the death of the member. Other authors do not differ much with Manamela. According to Naleen Jeram, a former Deputy Pension Funds Adjudicator, section 37C is a type of social security measure as places the benefit payable on the death of a member under the control of the retirement fund. Nevondwe, Malatji & Rapatsa view section 37C as a curious provision because ordinarily people have freedom of testate which entitles them to determine how their assets are to be distributed amongst their beneficiaries.<sup>19</sup> However, this section provides that benefits payable by a pension fund upon the death of a member do not automatically form part of the deceased member's estate and thus exclude a member's freedom of testation.<sup>20</sup> This assertion implies that freedom of testate is not absolute; it may be limited by section 37C because the death benefits are put under the control of the board to make an equitable distribution amongst the dependants and nominees. However in the event that the trustees are unable to trace the dependants within the twelve (12) month period and the deceased has not completed a nomination form, the benefits shall be payable to the deceased's estate.<sup>21</sup>

The question is whether the limitation of freedom of testation by section 37C is justified under the Constitution?<sup>22</sup> According to Nevondwe this section accords with the provisions of the Constitution<sup>23</sup> and in support of this view, Nevondwe argues that a death benefit is part of social security, which is a mechanism that enables people to escape destitution and accordingly, the right to social security<sup>24</sup> includes the right to be allocated a death benefit if the requirements of section 37C Act are met.<sup>25</sup> Manamela is also of the view that this section accords with the provisions of the Constitution.<sup>26</sup> In particular Manamela argues that section 37C is in line with the Constitution on the issues of equality<sup>27</sup> and human dignity<sup>28</sup> because it sees to all the interests of dependants of a deceased member without discriminating.<sup>29</sup> It is therefore safe to conclude that the following rights are promoted by section 37C, namely, the right to have access to social security, equality, human dignity and freedom. Against this background, it is submitted that section 37C's limitation of freedom of testation is reasonable and justifiable under the Constitution in that it aims to promote entrenched Constitutional rights that affirm democratic values of those dependants who are left in destitute.

Judge Hussain J in the matter of *Mashazi v African Products Retirement Benefit Provident Fund*<sup>30</sup> passed the following remarks about this section:

"Section 37C of the Act was intended to serve a social function. It was enacted to protect dependency, even over the clear wishes of the deceased. The section specifically restricts freedom of testation in order that no dependants are left without support. It specifically excludes the benefits from the assets in the estate of a member, and enjoins the trustees of the pension fund to exercise an equitable discretion, taking into account a number of factors".<sup>31</sup>

The above remarks contribute significantly to the better understanding of section 37C in that they confirm the intentions of the legislature when enacting this section, which is to ensure that the dependants of the deceased are not left in destitute. Unfortunately, on the other hand the remarks also confirm the lack of guidance this section provides for the trustees regarding its implementation hence trustees are clothed with discretion in the exercise of their duties under this section. Mhango also supports the view held in *Mashazi* case and asserts that section 37C has been enacted to protect dependency by restricting the member's capacity to dispose of their benefits upon their death.<sup>32</sup> The adjudicator in the matter of *Dobie NO v National Technikon Retirement Pension Fund*<sup>33</sup> (hereinafter referred to as *Dobie* case) acknowledged the challenges that are brought by section 37C and stated that:

“One thing is certain about section 37C, is a hazardous, technical minefield potentially extremely prejudicial to both those who are expected to apply it and to those intended to benefit from its provisions. It creates anomalies and uncertainties rendering it most difficult to apply...”<sup>34</sup>

It can therefore be deduced from the view held in the *Dobie* case about section 37C, that the legislature had good intentions with this section but this section is one fraught with great difficulty, and places the trustees in a difficult position to implement it and this may be prejudicial to the dependents or nominees. In order to alleviate some of the problems of this section, Nevondwe suggests that this section needs to be amended to furnish guidelines for the boards of trustees in allocating and paying death benefits equitably.<sup>35</sup> Manamela also suggests that by introducing the order of priority in which the dependants should receive benefits will demystify the provisions of section 37C as this would make it much easier for trustees to apply the section and would also save a lot of time.<sup>36</sup> The adjudicator in the *Dobie* case stated that:

“One solution may be for the section to identify more precisely the steps required to be taken, including an appropriate form of publication, and then allowing for a final distribution to known dependants and nominees at the expiry of a reasonable period culminating in indemnification of the board against further claims”.<sup>37</sup>

It is clear that section 37C aims to place the beneficiaries in the same position as they were during the deceased's lifetime. This, in essence, obviates destitution. <sup>38</sup> Manamela is of the opinion that the essence of section 37C, its interpretation and application cannot be ignored although the section is fraught with problems.<sup>39</sup>

#### THE MEANING OF “DEATH BENEFIT” IN THE PENSION FUNDS ACT

Section 37C constantly refers to the word “benefit” and this word is not defined in the Act other than it is benefit payable by a registered fund to the dependants or nominees of the deceased member.<sup>40</sup> It is however important to know what a death benefit is for the purposes of section 37C. This understanding would give clarity to the beneficiaries of the deceased and as a result of such an understanding; the beneficiaries would therefore lodge their claim for the benefits within the prescribed period. Pension funds generally pay benefits which normally depend on the occurrence of an event that relates to termination of the employment contract such as retirement, death, resignation, retrenchment, disability etc.<sup>41</sup> For the purpose of this section, a death benefit is a benefit payable to the dependants and nominees of the deceased member should the latter die in service before reaching normal retirement age<sup>42</sup>. Often complaints are lodged with the office of the Pension Funds Adjudicator regarding the nature and computation of death benefits; complainants often contend that they have received fewer amounts of benefits than they were entitled to. The same issue arose in the matter of *Ellis NO v Lifestyle Retirement Annuity Fund*<sup>43</sup> (hereinafter referred to as *Ellis* case). The complainant (acting in his capacity as the executor in the estate of the late WMB Broughton) lodged a complaint with the office of the Pension Funds Adjudicator regarding the computation of the benefit with reference to the Income Tax Act.<sup>44</sup>

The complainant was dissatisfied with the decision of the fund to pay a lesser death benefit to the estate than that which would have been paid to a nominee or a dependant.<sup>45</sup> The benefits paid to the estate were computed in terms of section 1(b)(vi) of the Income Tax Act<sup>46</sup> in terms of which if a member dies before he becomes entitled to the payment of a retirement benefit, the death benefit shall not exceed

a refund to his estate, therefore no annuities were payable to the estate. The complainant contended that the definition of a retirement annuity fund in the Income Tax Act<sup>47</sup> merely contain requirements for a fund to be approved by revenue authorities and further contended that paragraph (b)(vi) of section 1 of the definition only deals with what the rules of a retirement annuity fund must provide in the case of a member who dies before he becomes entitled to an annuity. The complainant further contended that the benefit ought to have been determined in terms of section 37C(1)(c) of the Act.<sup>48</sup> The legal question was whether section 37C regulated the computation of the death benefit? In arriving at the decision, the adjudicator observed that the value of the death benefit is not regulated by section 37C but by section 6.2 of the rules of the fund.<sup>49</sup> After evaluating the rule, the adjudicator concluded that there are two benefits payable. Firstly, a refund of the deceased's contributions is payable either to the estate or his dependants or nominees. However since there are no dependants or nominees, therefore the only benefit payable is a refund of the member's contributions. The estate did not qualify for the benefit because the estate is neither a dependant nor a nominee.<sup>50</sup>

It can therefore be deduced from the *Ellis* case that section 37C does not regulate the nature, computation, and value of a benefit. This section is only confined to regulate the distribution and payment of death benefits, in fact, section 37C establishes a compulsory scheme in terms of which death benefits payable after the death of a member of the fund have to be distributed to the deceased's dependants.<sup>51</sup> It is therefore submitted that the nature and computation of death benefits is regulated by the rules of the fund and not section 37C.<sup>52</sup>

#### WHO IS A DEPENDENT UNDER SECTION 37C?

From a reading of section 37C in its entirety, it is clear that dependents are favoured over nominees in the distribution phase. In terms of section 37C(1), there is a duty on the board to take all reasonable steps to trace and locate the dependents of the deceased member. What constitutes a reasonable investigation by the board will differ from case to case. The mere fact that a person qualifies as a dependent does not entitle him to the entire benefit; it only entitles him to be considered by the board in the distribution phase.<sup>53</sup> The Act defines a "dependent" in section 1 as follows:

- (a) a person in respect of whom the member is legally liable for maintenance;
- (b) a person in respect of whom the member is not legally liable for maintenance, if such person—
  - (i) was, in the opinion of the board, upon the death of the member in fact dependent on the member for maintenance;
  - (ii) is the spouse of the member;
  - (iii) is a child of the member, including a posthumous child, an adopted child and a child born out of wedlock;
- (c) a person in respect of whom the member would have become legally liable for maintenance, had the member not died;

A "spouse" in the Pension Funds Amendment Act 11 of 2007 is in turn defined as a person who is the permanent life partner or spouse or civil union partner of a member in accordance with the Marriage Act, 1961 (Act No, 68 of 1961), the Recognition of Customary Marriages Act, 1998, (Act No, 120 of 1998), or the Civil Union Act, 2006 (Act No. 17 of 2006), or the tenets of a religion.<sup>54</sup> It is evident that for a spouse to be recognised for the purposes of the Act, it must be proved that he or she is a spouse of a deceased

member in accordance with the Marriage Act 68 of 1961, the Recognition of Customary Marriages Act 120 of 1998 or the tenets of a religion, or a civil union partner in terms of the Civil Union Act 17 of 2006. The legislature has used the term ' permanent life partner ' to encompass both heterosexual and same-sex relationships. This is in line with the various Acts that treat heterosexual life partners and spouses similarly (see the Insolvency Act 24 of 1936 and the Compensation for Occupational Injuries and Diseases Act 130 of 1993). This is also in line with some Acts that extend the same protection to heterosexual and same-sex life partners by treating both groups like spouses (see the Estate Duty Act 45 of 1955, the Income Tax Act 58 of 1962, the Maintenance Act 99 of 1998, the Domestic Violence Act 116 of 1998 and the Rental Housing Act 50 of 1999).

The Constitutional Court in *Volks No v Robinson and Others*<sup>56</sup> at paragraph 60, held that the different treatment of formally married spouses, on the one hand, and cohabittees in a permanent life partnership, on the other, for purposes of maintenance claims against the deceased ' s estate is not unconstitutional. We are of the view that, the same principle applies in the treatment of a cohabitee for purposes of qualifying as a spouse, as defined in section 1(b)(ii) of the Act. Thus, the legislature has outlined three categories of dependants based on the deceased member ' s liability to maintain such a person, namely legal dependants, non-legal dependants and future dependants.

### Legal Dependents

A person qualifies as a legal dependant if a legal right exists for such a person to claim maintenance from the deceased, in other words the deceased must be legally liable for the maintenance of the claimant. This category of dependants qualifies as dependants merely by their status and this includes spouses, children, and parents of the deceased who are thus eligible to receive a benefit. This duty imposed on the deceased to maintain a beneficiary under this category must be as a result of a common law obligation or statutory obligation. The following requirements need to be met in order for a beneficiary to claim legal maintenance from the deceased: (a) the relationship between the parties must be such that the law imposes a duty of support;<sup>56</sup> (b) the person claiming maintenance must be unable to support himself /herself;<sup>57</sup> and (c), the person called upon to provide support must have the necessary resources to maintain the claimant.<sup>58</sup>

There always exists a reciprocal duty of support between spouses as a direct consequence of marriage. The duty of support can continue after the marriage has been ended by divorce.<sup>59</sup> In the matter of *Lombard v Central Retirement Annuity Fund*<sup>60</sup> where the trustees, in the exercise of their discretion, held the view that the complainant is not a dependant because the settlement agreement which the deceased and the complainant entered into did not have the effect of qualifying the complainant as a dependant; in consequence, the trustees paid the benefits into the deceased's estate. However the adjudicator held the view that the clause in the divorce order relating to medical expenses constitutes a court order which qualifies the complainant as a dependant in terms of paragraph(a) of the definition of dependant and therefore the complainant had a claim against the death benefits arising from the deceased's membership of the fund. A parent, grandparent or grandchild can also qualify as a dependent. Like parents, children have a reciprocal duty to maintain their parents provided that they have the means to do so. The parent will, however, have to prove the need or necessity for support, and cannot merely allege the existence of a parent – child relationship. A reciprocal duty of support also exists between

grandparents and grandchildren, subject to the same requirements outlined above. A grandchild can therefore be treated as dependent, provided he can prove that he was dependent on the grandparents. The same will apply to the grandparents.<sup>61</sup>

A duty of support also arises between brothers and sisters. The claimant will, however, have to prove that he was indigent and was indeed dependent on the deceased during his lifetime.<sup>62</sup> In the matter of *Mokele v SAMWU National Provident Fund*<sup>63</sup> whereby the deceased was unmarried and did not complete a nomination form. After the completion of investigations the trustees found that the deceased was survived only by his two siblings. However the trustees reached a decision and concluded that the siblings were not the dependants of the deceased and therefore paid the benefits to the estate of the deceased. The complainant contended that by virtue of being the sister of the deceased she is, by law, entitled to receive the benefits. However this submission was rejected by the adjudicator and held that there was no legal duty on the deceased to maintain his siblings. It was concluded that the complainant was not financially dependent on the deceased for maintenance at the time of the deceased's death and therefore the complainant fell outside the definition of dependant and is thus not entitled to share in the distribution.<sup>64</sup>

### **Non-legal Dependents/ De facto Dependents**

Non-legal dependents are those dependents who are not legally dependent on the deceased member for maintenance. There are three categories of these dependents, namely, *defacto* dependents, co-habitees and children. Where there is no duty of support, a person might still be a dependent if the deceased contributed to the maintenance of that person in some way. The person claiming to be a factual dependent will have to prove that he was dependent on the deceased (despite the latter not having a legal duty of maintenance) when the member died. To constitute maintenance, payments should have been made regularly<sup>65</sup> by the deceased to the beneficiary claiming to be a factual dependent. They should not have been once-off, but should have been made until the deceased died.

### **Future Dependents**

The dependents under this category are those whom the deceased would have been liable to maintain had the latter lived. The fact that the deceased was not legally liable to maintain the claimant at the time of his death is irrelevant under this category. The cardinal question is whether the deceased member would have become legally liable to maintain the claimant at some future date had he or she notionally survived his or her death. The concept of "dependent" is broadened under this category in that all persons whom the deceased was not legally liable to maintain at the time of his death may nevertheless fall within the definition, subject to the requirement that such persons would have been legally maintained by the member had he or she notionally survived his or her death.<sup>66</sup>

A good illustration of this section is found in the matter of *Wasserman v Central Retirement Annuity*<sup>67</sup> where the deceased did not complete a nomination and the trustees after conducting investigations concluded that the deceased had no dependants, thus the entire benefit was paid into the deceased's estate. A complaint was lodged with the office of the Pension Funds Adjudicator by the deceased's mother who contended that she was entitled to receive benefits although she was not dependent on the deceased. The adjudicator held that the deceased would have been legally liable to

maintain the complainant in light of the complainant's dire need for financial, medical and probably emotional support. This duty arises out of the parent-child relationship. It was therefore concluded that the complainant fell within the paragraph(c) as a future dependant. The significance of this matter cannot be over emphasised in that it implies that this section 37C may also be used to cover future maintenance liability. Possible dependants in terms of this section might include parents who are not legally dependent on the deceased for maintenance at the time of his death, engaged couples, parties intending to marry and so on.<sup>68</sup>

## **DISTRIBUTION OF THE DEATH BENEFITS**

Section 37C confers the board of trustees of a pension fund with discretionary powers which have to be exercised reasonably. In exercising their discretion, trustees are expected to make a distribution of benefits in such a manner that is deemed equitable.<sup>69</sup> In other words, trustees must distribute death benefits fairly and reasonably without discriminating unfairly against any person who qualifies as a dependant and/ or nominee of the deceased. The duty placed on the trustees to make an equitable distribution is not always an easy task as the trustees are generally faced with highly emotive circumstances that tend to have the bearing of losing sight of the real issues at hand.<sup>70</sup> It would therefore be prudent of the trustees to avoid issues that have no bearing on the matter. In other words, the trustees need to consider all relevant information and ignore irrelevant facts in order to make an equitable distribution. Furthermore, the trustees must not rigidly adhere to a policy or fetter their discretion in any other way.<sup>71</sup>

### **Distribution to Dependents Only**

Section 37C(1)(a) of the Act provides that if the fund within twelve (12) months of the death of the member becomes aware of or traces a dependant(s) of the deceased member, the benefit shall be paid to such dependant(s) or, as may be deemed equitable by the board, to one of such dependants or in proportions to some of or all such dependants. It is therefore clear from the wording of section 37C(1)(a) of the Act that it only applies to a situation where the deceased member is only survived by the dependants who are traced and identified by the trustees during their investigations. This section imposes a time frame for distribution of benefits and the issue in this regard is whether the board has to effect the payment of distribution within the twelve (12) month period or the board has to wait for the period of twelve (12) months to lapse before effecting the said payment to the dependants. It is submitted that the time frame 'within twelve months of the death of a member' in this section only defines the period available for tracing dependants before making payment exclusively to a nominee and does not qualify the obligation to pay the benefit.<sup>72</sup> The stipulated period in this section does not pose any limitation upon the distribution to dependants provided that the board is reasonably satisfied that it has traced all dependants.<sup>73</sup> In other words the provision does not prohibit distribution within twelve (12) months nor does it compel distribution at the expiry of the twelve months period, in essence, section 37C(1)(a) of the Act must be read in conjunction with section 37C(1)(b) of the Act which provides that an exclusive distribution to a nominee may take place only after the twelve (12) month waiting period has produced no dependants.<sup>74</sup> The crucial question here is whether the board has taken all reasonable steps to comply with its duty to trace all the dependants so as to allow it to distribute the benefit in the most equitable

manner.<sup>75</sup> It is permissible for the trustees to postpone the distribution until they have taken reasonable steps to remove any doubt regarding the circle of beneficiaries.<sup>76</sup>

### **Ages of Dependants**

This factor plays an important role in determining the length of time that a beneficiary will need to be maintained. In *Motsoeneng v AECI Pension Fund & Another*,<sup>77</sup> the deceased was survived by five minor children (two of them from a relationship with another woman) and his widow. The children were aged 17, 13, 10, 6 and 4 respectively. The board resolved to award each of the children 20 per cent of the benefit. The widow, the mother of three minors, lodged a complaint. The Adjudicator found that the fund had fettered its discretion by not considering the respective ages of the minor children and different needs of a 3-year old as opposed to a 17-year old.

### **The Relationship with the Deceased**

The relationship between the beneficiary and the pension fund member plays a crucial role and may have a material impact on the distribution. The trustees must consider all the relevant factors that seem to suggest that the deceased and the beneficiary had a very close social and emotional relationship. By virtue of the provisions of section 37C, the trustees have discretion to award the entire benefit to a beneficiary based only on the relationship which the deceased had with the latter. In the matter of *Karam v Amrel Provident Fund*,<sup>78</sup> the deceased was survived by her major son and a close friend, whom she nominated as a beneficiary. Both of them were financially independent. The deceased and her son were estranged from each other up to her death. Before they became estranged, the deceased nominated her son as sole beneficiary and sole heir, but later revoked the nomination. The fund awarded the entire benefit to the nominee. The Adjudicator confirmed the decision of the fund and held that where dependants are mature adults and gainfully employed, their relationship with the deceased becomes a critical factor.

### **Extent of Dependency**

Section 37C requires the trustees to trace the dependants of the deceased and also establish the extent of dependency of the dependants. The extent at which the dependants depend on the deceased can be a significant factor.<sup>79</sup> In determining this factor, the board of trustees must evaluate the extent to which the deceased member was liable to provide for the maintenance needs and thereafter assess the reasonable maintenance needs of each beneficiary.<sup>80</sup> The fund must ensure that the objects of section 37C are promoted at all times when exercising their discretion, therefore where the fund pays a beneficiary less than his or her maintenance needs, it cannot be deemed to promote the objects of section 37C, especially if there is enough amount available for distribution. In the matter of *Robinson v Central Retirement Annuity Fund*,<sup>81</sup> the Adjudicator found that the fund exercised their discretion improperly for failing to consider that the deceased was required by a divorce order to pay for the reasonable maintenance needs of the complainant, a minor child.

### ***Wishes of the Deceased: Nomination and/or Last Will***

The wishes of the deceased are often expressed in the nomination form or the will.<sup>82</sup> As regards

the will, pension fund benefits are expressly excluded from the Nominated beneficiaries are often under the mistaken impression that they are entitled to the benefit because the deceased member nominated them. But this is not so, because section 37C was enacted to protect dependency over the clear wishes of the deceased. The deceased's estate content of the nomination form is merely one of the factors considered by the trustees in the exercise of their discretion.<sup>83</sup>

In *Moir v Reef Group Pension Plan*<sup>84</sup> the complainant and the deceased member were divorced in 1984, but continued living together as husband and wife until the member died in March 1997. The deceased completed a nomination form nominating his brother as the sole beneficiary. The fund awarded the entire benefit to the brother on this basis. The complainant, a *de facto* spouse, objected to the distribution. The Adjudicator, treating the complainant as a *de facto* dependent, held that the board had fettered its discretion by blindly following the nomination form without considering any of the other factors. So the Adjudicator concluded that the distribution was not equitable, because the board fettered its discretion by basing its distribution solely on the nomination form.

### ***Financial Affairs of the Dependents and Future Earning Capacity/Potential***

The financial position of the dependants upon the death of the deceased and their future earning capacity plays a vital role in assisting the trustees to make an equitable distribution. The lack of potential earning capacity of a dependant prompts the trustees in the exercise of their discretion to award higher proportions of benefits to such a dependant as opposed to a dependant who is in a much better financial position and/or capable of obtaining employment (here one thinks of a dependant who is in his or her prime, being in good health and having formal education).

In *Van Vuuren v Central Retirement Annuity Fund and Another*<sup>85</sup>, the deceased member was survived by his widow from whom he was separated, but not divorced. He was also survived by a *de facto* spouse with whom he lived in a relationship of husband and wife. The fund awarded the death benefit in equal shares to the widow and the *de facto* spouse. The latter was also the sole beneficiary of a life insurance policy taken out by the deceased. The Adjudicator held that the distribution of the death benefit was not equitable, because the board failed to consider that the *de facto* spouse was the sole beneficiary under the life insurance policy. The Adjudicator held further that any receipt of a cash benefit directly impacts on the financial status and future earning capacity of the dependent.

### ***Amount Available for Distribution***

The amount available for distribution is always a critical factor. Often, especially where there is more than one dependent, the amount distributable is insufficient to ensure that all share in it. This factor may compel the board to award a dependent an amount less than his reasonable maintenance needs or even to exclude certain dependents.

### ***Distribution to Nominees Only***

Section 37C(1)(b) of the Act covers a situation where the trustees do not become aware of or traced a dependant within the twelve (12) month period but rather the deceased has completed a nomination form whereby he or she has nominated a beneficiary to receive the death benefits. Section 37(1)(b) of the Act obliges the trustees to distribute the benefit to that nominee on the expiry of twelve (12)

months period. Payment of the benefit to a nominee under this sub-section is subject to the following requirements:<sup>86</sup> (a) the board has not traced and identified any dependants of the deceased member; (b) the twelve-month period has lapsed; (c) the deceased has completed a valid nomination form in which the person nominated in writing is not a dependant;<sup>87</sup> and (d), the aggregate assets of the deceased member's estate exceed its aggregate debts. Once the above requirements are met the nominee can only receive a portion of the benefit as is specified by the member in the nomination.<sup>88</sup> Where the deceased member has only allocated a certain percentage of the benefit to a nominated beneficiary, that nominee will only be entitled to the portion specified. The remainder of the benefit will be paid into the estate in terms of section 37C(1)(c).<sup>89</sup>

#### **Distribution to Dependants and Nominees<sup>90</sup>**

Section 37C (1)(bA) of the Act states that:

"If a member has a dependant and the member has also designated in writing to the fund a nominee to receive the benefit or such portion of the benefit as is specified by the member in writing to the fund, the fund shall within twelve months of the death of such member pay the benefit or such portion thereof to such dependant or nominee in such proportions as the board may deem equitable: Provided that this paragraph shall only apply to the designation of a nominee made on or after 30 June 1989: Provided further that, in respect of a designation made on or after the said date, this paragraph shall not prohibit a fund from paying the benefit, either to a dependant or nominee contemplated in this paragraph or, if there is more than one such dependant or nominee, in proportions to any or all of those dependants and nominees".

In contrast to section 37C(1)(a) and section 37C(1)(b) of the Act, section 37C(1)(bA) of the Act applies to a situation where the deceased is survived by both the dependants and nominees. This sub-section requires the trustees to effect an equitable distribution within the twelve (12) month period to both the dependants and the nominees. This sub-section considers as valid, only those nominations forms that have been completed on or after the 30 June 1989, thus all nominations made prior to this date for the purposes of this sub-section are deemed to be invalid.<sup>91</sup> Furthermore, by virtue of dependants being involved in this distribution, the payment to the beneficiaries is not subject to the assets of the estate exceeding the liabilities.<sup>92</sup> The factors that are outlined above in the *Sithole* case for considerations by the trustees when making an equitable distribution shall apply *mutatis mutandis* to considerations by the trustees under section 37C(1)(bA) of the Act.<sup>93</sup>

#### **CONCLUSION**

The intentions of the legislature are very clear pertaining to section 37C. The section was enacted to serve a social function by protecting the dependants of the deceased from destitution. This also has the effect of minimising the state's liability to support the dependants of the deceased through social assistance programmes. The government clearly had good intentions with section 37C because the death benefits are put under the control of the trustees to distribute equitably amongst the dependants and nominees of the deceased.<sup>94</sup> It has been illustrated in this chapter the difficulties which the trustees encounter, when determining whether a person qualifies as a dependant of the deceased. It is prudent for the trustees to avoid issues that have no bearing on the matter because these issues often have the effect

of having the trustees lose sight of the real issues at hand. It is therefore submitted that once the trustees lose sight of the issues at hand, their discretion would be based on an incorrect principle which ultimately would be subjected to a complaint lodged with the office of the Pension Funds Adjudicator. It is evident that section 37C does not provide guidance to the trustees to allocate and pay death benefits but it can be concluded that the crucial factors will always be dependency and the six factors that have been mentioned in *Sithole's* case.<sup>95</sup>

It is further evident that section 37C is fraught with many problems. It is submit that the amendment of this section is necessary rather than abolishing the whole section because its object is to ensure that those persons who were dependent on the deceased are not left in destitute. This is vital especially in a society where poverty thrives. It is recommended that section 37C needs to be amended in order to provide guidelines to the trustees to distribute and pay the death benefit in an equitable manner.<sup>96</sup> These guidelines may for example, provide the order of priority of the dependants and nominees. This would minimise the number of complaints that are lodged with the office of the Pension Funds Adjudicator regarding the trustees' failure to distribute and pay the death benefit equitably among the dependants and nominees of the deceased. It is further recommended that section 37C needs to be amended in order to provide the steps to be taken by the board in determining the existence of the dependants, their whereabouts, and the extent of their dependency.<sup>97</sup> This is important because without such guidelines, the investigations into the existence of these dependants will continue to be flawed. Ultimately the dependants would be prejudiced. It has been suggested that the trustees must consult third parties in order to ascertain the existence of the dependants.<sup>98</sup> This includes consultation with, *inter alia*, the employer of the deceased, the spouse or cohabiting partner, former spouse or cohabiting partner, if any, major dependants, nominated beneficiaries, colleagues at the deceased member's workplace, and other family members.<sup>99</sup>

In addition to the aforementioned amendments, section 37C should be amended to also provide condonation in respect of complaints lodged outside the three (3) year period in terms of section 30I of the Act. The lack of condonation in this respect disadvantages the poor people in the rural areas because most of them are not aware of their rights under pension law.<sup>100</sup> It is further suggested that the funds amend their rules and make it compulsory for members to complete nomination forms. Furthermore, it would be prudent if the fund requests members to update these nomination forms annually identifying both their legal and non-legal dependants.<sup>101</sup> This measure would ensure that dependants are identified and traced expeditiously without any complexities. There is a need for the GEPF to take the steps to improve communication improve the channels of communication with government departments at both national and provincial level.<sup>102</sup> There is also a need for GEPF to develop its information technology infrastructure to comprise methods of communication that will allow for the facilitation of internal and external information to the employer departments to ensure quick and efficient response to all enquiries.<sup>103</sup> By taking these measures the GEPF would be protecting the interest of members but mostly importantly would be securing the interests of the dependants of the deceased to receive death benefits without delay.

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<sup>95</sup> Choma HJ and Nevondwe LT, *Socio-economic rights and financial planning in South Africa* (2010),1.

<sup>96</sup> Choma HJ and Nevondwe LT, *ibid*, 1.

<sup>97</sup> Choma HJ and Nevondwe LT, *ibid*, 2.

<sup>98</sup> Choma HJ and Nevondwe LT, *ibid*, 2.

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- Nevondwe LT, Is the distribution of death benefits under the Pension Funds Act 24 of 1956 constitutional? Juta Business Law Journal (JBL), 2007 Volume 15, issue 4, 164.
- Nevondwe LT, *Ibid*, 164.
- Members are generally expected to complete nomination forms wherein they nominate the beneficiaries to receive their death benefits.
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- *Sithole v ICS Provident Fund and Another* [2000] 4 BPLR 430 (PFA) at paragraphs 24 and 25.
- *Mashego and Others v SATU National Provident Fund and another* [2007] 2 BPLR 229 at paragraph 5.3. See Nevondwe LT, The distribution and payment of a death benefit in terms of section 37C of the South African Pension Funds Act, 24 of 1956, Pensions and International Journal Palgrave Macmillan Publishers, UK Volume 15, issue 4, November 2010, 39. See further M Mhango, what should the board of management of a pension fund consider when dealing with death claims involving surviving cohabitants? Potchefstroom Electronic Law Journal, Volume 13, No 2, 2010.
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- Manamela T, *op cit*, 294.
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- *Ellis NO v Lifestyle Retirement Annuity Fund* [2001] 5 BPLR 2021 (PFA).
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- Income Tax Act of 1962.
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- Pension Funds Act 24 of 1956.
- Section 6.2 of the rules of the fund reads:  
"DEATH BEFORE RETIREMENT  
In the event of the MEMBER dying before his SELECTED RETIREMENT DATE, BENEFITS will be payable in accordance with the provisions of section 37C of the ACT and the Income Tax Act 1962 as amended, or any replacement thereof."
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- *Ellis NO v Lifestyle Retirement Annuity Fund* [2001] 5 BPLR 2021 at 16.
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- *Bosch v The White River Toyota Provident Fund* [2001] 3 BPLR 1702 at 1705H.
- Nevondwe LT, Is the distribution of death benefits under the Pension Funds Act 24 of 1956 constitutional? *Juta Business Law Journal (JBL)*, 2007 Volume 15, issue 4, 166.
- George L Marx and Kobus Hanekom, *op cit*, 211. See also *Dobie* Case at 30F where the adjudicator stated that "The 12 month period referred to in the section relates to the time period within which the board has to trace dependants. It has no impact on the date on which the benefit becomes due and enforceable."
- George L Marx and Kobus Hanekom, *op cit*, 211.
- Manamela T, *op cit*, 285-286.
- Nevondwe LT, Section 37C Of the Pension Funds Act 24 of 1956: A Social Security Measure to escape Destitution. *Insurance and tax Journal* volume 26, issue 3, September 2011, 3-24. See also *Dobie* Case at 30F.
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- [2003] 1 BPLR 4260 (PFA).
- *Karam v Amrel Provident Fund* [2003] 9 BPLR 5098 (PFA).
- Nevondwe LT, Section 37C Of the Pension Funds Act 24 of 1956: A Social Security Measure to escape Destitution. *Insurance and tax Journal* Volume 26, issue 3, September 2011, 3-24.
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- *Robinson v Central Retirement Annuity Fund (1)* [2001] 10 BPLR 2623 (PFA).
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- *Mashazi v African Products Retirement Benefit Provident Fund op cit* note 5. In *Bushula v SATAWU National Provident Fund & Others* PFA/WE/11742/2006/LN (unreported), the complainant was dissatisfied with the decision of the board of trustees to exclude him from the distribution and payment of the death benefit even though the deceased nominated him as a beneficiary who was to receive 10 per cent upon his death in his will. The Adjudicator ruled that the mere nomination by the deceased in his nomination form or in his will did not necessarily mean that the nominee was automatically entitled to a portion of a death benefit. This was only one of the factors taken into account in the allocation of the death benefit
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## FINANCING RURAL DEVELOPMENT IN SOUTH AFRICA'S MUNICIPALITIES: A MACRO PERSPECTIVE

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### ABSTRACT

The objective of this paper is to highlight, at a descriptive level, the opportunities of financing rural development through municipalities. Municipalities were set up in terms of local sphere of government as an instrument for implementation of development and service delivery. It is viewed that addressing rural development will alleviate poverty and underdevelopment. Rural development is a priority within African development context and the question of funding and financing such development priorities are pertinent. The paper descriptive approach to trace the macro-level sources and quantities of funds for municipalities and rural development to indirectly juxtapose municipalities and rural development. The paper finds that the government as the main driver of rural development by identifying four government departments involved in rural development. The municipalities on the other hand, are allocated funding through conditional and unconditional grants. Most of the Municipal Categories C and D are more dependent on grant, implying that there is still a lot of local municipalities that are not economically viable to generate their own revenues. The private sector is not yet attracted to rural municipalities. The paper identifies development finance as appropriate financing mechanism to enable private sector. About four institutions are active in facilitating development. The paper concludes that government and semigovernment finance are critical to enable municipalities as instruments for rural development. To attract private sector there is a need to provide special incentives that will make environment conducive to private sector investment in rural municipalities.

Key words: rural development, municipalities, grants, investment

### INTRODUCTION

Developing countries and rural areas are literally faced with the effort to alleviate poverty and underdevelopment, which requires funding. However, most of these developing countries have funding constraints. African countries in particular are the most affected. The African continent is mostly described by their rural settings mostly away from the cities and most of the services are unavailable. According to Munyua (2000), rural people constitute the greater part of the population of developing countries and often lack basic needs and services such as food, water, sanitation, education, health care and security (Munyua, 2000). Mostly, international and local private funders, donor organisations collaborating with governments and other multi-lateral and bilateral organisations fund rural development programmes in many African countries. Most of these funds are allocated on a case by case/project basis or as the need for funds for certain projects arise. Attempts are made by organisations such as NEPAD to pick up the pace on rural development. The actions of NEPAD in the region include a Comprehensive Africa Agricultural Development Programme (CAADP) launched in 2002. This was with the focus of investments on improving rural infrastructure and trade-related capacity for the African markets, increase of food supply and extending the area under sustainable land management and reliable water control systems

(NEPAD, 2002). The organisation has also committed funding to agricultural research and development in Africa. However, donors like NEPAD are important for the support of assuaging poverty and hunger on the continent. In many respects, governments should be the main funders of rural development. According to Sokomani (2010), governments in Africa have been accountable for financing the majority of agricultural research and development programmes and projects, with the desirable objective of addressing the needs of the poor. However, on the other hand, government funds in many developing countries particularly in Africa have a lack of financial resources efficiencies and often become widespread and unaccounted for (Sokomani, 2010).

The objective of this paper is to highlight the opportunities of financing rural development through municipalities in South Africa. Municipalities were set up in terms of local sphere of government as an instrument for implementation of development and service delivery. The paper uses a descriptive approach to trace the macro-level sources and quantities of funds for municipalities and rural development to indirectly juxtapose municipalities financing and rural development. The paper addresses funding for rural development in general, discusses linkages between municipalities and rural development in the South African context, then quantify the macro-level funding for rural development, the development finance institutions in rural development, and the private sector funding for municipalities.

#### **FUNDING RURAL DEVELOPMENT IN SOUTH AFRICA**

In South Africa, funding of rural development emanate mainly from government. Funding is channelled through government departments and municipalities to prioritise rural development in an effort to stimulate economic growth. Other departments are mainly mandated and are responsible for the acceleration of rural development. The Department of Rural Development and Land Reform (DRDLR) is one of the crucial departments that is mandated to drive the rural development agenda. This includes rural job creation, food security, skills and enterprise development and poverty reduction. In his budget speech for 2011, South African Finance Minister Pravin Gordhan announced a funding allocation of R2.2 billion to the functions of the department. This includes the R400 million provided for the comprehensive agricultural support programme and the land care programme grant (Gordhan, 2011).

Certain departments are mandated to assist in the strategies and programme of rural development to ensure sustainable developmental growth and eradication of poverty and inequality. The question arising is how the departments and other government organisations contribute towards these initiatives in order to enable government to implement the rural development objectives. This also links to the involvement of municipalities; how they are coordinated to ensure that the involved stakeholders know and understand their mandates in the process of implementation. The following government departments amongst others are discussed to bring forth an understanding of their contribution to rural development.

#### **Department of Rural Development and Land Reform (DRDLR) and Department of Agriculture, Forestry and Fisheries (DAFF)**

The mandate of the department is to intensify the land reform programme to ensure that more land is in the hands of the rural poor. It is also intended to provide rural people with technical skills and financial resources to utilise the land in order to create sustainable livelihoods and decent work in rural areas. The objective of the department is to give support to agricultural programmes; to make sure that

agricultural land is used effectively; to allow sustainable food security; to alleviate rural poverty and ensure job creation; and to create an environment of pulsating communities in the process (DRDLR, 2009). The strategic objective of the department regarding its mandate of development finance is to: ensure sustainable land reform aligned to the Comprehensive Rural Development Programme (CRDP); contribute to the availability of and increased access to food security; contribute to sustainable rural development and livelihoods; and, increase income and access to job opportunities (DRDLR, 2009).

The department has focused on developing a new approach to rural development with the new initiative of the Comprehensive Rural Development Program (CRDP). Government launched the programme in 2009. The intention of the programme was to deal effectively with rural poverty, through the optimal use and management of natural resources. Through co-ordinated and integrated broad based agrarian transformation as well as the strategic investment in economic and social infrastructure that will benefit the entire rural community, the programme will be achieved with successes (DRDLR, 2009). Rural development rests on the three pillars of the CRDP. The other pillars are land reforms and agrarian transformation.

#### **Department of Social Development**

The core function of this department is to oversee and manage overall social security. It also aims to provide encompassing social assistance and social insurance policies that aim to prevent and alleviate poverty in the event of life cycle risks such as loss of income due to unemployment, disability and old age. The circumstances, as highlighted, are more prominent in the rural areas where employment opportunities are very scarce and the main dominant population is older people with young people migrating to major cities to look for employment. As its part to contributing to its rural development mandate, the department gives social protection such as grants for the elderly and younger children to sustain their daily needs. The department also provides developmental social welfare services that provide support to reduce poverty, vulnerability and the impact of HIV and AIDS through the sustainable development programme in partnership with implementing agents such as state-funded institutions, non-governmental organisations (NGOs), community-based organisations (CBOs) and faith-based organisations (FBO) (Department of Social Development, 2010).

The programmes the department has embarked on include comprehensive social security, which has as its purpose to alleviate and reduce poverty, vulnerability, social exclusion and inequality through a comprehensive social protection system. The other programme is integrated development which is intended to reduce poverty through integrated, sustainable development and the rebuilding of families and communities through empowering young, old and the disabled people as well as women (Department of Social Development, 2010). The department is more concerned with social welfare and this has much influence on improving rural communities and improving the quality of life concerning the living condition and the treatment of health and poverty. For the budget of 2011, the department has been allocated R147 billion, estimated to increase to R175 billion in 2012/2013 (Gordhan, 2011).

## Department of Human Settlement

This department's main responsibility is to provide sustainable and affordable housing to the country's poor and mostly underdeveloped communities. The mission of the department is to "facilitate the environment that provides sustainable human settlement" (Department of Human Settlements, 2010). Different housing institutions have been contracted to work together with the department in accelerating the needed housing infrastructure. This includes:

- National Housing Finance Corporation (NHFC) – As a development finance institution, NHFC was formed in 1996 by government to facilitate finance development of affordable housing and the intent to enable access to finance for housing from other sources apart from that of government and to encourage other private partnership with other institutions. The plan of the NHFC is also to create housing for the low to medium income households (NHFC, 2010)
- The Rural Housing Loan Fund – established in 1996, the institution is a section 21 company and was previously a subsidiary of NHFC. The core business of the organisation is to provide loans to the low-income earning household, to empower and extend affordable credit to families in rural areas. The initial funding for these institutions was from the German Development Bank.

To ensure development and needed housing for the poor in the country, the minister of finance in his budget speech for 2011, allocated an amount of R4.9 billion to the Department of Human Settlement for its Medium Term Expenditure Framework (MTEF) (Budget speech, 2011).

## MUNICIPALITIES AND RURAL DEVELOPMENT

It is recognised that the greatest backlogs in services are in the rural areas (Hemson, 2004). The White Paper on Reconstruction and Development identifies local government as a vehicle for taking forward RDP or Reconstruction and Development Programme (Working Paper, 2004-06). This clearly promotes municipalities to be at the core of services delivery and provision of rural infrastructure, social services and land reform matters. It is given that the planning of projects and implementation of developmental activities within municipalities include and revolve around active participation of the communities. The legislative mandates for municipalities is to provide basic needs as they are closer to the people, and have the constitutional mandate to undertake a developmental approach in implementing policies and programmes (Parhanse, 2004).

## Interface of Rural Development Programmes and Municipal Planning

The origination of the Integrated Sustainable Rural Development Programme (ISRDP) has been included in the Integrated Development Planning (IDP) of the municipalities. This is done to ensure a system of the bottom-up approach in that the community participates in the planning and what the communities would like to see achieved in their respective areas instead of a centralisation system where the national government makes decisions without consultation of the beneficiaries. It should be noted, however, that IDPs have their weaknesses. For example, some of the mandates are unclear and cannot be funded. Consultants mostly prepare the plans, with the methodology gaining complexity and many stakeholders are not participating effectively in IDPs (Goldman & Reynolds, 2008; Nkuna & Nemutanzhela, 2012; Manyaka & Madzivhandila, 2013).

The approach of rural development resting on local government/municipalities is again criticised in that, most of municipalities, especially in rural areas, are plainly ill-equipped to play a meaningful role in creating sustainable livelihoods and reduce poverty (Pycroft, 2002: 106). The approach has also been characterised as the principle, which lack institutionalisation, promises much on rural development, and lack implementation. The emphasis of ISRDS on building local government capacity and ensuring sustainable livelihoods is therefore well placed (Davids, 2003).

### **Limitations of Municipalities in Delivering Rural Development**

Distribution of powers and functions between district and local municipalities concerning financing and revenue sources for local government, administrative capacity and community empowerment and participation remain a huge challenge and a major obstacle in the acceleration of rural development mostly in rural communities. This is where particularly the skills shortages and institutional capacity is a challenge. According to Ismail Davids (2003), the risks are that, while policy and legislation suggest a rational system on paper, the complex rural context with its high levels of poverty and lack of capacity of municipal structures to deliver may threaten the vision of developmental local government and sustainable livelihoods (Davids, 2003; Fourie & Schoeman, 2010; Koma, 2010). Thus, practical guidelines on these rural development programmes are important and should be within the acceptable criteria of the municipality, with achievable goals.

With the policy on the introduction of local government and the responsibility of providing services to the people, municipalities with other departments also collaborate in the efforts of making rural development even more of a success. However due to some lack of capacity at the municipal level, funding by private sector to municipality is somewhat limited in rural municipalities due to under-capacity to utilise funds. Most municipalities are currently utilising and prioritising the rural development programmes in their five yearly IDPs. However, some of the municipalities do not find much differentiation from rural development programmes and projects from their yearly municipal capital expenditure infrastructure. In addition, some of the municipalities do not have dedicated departments to cater specifically for rural development projects.

Given the transition since 1999, South African municipalities have emerged from a prolonged transition to face a second generation of challenges about increases in demand for economic infrastructure and the changing nature of poverty; inequality, limited social and economic development (COGTA, 2009; Malefane, 2010; Malefane & Khalo, 2010; Mello & Maserumule, 2010). Municipalities are most challenged with the implementation of proper financial management, which leads to non-compliance and the risk of municipalities not being able to implement development programmes successfully and making it difficult to access funds in the capital market. In its report on the state of local government in South Africa, The Department of Cooperative Governance and Traditional Affairs (CoGTA) further establishes that the financial environment is further hampered by poor skills set, weak support from provinces and poor controls that leave the system open to abuse and fraudulent activities. This further affects the municipality's ability to collect on their consumer services such as property rates and other services charges (COGTA, 2009).

### **Institutional Support to Municipalities**

While this is the real situation in the structures of some municipalities in the country, certain departments are established to assist municipalities in planning their developmental needs, infrastructure and service delivery to the communities.

### **The Department of Cooperative Governance and Traditional Affairs (COGTA)**

COGTA's function is to support the provinces and local government in fulfilling their constitutional and legal obligation. This should be done with the vision of an integrated, responsive and highly effective governance system, including communities, to achieve sustainable development and improved service delivery (COGTA, 2009). As a national department, its function is to develop national policies and legislation with regard to provinces and local government, and to monitor the implementation of the following legislation (COGTA, 2009):

- Intergovernmental Relations Framework Act, 2005 (Act No 13 of 2005)
- Municipal Property Rates Act, 2004 (Act No. 6 of 2004)
- Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
- Traditional Leadership and Governance Framework Act, 2003 (Act No. 41 of 2003)
- Disaster Management Act, 2002 (Act No. 57 of 2002)
- Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)
- Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998)
- Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998)
- White Paper on Local Government (1998)

The department's efforts on rural development can be regarded as its support, encouragement and monitoring of the progress on services delivery and development in municipalities and making sure that the allocated funds (grant allocations) are spent adequately. To rural municipalities, this support is of importance given the state of infrastructure provision of services, where there is a skills shortage and institutional capacity is a challenge.

### **South African Local Government Association (SALGA)**

SALGA represents local government on numerous intergovernmental forums such as the Budget Forum, the National Council of Provinces and the Financial and Fiscal Forum, to name a few. The aim of the SALGA is to transform and enhance local government to fulfil the developmental role. These institutions play a vital role in the development of rural communities and as mandated by government, it is necessary to strengthen their support to enable rural development to be visible. More resources especially on human capital should also be provided to ensure that municipalities are well equipped to implement rural development strategies.

### **QUANTIFYING MACRO LEVEL FUNDING FOR MUNICIPALITIES**

The institutional support to municipalities is equivalent to qualitative or indirect funding to municipalities. However, there are quantitative and direct financial flows to municipalities and this section assesses such.

## **Financial Management for Municipalities**

The creation of nine provinces and 284 municipalities came about after the South African government completed a structural reform process by 1999. This came with the first municipal election in 2000, which paved the way for the implementation of an intergovernmental framework based on the principle of adequacy, predictability and transparency (Girishnakar, DeGroot & Pillay, 2006). According to Girishnakar *et al.* (2006), South African municipalities enjoyed considerable growth in the global allocation from the national government from the year 2000 onwards rising by a nominal annual average of 25% from the year 2000/01 to year 2004/5. The other fiscal transition was with the expansion and increased predictability of the new municipal grants supported by tighter regulation over fiscal flows to local government under the Division of Revenue Act (DORA) and accompanying public financial regulations. The element of grant allocation and the role they play in South African municipalities came about when the transfer system was not only to promote service delivery in priority sectors but also to promote local autonomy. This may also include the ability of local communities within the racially amalgamated jurisdiction to have a greater voice in how municipal resources could be spent across sectors. The other factor to the allocations was the capacity constraints on demarcated local governments, which suggested that the sector specific transfers needed to be revised and be planned accordingly.

## **Formation of Conditional and Unconditional Grants**

### ***Unconditional Grants***

The consolidation of 29 unconditional grants introduced the equitable share grant to be allocated to municipalities. In terms of the constitution, the equitable share is seen as playing a fiscal equalisation role, in that it is supposed to close the funding gap between what local government can raise as revenue and some assessment of what it needs to spend (Kahn, Madue & Kalema, 2011). Equitable share is government's share of all revenue raised by the national government (IDASA, 2004). An on-going programme to consolidate other operating grants into equitable share has been pursued, with the 293 grants, which facilitated the transfer of municipalities, being fully incorporated in the 2001/02 financial year. The water and sanitation-operating grant was also ring-fenced under the unconditional grants, with the grant-in-kind funded by the Department of Water Affairs and Forestry budget vote, which pays for the operation of water services scheme inherited by the department, and scheduled for transfer to municipalities (Girishnakar *et al.*, 2006: 8).

### ***Conditional Grants***

Conditional grant transfer is for capital financing and capacity building. It is the grant for funding infrastructure used in the provision of basic services to poor households (IDASA, 2004). The capital grant was called the Consolidated Municipal Infrastructure Programme (CMIP), which was replaced by the Municipal Infrastructure Grant (MIG) in 2003. The MIG serves as the key mechanism through which national resources are distributed to local government for specific purposes of incorporating national priorities in municipal budgets (Girishnakar *et al.*, 2006: 12). The Department of Cooperative Governance and Traditional Affairs (previously known as the Department of Provincial and Local Government (DPLG)), approved and authorised by the National Treasury (DORA), to administer the MIG.

### Municipal Dependency on Grants

According to the empirical study done by Schoeman (2011), on average, local governments collect only a relatively small portion of the revenue from own resources and have little or no borrowing power to fund deficits (except in the case of metros), hence there is a high dependency on grants especially with regards to rural municipalities. Some of the many challenges municipalities face are financial management and the capacity to implement needed infrastructure and other social development needs. COGTA's (2009) overview report states that there were at least 85 municipalities with the debtor level higher than 50% of own revenue. In addition, 43 municipalities reported negative opening cash positions for the third quarter ending 31 March 2009 (COGTA, 2009). This negative financial position affects municipalities immensely when it comes to the need to source private funding and thus the only source of funding becomes grants in most instances. The table below depicts the different categories of municipalities and their dependency on grant funding by government. The tables in the appendix at the end of the article indicate the extent of municipal dependency on grants.

Added to this, the extension of free basic services to poor households (indigent) is putting added pressure on the local government and some of the municipalities are even 100% dependent on the transfer of grants. According to COGTA, substantial increases have been made to the operational and capital transfers of local government over the last few years in acknowledgement of its increased service delivery responsibility, but municipalities still struggle to achieve their developmental mandate due to high levels of poverty and unemployment (COGTA, 2009).

As indicated earlier, municipalities support social and economic development through infrastructure investment and help to alleviate poverty by providing free basic services to poor households. The primary funding mechanism to support municipal service delivery to the poor is the local government equitable share. This allocation supplements municipal spending to achieve universal access to basic services. The local government equitable share was budgeted to grow by 16% a year from R24.4 billion in 2009/10 to R38 billion in 2012/13. Conditional grants supplement various programmes partly funded by municipalities, such as regional bulk and municipal network infrastructures for electricity, water and sanitation. Municipalities spent R39.6 billion on capital projects in 2008/09 and capital spending was projected to increase to R50 billion in 2009/10, with further increases likely over the three-year period (Treasury, MTBPS, 2009). Below is the table indicating the National Treasury transfers between 2006 and 2010.

The table indicates the growth in the government transfers to both provincial and local governments over the years, reflecting a strong anti-poverty commitment according to the Division of Revenue – National Treasury. Of the R67 billion in additions to baseline allocations, 59.9% goes to provinces, mainly to accommodate higher staff costs and for spending on infrastructure backlogs in education and health. Municipalities receive 4.7%, most of which compensates for sustainable provision of basic services and bulk infrastructure. The national share sustains real growth in social grant provisions and public employment programmes (National Treasury, MTBPS; DORA, 2010). In the 2009 budget review, municipality were encouraged to take advantage of the incentives available to expand on the public employment programmes, which are essential to address high levels of youth unemployment (National Treasury, DORA, 2009).

## **DEVELOPMENT FINANCE INSTITUTIONS (DFIs) in RURAL DEVELOPMENT FUNDING**

Government has a number of institutions that are mandated to deliver and assist other departments in the alleviation of poverty and enhancing the establishment of rural development. The institutions are self-funded and while some receive guarantees and/or (callable capital) from the National Treasury. For purposes of this paper, four government-owned entities are discussed.

### **The Development Bank of Southern Africa (DBSA)**

The bank's purpose is to fund mainly social and economic infrastructure, with the goal of improving people's lives in the region. The large part of the DBSA book is mainly lending and grant funding to municipalities. Through its development fund, the bank provides for rural development in rural municipalities' capacity building, deployment of financial and technical experts for infrastructure projects and sharing of knowledge to municipalities. Hands on support to municipalities are also provided through Siyenza Manje, which is a task team aimed at fast tracking infrastructure development and services delivery (DBSA, 2007). The bank encompasses its roles in being the financier, advisor, partner, integrator and implementer.

The bank's intense and direct involvement with rural development is embedded in the local economic development initiatives (LEDI), now the rural development programme of the DBSA Development Fund. This aims to integrate development interventions in poor regions to improve economic growth through improved infrastructure and services delivery in municipalities (DBSA, 2010). The programme was implemented during the 2010 financial year with three municipalities identified as pilot sites: Theewaterskloof Local Municipality, Cacadu District Municipality and Ugu District Municipality. The bank assisted by means of technical assistance and institutional turnaround strategies. The bank also introduced an innovative way of funding rural municipalities by way of front-loading MIG transfers from the National Treasury. This with the purpose of the municipality to fast-track infrastructure development and service delivery, and shortens the funding period (DBSA, 2010). The bank also has partnerships with the Department of Corporate Governance and Traditional Affairs concerning municipal interventions of infrastructure and services delivery.

### **The Land and Agricultural Development Bank of South Africa (Land Bank)**

The main business of the bank is to finance the commercial farming sector and agri-business. The bank's agenda on rural development of importance is that it links its rural contribution through government structures and activities, mainly in Land Redistribution for Agricultural Development (LRAD), Agricultural Sector Plan and ISRDS (Land Bank, 2009).

### **Independent Development Trust (IDT)**

The Independent Development Trust (IDT) is an agency that offers programme management and development advisory services for the eradication of poverty to government departments and other development partners. Emphasis is on the eradication of chronic intergenerational poverty, especially among the rural poor (IDT, 2010). The essential activities and strength of IDT fall within five core business areas: Development programme management for government; Leveraging and harnessing resources for poor communities; Institutional delivery and capacity building for programme delivery and sustainable

development; Knowledge management to create a vibrant culture of learning and growth; and, Promoting social facilitation to encourage community participation in the development intervention in order to ensure ownership and sustainability.

In its strategic objectives, one of its objectives is to “attain sustainable livelihoods through people centred development interventions” (IDT, 2010). In line with the involvement of local government, the key results area in the long term is the responsive local government services and facilitation, with the key performance area being institutional delivery capacity building. This includes the adoption area of Local Areas Plans (LAP) or Community Based Plans (CBP) to be included in the IDPs of the municipalities. In 2010, the performance of the IDT concerning the implementation of the LAP's and CBP's was achieved and exceeded the targeted goals by setting up 13 LAPs from a target of nine and this were adopted in the municipalities' IDP's. Municipalities adopted six LAPs, while four of the LAPs were implemented with the support of municipalities and three community-based plans informed the implementation of the CRDP and provincial development strategies (IDT, 2010: 43).

### **Industrial Development Cooperation (IDC)**

The IDC is a state-owned, self-funded development finance institution. The objectives of the IDC are to develop economies which are viable, sustainable, environmentally friendly and socially responsible. Job creation is also amongst the list of objectives by the IDC and the focus of development is in regional development with an emphasis on rural areas, underdevelopment provinces and previously disadvantaged townships. Among others, the IDC's mandate is to: Facilitate, promote and assist in the financing of new industries and industrial undertakings; Promote the economic empowerment of historically disadvantaged communities/individuals; Promote the development of small and medium enterprises/co-operatives; Promote employment-creating activities, particularly in underdeveloped areas; and, Promote viable investment projects in spatial development initiatives and industrial development zones.

Through its corporate social investment, guided by the Urban Renewal Programme (URP) and the Integrated Sustainable Rural Development Programme (ISRDP), the IDC's corporate social investment aims to address poverty in parts of the country where the largest concentration of underdevelopment is, particularly in areas identified under the Integrated and Sustainable Rural Development Programme (ISRDP). The social corporate investment focus on making a fundamental contribution to rural development, with initiatives focused on community development programmes. The IDC has implemented a plan to liaise with the targeted district municipalities in terms of ISRDP and established a database of non-governmental and community economic development projects in dire need of financial support in the poorest municipal areas. The IDC is working with the Kgalagadi municipality in the Northern Cape, Maluti a Phofung municipality in the Free State and Ugu district municipality in KwaZulu-Natal (IDC, 2010).

### **PRIVATE SECTOR FUNDING FOR RURAL DEVELOPMENT IN MUNICIPALITIES**

The South African government suffered fiscal constraints in the last years. Many authors like Lim, Cameron, Taweekul and Askwith (2008) believe that mobilising resources from outside government sources may assist in overcoming many development challenges (Lim *et al.*, 2008). It should be noted

that the private sector always considers their yields regarding the risks they are taking in funding public infrastructures and given the criticism on municipal inefficiencies, it has not been easy for most municipalities to access funding from the private sector. Apart from commercial farmers, and the limited retail sector in small towns, the formal private sector in rural areas is not extensive and its involvement in the local government is generally limited (Goldman, 2008). Growth, Employment and Redistribution (GEAR) strategy embraces public private partnerships (PPPs), not only as a means of alleviating the public infrastructure backlog but as an alternative form of public service delivery that fosters economic growth and enhances quality of life, especially for the poor, women and children (Manchidi, 2001). A number of projects are established through the PPPs but not many were implemented in rural municipalities. This kind of partnerships has, however, worked within the so-called urban renewal areas for the ISRDP, where international financial donors assist in the implementation of the programme. The challenge, however, is with rural municipalities where a lack of information and resources is a problem. Private funders will always want to see accountability concerning the spending of funding resources they have allocated in certain areas, which should be the attitude of every stakeholder in municipalities, especially given the mandate of such funds. Given that the current challenges faced with municipalities regarding skills and financial management, private funding may be difficult to be sourced by municipalities; especially in rural municipalities where these challenges are more prevalent.

## **CONCLUSIONS**

This paper has outlined resources that are and should be available for rural development in South African municipalities, with a snapshot overview of some of the institutions and organisations that are committed to the development and upgrading of the African continent. The South African government has created different levels and structures of accountability where funding of rural development can be made to take precedence. Municipalities are thus one of the important structures in government where funding and technical support should take priority. The commitment of different stakeholders in government and the private sector can make a great impact in curbing poverty by way of making available the necessary contribution to rural development via municipalities.

The funding allocation by the ministry of finance to municipalities can be seen as substantial for all that is needed with the development of the country. However, this alone cannot be enough if allocations are not managed accordingly, which is the main problem emanating in most municipalities, and this can make it easier to overlook the rural development initiatives. In the 284 municipalities in South Africa, the majority of these are very rural in nature and are mainly funded and dependent on government allocations. Hence, it is difficult for these municipalities to get private sector funding, mainly because of the return the private sector is expecting from the funds they intend to extend. In most instances with rural municipalities, it becomes very difficult to generate own revenue because of the poor and poverty-stricken populations in most of the rural municipalities/vicinities. Thus, most of these municipalities find themselves in cash deficits and struggle with non-collection of consumer services delivered, resulting in dependency on government grants. The government and semi-government finance are critical to enable municipalities as instruments for rural development. To attract private sector there is a need to provide special incentives that will make environment conducive to private sector investment in rural municipalities.

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## Appendix

**Table 1: Category A Municipalities (6)**

Municipal Categories & Transfers	Outcome				Estimates		
	04/05	05/06	06/07	07/08	08/09	09/10	10/11
No. who receive more than							
30% of revenue from national transfers	-	-	1	1	1	-	-
50% of revenue from national transfers	-	-	-	1	-	-	-
75% of revenue from national transfers	-	-	-	-	-	-	-

Source: National Treasury, 2012

**Table 2: Category B Municipalities (21)**

Municipal Categories & Transfers	Outcome				Estimates		
	04/05	05/06	06/07	07/08	08/09	09/10	10/11
No. who receive more than							
30% of revenue from national transfers	1	4	5	4	5	4	5
50% of revenue from national transfers	-	-	1	2	-	-	-
75% of revenue from national transfers	-	-	-	-	-	-	-

Source: National Treasury, 2012

**Table 3: Category C Municipalities (210)**

Municipal Categories and Transfers	Outcome				Estimates		
	04/05	05/06	06/07	07/08	08/09	09/10	10/11
No. who receive more than							
30% of revenue from national transfers	129	142	153	154	159	163	157
50% of revenue from national transfers	69	79	93	92	97	104	102
75% of revenue from national transfers	28	33	41	37	38	47	45

Source: National Treasury, 2012

**Table 4:** Category D Municipalities (46)

Municipal Categories & Transfers	Outcome				Estimates		
	04/05	05/06	06/07	07/08	08/09	09/10	10/11
No. who receive more than							
30% of revenue from national transfers	37	33	43	40	42	43	44
50% of revenue from national transfers	28	22	40	36	38	40	42
75% of revenue from national transfers	11	11	23	24	31	31	32

Source: National Treasury, 2013

**Table 5:** National transfers compared from 2006/07 to 2009/2010

Amounts in R'000 (millions)					
Allocations	2006/07	2007/08	2008/09	2009/10	2010/11
National	215 619	246 331	291 205	346 642	360.6
Provincial	178 305	205 537	45 646	295 353	328.1
Local	27 718	37 569	44 689	50 533	59.3
Equitable share (Unconditional)	18 058	20 676	25 560	24 356	30.6
Conditional Grants					
General Fuel Levy	9 669	16 893	19 129	19 377	21.2
	0	0	0	6 800	7.5
<b>Total</b>	<b>421 642</b>	<b>489 437</b>	<b>581 540</b>	<b>692 528</b>	<b>748.1</b>

Source: National Treasury, 2012

# Track 5

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A pair of glasses and a pen resting on a document with a bar chart. The glasses are silver and the pen is black. The document has a bar chart with vertical bars of varying heights. The text is centered in a white rounded rectangle.

**REGIONALISM, DEVELOPMENT FINANCING AND  
THE BRICS GROUPING**

# NIGERIA-SOUTH AFRICA RELATIONS: HEGEMONIC AMBITION AND THE CRISIS OF ECONOMIC TRANSFORMATION IN AFRICA, 1999-2013

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## ABSTRACT

The hope of the African continent for economic development continues to dim as a result of the seemingly *Cold War* between Nigeria and South Africa. The two are considered to be the perceived giants of Africa that can promote economic development because of their endowment advantages. It was viewed by some students of development studies and political economy that the potentials of the two states are enough to bring about peace and stability; the most wanting criteria for economic development. However, mutual suspicion between the two states is dwarfing the objectives of the African Union (AU). The implication of this for trade, finance and investment on the continent is self-evident. Both states are not always on the same camp on issues such as peace-making, appointment at the AU and the United Nations (UN) irrespective of the competence of the candidates. The same continues to influence the inability of the New Partnership for Africa's Development (NEPAD) to move beyond rhetoric level in term of economic development of member states. Though, a Bi-national Commission was set up between the two, but hegemonic power which Nigeria sees as eluding her in the wake of South Africa's active participation in the international system couple with personality crisis are some of the problems for the two to have a united stand on African issues. If these continue to exist, problem of a joint economic development strategy will be a mirage. The only solution to this is to have a joint/shared hegemonic power by the two for the economic development in Africa.

**Keywords:** South Africa; Nigeria; economic development; hegemonic rivalry

## INTRODUCTION

Nigeria and South Africa are powerful states in Africa with some common indices. They command and control their respective sub-region, and share some common features. They are both credible leaders in their respective spheres of influence. Economic Community for West Africa (ECOWAS) is within Nigeria's control while South Africa is seeing as the credible hegemon in the Southern African Development Community (SADC). Their aspiration in their respective sphere of influence is to eventually enhance economic development of the continent through gradual integration. In trying to actualise this, the two in October 1999 inaugurated a Bi-National Commission (BNC) which is at the highest governmental level. The vice-presidents of the two states are the co-chairpersons of the bi-annual summit of the Commission. This, hopefully, and in line with some students of political economy, development studies and foreign policy, will bring about the much called for African Renaissance (Olivier 2006: 171).

Contrary to these laudable objectives, the two states foreign policy objectives that should be complementary started to develop some cracks that eventually led to a diplomatic face-off immediately South Africa was democratised and re-admitted to the comity of nations as active participants. The issue of democratisation, human rights and military in governance are the major issues that brought the two states to what could be described as a *Cold War* from 1995 till date. The annulment of the 1993 general elections that was believed to have been won by a businessman and a friend of the ANC, late Moshood Abiola, was the first problem that two states had to contend with before the hanging of eight environmentalists of

which President Nelson Mandela was critical about. This led to a broke in diplomatic relationship between the two between 1995 and 1996. Nigeria saw South Africa as an ungrateful states claiming the financial, diplomatic and political supports accorded the ANC of which the state was expected to adopt the doctrine of brotherhood to support the military government of late General Sanni Abacha.

From 1995, hegemonic rivalry between the two states is glaring. The implication of this is that such a political move is not only affecting the two states relationship, but also the entire continent. The international regimes that aim at promoting the economic, finance and industrial transformation are always viewed from myopic political angle. For instance, the appointment of a South African candidate as the African Union (AU) scribe was frustrated severally by Nigeria. The same impacted on the peacekeeping and peace-making on the continent. The diametrical position of the two states on the various civil war in African is instructive. Sharing of hegemonic power in the continent for the development of Africa is the only way to bring stability to the continent. The same will advance the much sought economic development and financial vibrancy. It is the intention of this paper to focus on the relationship between the two from 1999 when Nigeria returned to a democratically elected government till date. The relationship before this period received attention somewhere else (Amusan, 2006a). At tangential level, when need be discussion may be needed on pre-1999. This paper is divided into four broad parts. Part one is the introduction. Part two examines the concept of hegemony as a tool of analysis while the penultimate part is the analysis of the relationship between South Africa and Nigeria. Part four is the conclusion and likely recommendations.

## HEGEMONIC THEORY

This study's interest lies in the (Gramscian) hegemonic theory in which socialisation rather than realists' hegemonic power in terms of materials and military force (Rapkin, 1990: 50) is more pronounced. According to Lake (1993: 460), hegemonic stability can be divided into two parts: leadership theory and hegemonic theory. The need to employ hegemonic theory instead of leadership theory is that the former is more flexible and provide for differences in states' economic objectives (Lake, 1993: 469). Adoption of hegemonic theory in studying Nigeria-South Africa relations will give room for comparisons between the two states.

Below are the basic assumptions of the concept:

- There should be no total domination of one unit over secondary states. Other units should regard a hegemonic state as a balancer (Rapkin, 1990: 49-50).
- The incontestable superiority of one of the units over the others is always respected (Cox, 1991: 453; Aron, 1973: 135).
- The states in question are believed to be rational with adoption of a unitary foreign policy (Lake, 1993: 461).
- The hegemonic power in question is believed to have the wherewithal to protect the interests of other states within its sphere of influence (Lake, 1993: 462).
- A hegemonic state should enjoy a competitive advantage over secondary states in the production of a certain essential good/product (Ikenberry and Kupchan, 1990a: 287).
- No emerging power in a designated area can challenge the existing *status quo*, even if the technology of the new state allows it to play a vital role against visible or potential aggressors (Aron, 1973: 134-135).

- The states concerned should not try to absorb other units and reduce them to impotence (Aron, 1973: 134-135).

Having highlighted the basic tenets of hegemonic theory, this will give room for a proper understanding of the relationship between Nigeria and South Africa with special focus on the economic development of Africa.

### COMPETITION OR COOPERATION IN NIGERIA-SOUTH AFRICA RELATIONS

This section examines Nigeria-South Africa economic relations focusing on political, economic, military and social interactions. The two states' foreign policy objectives are ideologically opposite. While South Africa under Thabo Mbeki wanted to reach out to the rest of Africa through economic diplomacy, Olusegun Obasanjo's policy of 'Nigeria first', in canvassing for foreign direct investment in Nigeria to solve the high rate of unemployment, is significant. This has been the dialectical opposite policies of the two states till today, but with some modification in the national interest and African economic development. At the political level, as soon as Nigeria embraced democracy, both states revived their moribund economic and trade relations. The climax of this was the signing of the BNC in October 1999 by the two states in Abuja, Nigeria. The seriousness of the Commission brought about the meeting of the two states' Vice-Presidents (Jacob Zuma from South Africa and Atiku Abubakar from Nigeria) twice in one year, in order to discuss the various sectors in which they could cooperate, as a prototype of the African Economic Community. In March 2001, the Technical/Expert Teams from both states met in Nigeria to discuss important issues that would facilitate common economic policy. The teams were composed of officials from different government departments and parastatals, such as Foreign Affairs, Commerce and Industry, Arts, Culture, Science and Technology, Minerals and Energy, Public Enterprises, Defence, Internal Affairs and Police Services. In the arms manufacturing sector, Denel (South Africa) and DICON (Nigeria) also met to forge a unified policy hopefully on the security of the continent. In the area of electricity supply, Eskom (South Africa) and Power Holding (Nigeria) met with the aim of resolving Nigeria's epileptic power supply. The meeting of the technical committee was co-chaired by the Nigerian Ambassador, Ibrahim B. Mohammed, the Director of the International Economic Co-operation in the Ministry of Foreign Affairs, and the South African High Commissioner to Nigeria, Mr. Bangumzi Sifingo (Amusan & van Wyk, 2011: 40).

In March 2002, Nigeria and South Africa met in Pretoria to conclude a free trade agreement. The urgency for the two states to cooperate in trade relations was emphasised by Nigeria's Vice-President, Alhaji Atiku Abubakar, when he stated that "two years ago we both expressed concern that our bureaucracies have tended to delay progress. We even ordered them to cut the bureaucracy and move into action" (*Business Day* 2002 March 26:2). Nigeria saw the BNC as a viable instrument for what the neo-liberal school termed a 'high level of interdependence' that would eventually lead to interstate political cooperation and stability, and less conflict in Africa. Nathalia Africa, South Africa's Foreign Affairs Director for West Africa, opined that this development "would pave the way for a tariff-free zone (free-trade area) in which goods and services could be exchanged without hindrance" (*City Press* 2002 March 31:1).

The only obstacle to the trade flow between the two states is that, while South African companies are able to go to Nigeria for business, their Nigerian counterparts are unable to reciprocate this. Since 2006, about 100 South African companies have been very active in Nigeria. Some of these are: Stanbic Bank, Mintek, Securicor Gray, Umgeni Water, Eskom, M-NET and MTN. Nigerian businessmen continue to

engage in the importation of finished goods and services, with little or no value being added. These bring about both sensitivity and vulnerability of Nigeria economy. An attempt by South African investors to pull out their capital to other states in Africa, probably because of changes in the investment policy or political instability, as in the Northern region (Boko Haram) and Niger Delta region of Nigeria, could lead to a high rate of unemployment in Nigeria. In terms of investment, a bi-national investment forum was established by the two states, in order to facilitate investment by private investors. Lack or little knowledge of trade opportunities in both states continues to affect free-flow and improvement in trade transactions. This accounts for the prominence of organised private sectors (OPS) in the political relationship between the two states.

At the March 2002 BNC summit both states signed a cooperation agreement on information exchange in science and technology through their respective research institutes and universities. The May 2013 state visit by the Nigerian President Goodluck Jonathan culminated in the call for the establishment of automotive industry by South Africa in Nigeria. In 2005, this move was suggested as a means of technological and information sharing by both states when South Africa agree to build the Z-600 automobile car, which was developed by a Nigerian, Ezekiel Izuogu (*This Day*, 2005), as a joint venture between the two states. Cooperation was also initiated in the area of space technology between Sun Space of South Africa and its counterpart from Nigeria, the National Space Research and Development Agency (NASRDA), aimed at promoting African economic and technological development (*Guardian*, 2006). At the fourth summit of the BNC in Pretoria, the two states were conscious of the need to promote NEPAD through multilateral and bilateral trade in Africa, as opposed to asymmetrically vertical north-south trade relations.

Unified foreign policy is the hallmark of globalisation. Foreign policy has centred on democratisation, transparency, economic liberalisation and respect for basic human rights. There is little that Nigeria or South Africa can do but leave it up to this new tenet of the international system. Incompatibility of the two states' foreign policies led to a diplomatic face-off between November 1995 and June 1998. General Sanni Abacha (military head of state in Nigeria, 1993-98) had little regard for human rights and democratisation, which culminated in the gruesome killing of nine Ogoni environmentalists in October 1995. This was an acid test of the two states' relationship. South Africa soon realised the importance of shared hegemonic power in its relations with Nigeria vis-à-vis its African international politics. This could also have prompted Mandela to back-pedal on his anti-Nigerian stance, coupled with the need for Abuja's support for Mbeki's controversial African Renaissance. This paid off when the two states started to meet at the highest political level. The reality at the time was that South Africa needed the support of the rest of the African states against Nigeria. Probably due to Nigeria's *spree diplomacy*, the Southern African states that were expected to support Pretoria's anti-Nigeria stance were not forthcoming. As much as South Africa wanted to be a *primus inter pares* on the continent, Nigeria's and Mugabe's anti-Pretoria ambition short-circuited this. On the other hand, Nigeria needs technology, which is not easily come by from the North, except from South Africa. This could explain why the two states need to diplomatically resolve their differences in order to avert *mutual assured destruction*.

On major source of conflict between Nigeria and South Africa erupted when in 2005, the then UN's scribe, Kofi Annan, called for the expansion of the United Nations Security Council (UNSC). It was proposed that two permanent seats should be allocated to Africa, either on a rotational basis among

African states, or being retained by two states, as agreed upon by the AU. Nigeria was of the view that even if there was only one seat for Africa, Abuja should have the right to it based on the following justifications:

- Nigeria has the largest concentration of black people all over the world, with a population of almost 25% of Africa (140 million, according to the January 2007 results released by the Nigerian National Population Census).
- It is the only state that has contributed the most troops to international peacekeeping efforts, except for India.
- It is the single largest market in Africa in terms of purchasing capacity (Amusan 2006b: 189-90).
- Nigeria is the fifth largest fossil fuel exporter to the international market, with all the implications this has for the survival of the US and other permanent members of the UNSC, except Russia, followed by Angola, in Africa.

On the other hand, South Africa had equally eyed the coveted seat as a symbol of prestige and hegemonic power. In actualising South Africa's intention, Pretoria deployed her staff from the Department of International Relations and Cooperation (DIRCO) to the UN headquarters to pursue permanent membership of the UNSC (*Sunday Independent*, 2000: 1). This issue, at the time, appears to have caused some diplomatic friction between them together with the membership of the G20 group of advanced and industrialised economies of which the latter is accorded to South Africa. In order to defuse this tension, the two states came up with the idea of having two permanent seats, in competition with Egypt, Libya and other smaller African states, which canvassed for the same, but on a rotational basis (Amusan, 2006b: 103). The eventual silence of the UN on this issue had a palliative effect on the two states. Although the AU's official position was to have consensus candidates for the two posts, it was South Africa's official position that Abuja and Pretoria should occupy the two seats, as Egypt, the other strong contender and a favourite of the West, was more Arabian than African (*Sunday Independent*, 2000: 2; Kunstler 2006:72-4).

For Nigeria to check the perceived hegemonic ambition of South Africa, instances occur when Abuja would block Pretoria's political policy. The case of the Libya civil war when Nigeria, against its traditional position, recognised the National Transitional Council sponsored by the US against South Africa's call for the recognition of the *status quo* government. On the civil war in Cote d'Ivoire, Nigeria, also, against South Africa's shuttle diplomacy, recognised Allansane Quatarra against Laurent Gbaagbo. Nigeria was critical of South Africa involvement in CAR and initially frustrated the country to occupy the AU's Commission's chair post. South Africa spree diplomacy in form of aid and donations to some states such as Somalia (\$100 million), Malawi (\$35 million) and to drought-stricken states of Mauritania, Mali, Burkina Faso, Niger and Chad to the tune of another \$100 million was not to the interest of Nigeria (Molele, 2012). Despite political rivalry for the UNSC seat, both states continued to cooperate in the field of information-sharing. This would have made Nigeria relocate its Southern African information Centre from Harare to Johannesburg. This also appears to have encouraged the Obasanjo government to open the Voice of Nigeria (VON) Bureau Chief office in Johannesburg in order to serve the SADC states on 16 December 2002 (*This Day*, 2002). It was the belief of the Nigerian government that information-sharing by the two states was an avenue for promoting and consolidating NEPAD, which was the brainchild of the two states. Partly in order to encourage party politics or to consolidate the relationship between the ruling parties in both states, the ANC invited Nigeria's Peoples Democratic Party (PDP) to the 51<sup>st</sup> ANC National

Conference held in Stellenbosch, which was attended by Atiku (*This Day* 2002). The special relationship developed between Atiku and Zuma rather political rivalry as Jonathan was not happy about the relationship due to his closeness with Obasanjo who is a friend to Mbeki that was removed through a *palace coup* within the ANC after 2007 Polokwane conference.

### **Military Cooperation**

The neglect of Africa immediately after the end of the Cold War is evident from the failure of America in Somalia, the outbreak of Rwanda genocide and the civil wars in Liberia and Sierra Leone until recently. Both states appreciate and identify myriad of problems related to intra-and inter-state conflict, which sometimes tilt the economic development of Africa. With regard to conflict resolution, perhaps because Nigeria had been in the forefront of peacekeeping efforts in Africa, South Africa relied on Nigeria in this respect. The role that Nigeria had played in either peacekeeping or peace-enforcement in Liberia, Sierra Leone, Côte d'Ivoire, Tanzania, Democratic Republic of the Congo (DRC), Sudan, Burundi and Rwanda is unmatched by any other African state. On the other hand, South Africa had been on the political stage 50 years before Nigeria gained independence. Pretoria's inputs to the formation of the League of Nations and the UN are instructive - South Africa drafted the preamble to the present UN charter (Olivier, 1975: 295). Even, after World War I, South Africa was accorded the mandate to take over the protectorate of Germany (South West Africa- Namibia). South Africa would have played a leading role in Africa if it were not for the apartheid system. Despite the two states' foreign policy incompatibility during the Mandela and Abacha regimes, South Africa called for Nigeria's cooperation in solving the DRC political log-jam, while Nigeria asked South Africa to join its peace enforcement efforts in Liberia and Sierra Leone. The call for military support and admittance of the Nigerian government of the South Africa military superiority implies that both need to come up of cooperation in defence sector (Ferreira, 2013).

This was the view expressed by General Sipiwe Nyanda, the South African Chief of the National Defence Force, at Abuja on 30th July 2001. Both states had a lot to learn from each other in terms of maintaining peace and security, as they were militarily giants in their respective sub-regions. Nigeria's tough experience in complex emergencies in Liberia and Sierra Leone worth emulating by South Africa in future crises in the SADC region. Nyanda was of the view that Nigeria's experiences, despite its low level of military technology and budget constraints, meant that it could act credibly in order to enforce peace in the two West African states. On the contrary, he was of the opinion that South Africa could not do this, despite its comparative advantage in terms of military power (*Daily News*, 2001: 1). This could have been because of the bad experience that South Africa had had in Lesotho in 1998, which was described as an *impulsive aberration* (*Star*, 2001: 12; *Sunday Independent* 2004: 17). South Africa's scepticism with regard to participation in peacekeeping could be linked to the lack of preparation for peace-enforcement. This could also have contributed to its initial foot dragging in the Burundian peace-enforcement, which was composed of Nigeria, Senegal, Kenya and Ghana and her total failure in the Central African Republic crisis in 2013.

South Africa was of the view that, with the help of Nigeria, the problems of civil and interstate war, famine, organised crime, economic underdevelopment, political instability and terrorism in Africa would be solved. This notion would have contributed to the roles that the two states played in the establishment of the Peace and Security Council, which replaced the Mechanism on Conflict Prevention, Management

and Resolution in Durban, South Africa. They both realised that taking the side of one of the two in any civil or interstate war would be tantamount to political instability on the continent. After the 2004 elections in Zimbabwe, which resulted in another political crisis, Nigeria and South Africa appointed Professor Adebayo Adedeji and Mr Kgalema Motlanthe respectively to meet with Robert Mugabe of ZANU/PF and Morgan Tsvangarai's opposition party's Movement for Democratic Change (MDC), in order to ease the tension between the two political parties. Abuja's and Pretoria's aim in doing this was probably to demonstrate to the international community that Africa could handle its own continental crises, with little or no involvement of extra-African states. Although the two states prevented Zimbabwe's suspension from the Commonwealth of Nations, Harare's political crisis and debilitating economic situation persist.

Despite the two states' levels of foreign relations, as of July 2001, South Africa did not have a military attaché in Nigeria, while Col. Abdulkamaar Role, Nigeria's military attaché to Zimbabwe, who was seconded to Pretoria in 1994 until Captain Dan Francis Akpan was appointed by the Obasanjo government in 1999. The two states embarked on a joint venture in arms manufacturing. Denel (South African Arms Company) resuscitated its epileptic counterpart, Defence Industries Corporation of Nigeria (DICON), for small arms manufacturing for local consumption, and later for the African market and beyond. This could be interpreted as another means of cooperation. This technological transfer in the military sector could translate to economic development as the military deterrence may reduce armed conflict in Africa.

### **Economic Cooperation**

Mbeki's intention was to elevate the rest of Africa through his African Renaissance programme. This ambitious programme was, unexpectedly, not greeted with the same enthusiasm by other African states, especially Nigeria and Francophone African states. This explains, to some extent, why the Senegalese President, Abdoulaye Wade, proposed the economic development of Africa through his Omega Plan. Having realised the importance of cooperation, South Africa teamed up with Nigeria, Senegal and Algeria, in order to come up with the New Africa Initiative (NAI) for an incremental approach towards achieving the 1991 Abuja protocol on the African Economic Community (AEC). At the World Economic Forum in Davos, Switzerland, in January 2001, the trio of Mbeki, Obasanjo and Abdelaziz Bouteflika (Algeria) established the Millennium African Recovery Programme (MARP), which stressed the importance of restoring foreign private sector confidence in Africa to attract foreign direct investment (FDI) (*Citizen* 2001 January 27:3). This was followed by the call for the World Trade Organisation's (WTO) inspired Multilateral Agreement on Investment (MAI), a form of an insurance scheme to protect FDI from political instability in the continent. MARP was transformed to NEPAD eventually.

On the impact of HIV/AIDS in economic transformation of Africa, Nigeria and South Africa also called for a global partnership between multilateral financial institutions and pharmaceutical companies, in order to urgently secure access to existing drugs at affordable prices. Though America pledged a sum of \$200 million which fell short of the \$10 billion asked for, this led eventually, to a diplomatic face-off between South Africa and America (Bond, 2003; 'tHoen, 2009; Chikane, 2012, 2013). Nigeria and South Africa believed in home-grown economic development, with less emphasis on aid from industrialised states. They therefore called for real globalisation, in 'the law of supply and demand to take their rightful position. This step was vigorously pursued at the WTO by the two states. Incidentally, the US and EU used

this to control African exports to their market.

Nigeria's Consul General to South Africa, Charles Onwugbo (1999-2002), called for reciprocity in investment by Nigerians living in South Africa, in order to promote political stability through economic relations and strike a balance between the two states. In 2005, the Oando oil company in Nigeria was listed on the Johannesburg Stock Exchange (*Business Day*, 2005: 9). The same company held discussions with the South African oil giants, Sasol and PetroSA, with regard to upstream and downstream oil production. The Nigerian National Petroleum Corporation (NNPC), the sole regulator of the oil industry in Nigeria, is in partnership with Sasol Oil to convert natural gas to liquid. It was the intention of Nigeria to attract public and private South African businesses to invest in Nigeria in the fields of oil, gas, transport, banking and manufacturing. In order to realise this, Nigeria created an enabling environment, such as free corporate tax, low import duties, a 100% foreign ownership, and long-term leases. The two states also investigated the possibility of an African branch of the Multilateral Investment Guarantee Agency (MIGA), where investments from both states would be secured in the event of political instability in the host state.

In December 2005, Standard Bank of South Africa entered into negotiations with the Oceanic (Access) Bank of Nigeria with regard to the selling of Stanbic Bank to the former, of which, in turn, Standard Bank would acquire a strategic minority share in the Bank. In addition, from 2005 onwards, there were negotiations between the Intercontinental Bank and FirstRand Bank, the latter being the parent company of First National Bank of South Africa, with regard to participating in discussions that would bring more capital investment to the activities of the Intercontinental Bank in Nigeria (Amusan & van Wyk, 2011: 48). Aviation industry is another area in which Nigeria and South Africa went into partnership. In terms of a co-share agreement, South Africa provided airplanes and technical support for Lagos-Johannesburg and Lagos-New York routes. This was eventually terminated as South realised that it was a zero-sum game to the advantage of Nigeria. Despite the enabling environment created for South African companies to invest in the Nigerian economy, the Obasanjo government came up with some policy options that were not to the interests of South African private investors. When Nigeria put its moribund Nigeria Airways up for auction, it was a foregone conclusion that South Africa, with its good track record in the aviation business in Africa, would secure the bid. To the contrary, the bid was given at the last minute to Virgin Atlantic. What appeared played significant role in this surprise policy position could be security consideration, colonial legacy and corruption among politicians and civil servants in the Obasanjo government. Nigeria attempted to ostracise South African Airways (SAA) from the bid by demanding 10% of the SAA share capital. This demand was rejected by SAA, and South Africa perceived Nigeria's role in the deal to be in opposition to NEPAD's aims and objectives. In retaliation for the ignominious treatment meted out to SAA by Nigeria, Virgin Nigeria passengers on the Lagos-Johannesburg route continue to face rigorous checking. This has become irritating to the passengers, probably in order to discourage airliners from patronising this airline. This translated to diplomatic struggle and verbal war in March 2012 when South Africa Immigration deported 125 Arik airliners on cloudy excuse of fake yellow card certificate. Within Nigeria civil society the deportation was viewed as an ungrateful from South Africa. In his opinion, Jide Oshuntokun (2012: 21), a former Nigerian Ambassador to Germany and a professor of Nigerian foreign policy opined that:

“As far as I know, South Africa must be one of the few countries still demanding them (yellow cards)...Nigeria is not a yellow fever endemic area. If Nigeria wants to be difficult we could also

demand from South African visitors to our country, AIDS free certificate, after all South Africa has the unenviable record of every one in five of their people having AIDS. South Africa also needs to be told of the danger of xenophobia of which she can justly be accused of.”

This almost led to a cut in diplomatic relations if not for South African government timely intervention through the sending of a high level eight-man delegate to Nigeria headed by the then Minister of Correctional Services, Nosiviwe Mapisa-Nqakula, now of Defence and Veteran Minister. While leading the delegate, she said that “we believe that it is enough that we have come out and apologise. It is enough that we have demonstrated our goodwill to the government of Nigeria; it is enough that the President has sent a special envoy to reiterate his commitment to the bi-national with Nigeria and to improve working relationship with Nigeria” (Punch, 2012: 9).

The Nigerian National Broadcasting Commission (NNBC) broke the monopoly enjoyed by DSTV (South Africa) in Nigeria, in order to ensure transparency and fair competition. Other satellite television stations, such as FSTV and Trend, enjoying the same opportunity accorded DSTV, in the form of Direct to Home (DTH) operation (*This Day* 2006). However, despite the termination of the DSTV monopoly in Nigeria in August 2006, the company continued to control about 90% of the cable business, and has so far paid about R179m (N3billion), between 1999 and 2006, in tax to the Nigerian government (*City Press* 2006: 5). Before this, in 2004, the Nigerian government cancelled a license worth \$120m awarded to Nepskom, a subsidiary of Eskom, for undertaking to string fibre optic cables along 5000km of power transmission lines (Amusan & van Wyk, 2011). The deal by Vodacom, the dominant GSM Company in South Africa, to buy out Econet, was rocked by corruption (*Business Day*, 2005: 11). Possibly because of the above problems encountered by South African companies, some other investments eluded Nigeria. In addition to the slow rate of economic partnership between the two states, there was the issue of perceptions from both sides, such as the slow rate of South Africans doing business, high rate of corruption, red-tapism, and a high degree of political consideration (Games, 2002: 8; *Natal Witness*, 2004: 10). South Africa is considered as an exportation of political instability as many of their citizens are always linked with attempted coup d'état in various African states. The activities of disbanded mercenaries such as Executive Outcomes (EO), Sandline International and LifeGuard, which have strong links with South Africa is a source of concern in Nigeria (Pech 1999: 81-109). The aborted *coup d'etat* in Equatorial Guinea, orchestrated by the disbanded 32nd Buffalo Battalion, despite South Africa's anti-mercenary act is an instance. In 1996, it was alleged that Nigeria had approached EO to protect its goldfields, in order to attract South African mineral extraction industries such as Anglo-American Corporation to the mining sector (Whiteman, 2004: 17). South Africa is known for its aggressive approach to business in other African states. There is an unconfirmed rumour that some South African business interests in the war-torn Kivu region of DRC and the January 2013 CAR crisis exposed South Africa's economic interest in Africa as against the NEPAD and African Renaissance objectives. This could, to some extent, explain why some sensitive business licenses were not awarded to South Africans.

Another area of concern in Nigeria's economic and trade relationships with South Africa are the activities of South African companies in Nigeria. They prefer to relate to other South African companies, even in areas where Nigerians can perform equally well. Such an instance was the R78m contract awarded to African Legend Indigo (AL Indigo) by MTN Nigeria to supply cellular equipment (Amusan and van Wyk, 2011). This amounts to disinvestment in the Nigerian economy. Also of concern is the Oilgate

scandal, which involved the ruling ANC in South Africa and Nigeria, which Mr. Kase Lawal, a Nigerian oil baron based in the US, served as a middleman in promoting ANC interests above states.

### Trade Relationship

The call for Free Trade Area (FTA) during the June 2013 state visit by the Nigerian President Jonathan is expected to boost the trade between the two and serve as fillip for other states on the continent. This move was received with scepticism by the Pretoria government as the arrangement will be to the interest of Nigeria. For instance “the South African Revenue Services (SARS) reported that in the first three months of 2012 Nigerian exports to South Africa were worth \$750 million, with \$740 million made up of mineral products, mainly oil. In the same months, South African exports were worth \$150 million (*The Nation*, 2013). Trade relations between the two states grew from R730-million in 1998 to R1.7 billion in 2000. South Africa’s exports to Nigeria grew from R3612 million in 1999 to R20.3 billion in 2005, whereas Nigeria’s exports to South Africa jumped from R8.4 billion to R35.7 billion. Nigeria is the largest South African trading partner in West Africa and fourth on the continent after Zimbabwe, Zambia and Mozambique. South Africa started to import crude oil from Nigeria in large quantities, but at concessionary prices. In 2013 after the meeting between Zuma and Jonathan, South Africa pledged to increase the barrel of oil importation from Nigeria. Other areas of interest for South African businessmen, as mentioned above, are telecommunications, aviation, electricity and mining. The South African Department of Trade and Industry (DTI) created a unit to deal specifically with export and import trade, focusing on sectors of the economy (*Business Day*, 2000: 4). DTI established a team to survey each state with regard to essential import items that South Africa could supply. In order to do this, a board of tariffs and trade was constituted in order to further the Department’s trade facilitation in Africa. A trade negotiation unit was also created with experts on trade, industry and commerce, taking into account the African environment. Agricultural exports to and imports from Nigeria are less than 2% and 1% respectively. Despite this, in 2000, Nigeria imports from South Africa were valued at R700 million, while South Africa’s total value of imports from Nigeria was R1.5 billion, mainly in the form of crude oil. A trade difference of R551m was recorded in favour of Nigeria in 2000. What accounted for Nigeria’s trade surplus was an agreement between the two states to increase the supply of crude oil from 22,000 to 120,000 barrels per day as from February 2002. In 2004, Nigeria accounted for 44% of South Africa’s total agricultural exports to West Africa, valued at R174 million, while imports accounted for 12%, valued at R15.5 million, for the same period (Daya, 2005: 3). South Africa’s agricultural exports to Nigeria are tobacco, beverages, sugar, dairy and milling products. Nigeria exports cocoa, food industry residue, and waste. South Africa hopes to increase its importing of industrial inputs in the near future.

As much as the two states encouraged free flow of trade transaction, South Africa is facing many import barriers from Nigeria in the form of high tariffs, price control and technical measures, which could be regarded as an attempt to discourage the importing of agricultural products from Pretoria. On the other hand, South Africa introduced its own barriers, such as sanitary and other non-tariff measures (Daya, 2005: 7). Also affecting the two states’ trade relationship are the activities of the SARS. The on-going confiscation of hair products and Nigerian movies, despite custom clearance, continues to work against a smooth business relationship between the two states. Instances have occurred in which goods purchased from big South African wholesale shops such as African Cash and Carry and Jumbo were confiscated from

retail outlets, since they were not products of South Africa. In general, trade between Nigeria and South Africa is biased against Nigeria, as Abuja exports mainly crude oil and other agricultural products, with little or no value being added. According to Daya (2005: 4), the need for the two states to exchange technical skills, with less emphasis on euro-centric competitive advantages, will make the continent grow.

### **Social Relations**

Social interdependence can be examined from two main perspectives. Firstly, it can be positive, when the social development of the receiving country contributes to the general development of the state, and secondly, it can be negative, which is termed "cultural imperialism," when the values and culture of the dominant state overshadow the recipient state. From Nigeria's perspective, South Africans started to change their negative attitudes towards Nigerians when Nigerian movies flooded the South African market. South Africans have recently realised that not all Nigerians are criminals of advance-fee fraud and narcotic business. Furthermore, in order to learn more about the Nigerian culture, some South Africans applied for DSTV, in which the popular channel 114 airs the said Nigerian movies. From this, they have been able to realise that Nigeria is a co-partner in the war against crimes in Africa.

Private individuals' inputs to redressing the image of Nigeria cannot be undermined. This is more pronounced in professional fields, in which Nigerians have held managerial positions in the South African government and higher institutions of learning. Medical doctors from Nigeria can be found throughout South Africa. Nigerian professors in different fields are at almost every university in South Africa where they have equally contributed to human skills development for the post-apartheid South Africa. Kole Omotoso and his son, Akin Omotoso, are very prominent in South Africa's communication industry. The contributions of South African companies to the social development of Nigeria are also important. The introduction of MTN in Nigeria is part of introducing the state to a global village, where people can transact their business telephonically without risking road transport, which claimed thousands of lives annually before 2001. Although contested by some scholars of international relations, transnational philanthropic activities in host states are a technique used to exploit the recipients even more. Many projects were conducted by MTN and Stanbic Bank, and these contributed to the employment and well-being of Nigerians in their chosen areas of development. In the field of information dissemination, the introduction of DSTV, long before MTN, continues to expose Nigerians to the outside world in the fields of sport, trade and communication. The South African Broadcasting Corporation's (SABC) channel three (SABC 3), which is part of the DSTV package, continues to impose the culture of South Africa on Nigeria. The attachment to South Africa as a destination for many Nigerians is evidenced by the number of visa seekers in the state's consular offices in Abuja and Lagos. The notion that South Africa is another America and another European state continues to attract Nigerians to the country. In addition, the same notion has made many Nigerians seek property in the state. Closely connected to the above discussion is the state of health facilities available in South Africa, which has been the target of some Nigerians. In the past, the only places known by middle and upper class Nigerians for receiving medical treatment are the European states and the US. The business intentions of some Nigerian medical doctors, and proof that the state of the art in the field of medicine could be obtained at a lower cost in South Africa, has led to Nigerians going to Pretoria for medical check-ups and treatment.

## CONCLUSION

This paper examined the levels at which the two states, Nigeria and South Africa, need each other for their respective development, which are mostly investment, trade, military, and political. It also revealed that South Africa's perceived economic dominance in Africa, which is more a question of political power, will continue to shape Pretoria's relationship with Abuja. It is in the interests of South Africa to upset the Western Great Powers in their presumed spheres of influence in Africa, especially in the areas of trade and investment. As much as Nigeria wanted to develop its industrial base, partly because of economic nationalism or in order to put an end to economic colonialism by South Africa, some important economic juggernauts eluded Pretoria in the privatisation programme of the Obasanjo government. This made the Nigerian government diversify its privatisation, by making itself available for cross-breeding from many states with different technologies. Nigeria Airways, which was considered to be a foregone conclusion for SAA, eventually won by Virgin Atlantic. Vodacom was unable to secure a good deal with Econet in the field of telecommunications.

Nigeria's comparative advantage over South Africa lies in the production of finite fossil fuel, which is believed to have reached a peak level without economic diversification. Beyond petroleum, South Africa is going to pose a serious challenge and threat to the survival of the Nigerian state. The latter will then only remain as a big market, and this will be its only credible power with which to relate to South Africa. Abuja will then not only be sensitive to Pretoria's economic and political development, but will also be vulnerable to both the domestic and foreign policy of South Africa in the foreseeable future. At the political level, Nigeria will continue to struggle for Africa's leadership, forgetting that South Africa could be seen as a medium power. In the near future, the relationship between the two states will be an admixture of cooperation, collaboration, integration and conflict, but more of cooperation in sharing the hegemonic power for the economic development of Africa..

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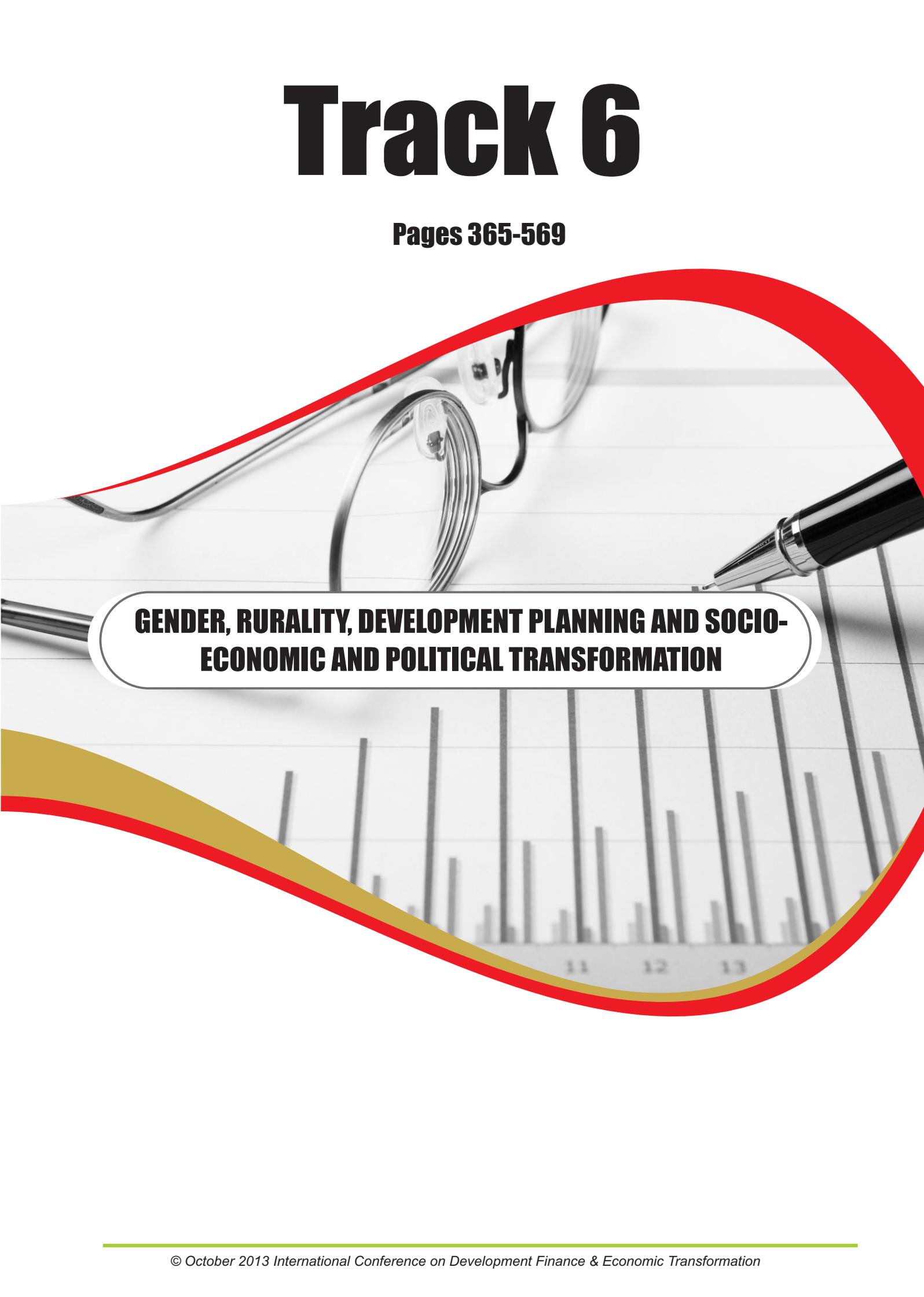
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# Track 6

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A pair of glasses and a pen resting on a document with a bar chart in the background. The glasses are silver-rimmed and the pen is black. The bar chart has several bars of varying heights, with the numbers 11, 12, and 13 visible at the bottom. A red curved line arches over the glasses and pen, and a gold and red curved line arches under the bar chart.

**GENDER, RURALITY, DEVELOPMENT PLANNING AND SOCIO-ECONOMIC AND POLITICAL TRANSFORMATION**

# SOCIO-ECONOMIC TRANSFORMATION IN RURAL SOUTH AFRICA: CHALLENGES IN TURNING POLICY INTO PRACTICE

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## ABSTRACT

The advent of democracy in South Africa in 1994, necessitated socio-economic transformation conditions, especially for rural areas where conditions of living have always been subhuman. These conditions which are influenced by previous racial exclusions and separate development policy implementation during apartheid era left the majority of people particularly in rural areas suffering from poverty, unemployment and lack of basic needs. Anchored by the Constitution (Act 108 Of 1996), which allude the rights of people to have access to health, sufficient food, water and social security, South African government formulated a myriad of legislative and policy measures to redress the social ills of the past and to achieve the progressive realization of the these rights. It was on the bases of this moral imperative given the shadow of apartheid and its resulting structural barriers to social and economic development that the promotion of social inclusion, redress and equity became the centre stage of policy formulation. Ironically, the majority of people in rural areas of South Africa are still suffering from poverty, unemployment and lack of basic needs even after 19 years of democracy. Access to clean water, proper sanitation and electricity amongst other remain a challenge in these areas. The purpose of this paper is to discuss the importance of socio-economic transformation in rural areas; the application of social policies as an imperative feature of transformation; challenges of implementing social policies in rural areas and recommendations on how to turn policies in to practice. The paper concludes that, for South African government to achieve the rights of the people to health, sufficient food, water and social security, its social policies should address the structural roots of poverty, unemployment and food security rather than formulating the relief oriented target symptoms and short term incrementing measures.

**Keywords:** Socio-economic transformation; social policies; transformation; rural areas; South Africa

## INTRODUCTION

The post-a democratic government of South Africa inherited a country of gross racial inequality with structurally high unemployment and extreme poverty amongst previously marginalised groups particularly those who are found in rural areas (Manyaka & Madzivhandila, 2013). The situation prompted for formulations of different policies aimed at redistributing and transforming the socio-economic patterns that prevailed in these areas. Some of the first major policies to be adopted include Reconstruction and Development Programme (RDP) in 1994 and Growth, Employment and Redistribution (GEAR) in 1996. The former aimed at addressing a variety of social and economic problems facing the country such as housing, shortage of jobs, inadequate education and health care and overall failure of the economy; and the latter looked at measures to stabilise and build the economy which was struggling during this transition period. These policies and others which were formulated after 1994 played a significant role in influencing the direction of development of the country. However, their impacts are seen to be minimal (Rizov, 2005; Hall, 2007; Cloete & de Coning, 2011; Gumede, 2012). This is understandable because the levels of inequalities are high and the majority of people are still trapped into extreme poverty.

The aim of this paper is to provide a thorough discussing on the challenges related to the implementation of social policies in South Africa and coming up with measures relevant in turning policies

in to practice. The paper commences by providing an overview of the socio-economic conditions of rural communities in South Africa. Secondly, the paper provides a discussion of the importance of social policies in the process of transforming the socio-economic conditions in rural areas. Thirdly, the paper provides a discussion on the challenges faced by public officials when implementing social policies. Lastly, the paper provides measures to be considered in order to facilitate successful policy implementation.

### **SOCIO-ECONOMIC CONDITIONS IN RURAL SOUTH AFRICA**

South Africa is regarded as the most developed and modern country in Africa with extensive natural resources, a developed agricultural sector and significant manufacturing capacity (Republic of South Africa (RSA, 2011). However, the legacy of apartheid which prompted deeply entrenched socio-economic inequalities based on racial considerations has left a far reaching impact that is still haunting the country today (Cloete & de Coning, 2011; Gumede, 2012). The goal of the democratic government since 1994 has been to stimulate basic policies aimed at reconstruction and development of the society. That is, the country's policy prescriptions intend to provide for basic needs to all South Africans, growing the economy and promoting social development (Gumede, 2012). Ironically, the majority of the country's inhabitants particularly those living in rural areas are still affected by extreme poverty i.e. the average incomes are lower in rural areas than the towns and cities and the proportions of people living below specified poverty lines are higher (Desai & Potter, 2002, Madzivhandila & Asha, 2012). Rural areas in South Africa are still recognised and associated with spaces where human settlement only occupy a small patches of the land scape, with poor infrastructure development, concentration of illiterate or unskilled people, unequal distribution of assets, skewed distribution of income, employment opportunities and access to social services (RSA, 2011). In other words the post-apartheid South Africa socio-economic status particularly in rural areas still reflects the following social problems:

- Underdevelopment that can be attributed to problems with instability, slow growth and inadequate distribution that emerged from the pre-colonial era and persisted beyond the dawn of democracy in 1994;
- Segregated planning approach and scattered residential and farming settlements without viable economic and social linkages to the more economically active areas of the country;
- Underutilisation and/or unsustainable use of natural resources, poor or lack of access to socio-economic infrastructure and service, lack of access to water or lack of water sources for both household and agricultural development;
- Low literacy, skills levels and migratory labour practice; and
- Dependence on social grants and other forms of social security (Gumede, 2012)

The convolution of these rural features has created a far reaching impact on the implementation of social policies aimed at improving the standard of living of the poor, creating employment opportunities and capacity building among the unskilled able bodies in the rural areas (Murdoch, 2000; Rizov, 2005; RSA, 2011). Moreover, the concentration of poverty in rural areas has been a stumbling block for development to take place smoothly and sustainably in these areas.

### **SOCIAL POLICIES AS AN IMPERATIVE FEATURE FOR RURAL COMMUNITY'S TRANSFORMATION**

The post-apartheid pursuit for socio-economic transformation in South Africa has been myriad by formulation of different social and economic policies aimed at redressing the legacy of the past racial segregation. Major policy prescription including the RDP of 1994 and GEAR of 1996, the 2005 Accelerated and Shared Growth Initiative for South Africa (AsgiSA), the 2010 New Growth Path (NDP) and the 2012 National Development Plan (NDP) has been formulated to shape the development direction of the country. RDP was a first major policy aimed at to accelerating social transformation needed for post-apartheid South Africa (Rizov, 2005; Hall, 2007; Gumede, 2012). The policy focused on addressing the many social and economic problems facing the country such as addressing housing backlog, shortage of jobs, inadequate education and health care and overall failure of the economy. It proposed job creation through public works, the building of houses and the provision of services that would be done in a way that will create employment. GEAR which was a macroeconomic framework in its nature was intended to stabilise and rescue the economy that was in recession at the time and already falling apart. AsgiSA's intention was to accelerate the growth of the economy as well as wealth redistribution. It sought to bring about the desperately needed hope for social change through integrated social and economic development. The NDP placed its emphasis on the need to create decent jobs and a new policy orientation towards labour intensive approaches (Gumede, 2012). The NDP or the Vision 2030 as it is also known is aimed at bringing consensus building mechanism towards a maximum reduction of poverty, inequality and unemployment. The adoption of all these policies has been to facilitate paramount social transformation through integrated social and economic development by government in collaboration with social partners, and seeking appropriate ways to unpack and address the deep-rooted structural causes of poverty and inequality in the country.

In order for policies to bring adequate transformation to the society, there are a number of basic and important strands. Social policies should promote social welfare were education, health, nutrition, social security (pension) are taken into consideration to enhance human capital, access to adequate and secure livelihoods and income and to boost macro-economic growth i.e. meeting basic needs and poverty alleviation (Murdoch, 2000; Mkandawire, 2001; Madzivhandila & Asha, 2012). Secondly, social policies should stimulate social protection in terms of construction of social safety nets to tackle absolute poverty. Issues such as social funds, condition cash transfer measures, social investment, environmental and social safeguard can be emphasized to protect and prevent harmful impacts to the weak and vulnerable rural communities. Social protection includes labour market intervention, natural disaster management, vulnerability assessment and monitoring. Lastly, social policies should act as a driving force behind social development such as community-driven development, social accountability, conflict prevention, participation and civil engagement (Mkandawire, 2001; Hall, 2007).

In South Africa social development has focused on promoting and enhancing livelihoods activities of the poor in rural areas. But, the success to these interventions will depend on the involvement of target groups through integrated participatory systems, where by policy makers plan with the people rather than for the people in meeting their felt needs. Such participation will give the target groups a sense of belonging as well as get them committed to the successful implementation of the policy (Mkandawire, 2001; Gumede, 2012; Manyaka & Madzivhandila, 2013). However, Hall (2007) argues that social policies reflect a broader if not more fragmented view of social development. They are conceived as involving overall and prior concern with social development, and as key instruments that works in tandem with

economic policy to ensure equitable and socially sustainable development. In other words, social policy implementation will only be successful if it works hand in hand with economic policy towards advancing both subjective and objective wellbeing of the society. Collective interventions directly affecting transformation in social welfare, social institutions and social relations are critical. Particularly the role of government and other stakeholders should be well defined in this collective intervention.

The government has a huge role to play in the facilitation of the implementation of social policies for transformation and social development. Government institutions should adopt social policies which will become common currency to support strategies that are pertinent to the empowerment of the society and other stakeholder that are deemed relevant in the process of transformation (Rizov, 2005; Hall, 2007). For any government to be judged as administratively competent there must be evidence of bridging the gap between the intention of the policy and the actual achievement of the policy (Manyaka & Madzivhandila, 2013). The role of government should be beyond formulating policy as a residual category 'safety nets' that merely counteract policy failure or development disaster. Moreover, policies should not be introduced as a way to correct the pathologies of economic development. Rather, they should be formulated with a purpose of redistributing income in order to move towards equity, increase social cohesion, promotion and accumulation of social capital and stability which in return is essential for growing local economies and livelihoods (Hall, 2007). To successfully transform society, social policies should seek for the adoption of measures that will bring about developmental state. South African government has already committed itself in to forming a developmental state in order to allow its society to self-sustain its livelihood and development efforts; however, different challenges are still been faced.

#### **CHALLENGES OF IMPLEMENTING SOCIAL POLICIES**

Even if a great measure of conceptual and operational integration and collaboration were possible in theory among the diverse arms of social policies, there remains a major practical obstacle to its mainstreaming into the society (Murdoch, 2000). In the past few decades, policies have been rolled out regularly in developing nations but, most of the time, without achieving the desired results. It has been observed that policy implementation is one of the major problems confronting these nations (Cloete, & de Coning, 2011; Manyaka & Madzivhandila, 2013). For example, South Africa's developmental challenge has not only been about fast-tracking growth, but also broadening participation and accelerating the pace of social advancement through policy implementation to overcome poverty, inequality and unemployment. What has been difficult for the country is not the government's commitment to formulate policies that will solve the complex problems faced, but the ability to implement policies. South Africa is approaching the end of its second decade of democratic governance but poverty continues to be widespread, unemployment remains high and many people lack basic necessities (Rizov, 2005; Manyaka & Madzivhandila, 2013). The country is also recorded to have some of the world class policies and positive economy growth; however, that has not automatically and meaningfully addressed the treble challenges of poverty, inequality and unemployment among citizens.

According to Mkandawire (2001), implementation problems occur when the desired results of the target beneficiaries are not achieved because of either lack of communication, resources, dispositions or attitude and bureaucratic structures. Some of the factors to influence this include corruption, lack of continuity in government policies, inadequate human and material resources, all of which often lead to

implementation gap i.e. the widening of the distance between stated policy goal and the realisation of such planned goals (Mkandawire, 2001; Cloete, & de Coning, 2011; Manyaka & Madzivhandila, 2013). However, when dealing with complex policies the fact that communication, resources and positive disposition are put in place does not guarantee successful implementation. There is a need for efficient bureaucratic structure. Understanding of implementation is the belief that it is not simply a managerial or administrative problem, it is a political process concerned with who gets what, when, how, and from whom. Hence, this strand has resulted into other serious problems such as bribery, nepotism, maladministration and corruption within the political cadre's cycle, leading greatly to the failure of policy implementation in developing countries (Mkandawire, 2001). Implementation gaps may also arise from the policy itself when such a policy emanates from government rather than from the target groups (top-down approach). If target groups are involved, they are able to give the correct account to social, political, economic and administrative conditions of the local area and that contribute to prioritisation of adequate implementation of policies. Lack of proper integrated channels for stakeholder engagement and organisational fragmentation has also resulted into failure of policy implementation (Cloete & de Coning, 2011; Madzivhandila & Asha, 2012). This disparity has hindered implementation of policies and resulted in wastage of scarce resources, inhibit change, create confusion, lead to policies working at cross-purposes and results in important functions being overlooked. The complexes interactions of the outlined activities which are deterring the successful implementation of social policies need to be strategically addressed in order successfully transform the society.

#### **MEASURES FOR TURNING POLICIES INTO PRACTICE**

The quest for abstaining of a success to policy implementation is not a straight forward process that is based on or influenced by a single phenomenon but a variety of complex variable that should be taken into consideration. In order to turn a policy into practice, implementation should be based on the conversion of physical and financial resources into concrete service-delivery outputs in the form of facilities and services, or into other concrete outputs aimed at achieving policy objectives (Murdoch, 2000; Mkandawire, 2001; Rizov, 2005; Manyaka & Madzivhandila, 2013). Such a process should subsequently forge the links in the causal chain of activities in order to obtain the desired results. The following are some of the factors that according to Mkandawire (2001) should be taken into consideration in order to successfully implement social policies:

- Targeted beneficiaries and other stakeholders should be involved from the formulation stage of the policy until its implementation. However, training should be provided in order to strengthen the ability of the stakeholder participation. Stakeholder engagement could also help to strengthen positive disposition or attitude in policy implementation (Mkandawire, 2001). The level of success will depend to a large extent on how the implementers together with the beneficiaries see the policies as affecting their organisational and personal interests. Where a policy will results in reduction of income, low self-esteem, or loss of position to the implementers, the attitude will be affected adversely;
- Effective communication allows for instructions of implementing policies to be transmitted to the appropriate personnel in a clear manner while such guidelines are accurate and consistent. That is, implementation instructions that are not clearly transmitted, or distorted in transmission, that

are vague, or that are inconsistent may cause serious obstacles to policy implementation (Hall, 2007). Also, inadequate information can lead to a misunderstanding on the part of the implementers who may be confused on what exactly are required of them; and

- Man power and financial resources also play a major role on the success of policy implementation. Where implementation instructions are clear, consistent and accurate transmitted, the absence of adequate resources will results in implementation problems (Mkandawire, 2001).

All these factors and others should be consider if social policies are to be implemented successfully. Thus, guaranteeing that the impact of the policy is sustainable. In the current modern society, social policies should move away from seeing social protection as simply a short-term welfare measure and towards a long-term security perspective involving livelihoods strengthening and the adoption of a rights-based approach (Mkandawire, 2001; Rizov, 2005). The process should be in a way that it converts financial, material, technical and human inputs into outputs of goods and services where the society are being transformed to be self-sustaining and dependable.

## CONCLUSION

Strategic implementation is the final acid test for a policy to be successful. Such a process should consider different factors that are pertinent to the sustainability of policy implementation. Factors such as stakeholder engagement, effective communication, adequate human and financial resources and also formulation of monitoring and evaluation measures are paramount to the realisation of a successful policy implementation. Amid different challenges such as corruption, capacity constraints and finance, policy implementation plays a major role in the transformation of socio-economic conditions of any society. Deep seated poverty in rural areas has always been a stumbling block for an effective policy implementation. However, inequality, political intolerance are contributing a major blow into societal progress towards a better life for all.

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## RURAL DEVELOPMENT AND RURALISATION OF SOUTH AFRICA

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### ABSTRACT

More often, rural settings are equated to uncivilised areas characterised by mostly agricultural economic activities, isolated households, as well as individual trading like street vendors and small shops. This paper explores the emerging effort to reposition rural development in South Africa. It unpacks and repackages the concept of rural development and identifying government efforts that seek to promote rural development. Notwithstanding its primacy, rural development is conceived differently depending upon the underlying motive. This paper adopts the paradigm of rural development that transcends the famous narrow focus on agriculture development. The approach is in line with the South African government's approach to rural development, which stresses pragmatism. Government's prioritisation of rural development has resulted in the establishment of the Department of Rural Development and Agrarian Reform. Whereas, this prioritisation has impacted on a majority of rural households, the majority of rural South Africa continues to be distant from achieving the critical objectives to MDGs. The paper concludes that South Africa's policy and institutional effort is congruent with the ruralisation drive that seeks to prioritise "rural-ness" and to some extent balance the rate of urbanisation. There is a need for communicating advantages of ruralisation for programming and support to rural development.

**Keywords:** Agriculture; rural development; rurality; ruralisation

### INTRODUCTION

A commonly held view suggests that rurality in developing countries is synonymous with backwardness and wanting civilisation, characterised by mostly agricultural economic activities, isolated households, individual trading like street vendors and small shops. Most people living in rural areas are economically dependent, especially the retired elderly and young people who are still completing their education at the primary and secondary level schooling. However, some authors have attested that, there is currently no formal and agreed meaning on the definition of "rural" within the South African context (Goldman & Reynolds, 2008). According to Munn (2002), the Australian co-author of Social Work and Social Policy at the University of South Australia, the term rural is a thorny concept to define and various definitions are provided according to the perspective of different authors. Deriving a conventional definition will enhance the understanding of rural development and associated programmes as well as efforts to transform society.

This paper explores the emerging effort to reposition rural development in South Africa. It unpacks and repackages the concept of rural development, identifies government efforts that seek to promote rural development. The paper is organised in six sections. The second section addresses the concept of rural and rural development. The third tracks the progression of government interventions and perspectives in rural development by identifying a range of programmes. The fourth presents the global perspective by matching government priorities with millennium development goals (MDGs). The fifth provides an empirical

assessment of the rural state of municipalities. The last section provides conclusions and suggest recommendations.

### CONCEPTS OF “RURAL” AND “RURAL DEVELOPMENT”

This section addresses the concepts of rural and rural development in order to provide the necessary background to the argument of the paper. Rural areas are considered less developed in terms of infrastructure and services. According to Bester (1994), cited in Molefe (1996), rural areas are characterised by a primitive agriculture, low income and a lack of finances and technical skills. Typically, rural areas are deficient in most of the basic infrastructure amenities, amidst high dependence on the meager farming income and social grants. Yet, rural people constitute the greater part of the population of developing countries, who in many respects lack access to basic services and needs such as water, food, education, healthcare, security and sanitation, leading to low life expectancy and high infant mortality (Munyua, 2000).

The rural development framework characterises rural areas as sparsely populated areas where people farm and depend on natural resources, and they include the villages and small towns that are dispersed through areas (RDF, 2007). These areas in South Africa are set apart by levels of poverty and are mostly dominated by Africans. Also, Gopaul (2006) states that unemployment and poverty have for a long time been major setbacks in rural South Africa. With current trends, broader development problems of rural areas cannot be explained fully without reference to the on-going socio-economic needs (Gopaul, 2006: 6). Other setbacks related to rural communities include the shortage of human service professionals. Attracting skilled and qualified staff remains a concern to most rural areas (Munn, 2002).

Apostolides (1997) argues that the towns and cities within the vicinity of the mountain areas, which falls within rural areas, cannot be ignored. These towns are important in providing goods, services, markets for local produce, transportation, storage and processing facilities, social services and recreation for the rural poor (Apostolides, 1997: 1). In the South African context, as Motselebane (2004) puts it, large and growing proportions of rural households rely on urban areas for access to markets and services. Additionally, there are many informal settlements around the city peripheries, which have characteristics of the rural living, in regard to poor infrastructure, low-income jobs and poverty. This argument could also be linked to the Integrated Sustainable Rural Development Programme (ISRDP), which transcends the development of rural areas by embracing peri-urban development. It is obvious that the areas chosen for nodal points for the ISRDP were equally characterised by underdevelopment and poverty, meaning that the significance of rural development transcends rurality due to the interconnectedness with urbanity.

The conception of rural development has been developed and used for over decades by countries around the globe. Many countries have developed rural development policies, with the intention of enhancing societal development. The idea has evolved over time. According to the Asian Development Bank (ADB), the constituencies of rural development seem to have changed extensively until the 1970s, when rural development was assumed to be synonymous with agricultural development (ADB, 2010). According to Makhura (2004), in the past, rural development in South Africa was about creating competitive (white) farms and rural labour reservoir in the homelands. However, in the current era, the concept of rural development is different from that used about four decades ago. The concept includes a wide range of issues that need attention; and, this includes general issues of national socio-economic

development.

South Africa, just like other developing countries, has engaged with “rural development” for a long time but does not have a formalised definition attached to it. Van der Ploeg, Renting & Brunor (2000) argue that the notion of rural development can trigger some controversies, once it becomes an established part of the discussions surrounding agriculture and the countryside. To most authors and observers, rural development is not only one dimension focused on agriculture, but that it also embraces other facets of social development. Rural development is a large and inclusive umbrella for all kinds of departmental programmes and orientations (Hemson, Meyer & Reynolds, 2004). It includes, for example, agricultural development, poverty alleviation in tourism, small-scale mining, co-operatives, sustainable livelihoods, food security and infrastructure provision. Rural development is more than just agriculture (Makhura, 2009). Defined in the Integrated Sustainable Rural Development Strategy (ISRDS), rural development is multi-dimensional and much broader than poverty alleviation through social programmes and transfers; and, it places emphasis on changing environments to enable poor people to earn more, invest in themselves and their communities and contribute towards maintenance of key infrastructure (ISRDS, 2000).

Delius & Schirmer (2001) describe rural development as encompassing economic and social development not only in underdeveloped areas. This argument can be tied to that of peri-urban areas where negligible economic activity is taking place. In South Africa, those areas are the informal settlements and townships. Delius & Schirmer (2001) further state that, in the South African context, the former refers to the areas where due to the legacy of apartheid, the overwhelming majority of poor households are involved to a greater or lesser extent in agriculture. Kuhnen (1977: 42) states that the goal of rural development is to include the neglected masses of rural poor in the process of increasing the well-being of mankind, with the application of measures of economic, social, political, and technical factors.

Apostolides (1997: 1) has also defined rural development as “the development of rural regions that are not well developed as compared to those in the urban areas”. In the other light, one can describe rural development as the platform to improve the livelihoods and socio-economic conditions of the underprivileged areas. Considering a number of policies the South Africa’s post-apartheid government has implemented under the “rural development” flag, the process can be considered to include economic enhancement of rural communities by providing service and basic infrastructure such as housing, education, water, land, health, food security and safety.

Nevertheless, agriculture is the main catalytical factor for rural development. Belete, Chaminuka & Moholowa (2004) state that the rural economy in most sub-Saharan African countries revolves around agriculture, with 40% of the population depending on agricultural and related activities. To this extent, Belete *et al.* (2004) conceive rural development as an elaborative process of evolving peasantry from a rural state of impoverishment and less productivity to one of resourcefulness and more productivity. They emphasize that rural development has to do with improving living standards and quality of life of its target group. Sharing similar sentiments with the authors on the definition of rural development, it simply means making poor and resourceless communities and areas part of the economic participants in a lively and productive way, in order to improve their rural surroundings and lives. Rural development should not be seen as the way for rural areas and its people to be urbanised, it is not intended to change the rural settings to an urban setting, but rather to improve the way of living, with the intention to create and attract

economic market opportunities in the hope of creating an enabling environment for quality services and infrastructure delivery. Makhura (2004) states some dynamics that would need to be considered and be put together for efficiency, which could lead to rural development. These elements include, but are not limited to rural areas, people, activities, sectors, infrastructure, systems and practices, institutions and economies. Makhura (2004: 10) then defines rural development as:

“A positive advancement of (rural) people in rural areas through improvement of rural institutions and systems, expansion of rural infrastructure, and growth in rural economic activities”

That is, not only does rural development focus on factors such as social infrastructure, agriculture and other socio-economic elements, but also giving technical skills that are lacking, to encourage entrepreneurship and for the communities to be empowered and to implement their developmental needs for the promotion of economic growth.

Ostensibly, there is a consensus between recent emerging conceptualisation of rural development with government approach. The former Director General for the Department of Rural Development and Land Reform, Mr Tozi Gwanya was cited as saying that:

“Rural development must involve rural business, agri-industries, cooperatives, empowerment of rural people and revitalisation of old (and creation of new) economic social infrastructure and social mobilisation. This must all involve conscientisation, political education, with the people including traditional leaders” (Gwanya, 2009: 4).

To test the congruency, the next section overviews the government approach and interventions for rural development.

## **THE SOUTH AFRICAN GOVERNMENT'S APPROACH TO RURAL DEVELOPMENT**

Post 1994, the South African Government transformed systems to address challenges, from the past rule of government. The changes include the setting of government structures from national government to provincial government, to district municipalities and to local municipalities. This then led to local government elections, to enable local communities to dictate or indicate their development priorities. This gives representation by local government as it has the mandate of the development and revitalisation of the entire country, including rural areas in the former Bantustans (Ntsebeza, 2006). Rural development starts and should start at municipal level because they have direct contact with the people on the ground. The South African Government has introduced several policies with the intention to address development in the poverty-stricken areas. The concept of rural development was more stringent, and applied as the core of policy set out to address rural poverty, inequality and service delivery, amongst others. Some of these policies introduced by government post 1994 to address rural development are: National Development Plan; New Growth Path (NGP); the Local Economic Development (LED); Comprehensive Rural Development Programme (CRDP); Integrated Sustainable Rural Development Programme (ISRDP); Rural Development framework (RDF); National Rural Development Strategy (NRDS); and, Reconstruction and Development Programme (RDP).

### **Reconstruction and Development Programme (RDP)**

The initial rural strategy for South Africa was originally formulated within the general framework of Reconstruction and Development Programme (RDP). The concept of rural strategy and development

began in 1994 with much effort within the framework of the RDP. The intent of these programmes was to deal with the past and present inequalities, as the majority of rural people did not have access to better and improved services, resources and information. Many of the programmes, both in rural and peri-urban areas focused primarily on poverty alleviation through infrastructure and provision of social services (ISRDS, 2000).

### **National Rural Development Strategy (NRDS)**

The NRDS was introduced in 1995. The intention was to integrate and align the objectives of the RDP with those of the developmental local government (Ntsebeza, 2006). The NRDS addressed some institutional aspects of the emerging local government with the objectives of the RDP.

### **Rural Development Framework (RDF)**

In 1997, government introduced the RDF. According to Ntsebeza (2006), this sought to address some of the weaknesses of the NRDS, particularly those issues underlying rural local government in addressing development and alleviation of poverty in South Africa. The RDF had mainly to do with the rural municipalities in creating sustainable livelihoods and reducing poverty in South Africa.

### **Integrated Sustainable Rural Development Programme (ISRDP)**

This programme followed in 1999 as a new rural development programme and approved by cabinet on 27 November 2000. ISRDP has been initiated, responding to the push by rural people – via the Rural Development Initiatives (RDI), to place rural issues on the national agenda before the second democratic elections in 1999 (Davids, 2003). ISRDP was made a programme in order to emphasise its operational purpose. The programme focused efforts in 13 nodes/nodal points (spatial locations), spread over developing rural areas of South Africa, 12 of which are districts. These nodes were selected by government mainly because of their high level of poverty, lack of infrastructure and lack of capacity. The ISRDP entailed, inter alia, investment in economic and social infrastructure, human resources development, enterprise development, enhancement of the development capacity of local government, poverty alleviation and the strengthening of the criminal justice system. The programme aimed to transform South Africa's poorest rural municipalities into sustainable and economically viable communities (Harmse, 2010: 434). The expectation was for the programme to run for 10 years. These rural nodes can be seen in table 1.

It needs to be pointed out that some of the municipalities included in the ISRDP were not supposed to be included as they are not poorer municipalities in comparison to others, and other municipality that are regarded to be poorer with lower levels of development should have been included. About 10 municipalities did not qualify to be chosen as nodes for the ISRDP and 17 municipalities which qualified have been excluded from the programme. The reason for the deficiencies is that district municipalities were used to identify 10 nodes of which many are large and heterogeneous, whereas it would have been better to select the nodes from municipalities rather than from the district levels. The other reason for the inconsistency is that the provincial equity was used as a criterion for the selection of the nodes, not just poverty and the need for development.

**Table 1:** District and local municipalities in selected nodes per province

Province	Nodal Point (District municipalities)	Number of Local municipalities included
Eastern Cape	OR Tambo, Alfred Nzo, Chris Hani and Ukhahlamba	16 Municipalities
Kwazulu Natal	Ugu, Umzinyathi, Umkhanyakude and Zululand)	18 Municipalities
Mpumalanga	Bohlabela	7 Municipalities (Includes other Limpopo municipalities)
Limpopo	Sekhukhune	0
Free State	Maluti a Phofung (Local Municipality)	1 municipality
Northern Cape	Kgalagadi	2 Municipalities
Western Cape	Central Karoo	0 municipalities

**Source:** ISRDS, 2000

The presentation of ISRDS is a spatial development framework, which tried to accommodate environmental, social and economic agendas. The programme was designed to provide national and provincial means at local level, since many local municipalities are ill equipped to play a significant role on their own. It should be noted that the ISRDP was not aiming at replacing or duplicating any local initiatives. It was supposed to fit into the local IDPs and was to be driven by local municipalities. The ISRDP was the responsibility of the Department of Provincial and Local Government (DPLG), now known as the Department of Cooperate Governance and Traditional Affairs.

### **Comprehensive Rural Development Programme (CRDP)**

The CRDP has been established to respond to poverty and food insecurity by maximising the use and management of natural resources to create vibrant, equitable and sustainable rural communities (DRDLR, 2010). The CRDP requires active participation by all stakeholders where rural people take centre stage in the improvement of their own lives. The programme is initiated and facilitated by the Department of Rural Development and Land Reform (DRDLR). In the 2010 financial year, the DRDLR identified and commenced with planning at nine pilots sites, spanning 21 wards. The pilot sites have been testing grounds for the CRDP that is constantly being fine-tuned and improved upon further, 160 CRDP sites will be identified and targeted over the next five years (DBSA, 2010). Below is the table that depicts the benefits to be received by households during the implementation of CRDP from 2009 to 2014 (table 2).

**Table** Error! No text of specified style in document.: The number of households that were to benefit from CRDP in year 2009 to 2014

Financial year	Number of wards per annum	Estimated number of households per rural ward	Estimated number of rural households supported
2009/2010	21	2700	56700
2010/2011	25	2700	67500
2011/2012	32	2700	86400
2012/2013	37	2700	99900
2013/2014	45	2700	121500
Total	160	13500	432000

**Source:** Department of Rural Development and Land Reform (DRDLR)

The CRDP is a strategic priority within the government's medium term strategic framework. The involvement of municipalities concerning the CRDP is the coordination of development planning and social facilitation by means of: planning and resources mobilisation; monitoring and evaluation; reporting systems and accountability; and, piloting and laying the foundation for CRDP. As critical stakeholders, municipalities are expected to be active and filter the programme to their IDPs and provide for the strategic institutional support needed to implement the CRDP.

### The Local Economic Development (LED)

According to World Bank (2012), the purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sectors partner in working collectively to create better conditions for economic growth and employment generations (World Bank). Concerning the involvement of municipalities, the municipalities play a vital role in meeting the social, economic and material needs of their communities. The municipalities decide on LED strategies and the process of these strategies must be part of the Integrated Development Planning (IDP), implying that more businesses and factories should be encouraged in the municipal area to ensure LED.

### New Growth Path (NGP)

In 2009, the New Growth Path was announced, with the intention to create decent jobs, reducing inequality and fighting poverty. This is in terms of labour absorption and the composition for growth in the South African economy. This programme is established to make job creation a priority. Concerning rural development, the New Growth Path considers the agricultural value chain as the major contributor to job opportunities. Improvements in livelihoods for rural dwellers are possible by upgrading farm workers' conditions and helping rural households increase production (Economic Development Department, 2009). At the municipal level, the NGP is intended to reprioritise budgets for housing and social services to address rural backlogs, which requires managing trade-offs and addressing gross inequalities in municipal revenues. The medium term expenditure framework (MTEF) and annual budgets will be guided

by the need to support the NGP through appropriate spending on infrastructure, skills, rural development and economic programmes where local government will undertake similar work (Economic Development Department, 2009).

### **National Development Plan**

The National Development Plan was established in 2011 with the vision to eliminate poverty and inequality by 2030. This will be done by focusing on the capabilities needed to transform the South African economy and society. The focus is mainly on young unemployed youth who have little or no education. Thus, the focus of the plan is about the future growth of the country to ensure that all South Africans benefit from the resources the country poses. The plan is developed to ensure that the country will have a sustainable economy. The objectives of the plan include, amongst others: The growth of the economy and the creation of employment; Economic infrastructure; Inclusivity of rural economy; South Africa standing and growth in the region and in the world; Building of capable and developmental states; Improving education, training and innovation; and, Nation building and social cohesion. Critical success factors for the plan are detailed below and some of these factors can be related to this study, these include: Focused leadership; A plan that will include all South Africans; Institutional capability; Resources mobilisation and agreement on trade-offs; Sequencing and willingness to prioritise; and, Clarity on responsibility (Republic of South Africa. National Development Plan 2030, 2012).

### **GLOBAL APPROACH TO RURAL DEVELOPMENT: THE MILLENNIUM DEVELOPMENT GOAL (MDGS) AND SUSTAINABLE DEVELOPMENT**

While the study focuses more on the local perspective of rural development, this section illustrates how South Africa applies the concept of rural development when looking at the global context of MDGs. The United Nations General Assembly approved the MDGs in 2000 by 189 countries and 147 Heads of State and Governments, with the specific target to be achieved by 2015. They MDGs are: Goal 1: Eradication of extreme poverty and hunger; Goal 2: To achieve the universal primary education; Goal 3: To promote gender equality and empowerment of women; Goal 4: The reduction of poverty; Goal 5: Improvement of maternal health; Goal 6: Combating HIV and AIDS, malaria and other diseases; Goal 7: Ensuring environmental sustainability; and, Goal 8: To develop a global partnership for development (Statistics SA, 2010). South Africa uses the Medium Term Strategic Framework (MTSF) to plan, identify challenges of development, and outline the medium-term strategy for improving living conditions of all South Africans (UNDP, 2010).

The following is the linkage between South Africa's national development planning and the MDGs. Municipalities/local governments are mainly at the core of making sure that services delivery is expedited and by setting development planning deliverables. The MDGs should be considered in making sure that alleviation of poverty and inequality is addressed accordingly in the IDPs of these municipalities (Dirie, 2005). Given the global demographic trends, it is inevitable that local government will have a greater responsibility in the preparation of long-term strategies for investment in health, education, and infrastructure to reduce poverty and achieve the MDGs.

Dirie continues by stating that local government is important in the achievement of the MDGs as many of the responsibilities for addressing multi-dimensional aspects of poverty, the diagnosis of spatial

conditions and planning and budgeting are evolved at the local level (Dirie, 2005). Municipalities have to plan according to the national level priorities, with the participation of the communities and by considering the goal of reaching the MDGs. This highlights the commitment the South African government has towards sustainable development, and its parallel response to the global community.

**Table 2:** South Africa's Medium Term Strategic Framework and the Millennium Development Goals

MTSF	Relevant MDGs
Speeding up growth and transforming the economy to create decent work and sustainable livelihoods	MDG 1, 2, 3 & 8
Massive programme to build economic and social infrastructure	MDG 1, 2 & 8
Comprehensive rural development strategy linked to land and agrarian reform and food security	MDG 1, 2 & 7
Strengthen the skills and human resources base	MDG 2
Improve the health profile of all South Africans	MDG 4, 5 & 6
Intensify the fight against crime and corruption	MDG 2 & 3
Build cohesive, caring and sustainable communities	MDG 2, 3 & 7
Pursuing African advancement and enhanced international cooperation	MDG 8
Sustainable resources management and use	MDG 2, 3 & 7
Building a developmental state, including improvement of public services and strengthening democratic institutions	MDG 1, 2, 3 & 8

Source: Statistics SA, 2010.

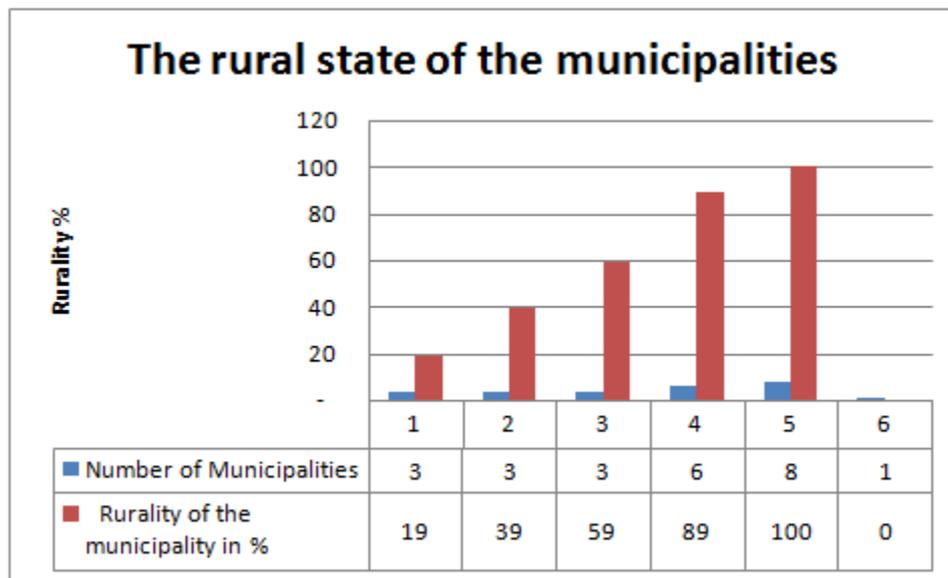
## THE RURAL LOCAL STATE OF MUNICIPALITIES

Given the coherent position between the conventional concept of rural development and the government approach, it is imperative to test the effect of such interventions on the ground. This is done by assessing some empirical evidence at municipality level.

### Rurality of Municipality

In the study on rural development and municipalities, Makgamatho (2012) asked 26 municipalities to rate their rurality. Of the 26 municipalities that participated, 24 were able to indicate their rural state and Figure 1 and table 6 depicts the "rurality" of these municipalities. The "rurality" of a municipality means the extent to which municipalities reflect rural conditions. This, on the other hand, are the municipalities who are based in rural settings and normally do not have adequate skills and resources to instil the development mandate. Accordingly, eight of 24 municipalities that responded were 100% rural. The municipalities that were 100% rural are those that do not have adequate resources and the surrounding area does not have sufficient development and infrastructure needs.

Figure 1: Responses on the rural state of municipalities



Source: Makgamatho, 2012

Six out of 24 were 89% rural and the remaining nine municipalities are within an average of 49% rurality (49% rural), with an average frequency of 13%. This shows that the majority of municipalities that responded were rural based which indicates the importance of the need for improvement in rural municipalities.

Table 4: The "rurality" of municipalities

The Rural State of Municipality (Rurality)	Frequency	Percentage	Cumulative	Cumulative Percentage (%)
90% - 100% rural	8	33%	8	33
60% - 89%	6	25%	14	58
40% - 59%	3	13%	17	71
20% - 39%	3	13%	20	84
5% - 19%	3	13%	23	96
Unknown	1	4%	24	100
<b>Total</b>	<b>24</b>	<b>100%</b>		

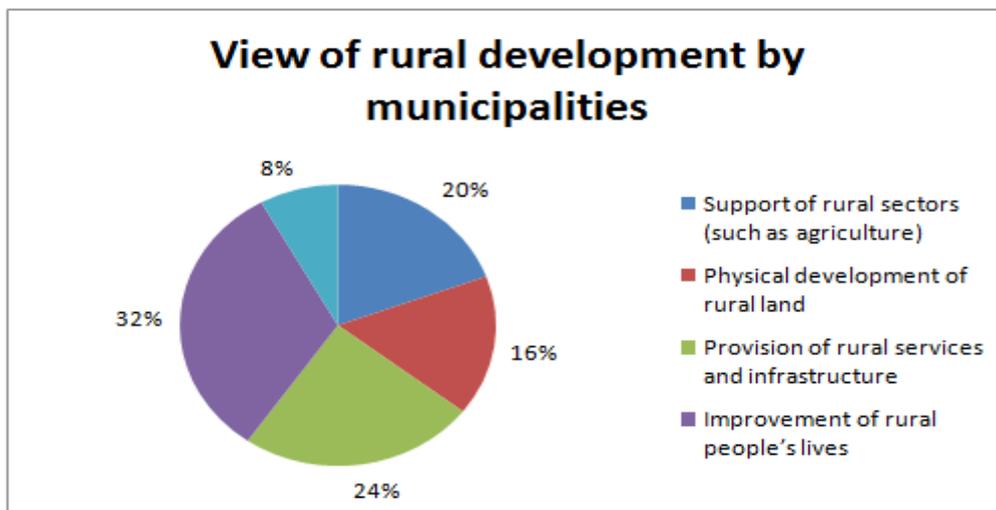
Source: Makgamatho, 2012

### Understanding of Rural Development

Municipalities have the mandate to deliver services and infrastructure such as water, sewage and roads and to implement other development programmes similar to LED and enterprise development. These mandates are some of the programmes most municipalities have described as being part of their rural development initiatives, and are perceived by the communities within those municipalities to be part of rural development, especially in those municipalities that are seen to be more rural than others are. Many perceive rural development as the improvement of rural people's lives in a sense of providing infrastructure needs. Figure 2 shows what municipalities view as rural development. About 32% of the

municipalities that responded perceive improvement of rural people's lives a priority followed by 24% on the provision of services infrastructure.

Figure 2: Responses on the understanding of rural development by municipalities



Fifteen of twenty-four municipalities indicated that the communities do have an understanding of rural development. The communities tend identify with rural development as the provision of infrastructure services and necessities such as roads, houses, electricity, waste removal, etc. Some municipalities argued that communities do not understand the purpose of rural development, as they do not consider the sustainability and viability of rural development.

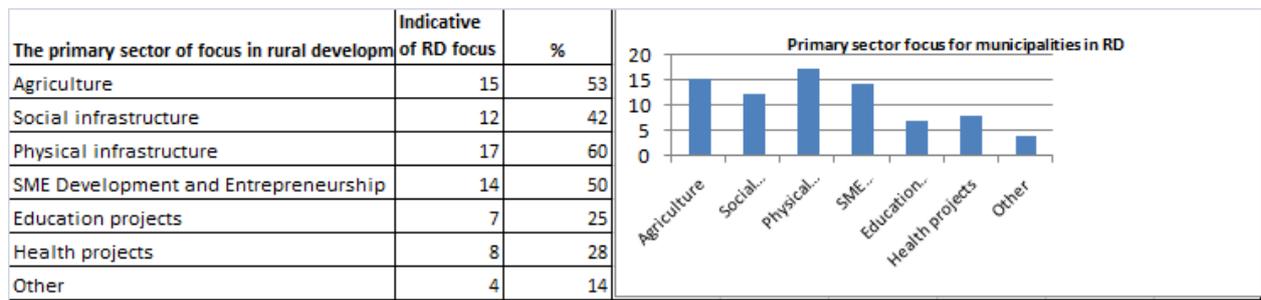
Table Error! No text of specified style in document.: View of rural development by municipalities

Variables of how rural development is viewed by municipalities	Number of Responses indicated by Municipalities	%
Support of rural sectors (such as agriculture)	12	19%
Physical development of rural land	10	16%
Provision of rural services and infrastructure	15	24%
Improvement of rural people's lives	20	32%
Promotion of rural practices and life style	5	8%
	62	100%

Source: Makgamatho (2012)

In the same light of understanding rural development, the study further investigated the need to understand which sectors municipalities prioritise when planning rural development initiatives in their respective communities. The following are the sector focused on by municipalities regarding rural development. It should be noted that municipalities chose more than one answer to this question. 60% of municipalities who responded focused mainly on physical infrastructure as the most important part of rural development, while agriculture has been rated second as an important part of rural development. Given the results, it shows that municipalities and communities have the same notion regarding focus and the understanding of rural development.

Figure 3: Primary sector focus municipalities concerning rural development



Source: Makgamatho, 2012

As highlighted above, rural development is not only about agricultural initiatives as many might have considered. Rural development is a broad spectrum of different programmes aiming at improving the livelihood of the rural people. Rural development is amongst the important aspects of improving the livelihoods of people, hence about 17 municipalities indicated that rural development initiatives are among their annual programme focuses and regards services delivery and community development engagement.

## CONCLUSION

The paper discussed the terms “rural” and “rural development”. In the absence of formal and generally accepted definition to the latter, the discussion provides understanding of “rural development” concept. Rural development mainly boils down to the government’s obligations and efforts towards the betterment of people’s lives. Whereas the paper focused at the local scale, an attempt was made in this regard to indicate where South Africa fits in the global context of rural development and sustainable development. The global context relates to the Millennium Development Goals (MDGs), where South Africa is amongst countries that committed to the eradication of poverty, the encouragement of equality and improving the lives of the poor. The results paint a rather grim picture concerning South Africa’s progress on the MDGs, especially in education, health and poverty alleviation.

The paper accedes that rural development in South Africa continues to emphasise agriculture as it was traditionally perceived, to the exclusion of all other socio-economic dimensions of people’s living conditions. Attempts to pursue rural development have seen the transposition of urban activities for replication within rurality, which Makhura (2012) denotes rubanisation. The latter meaning urbanisation of rural people through, among other things, enforcing urban mindset. The challenge, though, as Makhura (2012) argues, ruralisation too appears to suggest a nostalgic entrapment with uncivilised midset, thereby deterring investments. However, accurate understanding of ruralisation should imply, among others, maintenance of rural lifestyle, ability to invest in rural development, enhancement of relations with urban areas, creation of an enabling infrastructure and conducive conditions and improving the image of rural life as well as building the rural voice.

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## THE LOST AND FORGOTTEN CORNERSTONES: A RURAL DEVELOPMENT MODEL

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### ABSTRACT

Postcolonial South Africa has the world's widest gap between the poor and the rich, and this gap continues unabated as the prices of commodities go unchecked. Chronic poverty is exacerbated by the unavailability of accessible quality education and training, relevant development and self-sustaining skills, appropriate less cumbersome government support, and practical government poverty elevation schemes. The apartheid era had no development strategy for the poor third class black citizens who were relegated to survive with the most mediocre of resources. The colonial era left indelible wealth structures defined by race, thereby pre-destining black people to perpetual poverty. Whilst it is understood that the effects of white land seizures had a devastating impact on the black population in general, the focus of this paper is on the marginalised rural folk who comprises 51% plus of the national population. These rural poor are exclusively black, and they have not known anything better than poverty from their ancestry. The type of farming practising on these tribal trust lands is of the lowest form of peasantry, with no income generation from the farming activities. To say the least, they live from hand to mouth with subsistence support from either the government or relatives working in towns. This paper posits that academic discourses and government wish lists do not reduce poverty, but practical and visionary leadership using *projectification* is the pre-requisite to changing the poverty-demographics of South Africa. A model is developed based on their possession of the most valuable development asset basic to the survival of the human race, the land. The Land bank wastes millions buying large farms that become defunct in no time, but leaves the cheapest yet most sustainable means of production untapped. A deliberate conglomeration of government, Land Bank and NGOs using *projectification* of rural development can turn around the rural economy.

**Keywords:** Development; poverty; *projectification*; rural economy; South Africa

### INTRODUCTION

It is important that the readers understand that the South African rural development case, and indeed the whole of Southern Africa cannot be separated from politics. The whole idea behind the bitter liberation wars that were fought in the region were fought to recover land. The white settlers took all the arable land from the indigenous people and pushed them into corners with semi-arid land. The larger part of the South African population lives in these semi-arid rural areas, many have been resettled by the government on land bought from the settlers, but 70% of the poorest people in South Africa are rural based (May & Roberts, 2000). Rural development in this context relates to economic activities and initiatives undertaken to provide opportunities of participation of the rural people in the national economy (Hall, Kirkpatrick & Mitchell, 2005: 165). The first mistake in our context is that rural development is seen more as assisting the disadvantaged peasant to get out of poverty and not as an economic imperative critical for economic stability of a country. The white settlers took the most fertile land and reduced the black African farmer to a peasant (Delius & Schirmer, 2000) with no economic value and living from hand to mouth. The levels of agricultural-literacy amongst the black population in the country are pathetic with available land used a home to retire to. Consequently the rural development programs are top-down and heavily tailored for gaining political mileage for ruling elites.

It is important to note that the apartheid regime and indeed the current regime has never had a clearly definite rural development policy, hence there is no existing model on the basis of which the rural folk may develop (Aliber, 2003: 473-490). The local population is not involved in the identification of their requirements as funds used are donor funds earmarked for specific programs (Kepe & Cousins, 2002: 1-5) solicited for by the government or NGOs. This is evidenced by the closure of agriculture colleges in 1994 (Nelson Mandela government) at a time when more colleges were needed to re-introduce agriculture to the masses who had been denied that opportunity by the apartheid structures. According to the constitution of South Africa it is government responsibility to develop the undeveloped villages for reasons already stated above. The Integrated and Sustainable Rural Development Strategy (ISRDS) which was designed to push for rural development with participation of the rural people, has not taken shape twelve years later. The vision then was to *"attain socially cohesive and stable rural communities with viable institutions, sustainable economies and universal access to social amenities, able to attract and retain skilled and knowledgeable people, who will be equipped to contribute to growth and development"*. Whilst that has been pronounced as the vision of the government, there is no known model on the basis of which the rural development will be based.

South Africa has very high levels of unemployment with estimates ranging from 25% to 47% depending on who is quoting the statistics. It should be noted that the rest of the hopeless people do not even look for jobs, as such they are not considered in the statistics regularly quoted. Such levels of unemployment are breeding ground for revolts that too often turn to physical confrontations. The impact of this poverty is felt directly by the rural folk (Adam, Cousins & Manona, 2000: 111-128), and it is estimated that 48.6% of South Africans are poor (Aliber, 2003: 473-490) who depend largely on remittances from their 'household-members' working or seeking for employment in urban settings. There is an inevitable increase of poverty in the tribal trust lands with less remittances going through to them as the costs in towns escalate and retrenchments increase. Since the towns are the only known centres from whence employment is available, this will most certainly result in rural-to-urban migration in a quest for better living conditions. It can be argued that the failure of the government to eradicate poverty has more to do with either the absence of political will (Basiago, 1995: 109-119), or simply failure to implement sustainable programs.

The levels of unemployment in the country are at unacceptable altitudes, and the migration to the cities does not help the situation (Carter & May, 2001: 1987-2006). These hopeful migrants will certainly meet with the realities of unemployment and inability to feed themselves, let alone difficulty in finding proper modern accommodation. Informal settlements will therefore continue to increase as poverty escalates (Roberts, 2000: 11-28). The government housing programme is going at a slower pace than the rate of migration and the increase in constitutional expectations from the communities. The resultant effect is violent demonstrates for delivery services that the government is expected to expedite. There are conflicting reports on whether there has been a net gain in rural-to-urban migration in South Africa since 1994. Posel (2003) suggests an increase whereas Leholha (2006) records no growth, he suggests a net *'urban-to-rural'* migration caused by the circular nature of urban migration. Different forms of migration are suggested, and the statistical records suggest that the large part of these moves were temporary. The aim of this paper is not to discuss increases, decreases or stagnation in the migration trends of the country. This paper seeks to suggest a sustainable wealth distribution to the rural people for the benefit of the

country at large, and the rural people specifically.

The first critical impediment of the upliftment of the life of the rural folk is the type of education the ANC has provided to the country. It is a known fact that good education assists in uplifting poverty (Loapez, 2000: 197-211) specifically so in the rural settings where poverty is more pronounced. Either the ANC was not ready for governance when they took power, or education has never been considered a critical imperative for effective empowerment of the disadvantaged masses. Education under the ANC government is characterised by massive under-planning and the total absence of vision to move a deprived people to a state of sustainable and equitable empowerment (Cross, Mungadi & Rouhani, 2002: 171 - 187). Firstly, the borrowed Australian model of education (OBE) which never succeeded in the countries from which it was lent. This education system had no relevance to the needs of the black people who were denied skills training for the 300 years of colonial rule. Secondly, at a point when more teachers were required to reduce the high teacher to learner ratios (for every teacher there were 90+ learners in the black schools) mostly in rural areas, the government cut down on education expenditure and retrenched thousands of teachers at a time when thousands needed to be poured into the system. Thirdly, the African people were not allowed to be trained as technicians (fitter and turners, mechanics, carpenters, welders etc), there was a need for universal education that emphasised technical orientations. The technical high schools were reduced in number at a time when more were needed. The government should have enforced technical education across the board in all post primary school education.

Fourthly; South Africa is essentially a rural country, and the government knew that they were going to embark on massive land re-distribution, which would involve semi-illiterate blacks (relating to agriculture) and the government should have made provisions for this by introducing massive agriculture programs at high school levels and opening of colleges of agriculture throughout the provinces. Fifthly, the ANC government did not, and still has not moved towards formation of teachers' training colleges to meet the millennium goals. From these colleges teachers with technical education and skills could have been introduced into the high schools and help revolutionise the impartation of technical skills on the black populace. The ultimate loser of these policies was and still is the rural folk, who from the beginning never had quality education. And to whom no emphasis of the importance of farming was never introduced, let alone implemented (Lahiff, 2001). The rural folk therefore aspire, like everyone else to live in town where life is better and opportunities more promising. The quality of their education is poor, and most cannot make it to the universities, if they do, they do not have the resources to pay for their education. The current minister of education promised free tertiary education, and never went beyond that statement.

The absence of skills amongst these youth renders them unemployable in the mainstream economy. The absence of pro-active government programmes to develop the rural population economically leaves the rural folk with only one choice; the urban life. There is a deliberate or lack of vision on the part of the ruling party not to address the needs of the masses of the population. Starting with the Mandela error, nothing was done for economically uplift the lives of the peasants. The introduction of Asgisa was an acknowledgement of the importance of the skills for development program (McGrath & Akoojee, 2007: 421-434) intended for the country in general but with a specific impact on the chronically impoverished rural population. Rural life has not changed except for electrification and provision of water in parts of the country. The economic needs of the rural population can be addressed using resources at their disposal; the land, and themselves. Sad to say there has been no emphasis on

agriculture education, thereby leaving agriculture as an unimportant profession amongst the rural folk themselves. In the absence of a rural development model, South Africa needs agrarian policies that will suit the peasants at their level and allow them to develop the upward ladder as they feed their produce into the national economic grid. The status quo is directly a failure of the current government, Non-governmental Organisations and Finance houses to come up with formulae and sustainable programmes to effectively change the circumstances the rural folk find themselves in. This model may only be understood with a bit of historical background of South Africa and the current condition of things, as this will inform the reasons for such a model.

## RURAL DEVELOPMENT MODEL

Consequently the highest unemployment levels are experienced amongst the black population more than any other racial group. This is primarily because of the apartheid structure which denied blacks access to skills and proper education, and that has not changed with the new government. Most blacks are unemployable and cannot start enterprises because they do not have skills, management skills and let alone the capital to get started. Table 1 below illustrates the demographics of the country.

**Table 1:** South African population by race

2006 Population estimates by race and gender						
Race	Male	%	Female	%	Total	%
Blacks	18 500 000	79.6	19 104 000	79.4	37 662 900	79.5
Coloured	2 060 000	8.8	2 139 000	8.9	4 198 800	8.9
Indian	570 000	2.4	594 000	2.5	1 163 900	2.5
White	2 138 000	9.2	2 226 000	9.3	4 365 300	9.2
Total	23 327 600	100	24 063 300	100	47 390 900	100

**Source:** Statistics South Africa, 2006.

The black population is easily 9 times that of both the coloured (Asians and mixed race people) and white populations as given by the statistics. Approximately 65% of these blacks are rural and impoverished, dependent very heavily on meagre pittances from their under paid family members in urban settings.

**Table 2:** Employment by race and gender

Occupational level	Black	White	Male	Female
Top management	13	87	87	13
Senior management	19	81	80	28
Qualified and experienced artisans	44	56	62	38
Skilled, technical junior management	2	18	60	40
Semi-skilled	82	18	61	39
Unskilled	98	2	71	29
Non-permanent employee profile	83	17	50	50

**Source:** Commission for Employment Report 1999/2001 pp. 17 - 20

The disheartening disparities are seen in the statistics by occupation, the table below illustrates the report

from the commission for Employment Equity Report in relation to the racial employment profile (table 2). Research has clearly indicated that there are certain imperatives that make people go into business. Chief amongst these are the skills that the people themselves have, and these continue to remain out of reach of the ordinary citizen (Dubini, 1989: 11-26). The first error was made by the icon, Nelson Mandela; laid off thousands of teachers, did not introduce apprenticeship to empower blacks to whom it was illegal in the yester years to acquire technical skills, and not move decisively in turning the rural countryside into a hive of economic activity. Consequently the jobless boom in the economy merely strengthens the financial position of the whites, opens new opportunities for the Coloureds and Asians, but excludes those who slept in the trenches to effect political change.

Consecutive ANC presidents have not done any better, too much hope was put on President Jacob Zuma to revolutionise education and rural life, to no avail. Whilst the current state of the blacks is constantly blamed on apartheid, it is too far into democracy not to have made basic meaningful and sustainable changes on the ground. We know that large classes do not produce the best results because of the teacher-student ratio. The senior politicians themselves send their children to private colleges where the teacher-student ratio is much better. As such, the master-servant relationship between the whites and the blacks will continue, whites will always have the skills, and blacks will always be looking for jobs from the whites. Specifically the rural folk have one option, to go to town to look for employment from the whites with experienced generations of skills training. The current government has predecessors to learn from, the Afrikaner Affirmative Action is one good example. A plethora of colleges of education and agriculture, technical subjects in all rural schools and reduction of the teacher-learner ratio in the country schools. The absence of these has paralysed development amongst the black populace that had struggled in earlier years to get into most of these professions. Consequently, urban migration has become a serious concern for the senior politicians, and nothing apart from rhetoric is seen or heard.

#### **Proposed Solution Model: Jowah's Model**

The rural folk, as alluded to before, have two critical resources at their disposal, which provides a good starting point; these are, themselves as labour and the land as capital resource. There are two other critical resources needed for them to get started, and these can be supplied by the government, finance houses, or Non-Governmental Organisations (NGOs). These establishments can provide training and start-up capital. With good education and training, they could convert the large tribal trust land that is lying to waste to profitable economic ventures. They need to be empowered, first by getting educated about the value of the land as an asset for livelihood, and empowerment leading to them owning the means of wealth production.

At the time of the writing of this paper, the average price for a ton of pea-nuts was R9 000, largely because part of the pea-nuts consumed in the country are imported from Brazil. Pea-nuts are a part of the African diet in the form of pea-nut butter, mixed with samp, or taken directly. They also have a very high nutrition value, as legumes they are high in proteins and oils. Cooking oil can also be extracted from pea-nuts in the rural setups, and the cake be used as feedstock. It is a fact that most of the Eastern Cape and KwaZulu Natal receive large amounts of rain that eventually finds its way into the Indian Ocean. Meanwhile, the people in these areas will jump into a taxi, bus or other transport and travel all the way to the nearest service centre to purchase pea-nut butter for their consumption. This pea-nut butter will have

travelled a few hundred kilometres from the nearest city warehouse, which in turn receives it from a manufacturer who too often operates a thousand kilometres from the final consumer. A typical example here is the pea-nut butter bottle in my possession which has travelled 1 500 kilometres from Randfontein to Cape Town. The solution to the economic development of the rural folk lies in the use of the resources at their disposal. Using the pea-nut butter example we have identified Bizana Tribal Trust Land [Eastern Cape] as an example or experimental ground. The reasons for choosing Bizana are not scientific except to say: it is a high rain area with the ideal soil; there is a lot of land and fields lying waste; there is a small rural service along the national road; and, the major link between KwaZulu and Eastern Cape. The populations of these provinces are 8 million and 7 million respectively, giving access to 30% of the country's population. The areas are largely rural themselves and are endowed with natural resources other than minerals. With high rainfall and good grazing land, these two provinces can serve as the first step for the experimentation with this rural development model. The rural area is also away from influences of many other people who speak the language, creating a barrier for other influences.

### Program Design

Anyone with land in Bizana will be helped to plough, plant, weed, and harvest the pea-nuts. The assistance will be in the form of tractors to plough, seeds to plant, weedicide to control the weeds. The peasant will supply the labour and will be trained in the basic skills required in farming of peanuts. The estimated average harvest [very conservative figures] is 2 tons of crop per acre [2½ acres = a hectare] with an average of 10 acres per family [20 tons of pea-nuts per family per year]. An estimated 50 homesteads were counted in the area and this would give 1000 tons of pea-nut annually for the small community.

The peanuts are converted to peanut butter or cooking oil, packaged and distributed from Bizana itself. The manufacturer or converter to peanut butter buys the peanuts directly from the farmers themselves and processes the primary raw material to finished goods. If 1 000 tons of crop will be produced and sold to the pea-nut butter conversion unit every year, this works out to 1 000 000 bottles of 500 grams butter bottles in the market from Bizana alone. If the selling price of the pea-nuts will be estimated at R5 000 per ton, each family will earn R100 000 annually, this translates to a monthly salary of R8 333 for the rural folk.

Other crops can be introduced into this model with astounding results, some of the crops that can be grown are; beans [soya, red and sugar beans], baked or packaged at the Bizana centre and distributed country wide. Maize can be grown, milled and packaged at the centre with direct benefits to the community of Bizana. The benefits can be far reaching and many other agricultural products can be brought into this model, depending on the type of crops that would grow in a particular area. A short list of such crops (table 3).

The list is too long to put here, this is merely an indication of many things that could be done at Bizana given their climate. This is repeatable in many parts of the country dependent on the political will [political drive to mobilise people] and the availability of the resources to effect the change. The next phase of this model will move on to the second level of ownership, the secondary industry is critical to the success of this model. Local ownership, either owned by individuals resident in these areas or owned by the community in the form of cooperatives.

**Table 3:** Cash crops that have demand in the South Africa

Dried beans	Packaged mushroom	Tinned sweet corn
Tinned backed beans	Tinned tomatoes	Packaged spinach
Sunflower seed	Sunflower cooking oil	Pea-nut cooking oil
Tinned fresh beans	Boxed fresh tomatoes	Packaged mixed vegs
Dried peas	Tinned onions	Packaged pumpkins
Tinned baked peas	Fresh onions boxed	Packaged peanuts
Tinned fresh peas	Tinned beetroot	Pea-nut butter
Tinned mushroom	Boxed beetroot	Samp
Packaged mealie meal	Tinned beef	Packaged chicken

Source: Summary of Agriculture Report, 2010

The owner of the secondary industry should be able to manufacture or process the primary goods to the expected government standards. The same owner must be able to pay cash to the farmers for their produce, this will encourage them to work to get money.

### Initial Requirements

The initial requirements for the establishment of the project are; human resources, equipment, and materials. For the Bizana sample identified as a pilot project, a project leader, a project administrator in the office, and two agriculture extension officers may complete the HR requirements. The peasants will plant [use of tractor where possible] and do the weeding [if weed cides cannot be used], and of course the harvesting of their own fields. No extra human resources will be required outside of that. For the equipment; at most five tractors will be required, each will have a complete set of plough [disc] and harrow and a seed planter, each will have a driver. Three communal pea-nut shelling machines can be procured and controlled from the project office, these will be rotated amongst the communal farmers.

### Material Requirements

Capital to plough for at least; 30 households (at the start), seed for at least 60 acres salaries for the project manager and team, fuel and maintenance for the tractors and other vehicles, peanut shelling machinery, etc.

### Secondary Industry Requirement

The requirements for the secondary industry, specifically for the pea-nut butter have been calculated below. One machine with a processing capacity of 1 ton of pea-nuts to pea-nut butter a day is used in this model. The technical details are:

The machine costs;	R30 000
Packaging	R0.80 / bottle
Production capacity	1000 kgs/day
a. 1000 kgs of pea-nut butter [2000 bottles of 500 grams each] / day	
b. 5000 kgs of pea-nut butter [10 000 bottles of 500 grams] / week	

- c. 20 000 kgs pea-nut butter [40 000 bottles of 500 grams] / month
- d. 240 000 kgs pea-nut butter [480 000 bottles of 500 grams]/ year

Take note as follows:

The 1 plant will produce 480 000 bottles a year, yet the total production has been estimated at 1 000 000 bottles. It is anticipated that the program will gain momentum gradually as the other homesteads realise the benefits gained by the frontrunners. Besides, the author is of the opinion that at least two producers competing with each other should be encouraged. This will allow for improved efficiency in the operations, attract a good price for the farmers and allow more people in the community to be involved.

A deliberate limitation should be used to allow more people getting into the secondary industry [conversion of primary goods] and reduce monopoly. Everyone in the secondary industry should not be allowed more than 3 different industries, viz; you may not take packaging of beans, packaging of chickens, processing of peanuts with any other secondary industry. This is done solely to create more competition, remove unnecessary monopolies that may work against universal empowerment and remove politicisation of the programs. The employment capacity of this operation per one unit peanut butter:

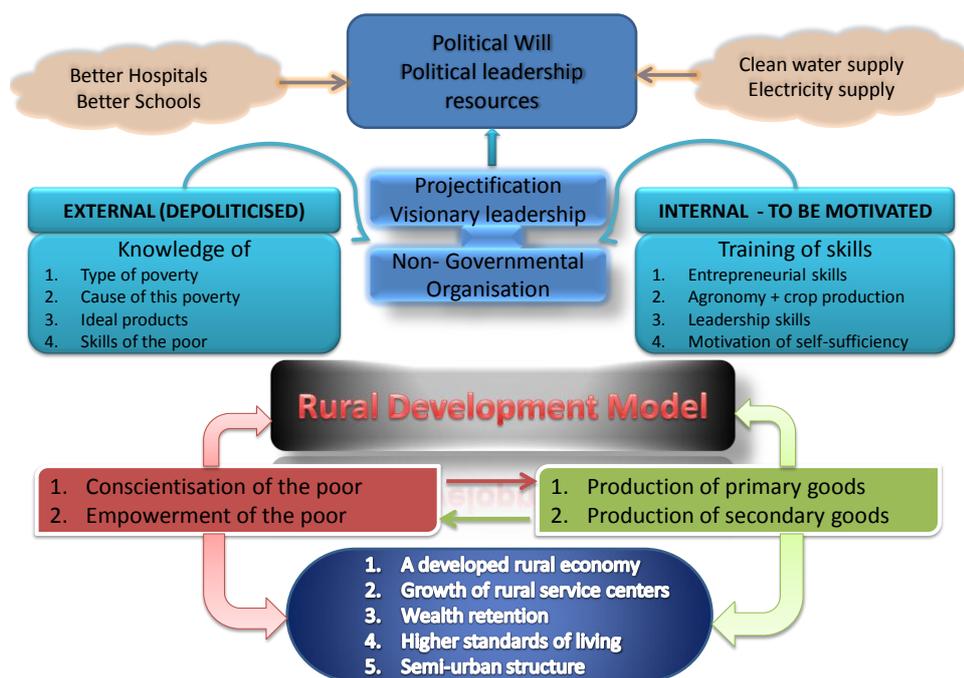
- a. At least 50 people [homestead heads] will be self-employed;
- b. One pea-nut processing plant will need minimum 6 people;
- c. A national rollout results in manufacturers of these machines;
- d. Need for the employment of government agricultural officers; and,
- e. Employment of sales reps to sell the processed products.

If this project [1 unit pea-nut butter business] is introduced to 20 rural centres in the Eastern Cape alone, there will be a minimum of 1200 [60 x 20] people employed. This excludes all the other business units that could start from the expansion on the type of crops to be grown. If all the proposed crops and processing is embarked on full scale, one small centre [Bizana] can easily benefit directly 10 000 people, 50% of whom will be owners of small business operations. There is no better empowerment than that.

Why is this model proposed, and what are the advantages of such a model? Bizana is situated 180 kms from Durban in the north, and 210 from Mthata in the south. In between people have to travel long distances to get assistance in urban settings. Establishing a commercial centre at Bizana will assist with centralisation of some of the needs that people travel to the nearest towns to get. The first important decision would be to process the farm produces at the point of production, meaning;

- The peasants will sell their produce within easy reach and daily;
- They will get encouraged with the presence of a market for them;
- Production at source will attract other government services to them;
- This will result in growth of the service centre to cater for more needs;
- More people will be employed in the primary sector to produce stock;
- Other people will be employed to process the farm produce;
- This will attract training for the community in different trades;
- The standard of living will be uplifted reducing urban migrations;
- Food security will be enhanced and importation reduced;
- The people will be able to save money and buy other requirements; and,
- This will push the government to move towards the next stage of rural development.

Figure 1: Proposed rural development model for Bizana in South Africa



## DISCUSSION

"Centuries of poor policies and institutional failures are the primary cause of Africa's undercapitalized and uncompetitive agriculture" (World Bank, 2000: 170). This is precisely where South African rural population finds itself, no agricultural policies and no models for sustainable rural development. Apartheid took away the productive land from the peasants and urbanisation took away the productive human resource that relocated to urban centres. Whatever land there is which is arable, has been left idle, whilst the men crowd in towns in a country characterised by jobless economic growth. Bryceson (2002: 725–739) posits that rural development may improve local-level means of production and transport can expand local employment as well as improve rural people's mobility and skills. Recent surveys indicate that there is a tendency towards declining of agricultural commodity production due to the exodus of skills to the urban centres (Francis, 2000; Kinsey, 2000; Ponte, 2002). In development theory the African continent is associated with agrarian modes of livelihood with the abundance of land and relative shortage of labor. Recent World Bank (2000) reports contradict this assumption and instead Africa is labelled as backward and unproductive. In the World Bank's (2000) *Can Africa Claim the 21<sup>st</sup> Century?* The bank advocates the introduction of 'new policy imperatives' with heavy emphasis on poverty alleviation. Mkandawire & Soludo (1999: 725–739) asset the view that policy formulations should be taken from grassroots by identifying the needs of the people and not as a top-down solution.

The new thinking is in diversifying of income sources by producing or converting the commodities to finished products at source. The burden of the peasant is the uncertainty of selling their farm produce, the cost of getting to the market, as well as the nature of the 'once a year sales' problem which denies them cash during the year. A growing body of literature has examined the economic impact of structural adjustment and market liberalization on African peasant agriculture (Ponte, 2002). Bryceson (2002: 725–739) asserts that peasant societies have been extremely responsive to *neoliberalism* with far-reaching and as yet unclear implications for the social and economic fabric of African countries. The lack of political will, risk avoidance, and absence of visionary leadership in rural development continue to be the only problem impeding taking account of rural producers' pressing current aims and long-term occupational futures. The rural folk in South Africa needs to move towards *depeasantization* and *deagrarianisation*, defined as a long term process of occupational adjustment, income earning reorientation, social identification and spatial relocation of rural dwellers away from strictly agricultural-based modes of livelihood (Bryceson, 1996).

African post-colonial governments and the international donor community pursued policies aimed at extending, capitalizing and modernizing peasant production to raise peasant productivity and living standards as a foundation for their industrialization efforts (Bryceson & Bank, 2001; Bryceson *et al.*, 2000). After a century of colonial and post-colonial peasant formation, *depeasantization* has now begun, representing a specific form of *deagrarianization* in which peasantries lose their economic capacity and social coherence (Kinsey, 2000) and shrink in demographic size relative to non-peasant populations. Government policies are vital for fostering peasant commodity production, they should now be instrumental in bringing secondary industries to the primary sources, the government must bring these means of production to the rural service centres. The frequent escalation of costs gives rise to a greater demand for an all year round need for cash for the peasants. A development model that provides them with such income, not once a year, but at regular intervals will assist with their cash needs on a regular basis (Francis, 2000). This model is based on the understanding that, there are roles to be played by all the stakeholders, albeit in different forms and stages. The major stakeholders are; the government, the donors (if the money comes from donors), non-governmental organisations, the training structures and the beneficiaries themselves. From the government; political will and effective visionary political leadership in this sphere is critical. Resources need to be provided for by the government as a constitutional obligation to develop the rural economy, and the infrastructure to facilitate the growth and development. Primarily, the model suggests a hands-off (politicians) but strong support (financial, legal, political and infrastructural) scenario from the government. Essentially de-politicisation of the process to avoid engulfing it into political strife and bureaucracy. The donors, if they are external (not from the country) will use the existing legal route to reach out to their target market, but they should not have direct impact on the grassroots operations. Local donors may access the community through the responsible non-governmental organisations and may assist in the establishment and or provision of training of the rural community in regards to the development.

The non-governmental organisations should form the critical line management role of project execution. The NGO must have a lean structure, meant precisely to supply and manage the resources as provided to the community. They also will facilitate training programs with the use of appropriate training providers, on all aspects and at all levels of the development of the rural community. The beneficiaries are purely dependent on the assistance that comes their way, but their willingness or unwillingness is critical for the outcomes of the undertakings. This suggests an extra-ordinary leadership ethos that will galvanise the buy-in from the rural community and enable the community to uplift themselves from chronic poverty to self-sufficiency. Prior to the execution of the project, there should be a proper understanding of the type of poverty, causes of this type of poverty, the limitations and potential of the community involved, and what agricultural products will be most ideal for that particular community. The problem with agriculture and rural poverty in South Africa is because the politicians themselves do not know what kind of poverty they are dealing with (Kepe & Cousins, 2002: 1-5). The model pre-supposes that a one-size fits all approach will not apply, each project has specific problems and is not exactly the same with the next, even though they may be similarities. Within the NGO and stakeholders at operational level should be identification of the appropriate leadership skills and styles, the motivation and impartation of agriculture as a business venture (primary level entrepreneur) and a way of life in the minds of the community participants. Secondary industries level entrepreneurs should be developed, and these should originate from the community where possible. Their responsibility will be to manufacture (or convert) primary goods to secondary goods (that is, convert pea-nuts to pea-nut butter or slaughter, cut and package all broilers grown in the community) for the national market.

Cognisance is taken of the assertions by Busch and Juska (1997:688-708) on globalisation of agriculture and the possible effects from industrialisation of the food production system. The author distinguishes between the developed countries where agriculture has been heavily commercialised from Africa (South Africa in this case) where it is a matter of life and death. An extra R200 a month may mean much more to rural South Africa than R1000 a month may mean to a first world farmer. The local rural person is reeling in chronic poverty, and we have not reached a stage where we will focus on industrialisation before the people themselves have enough to eat. Murdoch (2000:407- 419) lays emphasis on the complexities of the networks and their possible effects (actor-network theory, ANT), but the author suggests their inapplicability to the African context where the rural person is looking for the very basic for their survival.

The focus from the author does not relate to exports, but rather cutting down the commodity chain and costs to enable the indigenous to take control of their own destiny.

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# CONTRIBUTION OF WOMEN-OWNED SMALL BUSINESSES TOWARDS ECONOMIC DEVELOPMENT IN THE LEPELLE-NKUMPI MUNICIPALITY, LIMPOPO PROVINCE

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## ABSTRACT

There is general agreement that South Africa needs to develop and support more small business owners, especially women, to grow the economy and create more jobs. The government and private sector have put initiatives in place for support and development of women-owned small businesses. Thus it becomes imperative to see if these initiatives are achieving their objectives. The overall purpose of this study was to determine the role that women-owned small businesses play in the rural Lepelle-Nkumpi municipality towards the economic development of the area. Lessons learned from challenges women in this study are faced with as well as the factors that helped them be sustainable and successful will help those who aspire to be business owners as well as helping the women to learn from one another. The study was a cross-sectional descriptive survey. Data were collected by semi-structured interviews. The study sought to identify challenges that women-owned businesses face, success factors and whether these women know and/or utilise government support organisations and initiatives that are in place to overcome those challenges. The results indicated that the challenges women face include a combination of personal, family as well as environmental factors. These women were also not aware of the training and support programmes and policies offered by government and its parastatals. Furthermore, there was very little growth in their businesses over time, implying that they contributed little towards creating employment opportunities and developing and/or boosting the economy in their area. The study recommended education and training; business coaching and mentoring; road shows about the available government support initiatives; encouraging partnerships and joint ventures as well as help in accessing finance.

**Keywords:** Economic development; women empowerment; small business challenges; small business support

## INTRODUCTION

Small, medium and micro enterprises (SMMEs) generate a significant amount of international trade and contribute substantially towards the economic growth and stability of many countries. They are a good source of innovation, creativity, competitive pricing and quick and agile business practices (Lituchy & Reavley, 2004; Pretorius & van Vuuren, 2003). "Countries at all stages of development have recognised that small and medium enterprises (SMEs) are a dynamic engine for economic growth, and SME competitiveness programs are the centrepieces of many economic development initiatives" (Brodman & Berazneva, 2007: 3). Accordingly, there is consensus that developing countries, South Africa included, need to develop and support more small business owners to grow the economy and create more jobs. Although the South African economy saw some growth over the years, this growth did not translate into substantial creation of new jobs. The decline in the economy has made matters worse, highlighting the importance of small businesses as a way of trying to improve the economy. Including women in the SMME arena brings particular value, as women make the majority of consumer decisions and understand the market requirements. Women business owners are seen as even more crucial to development as they are used to being providers and can thus help with poverty alleviation (Vazques & Kerr, 2008).

Although a great deal has been done to support women entrepreneurship at the start-up level, it is still estimated that less than 5% of corporate or government spending in any country goes to women-owned businesses (Vazques & Kerr, 2008: 28). This clearly identifies an area of underutilised economic growth potential. "Working with women business owners to increase their capacity to network and scale up their operations is the critical missing link for real job creation and economic impact" (Vazques & Kerr, 2008: 28). The latter part of the twentieth century has seen an opening in economic and political opportunities for women worldwide. According to Brodman & Berazneva (2007) women entrepreneurs are essential in the development of SMMEs and economic growth. Besides, internationally women represent over 40% of the economically active population. In addition, nowadays, women's role in the socio-economic system is increasingly more assertive and important. As a result, women worldwide are starting businesses twice as fast as men (Brodman & Berazneva, 2007). These development opportunities for women have presented themselves due to new employment challenges that include economic, social and political change. In the USA almost half (48%) of privately held firms are 50% or more women-owned and contribute significantly towards the economy and job creation (Blank, 2010; Swersky, Gorman & Reardon, 2005). In Canada, by 2002, one third of small businesses were already owned by women whilst in Britain the number of self-employed women increased three times as fast as men. During the same period, in Southeast Asia, women made up more than 40% of the start-up businesses at twice the rate of men. In China there were about 20 million private entrepreneurs with 25% of them being women who were also starting businesses at two times the rate of men (Buscombe, 1997; South African Women Entrepreneurship Network [SAWEN] Report, 2005).

In South Africa the passage of the Broad-Based Black Economic Empowerment Act (No. 53 of 2003), the National Small Business Act 102 of 1996, and others, has helped in seeing that more previously disadvantaged people, -including women, youth and rural people, - enter into economic areas where they could not go into previously including venturing into business (Lituchy & Reavley, 2004; Yohn, 2006). Despite these new opportunities for women in South Africa, the profile of potential entrepreneurs, that is, people who believe that they have entrepreneurial potential, showed that 43% of them were males as opposed to only 35% of females. In addition, 16% of South African men have entrepreneurial intentions, that is, those who intend to start their own businesses, as opposed to only 12% of women. Overall South Africa's Total Early-Stage Entrepreneurial Activity (TEA) index rate went down from 9.1% in 2011 to 7.3% in 2012, which is significantly lower than that of efficiency-driven countries at 14.3%. TEA is primarily utilised to measure the rate of entrepreneurship, that is, the proportion of a country's adults who are involved in starting or running their own businesses. Established business for South Africa is also low at 2.3% compared to an average of 8% for efficiency-driven countries (Turnton & Herrington, 2012).

The 2012 Global Entrepreneurship Monitor (GEM) report further shows that the gap between genders is wide with 61% of males involved with starting their own businesses versus only 39% of women. Only 4% of South Africa's early-stage entrepreneurs is in Limpopo (versus 13% average early-stage entrepreneurs for South Africa). Worldwide, South Africa included, males are mostly more likely to start their own businesses than their female counterparts (Turnton & Herrington, 2012). Thus, a concerted effort is needed to promote women small business ownership. In a rural province such as Limpopo, the importance of promoting and supporting women small business owners cannot be emphasised enough. This province is faced with high unemployment rate, standing at 20.3%, which may be perceived as not

too bad compared to the overall South African unemployment rate of 25.6% in the first quarter of 2013. However, the picture changes considerably when using the expanded definition of unemployment. The average expanded unemployment rate for the country is at 35.9% with that of Limpopo Province standing at 43.4% in the first quarter of 2013. The expanded definition of unemployment includes the people who are of the economically active age category, still wish to be employed but are discouraged and are no longer actively looking for employment. About 28.3% of women in South Africa were also unemployed within the same period as compared to 23.4% of men (Barker, 2007; Quarterly Labour Force Survey, 2013). Therefore, for long, women in South Africa were left behind when engaging in issues of business, management and economic growth. This was untapped potential that is now being encouraged and supported by government and private organisations. As a result more women have started entering the business arena (Buscombe, 1997; SAWEN Report, 2005). In short, we live in a society where SMMEs are vital for economic development. So, the problem is that the majority of the SMMEs are owned by men and the few women-owned ones that are there are still dominated by large businesses. Furthermore, although there are government initiatives that are meant to support small businesses, especially youth and women-owned businesses, we still do not know if these women-owned businesses are thriving and if they are making any difference towards economic growth and development in their areas. From the above, this aimed to investigating whether women-owned small businesses are in any way contributing to economic development in the identified area of study as well as identified the challenges and successes in their businesses. Thus the objectives of this study were:

- To analyse challenges facing women small business owners in the Lepelle-Nkumpi area and
- To unpack factors they think play a role in the sustainability or success of their business; and
- To investigate if these women-owned businesses are making any contribution towards job creation and economic development in their area.

## **WOMEN-OWNED SMALL BUSINESSES IN LOCAL ECONOMIC DEVELOPMENT**

Countries the world over have shown that small businesses contribute significantly to economic growth and job creation. South Africa, like most countries, especially developing economies, needs to develop more entrepreneurs and small businesses to grow the economy and create more jobs. It is reported that South Africa ranked 23<sup>rd</sup> out of 43 countries in terms of entrepreneurial activity (Herrington, Kew & Kew; 2008). This low ranking indicates the amount of effort needed to promote and support entrepreneurship and small businesses. South Africa, like most countries, identified SMME development as one of the priorities that can help in developing the economy. It is with the view that some initiatives were put into place to support small businesses. The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, the National Small Business Act No 102 of 1996, and other programmes were put into place. This integrated strategy meant to increase financial and non-financial support to small businesses, establish the increased need for products and services rendered by small businesses and ease small business regulatory constraints. The strategy focuses on promotion of small enterprises in specified targeted groups, including women, and certain geographical areas. As a result more and more women in the country have begun to enter the business arena.

Unfortunately, women-owned small businesses in this and most other developing countries still face challenges that larger organisations do not encounter (Lituchy & Reavley, 2004). Several researchers

have indicated that women in most developing countries, including South Africa, face a range of challenges that are similar from one place to another. These challenges include shortage of knowledge and/or access to technology, non-existent market research and/or marketing facilities, which is linked with technology (lack of it). Women also tend to have low educational level that is coupled with lack of specific education and training in for example accounting, bookkeeping, people management and marketing skills. In addition, financial constraints result from the fact that often women do not have enough savings of their own as equity payment to get a loan, and they usually do not have any assets or property to present as collateral. They also cannot present well-written business plans when applying for loans. Other challenges include the fact that women also tend to lack their own transport making it difficult to compete with more established businesses. Additionally, customs, practices, beliefs, sociocultural and psychological barriers, the way women are socialised and their expected domestic roles and responsibilities still hinder the independency that is needed of business owners. Finally, poorly developed or fragmented infrastructure making it difficult to access markets (Basargekar, 2007; Jagero & Kushoka, 2011; Palaniappan, Ramanigopal & Mani; 2012; Phillips & Della-Giusta, 2006; SAWEN Report, 2005; Yohn, 2006).

Most unfortunately the above problems are more pronounced amongst people who live in the underdeveloped rural areas where women still shoulder the bigger burden of the effects of underdevelopment. According to Rogerson (2001) rural SMMEs in South Africa face even more disadvantages as compared to their more urban counterparts. These include firstly the fact that rural SMMEs often operate in a sea of poverty and high unemployment levels with correspondingly much reduced growth opportunities and s compared to urban areas, a much higher proportion of rural SMMEs are engaged in survivalist enterprises with only a limited potential to create employment or wealth. Secondly these rural SMMEs also face a backlog in infrastructure services. As compared to urban areas, they function with limited access to such basic services as water, electricity and street lighting. Thirdly they often operate in environments in which wealth flows out to larger urban centres and money is neither retained nor circulated locally. This outflow of wealth results in rural small businesses being further marginalised from the mainstream economy. Lastly they receive little institutional support as compared to SMMEs in urban areas.

Furthermore, Turnton & Herrington (2012) identified additional constraints that include: Restrictive and time-consuming labour legislation; inadequate tax incentives; large, established businesses making it difficult for new and emerging business to enter the business arena and thrive due to their anti-competitive behaviour; as well as the fact that the economy in the country is in such a way that it is dominated by monopolies and alliances that further make it difficult for emerging businesses to penetrate the market. In short, small businesses have been seen to make a great impact on the economies of several countries. Women-owned businesses are making inroads into the business arena and are being supported by several government and private sector initiated measures. Thus, these women business owners need to be assessed to find out what challenges they still face, what factors help them to be sustainable so that they can continue to grow and facilitate the development of their communities.

## RESEARCH METHODOLOGY

The research design was basically a qualitative descriptive study. A descriptive study describes

phenomena as they exist and it obtains information on the characteristics of a certain problem/challenge (Collis & Hussey, 2003). Target population comprised women who owned businesses in the Lepelle-Nkumpi municipality of the Limpopo province. This municipality is situated about 60km South East of the capital city of the province Polokwane. It covers mostly rural areas where unemployment levels are high as there are no industries to generate jobs and thus poverty is the order of the day. The selection criteria for the inclusion into the study were that the women had to own businesses that were formally registered and had been running for at least three years. These women were identified from a list/database kept by the then Limpopo Business Support Agency (LIBSA). LIBSA is an institution that provided developmental support to SMMEs in the province, i.e. non-financial support, including training and dissemination of business-related information. After eliminating those businesses that were younger than three (3) years, 50 businesses were identified as the total population. The aim was then to do a census and thus interview the whole group. However, ten (10) of them were no longer in business, whilst another ten (10) were not willing to participate in the survey. Eventually only 30 respondents participated in the survey.

Data were collected by using a semi-structured interview schedule. Face-to-face interviews were conducted at the respondents' business premises. There was thus a 100% response rate. The data gathered were described, coded and analysed according to common themes. The Statistical Package for social Sciences (SPSS) programme was used to analyse data.

## RESULTS AND FINDINGS

The demographic composition of the sample was that 20% of these women were between 25 and 30 years of age, 16% between 30 and 35; 67% between 35 and 40 years; whilst 57% were 40 years and older. The majority, 70% of the respondents were married; seven 23% single; and 6.67% were widowed. A large number 47% of the respondents had an educational level that was lower than matric; 27% had matric only; 16% had a post matric diploma; 67% of them had a university degree; and only 3% of them had a postgraduate qualification. Thus 73% had only matric and a lower level of education. Their business experiences varied in terms of years, type, turnover and so on. Forty per cent of the women interviewed had been in business for a period of about three to five years; 23% for six to ten years; and 37% of them had been in business for longer than ten years. Twenty three (77%) respondents reported annual turnover of less than R100 000.00; 16% a turnover of between R101 000.00 and R500 000.00; whilst only 67% had a turnover of above R501 000.00. Types of business they were in included the following: manufacturing (20%); general dealer (businesses that sell an assortment of products) (30%); security (3%); hair salon (3%); catering (17%); building and construction (10%); and farming (17%). Reasons why women started their businesses are also different (table 1). In other words, the women interviewed in this study had been in business for three years and longer. Only 30% of them started their businesses because they had interest, the rest needed some form of providing for themselves and their families and therefore for survival.

These women also faced challenges and obstacles to their businesses. The challenges identified in this study were not different from those identified in previous research studies. The results indicated that only about 43 % of the interviewed women had some form of basic business training. The type of training they had was in bookkeeping, business management, marketing, customer care and farming skills. However, the majority of those women that had some training indicated that despite the training, they still

did not feel adequately equipped to conduct their day-to-day businesses. On the other hand, those women (53%) who did not have any form of training felt that it put them at a disadvantage and could not cope with especially financial management, bookkeeping and record keeping in their businesses. About 93% of the respondents, i.e. including those who had had some training, felt they still needed further training in: writing business plans and applying for funding; basic management function; marketing management; financial management and basic bookkeeping; customer care; procurement skills; negotiation skills; and report writing skills.

**Table 1:** Reasons for starting business

Reason	Number	Percentage (%)
Retrenched	1	3.33
Unemployed	16	53.33
Took over family business	2	6.67
Just had interest in starting a business	9	30.00
Other (did not reveal reason)	2	6.67
	30	100 %

It was also disappointing to see that ten (33%) of the women kept no record of their daily financial transactions although they had been in business for a period of at least three years. Only eleven (36%) of the respondents had business experience prior to starting their own enterprises. Half of the respondents had no idea what marketing and marketing research is about. The other half who stated that they marketed their business used 'word of mouth' about 40% of the time; then radio (25%); print media (20%); business cards (15%); displaying their products and services along the road (10%); and government databases (5%) or a combination of some of these marketing tools. About 53 % of the women had no idea how to access start-up finance; 40% did not even know where to go to look for finance. Their other problems included having no collateral when applying for finance, not understanding what a break-even point is and were further not sure whether their businesses were breaking even, running at a loss or making profit.

The majority of the respondents (63%) have not made any significant growth in annual turnover and had not increased the number of employees since they started operating. Some of these women had been in business for five (5) to ten (10) years. When asked what they needed to grow their businesses, 50% of them said finance, whilst others mentioned factors that included: business training, equipment and better infrastructure, water (especially the farmers), bigger land/premises, marketing, customer care and more skilled employees. They further indicated that they were in fact struggling to maintain their businesses due to factors such as: lack of finance, high production costs, lack of equipment, not being able to keep customers, high employee turnover and lack of proper financial management.

### Critical Success Factors

The results also indicated that despite the shortcomings identified above, and the sometimes unpleasant conditions they found themselves in when conducting their businesses, these women still managed to not give up. Factors that helped them to cope were personal, family and environmental.

Personal factors included perseverance, dedication, love of what they do, working alone/ independence, working as a team, knowing what the customers need, listening to advice, being friendly and outspoken, self-confidence, hard work and being motivated to succeed. Family factors included the kind of emotional support; financial support they got from their family members; family helping them to market their products and services and the women business owners receiving guidance from family members. Environmental factors included being located in areas that are accessible to their customers; working from home; making use of locally available resources and materials; and having a market for their products.

### **Knowledge and Utilisation of Business Support Organisations/Agencies**

About 50% of the respondents reported that they know of the then Limpopo Economic Development Enterprise (LimDev, which offers mainly financial assistance); 76% knew about LIBSA; only 33% had any knowledge of the National Youth Development Agency (NYDA); 16% had heard of the South African Women Entrepreneurial Network (SAWEN); and 26.67% had some knowledge of the Small Enterprise Development Agency (SEDA). About five (16%) had no knowledge of any of the support organisations.

Disappointingly, although the majority of the respondents knew about the support agencies, very few of them approached them for any form of support. Only two (6%) approached LimDev, four (13%) approached the National Youth Development Agency; another two (6%) approached African Pathways; and only one (3%) approached Small Enterprise Development Agency (SEDA). Despite the high number of respondents who know about LIBSA, none of them approached LIBSA. In short, only 26% of the women in this study approached any of these institutions for assistance. Those who approached the institutions felt that they got help in terms of how to register with the South African Revenue Services (SARS), how to open bank accounts and issues of networking, strategic planning, funding, business management and how to write a business plan.

### **Contribution to Economic Growth and Development**

Although these women business owners helped to alleviate poverty for themselves and their families, they still contributed very little towards the broader economic growth and development of their area. According to the results of this study this is because the number of employees in these businesses did not increase over the years. Some of them had operated for more than ten years with fewer than five employees, who did not increase during that period. This indicates lack of growth. Furthermore, most of the women in this study had a turnover of below R100 000.00 per annum, indicating that the majority of them are micro enterprises. Micro enterprises are businesses with fewer than five employees and generate less than R100 000.00 per annum. These are also equivalent to being survivalist and therefore not helping towards the broader economy except for their families.

### **SUMMARY OF RESULTS**

The women-owned businesses that were surveyed appear to be sustainable. For instance, about 60% of them had been running for five years and over. About 37% of the overall businesses surveyed had been in business for 10 years and longer. However, except for the personal factors such as perseverance

and family support, it is still not clear as to what contributes towards their sustainability. Results in this study indicate that although they had been in business for that long, their growth was minimal, in terms of annual turnover as well as the increase (or rather lack of increase) in the number of employees. Thus, this can be suggestive of their minimal contribution towards economic development of the area. Their average turnover per annum (considering the few who were willing to talk about it), is further indicative of them being survivalist in nature.

There seem to be a lot of factors that contribute to their lack of growth. These include amongst others, lack of business training; no training in bookkeeping skills (about 33% of them kept no financial record for their enterprises); lack or little capital for running and/or growing their businesses (about 40% of them stating that they have no idea of how to access finance); and lack of marketing skills. Although the women in this study had some knowledge of the business support initiatives currently available in the country, they still made very little use of their services. For instance, although about 77% of them knew about LIBSA, not a single one of them utilized its services. Overall, only 26% of these women used some services of the different support structures. Their reasons cited for not approaching these institutions varied and included: not knowing where to start; lacking the confidence to approach them; and lack of trust that the agency/institution will actually help them.

Therefore, in terms of support, only a few received operational support from business support agencies. They said that their families and friends offered them a lot of emotional support throughout all the years that they had been in business. Most of the women operated with very little capital and were afraid of approaching financial institutions for capital to run their businesses daily or to grow them. The reasons for not approaching these financial institutions include not being able to draw good business plans to help them in presenting themselves and their ideas and lack of confidence in themselves. As a result they relied more on friends and families for financial support as well.

## CONCLUSION AND RECOMMENDATIONS

The significance of the paper is its focus on issues that are contemporary and relevant to the development and empowerment of women in especially a rural area. Thus, it is pertinent to economic development issues such as income generation, poverty reduction and increase in entrepreneurial activity, particularly in a rural area. The findings relate further to how to help women business owners become more successful, sustainable and able to grow. The importance of the study is further to highlight what government, business assistance agencies and small business trainers should do to have the greatest positive impact for these women and their enterprises; and what alternatives can be implemented to assist and help grow the businesses of these women. The worth of small businesses to the economic growth of any country is another reason why the success of women small business owners is so important. The fact that the study was limited only to a small area and thus had a small sample may make it difficult to generalise the results to other areas. The paper makes the following recommendations:

- The study showed that the women lacked skills in various areas of business management. Therefore education and training are recommended. Further than this study, the emphasis on 'entrepreneurship' as a school subject should start early on, in primary school, as the majority of the women in this study had education at or below matriculation level.
- Prospective and existing women business owners should be supported in terms of further education

and training in business and management skills; marketing and customer care; financial management, bookkeeping skills and how to forecast and budget; writing of viable business plans; communication and negotiation skills. These can hopefully boost their confidence in approaching creditors and prospective clients.

- These women business owners should prepare for the human resource issues they will that include how to attract and retain qualified workers.
- There should be specific workshops targeted at educating rural women about support services and/or agencies that are available, what services they render, how to access them and what they can benefit from contacting them. These support agencies can advertise themselves in local languages that people can understand, and their advertising should be in high traffic areas where their information can be easily available. Furthermore, these organisations that offer financial as well as developmental support should establish branches in rural communities so that women business owners can get to know about them and can access them easily.
- Business mentoring and coaching: This also relates to training hoping that the women business owners would get an opportunity to develop and learn from their mentoring and coaching experiences. Women business owners should be assisted in identifying the well-established people in business that can mentor them and guide them through the process of developing, growing and maintaining their businesses. The mentors can also help them in establishing broader business.
- Encourage partnerships and joint ventures: women interviewed in this study work in isolation. Partnerships and ventures can give them yet another opportunity to learn from one another and leverage from skills they do not have that their partners in business have. There seems to be very little growth of women businesses in this study. In addition, pulling together their finances, skills and other resources could help them in having a bigger pool of resources and thus be able to access wider markets. In that way they can hopefully grow and develop and create better employment opportunities in their area.
- Access to finance: The results in this study indicate that although some of the government funding and support agencies have been in existence for several years, they are still not known by women who are in business, and, most importantly, even those that are known are still not utilised. This indicates the need for these institutions to promote and publicise themselves more through workshops that will inform rural women about their existence and services offered. Information should be available in high traffic areas such as post offices; shopping areas; and the internet; to increase the awareness of and use by small businesses.
- Commercial banks are still not accessible, partly because they still need collateral to give out a loan, but also because rural people, particularly women, fear approaching them. This “fear” is due to lack of basic communication and negotiation skills, highlighting the importance of training in this area as indicated earlier.
- Access to appropriate technology: (that is, computers and the internet, telephones, fax machines). Again this has the potential to help women business owners access bigger markets and grow.
- Lastly prospective women business owners should learn to deal with balancing work and family commitments.

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### ABSTRACT

Using the Businesswomen's Association South Africa (BWASA) censuses, the Commission for Employment Equity (CEE) report, Statistics South Africa's analyses and the Global Gender Gap Index (GGGI), this paper seeks to examine the extent to which gender equality and economic empowerment have advanced in South Africa. We contextualise the arguments by exploring the concepts of equity and (in)equality in an attempt to draw insights for women's economic empowerment in South Africa. Furthermore, reference is made to the Women's Empowerment in Agriculture Index (WEAI) that purportedly goes beyond other indices such as the UNDP's Gender Inequality Index (GII) and SADC's Gender and Development Index (SGDI) and Citizen Score Card (CSC), by addressing both gender inequality and women's empowerment, as well as addressing aggregation problems. The findings illustrate that women's economic empowerment remains an intractable problem, particularly for top professional women in business. Clearly, further research needs to encompass all women in different strata of the economy and, amongst other things, indicators need to incorporate the so-called informal economy. Moreover, a more in-depth multidisciplinary analysis is required to understand why there has been slow progress in addressing deep-seated gender and racial inequalities and why fundamental change has not taken place despite considerable progress in girls' basic education and women's political representation since democratic elections in 1994.

**Keywords:** Women's economic empowerment; gender equality; fundamental change; South Africa

"In 2004, BWA asked if the glass ceiling was really cracking. That question remains relevant today. The cracks might be bigger but the ceiling has not yet shattered" (Ms Konyalala Maphisa, former President, Businesswomen's Association South Africa, Foreword to BWASA Census, 2010: 7).

### INTRODUCTION: IS THE GLASS CEILING CRACKING?

Women's Month (August) in South Africa reminds us of that fateful day on 9 August 1956 when over 20,000 women marched to the Union Building in Pretoria to protest against the 1950 Pass Laws. They sang and chanted the now-familiar slogan *Wathint' Abafazi, wa thint' imbokodo* (literally translated from isiZulu to mean: "if you strike women, you strike a rock or the grindstone"). The struggle for women's emancipation subsequently spilled over into the boardroom. On the eve of the August 2013 Celebrations, the new President of the Businesswomen's Association South Africa (BWASA), Liepollo Lebohang Pheko, pointed out ways in which women can participate fully in the economy. She argued that: "activism is part of the new form of South African citizenship . . . women in the workplace have felt marginalised . . . and we are dealing with advocacy . . . and giving evidence-based data" (Interview with SABC Morning Live Presenter, Leanne Manas, 18/07/13). Indeed the 2011 Census Report (Statistics South Africa, 2012) shows that in spite of women comprising 51 per cent of the working population, they only make up 44-45 per cent of the employed (also see BWASA, 2012: 14; Commission for Employment Equity – CEE, 2013: 7, 15-23; SADC, 2011; UNDP, 2013). Men often earn up to 65 per cent more than women for similar work, while women with children are more likely to be affected by this gender pay gap. The *Commission on*

*Employment Equity Annual Report 2012-2013* also “points to the ‘triple jeopardy’ that is suffered by black females with disabilities” (CEE, 2013: vii).

The specific concern in this paper is to provide some context within which to analyse women’s economic empowerment in South Africa. It will begin by situating arguments concerning gender inequality and the facilitation of women’s empowerment. It is against this background that the paper briefly analyse equity and (in)equality in the context of a political economy approach, and tease out some insights for women’s empowerment in South Africa. This is followed by some observations on the methodologies that are employed by the BWASA, the largest and foremost professional women’s organisation, and the CEE, as well as methods used to construct the Global Gender Gap Index (GGGI) (Hausmann *et al.*, 2009, 2010, 2012) and other indices. It also discusses some issues raised by Alkire *et al.* (2013) in their development of the Women’s Empowerment in Agriculture Index (WEAI). What follows is a discussion of the limitations of the study, followed by presentation of some key findings emanating largely from the BWASA 2012 Census, Statistics South Africa’s analyses and the Department of Labour’s CEE (2013) report, before we arrive at some tentative conclusions.

## SITUATIONAL OVERVIEW

Undoubtedly, government legislation on race and gender, and Broad-Based Black Economic Empowerment (B-BEE), have helped to re-shape the apartheid landscape since democratic elections which brought Nelson Mandela and the ANC into office in 1994. Addressing the Businesswomen’s Association South Africa (BWASA) “Women in Leadership Census 2010 Forum” in Johannesburg on 30 March 2010, former Minister of Women, Children and Persons with Disabilities, Noluthando Mayende-Sibiya, made reference to the significant progress that had been made in “areas such as access to basic education for girls” (Mayende-Sibiya, 2010: 1). She also observed that the Reserve Bank had appointed its first woman Governor (Gill Marcus), while there was a woman Chief Executive Officer (CEO) at South African Airways (SAA) (Siza Mzimela), although the latter position has subsequently reverted back to a man (Monwabisi Kalawe) after the resignation of Mzimela in 2012. It is also noteworthy that the Johannesburg Stock Exchange (JES) appointed its first woman CEO, Nicky Newton-King, in 2012. Mayende-Sibiya further pointed out that: “On political representation, South Africa is amongst the top six countries in the world where women hold more than 40% of parliamentary seats”. Subsequently, South Africa’s ranking in political empowerment has bounced back to seventh in 2012, having initially fallen from fifth in 2009 to ninth position in 2010, while the percentage of women ministers fell from 45% in 2009 to 34% in 2010 before recovering to 40% in 2012 (Hausmann *et al.*, 2009: 16, 167, 2010: 10, 28, 272-73, 2012: 10, 16, 28, 316). Clearly, great strides have been made on the political front, particularly when one considers that women comprised only 2.7% of parliamentary seats at the end of the apartheid regime’s rule in 1994.

South Africa’s overall world ranking has fluctuated from eighteenth in 2006 to twentieth and twenty second in 2007 and 2008, respectively, while dramatically improving its position to sixth in 2009 but then falling to twelfth and sixteenth place in 2010 and 2012, respectively. Apart from Lesotho (fourteenth place) which has closed the gender gap, South Africa “is the only other sub-Saharan African country in the top 20” ((Hausmann *et al.*, 2012: 28; also see Hausmann *et al.*, 2010: 8, 10, 12, 16, 18-19, 28, 272-73, 2012: 8, 10, 14-16, 316-17, Appendix 1). However, Mayenda-Sibiya was concerned that not as much progress had

taken place in the economic empowerment of women particularly in the higher echelons of the economy. More recently, in his address during the (August 2013) Women's Month Celebrations, the President of South Africa, Jacob Zuma, pointed out that: "At senior management level, white males account for 69% of all positions. Thus the achievement of equality at both race and gender levels remains stagnant in the private sector" (as cited in Yende, 2013). These sentiments are echoed elsewhere: "The data on women and blacks serving as board directors have become a powerful indicator, and the incentive for companies to appoint them, but have not transformed parity at top levels to recruit at lower levels" (Ndhlovu & Spring, 2009: 45). For example, the number of women chairs of the JSE-listed company boards fell from 4.6% in 2009 to 4.1% in 2010 and 3.5% in 2011, rising to 4.2% in 2012, while the absolute number of women chairpersons for all companies fell from 20 in 2010 to 18 in 2011 (BWASA, 2010: 11, 23, 25, 2012: 25). In the 2010 data, South Africa was ranked first in the income category for upper middle-income group of countries (with Cuba coming second). The 2012 data shows that Latvia has moved to first place in this category, with South Africa and Cuba coming second and third, respectively. In 2012, South Africa occupied sixty ninth position in economic participation and opportunity (compared to fifty fifth in 2010), eighty seventh position in educational attainment (compared to forty third in 2010), and a disappointing one hundred and third place in health and survival (compared to an equally disappointing one hundred and first place in 2010) (Hausmann *et al.*, 2010: 8, 10, 12, 16, 18-19, 28, 272-73, 2012: 8, 10, 14-16, 316-17, Appendix 1). Like the majority of countries in Sub-Saharan Africa, South Africa's "poor enrolment rates and low levels of life expectancy" (Hausmann *et al.*, 2012: 28) have had a negative impact on the educational attainment and health and survival indices. For its part, the UNDP gives South Africa a Gender Inequality Index (GII) value of 0.462, thus ranking it 90 out of 148 countries in its 2012 index (UNDP, 2013: 158).

It is against this background that the former President of BWASA, Kunyalala Maphisa observed wryly that: "At present rates, South African women will only achieve 50% . . . [representation] on boards in 2031 and executive managerial level in 2050" (Maphisa, 2010: 7; also see BWASA, 2010: 25). Referring to board-room struggles, another former President of BWASA, Basetsana Kumalo, noted that: "In 2008 we introduced the women in government element, and whilst the public sector surpassed our expectations, there are still challenges and concerns when it comes to the remuneration of women in the public sector compared to their male counterparts" (as cited in Mzilethi, 2010: 1). The slow progress is even more concerning world-wide when one considers that South Africa is actually ahead of Australia, Canada, the USA and the United Kingdom in the proportion of female company directors (BWA, 2010: 12, 21, 48, 2011: 11, 2012: 15, also see Asthana, 2010; EHRC, 2010; Hausmann *et al.*, 2009: 8, 167, 2010: 8, 27-73, 2012: 8, 10, 28, 317, Appendix 1; Pagano, 2011; Ramesh, 2010). This means that it may be difficult to meet the third Millennium Development Goal on gender equality and promotion of women's empowerment (MDG 3) by the target date of 2015, let alone mainstream gender equality into other spheres of the economy (Alkire *et al.*, 2013: 71, CEE, 2013: vii; Moser, 2007: 2; 32-35; Pagano, 2011; UN, 2000; 2001).

The gravity of the situation prompted Mayende-Sibiya, during her tenure as Minister of Women, Children and Persons with Disabilities, to propose a number of measures to improve South Africa's standing. She argued that: "a Gender Equality Bill ... should enable SA to move towards 50/50 gender parity in all decision making positions and the bill will have mechanism for enforcement. We want to ensure that our country is in line with the SADC Protocol on Gender and Development as well as the position taken by the ANC on this matter" (Mayende-Sibiya, 2010: 2). Furthermore, the Broad-Based Black

Economic Empowerment (B-BEE) Advisory Council was charged with finding ways of speeding up the transformative process. In this respect, she proposed the (re) evaluation of ownership transfers to ensure that tenders did not benefit a few people (the phrase “tenderpreneurs” having been reportedly first coined by the Minister of Education, Dr. Bonginkosi (“Blade”) Nzimande, to refer to politically connected individuals who have enriched themselves via irregularly awarded government tenders). In her view, such benefits had to be widely spread to women and the disabled. In addition, she suggested that a system of quotas or affirmative action, and preferential procurement and enterprise development, would address “issues of control and employment equity”. In the circumstances, we can cite the Women’s Development Businesses (WDB) Group as one of the few exceptions that targets poor women in rural areas and provides them with microfinance and training that empowers and lifts them out of poverty (WDB, 2011). Mayende-Sibiya also argued that social investment should play a prominent role in B-BEE policies, that is, up-lifting women and the disabled.

In 2013, Mayende-Sibiya’s successor, Lulama (“Lulu”) Xingwana, went further in seeking support for the Women Unemployment and Gender Equality Bill to speed up gender and racial transformation, with penalties for miscreants. For example, fines could be imposed on companies that do not comply with set targets: “We believe that the bill will help us monitor and evaluate and enforce all the initiatives aimed at empowering women in South Africa” (Xingwana, as cited in *The Mail & Guardian*, 03/08/13). Xingwana was also a signatory to the fifth ‘India Brazil South Africa (IBSA) Women’s Forum Resolution’ which committed the three countries to working together in supporting civil society organisations to facilitate gender equality and women’s empowerment. It is also noteworthy that, unlike many countries, and despite ‘fronting’ practices by some companies, scorecards have gone some way in evaluating the extent to which mainstreaming of gender equality has advanced (Ndhlovu, 2011; Ndhlovu & Spring, 2009). However, the widespread fraudulent practices in especially the building and construction industry is a reminder that the government needs to continue being vigilant. After the murder of its Chairman, Jeff Wiggill, the recently-liquidated conglomerate First Strut, that traded as First Tech and was “one of South Africa’s largest privately-held business empires” (De Wet, 2013b: 1), and its subsidiary (Cosira), is under criminal and murder investigation that also involved the presentation of a fake empowerment certificate (to win government tenders). The fraudulent certificate “listed its ownership as 50% black (it was entirely owned by white men) and its management control as 60% black (the group had almost no black managers)” (De Wet, 2013a: 1).

Notwithstanding this, the ‘increased attention’ on women’s rights issues has been welcomed by, amongst others, Liepollo Lebohang Pheko, the President of the BWASA. She contends that this is likely to transform “the context for advocacy to advance women’s rights and gender equality” (Pheko, nd.). Recognition of the importance of these issues is manifest in the recent (August 2013) appointment of the former Deputy President of South Africa, Phumzile Mlambo-Ngcuka, to succeed the Chilean presidential candidate, Michelle Bachelet, as Executive Director of the UN Entity for Gender Equality and Empowerment of Women (UN Women), an organisation that was created in 2010. Although UN Women has relatively little funding (US\$220million compared to US\$4billion each for UNICEF and WHO), one of its primary tasks is to ensure that there is not only a gender equality goal in the UN’s development targets, but there are also indicators to monitor performance (UN Women, 2013: 25; UNICEF, 2013: 5, 33; WHO, 2013: 7-10, 110-110). It is however worth noting that Pheko puts a different slant to Mlambo-Ngcuka’s

narrower and more institutional mandate of promoting and coordinating 'efforts to advance the full realization of women's rights and opportunities' (UN Women, 2013). For Pheko: "While effectively measuring women's economic empowerment requires considering indicators of both women's economic advancement and women's power and agency, many processes do not seek to achieve change in both areas. The BWA is committed to contributing to processes that investigate and enhance power dynamics and their impact on the workplace aspirations of women and their broader economic foot print" (Pheko, undated). For its part, South Africa's Commission on Gender Equality (CGE) describes its vision as "a society free from gender oppression and inequality", bemoaning the slow pace of transformation, while the South Africa Human Rights Commission (SAHRC) (2012) makes a distinction between 'formal equality' (equal treatment of everyone) and 'substantive equality' (emphasis on 'equality of results and opportunity').

### **THEORETICAL OVERVIEW: EQUITY, (IN)EQUALITY AND EMPOWERMENT**

In September 1995, the UN's Beijing Declaration purportedly sought to address questions of "women's empowerment and their full participation on the basis of equality in all spheres of society, including participation in the decision-making process and access to power, [which] are fundamental for the achievement of equality, development and peace" (UN, 1995: 3). Following the Millennium Declaration (UN, 2000), the Millennium Development Goals (MDGs) were adopted in 2001 with a view to advancing the principles that had been set out in the Beijing Declaration (Alkire, *et al*, 2013: 71; UN, 2001; UNIFEM, 2002: vii; 2009: 1; 2010: 1-3; World Bank, 2003: 1-3; 2007). These precepts were contained in Articles 15 and 17 of the SADC Protocol on Gender and Development (2008), while SADC's (2011) Regional Indicative Strategic Development Plan went further in developing a Women's Economic Empowerment Framework (also see Tralac, 2012). For its part, the World Bank proffered the following argument: "Gender inequality, which remains pervasive worldwide, tends to lower the productivity of labo[u]r and the efficiency of labo[u]r allocation in households and the economy, intensifying the unequal distribution of resources. It also contributes to . . . non-monetary aspects of poverty – lack of security, opportunity and empowerment – that lower the quality of life of both men and women" (World Bank, 2003: 1; also see Alkire *et al*, 2013: 71; FAO, 2011; World Bank, 2011). These concerns have been taken up by Mlambo-Ngcuka in her role at UN Women.

Given the different interpretations that have been alluded to by Pheko, Mayende-Sibiya, Xingwana and Mlambo-Ngcuka, what then do we understand about inequality and empowerment, concepts that are arguably central to the Beijing Declaration, the UN's MDGs, UNDP, the World Bank, SADC Protocol, the Global Gender Gap Reports, BWASA Censuses, CGE, SAHRC and UN Women? Why do they take place? There is no doubt that inequality, although seemingly self-evident or "intuitively easy to understand" as Alkire *et al*. (2013: 71) put it, raises complex economic, social, political and ideological questions. In his theoretical model of 'habitas', Bourdieu (1977) questions structuralist interpretations of society and culture, that is, the "primary experience of the social world" (Bourdieu, 1977: 32). He advises us to take account of the environment in which people live, one that comprises of practices, habits, cultures, inherited expectations and rules. The latter are a "product of history" and he describes "this system of dispositions" as "habitas" (Bourdieu, 1977: 82, 164). Such a system determines limits to usages and opportunities, as well as disclosed possibilities, norms and sanctions both of the law and neighbourhood pressures. In the circumstances, the observer must not impute meaning to "objects" of analysis, they must not assign a set

of rules to validate a set of predetermined narratives and behaviour. Even though Bourdieu contends that social life, social behaviour, cannot be “codified”, every now and again he does fall into the trap of referring to “common codes” *vis a vis* power relations and his reigning against male domination. Regarding the particular problem that we are trying to address, a sense of deprivation may thus be likened to being in an incarcerated state until the barriers begin to fall away. Thompson’s (1995) polemic against Althusser’s (1969) structuralist model is also instructive in this regard. He argues that we must be mindful of teleological arguments, that is, cherry-picking arguments or imposing theory to fit the evidence. For him, there must be a “dialogue” between the conceptual (“thought”) and its object (“real” history or social reality), between human agency (and process in history) and practice (the evidentiary).

With those cautionary words in mind, we can best ‘disentangle’ inequality by first establishing some ground rules on what we mean by equality. There are a number of facets to this issue. First, equality, when seen in legalistic terms, refers to the notion that members of society should be equal in the eyes of the law. Second, equality of opportunity conjures up an image of meritocracy, that is, that every member of society has an equal chance of fulfilling their potential, developing their talents and applying themselves to the task at hand. Finally, equality of outcome can be couched in terms of a benchmark against which we can judge unequal distribution of income, deep-seated poverty etc. By identifying unequal distribution, we are at the same time comparing this situation with a hypothetical one where everyone receives the same income. For the political economy approach, as will be evident below, these concepts are not only contradictory, but also meaningless when seen through the prism of the capitalist system that is ‘structured’ along the lines of class relations of exploitation. What seems to be in no doubt from the BWASA Censuses (2010; 2011; 2012), CEE (2013), the 2011 Census by Statistics South Africa (2012) and the Global Gender Gap Reports (2009; 2010; 2012), as demonstrated in the previous section is that there are widespread inequalities in South Africa. However, how can we explore this phenomenon? We will first outline the orthodox view before presenting a contrasting political economy approach.

From an orthodox approach, workers and capitalists receive income that is proportional to their contribution to production. In other words, the price of labour is ‘earned’ income (wages, salaries, income accruing from self-employment), while the price of capital is ‘unearned’ income (interest, dividends and profit). Using per capita income as an indicator of inequality, orthodox economists contend that any differences in earnings can only be explicable from differences in people’s contribution to production. Some people are (arguably) naturally more talented, more skilled and intelligent than others. Therefore, when choosing between work and leisure, indeed between different types of work that necessitate different types of skills, some people are prepared to work longer or more intensively than others. Some people will take on more difficult, dangerous or responsible jobs; whilst others will sacrifice earnings and leisure in order to acquire the necessary skills for particular jobs that pay them handsomely in the future. Inequalities in earnings are therefore defined as ‘fair’ and desirable since scarce talent is used in the most efficient ways, thus benefiting society from this standpoint. Emphasis is placed on equality of opportunity rather than equality of outcome. In her 1975 address, former British Prime Minister, the late Margaret Thatcher, encapsulated this ‘business-as-usual, do-nothing’ viewpoint: “The pursuit of equality is a mirage. What is more desirable and practical than the pursuit of equality is the pursuit of the equality of opportunity, and opportunity means nothing unless it includes the right to be unequal”. Inequalities in income and wealth could thus be justified as merely reflecting inequalities in people themselves. To the

extent that women and men are arguably different in terms of their intelligence, enterprise, etc., then logically, so the argument goes, each person must do the job for which they are most suited or most able. Differentials in income are thus essential in encouraging people to do the more 'valuable' jobs that are determined by society, by consumer wants. In so far as it is asserted that competition shapes how we understand society, it stands to reason that 'there is no society', to use Thatcher's dramatic language to emphasise individualism.

To contrast this view with the political economy approach; it is posited that private ownership creates a class that, by virtue of its ownership of the means of production, can lay claim to the surplus gained in production. In other words, the key to understanding unequal distribution of wealth and income from this perspective is through the process of accumulation rather than merely biological disposition. Those people who have higher incomes for example, be it via inheritance (transmission of wealth between generations), (social) networking, corruption or (forcible) expropriation, will be able to command a greater proportion of the surplus, and have greater opportunities to accumulate. In any case, without the abolition of inheritance, equality of opportunity merely implies inequality of outcome. There is also a greater chance that these people will hold large holdings of capital, enabling them to cushion themselves against risk and uncertainty and have more control over privately owned resources and financial institutions, contributing to the ever-widening inequalities under the capitalist market system. Inequality is thus couched in a broader context that encompasses power relations. In the circumstances, and as long as there is private property, equality of opportunity will thus not be guaranteed, let alone lead to equality of outcome and condition.

Clearly, the division of labour is used to justify unequal rewards within capitalist societies. Incentives are furnished in order to motivate workers, as well as hire and fire them in accordance with the patterns of commodity demand. Moreover, workers could be 'persuaded' to acquire more or different skills in order to perform particular functions. It has also been argued that such division of labour ensures that (executive) managers allocate jobs accordingly, while keeping in reserve their "right to manage", that is, discipline the workforce, co-ordinate production and preserve their authority. If these duties are accepted as legitimate tasks of managers, requiring specialised skills of decision-making and responsibility, then this can be used to justify their higher salaries. Further emphasis on differences rather than community of interest ensures that workers are divided according to skills, responsibilities, manual and non-manual tasks etc., whilst their cohesiveness and organisation is reduced. Indeed, sexual and racial differences can then be exploited in ways that raise barriers to occupational mobility; and break down the unity of experience of workers, thus dividing them into distinct groups.

Since gender is a social and cultural construct within different historical contexts, women's subordination involves economic and racial oppression as well as patriarchal relations (Cameron & Ndhlovu, 2000, 2001; Cole, Cameron & Edwards, 1991; Ndhlovu, 2011, 2012; Ndhlovu & Spring, 2009). As Collins puts the point, "power as domination" is structured through "a system of interlocking race, class and gender relations" (Collins, 2000: 73, 76, 79, 203, 284, 288-90). Not only does this system of oppression manifest itself as a matrix 'politic of domination', but it is also experienced at different levels: at the interpersonal level; "group or community level"; and at the "systemic level of social institutions" (Collins, 2000: 288-90). The resilience of this interlocking system of oppression also stems from the state's "political, cultural and ideological role in the process of legitimation. Ideological factors in particular involve

education, the popular media and press, the family, force of habit and/or 'common sense', that is, the ability to convince the working class that the dominant social organisation of production is self-evident, that it has always been so and need not be challenged" (Ndhlovu, 2012: 106). Referring to "the growing sophistication of mass media in regulating intersecting oppressions", Collins also observes that "hegemonic ideologies concerning race, class, gender, sexuality and nation are so pervasive that it is difficult to conceptualize alternatives to them, let alone ways of resisting the social practices that they justify" (Collins, 2000: 284). Thus, theoretical analysis must be interrelated with praxis. In a word, people are 'moulded' by society, while at the same time they also strive to re-shape and re-constitute that society (human agency). It is with this view in mind that we turn to the examination of empirical evidence, starting with comments on methodology.

### **BWASA'S METHODOLOGY, CEE AND THE GLOBAL GENDER GAP INDEX (GGGI)**

The BWASA Annual Census, which has been sponsored by Nedbank from its inception in 2004, seeks to provide an exhaustive quantitative analysis of women in South Africa's boardrooms and senior management, as well as promote awareness of corporate issues regarding transformation. In 2007, Gauteng Enterprise Propeller (GEP) became a co-sponsor, while InWEnt, through its CHANCE (the Chamber and Advisory Network for Women Entrepreneurs), and the Department of Trade and Industry (dti) have recently been involved. The President of BWASA contacts all JSE-listed companies to solicit information on "the status of women in leadership roles" (BWASA, 2010: 10, 2012: 9-11) and, where possible, companies are asked to verify the authenticity of this information. In 2008, a section on women in government positions was included, and a section on listed holding companies and their subsidiaries was integrated into the 2010 Census. The BWASA Census is now widely accepted as the most comprehensive quantitative study of women in leadership positions in South Africa. The BWASA 2010, 2011 and 2012 Censuses for director and directorships comprised of 335, 339 and 329, organisations, respectively; that is, where information was easily accessible from JSE-listed companies and state-owned enterprises (SOE). Having reached a peak of 359 (94.5%) out of 380 companies that could actually verify their information for the executive management analysis in 2009, the subsequent figures have been 306 (91.3%) in 2010, 311 (91.7%) in 2011 and 293 (89.1%) in 2012 (BWASA, 2010: 10, 75-145, 2011: 3, 2012: 5, 10).

The Commission for Employment Equity (CEE), on behalf of the Department of Labour, also conducts surveys of employment trends. The Chairperson of the CEE oversees the production of reports covering the period from 1 April to 31 March that are presented to the Minister in the Department of Labour. The reports trace the trends at the workplace concerning black people (race), women (gender) and people with disabilities (disability): "The trend analysis focuses on the top management, senior management, professionally qualified and skilled levels" (CEE, 2013: 1). There is an obligation (section 33) for designated employers, after consulting their employees, to produce a thorough-going "analysis of their workforce profile and workforce environment, prepare and implement an employment equity plan and submit a report to the Department of Labour either on an annual or two-yearly basis" (CEE, 1, 15). For international comparisons, we also use the Global Gender Gap Index (GGGI), which was first introduced by the World Economic Forum in 2006. The index combines quantitative data sets and some qualitative measures, but it does not directly measure empowerment (Hausmann *et al.*, 2009, 2010, 2012; also see Alkire *et al.*, 2013: 72; Moser, 2007: 2, 38-39). It is noteworthy that, because of missing data, coverage in the

2012 Report was ultimately restricted to 135 out of the initial 200 countries. Of this total, 13 countries had one data missing, another 24 countries had two variables missing, and 3 countries (Angola, Tunisia and Zimbabwe) that had been included in previous reports were left out altogether because of lack of recent data; although the final total was balanced by the inclusion of 3 new countries (Cape Verde, Serbia and Timor-Leste) (Hausmann *et al.*, 2012: 6-7). Of the final total of 135 countries, "111 have been included in the *Report* since the first edition in 2006" (Hausmann *et al.*, 2012: 6). It is important to note that the Global Gender Gap Index is "constructed" in specific ways. According to (Hausmann *et al.*, 2009: 3-4, 2010: 3-4, 2012: 3-6): (a) it measures gender-based gaps in accessing resources and opportunities in different countries rather than actual levels of resources and opportunities in these countries; (b) it seeks to capture gaps between men and women in health and survival, educational attainment, economic participation and opportunity, and political empowerment rather than evaluate gaps in country-specific policies, culture or customs; and (c), it ranks countries in accordance with these outcomes on gender equality.

For its part, the Southern Africa Gender Protocol 2011 Barometer also introduced the SADC Gender and Development Index (SGDI) that the authors claimed to be "an objective weighting of how governments are performing" (Mona & Nyakujarah, 2011: 13). It was further argued that the SGDI "complements the Citizen Score Card (CSC), [that is] based on perceptions by women and men in the region [SADC] who have been part of reference group meetings on country barometers, village workshops and other protocol-related activities. While the SGDI is an empirical measure, the score card gauges perceptions. Both are important" (Mona & Nyakujarah, 2011).

In their innovative approach, Alkire *et al.* (2013) observe that: "While the concept of 'equality' is intuitively easy to understand, 'empowerment' is a broad concept that is used differently by various writers, depending on the context or circumstance. Indeed, one can argue that many policy reports ... make links between gender equality and development outcomes, not necessarily between *empowerment* and desired outcomes" (Alkire *et al.*, 2013: 71; also see Pheko, nd.). It is with this in mind that they seek to develop the Women's Empowerment in Agriculture Index (WEAI), which was first introduced by US government agencies in 2010-2011 in their 'global hunger and food security initiative', the Feed the Future Initiative, to monitor women's empowerment (ibid.). Alkire *et al.* (2013) define agency and empowerment as "domain specific" and, in the particular agricultural context, "These include (1) decisions about agricultural production, (2) access to decision-making power about productive resources, (3) control of use of income, (4) leadership in the community, and (5) time allocation" (Alkire *et al.*, 2013: 73). Thus, their multidimensional, survey-based index measures the 5 domains of empowerment (5DE), whilst also using the gender parity index (GPI). A score of 4 out of 5 indicates that the person is empowered, while the GPI gives an indication of the extent to which "the incidence of disparity between women and men and the gap" have been reduced (Alkire *et al.*, 2013: 73-77).

## LIMITATIONS OF THE STUDY

A number of problems are immediately apparent with the BWASA Censuses, the CEE Reports, the Global Gender Gap Index and the WEAI, the most obvious being comprehensiveness. For example, the BWASA annual censuses concentrate on "the corporate landscape", although its former President, Kumalo, did hint at the need to look beyond the corporate world since "poverty . . . [is] a feminized development challenge" (Kumalo, 2010: 6). The SDGI also has gaps in some categories: "Ideally, the SDGI

would have included an indicator measuring disparity in pay between women and men doing paid work. Unfortunately, ... the available datasets of disaggregated earned income are heavily based on assumptions rather than on empirical data" (Mona & Nyakujarah, 2011: 15). Moser also notes that the Global Gender Gap Index (GGGI) does not "include indicators for informal work, unpaid and reproductive work, or time-use. These are critical to understanding women's participation in the economy because much of women's work falls outside the formal sector. Incorporation of these indicators into composite indices is therefore an important area for future work" (Moser, 2007: 39). For its part, Statistics South Africa (2001, 2013) has made some progress in analysing how much time is spent by men and women in the formal workplace and on unpaid work in the home.

While Alkire *et al.*'s (2013) WEAI did go some way in addressing aggregation problems that continue to dog other indices such as the UNDP's (2013) GII, the World Economic Forum's GGGI and SADC's SGDI/CSC, and also attempts to measure both gender equality and women's empowerment, its authors do acknowledge that concentration on agriculture gives the impression that women who are outside this sector are necessarily disempowered (Alkire *et al.*, 2013: 72-75, 82, 89). The authors also note that concentration on decision-making by female-only households tends to exclude other female members within the household (s) (Alkire *et al.*, 2013: 89). Allied with problems of comprehensiveness are inevitable data problems. For example, in the case of the BWASA 2012 Census, difficulties associated with accessing information on executive managers means that the report was based on only 89.34% of those companies that responded to the Census request for verification and information, which was "amongst the lowest in the census 9 year history" (BWA, 2012: 5). Moreover, the self-reporting process of both the BWASA and CEE does leave some room for circumvention of rules by employers. It is for this reason that the involvement of the CEE, for example, "in the process of amending the Employment Equity Act" is expected to tighten compliance (with accompanying fines for non-compliance) and ensure that designated employers submit yearly reports (CEE, 2013: 1). In addition, the re-definition of "designated groups" (black people – that is, Africans, Coloureds and Indians - women and people with disabilities) will hopefully ensure that "South Africans who became citizens prior to 27 April 1994 and their descendants benefit from affirmative action" (CEE, 2013: 3). The explicit inclusion of a section on unfair discrimination may also go some way in addressing the identified problems (CEE, 2013).

On a global scale, for reasons mentioned earlier and because the Global Gender Gap Index "is a nuanced and comprehensive tool, the data is so complex that it is only available to measure - - - [a limited number] of countries" (Moser, 2007: 39). This partly explains why around 65 countries did not make the final count in the 2012 Global Gender Gap Report. Referring to the WEAI, Alkire *et al.* (2013) also observe that: "Group membership alone is an inadequate indicator of active participation (but more detailed indicators left too many missing values)" (Alkire *et al.*, 2013: 89). There are also problems of comparing like with like. For its part, the 2010 BWA Census specifically refers to this problem: "This current reporting period [2010] has seen a substantial increase in absolute numbers and this, in part, is due to companies including subsidiaries, where previously they might not have done so. It must be noted that due to inclusion of subsidiaries, some comparisons to historical data will not be possible" (BWASA, 2010: 10-11). With regard to its Gender Inequality Index (GII), the UNDP (2013) also cautions against putting too much significance on values *vis a vis* rankings due to sampling variations from report to report. Similarly to the CEE, questions have also been asked "as to how frequently the SGDI should be computed. Year on year

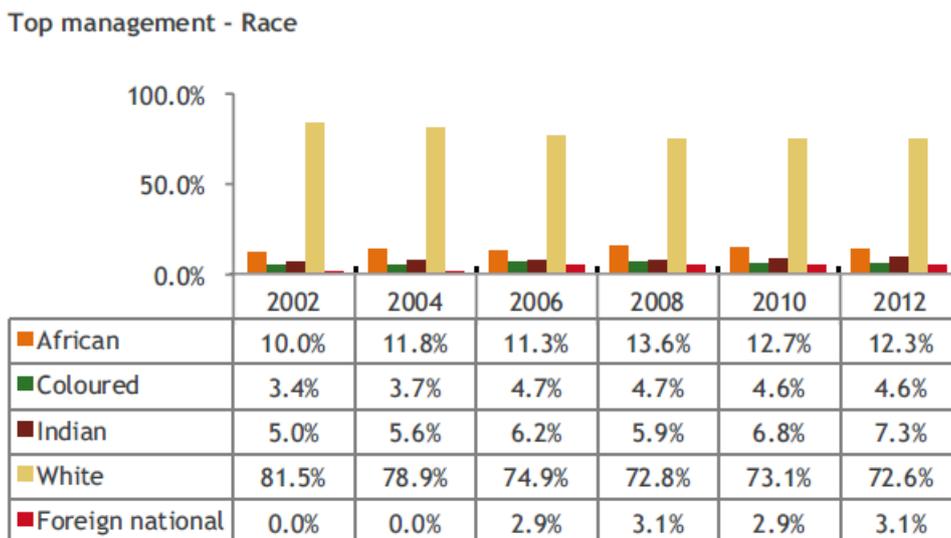
scoring may not reveal major changes. However, this will be a significant benchmarking tool for 2015” (Mona & Nyakujarah, 2011: 15). Indeed, there are conceptual problems relating to gender inequality (which may be context-specific) and, in particular, empowerment (whose interactive processes can only be fully ‘captured’ by qualitative rather than quantitative methods). Moreover: “Questions about control over resources and income do not capture many of the nuances behind these domains [i.e. the 5 domains of empowerment]” (Alkire *et al.*, 2013: 89; also see Alkire *et al.*, 2013: 76). With this in mind, the findings, while generally acknowledged as painting a more complete picture of the role of professional women in business, should be used with caution. In our case, we also benefited from discussions with a number of influential people in South Africa during the periods November 2010, June-July 2012 and June-July 2013.

**THE BWASA, CEE, STATISTICS SOUTH AFRICA AND GGGI FINDINGS AND RESPONSE**

According to the BWASA 2010, 2011 and 2012 Censuses, the steady increase in the number of women working in the corporate world in South Africa has been tempered by a trickle of those making their way to top corporate positions (also see CEE, 2013: vii, 9-23, 30-49). The notable exceptions where great strides have been made are government units, perhaps “as a recognition of the important role played by women in the political liberation of this country [South Africa]” (BWASA, 2012: 41). The essential aspects of the findings can be summarised as follows:

The race and gender profiles show that, although white representation at the top management level steadily fell “by 8.9 per cent from 81.9% in 2002 to 72.6% in 2012, averaging a decrease of approximately 1% per year, ... their [white people] domination still remains as they maintain more than a two thirds majority in terms of representation at this level, particularly when their EAP [Economically Active Population] is only 11.3%. The trajectory in terms of the trend at this level indicates that equity will be reached at this level only after many-many decades” (CEE, 2013: 9; also see Figure 1; Statistics South Africa, 2012).

**Figure 1:** Population distribution trends for the top management level from 2002 to 2012 by race

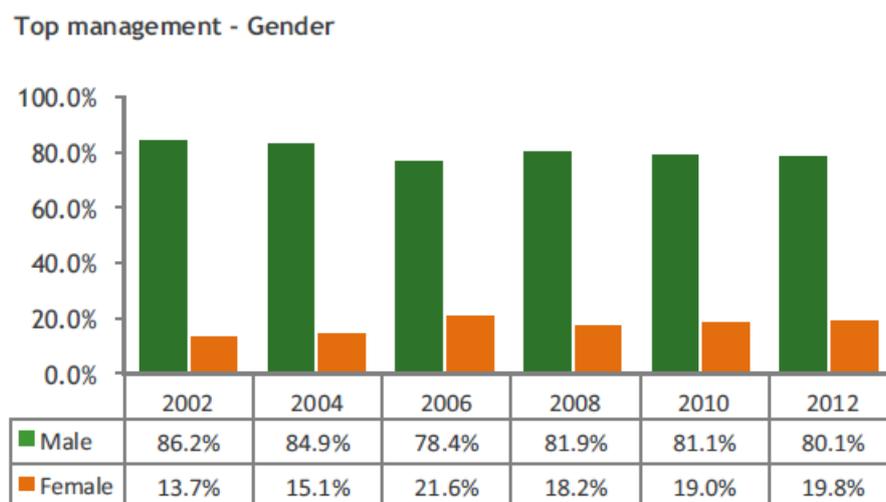


Source: CEE, 2013: 9.

Figure 2 also shows that, although there was a rapid increase in women's representation at the top management level from 2002 to 2006, which fell back in 2008 before gradually rising again, men still continue to dominate this level (also see CEE, 2013: 9; Statistics South Africa, 2012).

According to Statistics South Africa (2013), men spend an average of seven hours a day in the formal workplace as compared to 5.5 hours for women, although the difference is accounted for by the fact that there are one million more men employed in the formal economy. It is noteworthy that women who are employed also spend an average of 4 hours a day doing unpaid work around the home, as compared to half (2 hours) for men. For the unemployed, women spend an average of 5.5 hours a day on work in the home, compared to 2.5 hours a day for men, although unemployed men allegedly compensate for this by doing slightly more (13 minutes) community work than women. Whereas single and divorced men spend 100 minutes a day doing work around the home, single and divorced women spend twice that time on household chores. But once men get married, their contribution to household chores dramatically falls to 77 minutes a day, with a commensurate increase in women's work at home.

**Figure 2:** Population distribution trends for the Top management level from 2002 to 2012 by gender



Source: CEE, 2013: 9.

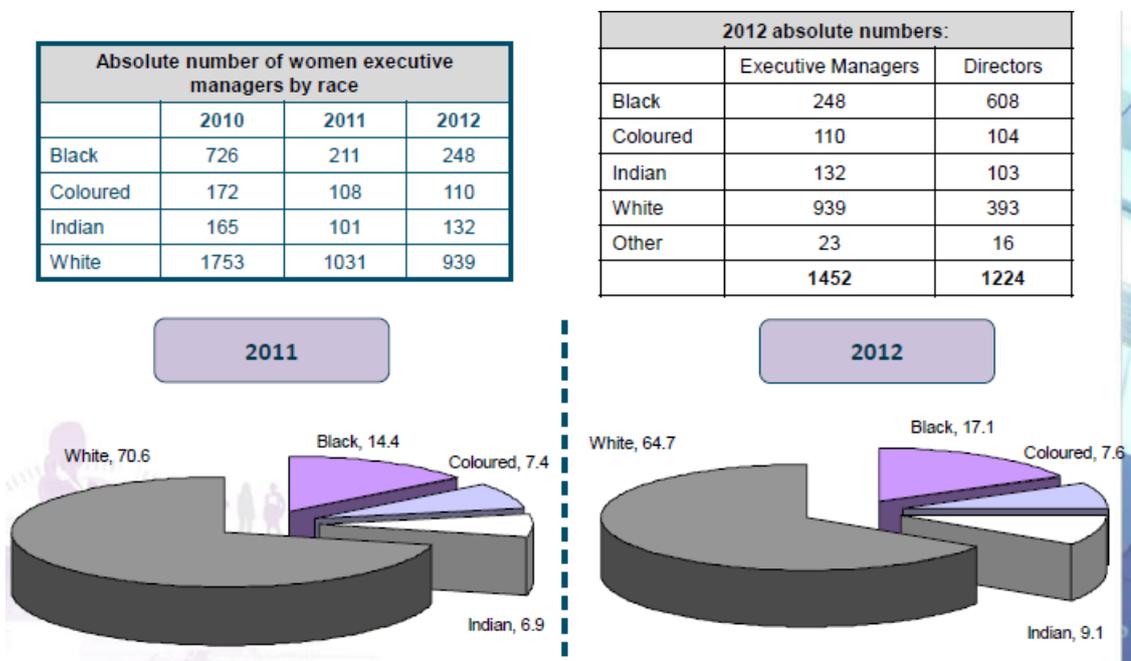
There were only 12 women CEOs in 2012 (down from 15 in 2010 and 2011, the figure having stood at 13 in 2008 and 2009, and 8 in 2007) (BWA, 2010: 12, 62, 2011: 29, 2012: 14-15, 25, 31; Ndhlovu & Spring, 2009: 40). The proportion of women CEOs for all companies in 2012 stood at 3.7 per cent (down from 4.5 per cent and 4.4 per cent in 2010 and 2011, respectively). Women CEOs accounted for 2.3 per cent of JSE-listed companies (down from 3.2 per cent in 2010 and 3.1 per cent in 2011), while the proportion of women CEOs of SOEs remained steady at 25 per cent from 2010 to 2012 (BWASA, 2012: 31). In 2010 there were 20 women chairpersons (10 per cent of the total), a figure which fell to 18 in 2011 and remained at that level in 2012. Of the total, 13 women chairs were from JSE-listed companies (up from 11 in 2011), while the remainder (5) were from SOEs (down from 7 in 2011) (BWASA, 2010: 12, 62, 2012: 25).

Despite an absolute increase in women executive managers from 2 761 in 2009 to 2 827 in 2010, significantly falling to 1 461 in 2011, and then followed by a slight fall to 1 452 in 2012, women still constituted only 19.3 per cent of all executive managers in 2010, a figure which rose to 21.6 per cent in

2011, with a slight fall to 21.4 per cent in 212 (BWASA, 2010: 11-12, 21-23, 41, 52, 2012: 14-15, 29; Ndhlovu & Spring, 2009: 40). Most of the increases in 2010 took place in Customer Services and Financials, while the latter years (2011 and 2012) were accounted for by SOEs, Consumption goods and services industries and Healthcare (BWASA, 2010: 12, 54, 2011: 14, 2012: 16). Disappointing though these figures are, they are still higher than in Canada (17.7 per cent), the US (14.1 per cent) and Australia (8.0 per cent) (BWASA, 2012: 17). Of the absolute number of women executive managers, 64.7 per cent are white (down from 70.6 per cent in 2011) and 17.1 per cent are black (up from 14.4 per cent in 2011) (BWASA, 2012: 32; CEE, 2013: 9-10; Figure 3; Ndhlovu & Spring, 2009: 41). It must also be noted that absolute increases in numbers in 2010 were largely accounted for by the inclusion of subsidiaries in the Census. Patton (2010) was also concerned that executive pay in many South African companies were spiralling out of control.

Women directorships also increased from 7.1 per cent in 2004 to 14.3 per cent in 2008, 14.7 per cent in 2009 to 16.6 per cent in 2010, falling to 15.8 per cent in 2011 and rising again to 17.1 per cent in 2012 (BWASA, 2010: 11-12; 22; 24; 30; 2011: 27; 2012: 14; 17; Ndhlovu & Spring, 2009: 40). These figures are higher than in the USA (16.1 per cent), Canada (14.5 per cent), Israel (15.0 per cent) and Australia (8.4 per cent) (BWASA, 2012: 17). Again the inclusion of subsidiaries resulted in the huge surge in absolute numbers, from 558 women directors in 2009 to 1 056 in 2010 (16.6 per cent). Subsequently women directors have increased from 1 127 (15.8 per cent) in 2011 to 1 224 (17.1 per cent) in 2012. Most of the increases have taken place in SOEs and the oil and gas industries which were previously the preserve of white men (BWASA, 2010: 12, 54, 2012: 14, 16, 19).

Figure 3: Percentage of women executive management by race



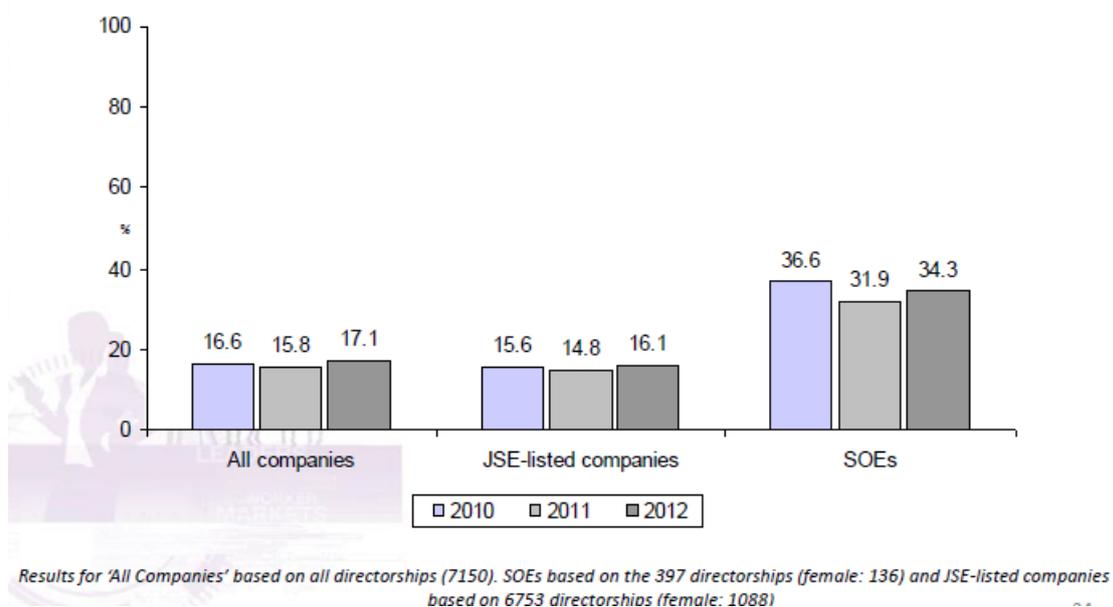
Source: BWASA, 2012: 32.

Since 2009, there has been an increase in women board members of JES-listed companies,

accompanied by a gradual fall in women board members of SOEs from 2008, with the number of board members showing a slight rise since 2011 (BWASA, 2010: 32; 2011: 12; 22; 2012: 24; 41; Figure 4).

There is, however, a tendency for “Boards to recruit the same women into director practice that needs to be rectified if more women are going to find their way into the boardroom” (BWASA, 2010: 24, 33, 43-44, 2011: 4, 20-21, 2012: 26, Figure 5). Coloured and Indian women directors have increased somewhat since 2009 (BWASA, 2013: 24, 2012: 26; Figure 6; Ndhlovu & Spring, 2009: 41). The inclusion of government departments in the census from 2008, while not easily comparable with corporate and SOE data, has subsequently shown that progress is being made by the government in gender equality. There are more women (58.9 per cent) employed in government departments than men, and if one excludes the South African National Defence Force (SANDF), the figure rises to 60.6 per cent; while the SANDF itself comprises only 25.9 per cent women (BWASA, 2010: 13, 67-68, 2011: 34-36, 2012: 35; Figure 7).

**Figure 4:** Percentage of directorships held by women in JSE-listed companies and SOEs  
The percentage of directorships held by women has increased marginally since 2011 for both JSE-listed entities and SOEs



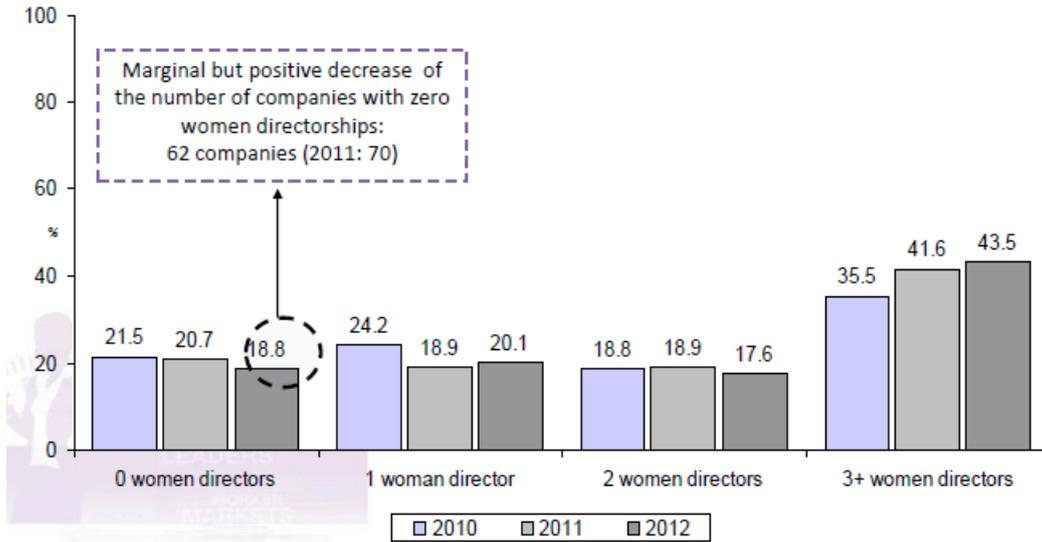
Source: BWASA, 2012: 24.

Overall, there are more black men and women in government departments, with a steady increase of black women accompanied by a gradual fall of white women since 2008, while the number of Asian and Coloured women has remained low and static. Disappointingly, women comprise only 0.5 per cent of senior management, although they are making in-roads in the middle management and highly skilled production jobs (BWASA, 2010: 13, 68-71, 2012: 35-37, 40; CEE, 2013: 51; Figure 8).

“Top-performing” companies are defined as those companies that have more than 25 per cent women directors or women executive managers. In 2004, 10 companies (2.8 per cent) were identified as “top-performing”, the number rising to 31 (9.7 per cent) in 2007 and 58 (17.3 per cent) in 2008; and then falling to 46 (12.1 per cent) in 2009 and 41 (12.2 per cent) in 2010. In 2012 there were 38 “top-performing” companies (11.6 per cent) as compared to 37 companies (10.9 per cent) in 2011 (BWASA, 2010: 15-17:

2012: 13).

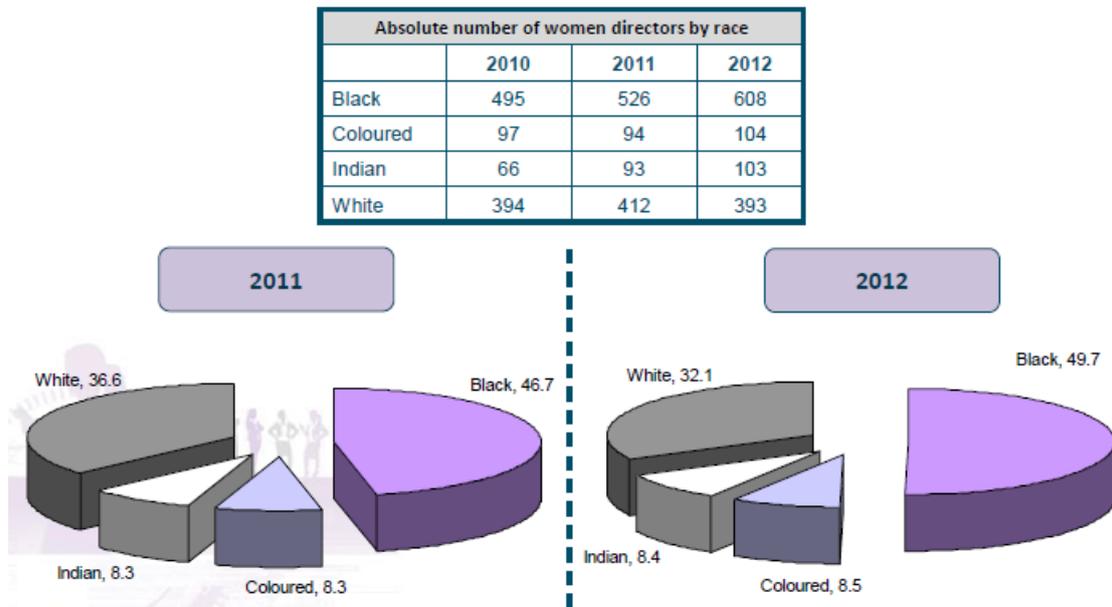
Figure 5: Spread of directorships among women directors



Source: BWA, 2012: 22.

In the 2010 Census, the BWASA decided to include a new category of 'worst-performing companies', that is, those that do not employ any women at the director and executive manager position levels. The 2010 Census uncovered 26 companies (7.8 per cent) in this category (BWASA, 2010: 18-19).

Figure 6: Percentage of women directors positions by race  
With the exception of the white race group, all races showed sizeable increases



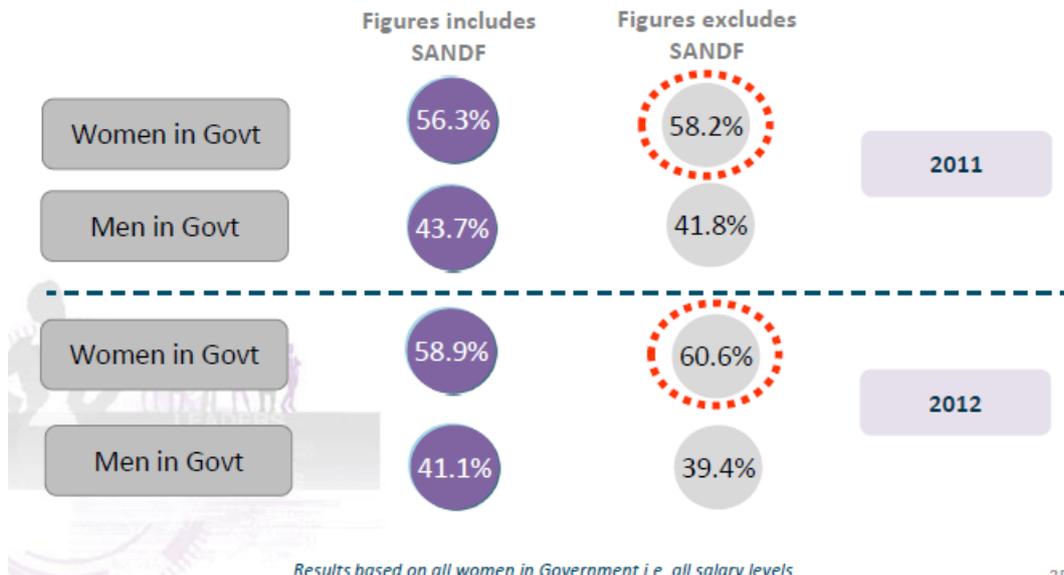
Source: BWASA, 2012: 26.

Six of these named and shamed companies and six government departments were asked to appear at

the Commission for Gender Equality's (CGE) public hearings at the Constitutional Court in Johannesburg to explain why they were not making gender transformation a priority (Khuzwayo, 2010: 1; Vena, 2010: 1). Subsequently, 27 companies (8.0 per cent) were designated "worst performing" in 2011, while 35 companies (10.6 per cent) received the unwanted tag in 2012 (BWASA, 2012: 13).

**Figure 7: Percentage of men and women in government**

Higher number of women as compared to men, across the board with slightly higher percentages for women with SANDF excluded

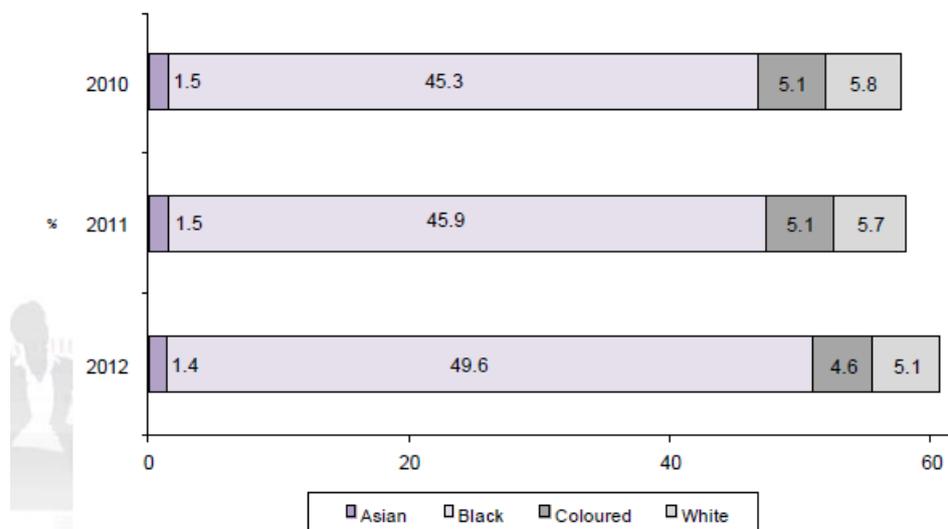


Results based on all women in Government i.e. all salary levels

Source: BWASA, 2012: 35.

**Figure 8: All government departments by race**

Looking at the figures across the years, there has been little change across all race groups, but a notable increase can be seen amongst the black race group



Results based on all women in Government; SANDF excluded

Source: BWASA, 2012: 37.

## CONCLUSION

The BWASA Censuses show that, while women comprise more than half the working population of South Africa, they are disproportionately represented in business decision-making. While strides have been made in basic education and on political representation, there are still challenges on the economic front. Although the results presented here are a snapshot of primarily the state of play in the corporate world, they still provide us with insights into women's economic empowerment. Men, particularly white men, continue to dominate the economic landscape. South Africa's ranking has also fluctuated, not only because of weaknesses in the educational and health spheres, which the government has been addressing via the proposed universal national health insurance scheme amongst other things, but also because other countries such as Lesotho have been closing their gender gaps.

BWASA, as well as the CEE and the Global Gender Gap Report, are to be commended for giving us the tools to analyse some of the employment trends and data on gender inequality, particularly for professional women in business, although a much more complete picture should involve quantitative analysis of women in different strata of the economy. Further work thus needs to be done to address this quantitative gap. While the WEAI points the way in this direction in terms of measuring gender inequality and women's empowerment, its use is limited by its focus on agriculture. Further work needs to be done in disaggregating the indices that are used to pinpoint the gender gaps to enable effective policy redress to take place. While the CEE's role in strengthening the Employment Equity Act and the Commission for Gender Equality's intervention mechanisms are welcome, there still remains a concern at the slow pace of gender transformation at the workplace.

Suffice it to say that the political economy approach arguably gives us insights into the difficulties involved in tackling issues of equity, inequality and empowerment within a capitalist society. The "system of interlocking race, class, gender and national" oppression, together with the ideological glue that binds it together and ensures its resilience, requires that analysis be married to praxis. What is required is a multidisciplinary and multidimensional approach by historians and political economists to examine the historical roots of inequalities in South Africa. In other words, what needs to be explained - especially given the prominence of women during the struggle against apartheid; and their being at the forefront of democratic struggles in the new South Africa, at all levels and in all organisations - is why there has been such slow progress in reshaping gender as well as racial inequalities. Why does it seem like the opportunity for fundamental change has been missed? Apart from economic factors, to what extent is this inertia due to deep-seated racial and patriarchal relations? Has historical experience not shown us that culture, like any other facet of society, is changing and dynamic? In this dialectic relationship, there are signs that South Africa could be a model for the rest of the world in terms of gender equity, as well as liberation of both men and women from class, racial and cultural oppression, but this requires redoubled activism to demonstrate/evaluate effectively.

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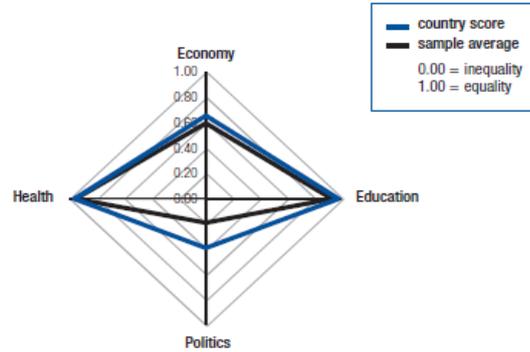
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Appendix 1

	Rank (out of 135 countries)	Score (0.00 = inequality, 1.00 = equality)
<b>Gender Gap Index 2012</b>	<b>16</b>	<b>0.750</b>

**Key Indicators**

Total population (millions)	50.59
Population growth (%)	1.35
GDP (US\$ billions)	187.25
GDP (PPP) per capita	9,477



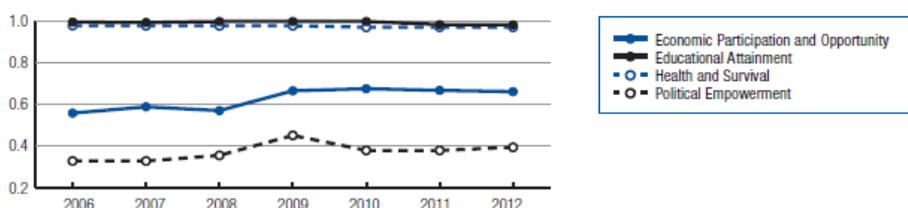
	Rank	Score	Sample average	Female	Male	Female-to-male ratio
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**Gender Gap Subindexes**

<b>Economic Participation and Opportunity</b> .....	<b>69</b>	<b>0.659</b>	<b>0.599</b>				
Labour force participation .....	70	0.76	0.68	51	67	0.76	
Wage equality for similar work (survey) .....	71	0.65	0.64	—	—	0.65	
Estimated earned income (PPP US\$).....	81	0.55	0.53	7,838	14,290	0.55	
Legislators, senior officials and managers .....	59	0.43	0.25	30	70	0.43	
Professional and technical workers .....	1	1.00	0.63	52	48	1.10	
<b>Educational Attainment</b> .....	<b>87</b>	<b>0.980</b>	<b>0.932</b>				
Literacy rate .....	85	0.96	0.87	87	91	0.96	
Enrolment in primary education.....	80	1.00	0.97	85	85	1.00	
Enrolment in secondary education.....	1	1.00	0.90	65	59	1.11	
Enrolment in tertiary education.....	96	0.91	0.88	14	16	0.91	
<b>Health and Survival</b> .....	<b>103</b>	<b>0.968</b>	<b>0.956</b>				
Sex ratio at birth (female/male) .....	1	0.94	0.92	—	—	0.98	
Healthy life expectancy .....	107	1.02	1.04	48	47	1.02	
<b>Political Empowerment</b> .....	<b>7</b>	<b>0.392</b>	<b>0.195</b>				
Women in parliament.....	4	0.73	0.23	42	58	0.73	
Women in ministerial positions .....	11	0.67	0.19	40	60	0.67	
Years with female head of state (last 50).....	58	0.00	0.17	0	50	0.00	

	OVERALL		ECONOMIC PARTICIPATION		EDUCATIONAL ATTAINMENT		HEALTH AND SURVIVAL		POLITICAL EMPOWERMENT	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
<b>Gender Gap Index 2012 (out of 135 countries)</b>	<b>16</b>	<b>0.750</b>	<b>69</b>	<b>0.659</b>	<b>87</b>	<b>0.980</b>	<b>103</b>	<b>0.968</b>	<b>7</b>	<b>0.392</b>
Gender Gap Index 2011 (out of 135 countries)	14	0.748	58	0.665	86	0.981	102	0.968	9	0.377
Gender Gap Index 2010 (out of 134 countries)	12	0.753	55	0.673	43	0.996	101	0.968	9	0.377
Gender Gap Index 2009 (out of 134 countries)	6	0.771	60	0.663	43	0.996	70	0.975	5	0.449
Gender Gap Index 2008 (out of 130 countries)	22	0.723	93	0.568	45	0.996	67	0.975	9	0.353
Gender Gap Index 2007 (out of 128 countries)	20	0.719	85	0.586	52	0.991	65	0.975	10	0.326
Gender Gap Index 2006 (out of 115 countries)	18	0.713	79	0.556	42	0.993	59	0.976	8	0.326

#### Evolution 2006–2012



#### Additional Data

##### Economic Empowerment

Female adult unemployment rate (% of female labour force)	26
Male adult unemployment rate (% of male labour force)	22
Share of women in wage employment in the non-agricultural sector (% of total non-agricultural employment)	45
Inheritance rights of daughters <sup>2</sup>	0.00
Inheritance rights of widows <sup>2</sup>	0.00
Firms with female participation in ownership (% of firms)	23
Women's access to land ownership <sup>2</sup>	0.50
Women's access to credit <sup>2</sup>	0.50
Women's access to property other than land <sup>2</sup>	0.50
Women's access to finance programmes <sup>3</sup>	4
Ability of women to rise to positions of enterprise leadership <sup>1</sup>	4.75

##### Education

Female teachers, primary education (%)	77
Female teachers, secondary education (%)	55
Female teachers, tertiary education (%)	—
Female school life expectancy, primary to secondary (years)	12
Male school life expectancy, primary to secondary (years)	12

##### Marriage and Childbearing

Singulate mean age at marriage for women (years)	28
Early marriage (% women, aged 15–19)	4
Fertility rate (births per woman)	2.50
Adolescent fertility rate (births per 1,000 girls aged 15–19)	54
Antenatal care coverage, at least one visit (%)	92
Births attended by skilled health personnel (%)	91
Maternal mortality ratio (per 100,000 live births) <sup>4</sup>	300 [150-500]
Contraceptive prevalence, married women (% any method)	60
Female HIV prevalence, aged 15–49 (%)	22.50
Male HIV prevalence, aged 15–49 (%)	13.10
Infant mortality rate (probability of dying between birth and age 1 per 1,000 live births)	41
Overall population sex ratio (male/female)	0.98

##### Social Institutions and Political Rights

Parental authority in marriage <sup>2</sup>	0.00
Parental authority after divorce <sup>2</sup>	0.00
Female genital mutilation <sup>2</sup>	0.00
Existence of legislation punishing acts of violence against women in case of domestic violence <sup>2</sup>	0.25
Year women received right to vote	1930, 1994
Quota type	No legislated
Existence of legislation prohibiting gender-based discrimination	—
<b>Childcare Ecosystem</b>	
Length of maternity leave	4 months
<b>Maternity leave benefits</b>	
(% of wages paid in covered period)	Up to 60 depending on level of income
Provider of maternity coverage	Unemployment Insurance Fund
Length of paternity leave	—
<b>Paternity leave benefits</b>	
(% of wages paid in covered period)	—
Daycare options	—

1 Survey data, responses on a 1-to-7 scale (1 = worst score, 7 = best score)

2 Data on a 0-to-1 scale (1 = worst score, 0 = best score)

3 Data on a 1-to-5 scale (1 = worst score, 5 = best score)

4 Bracketed numbers show the range between the uncertainties, estimated to contain the true maternal mortality ratio with a 95% probability

Source: Hausmann *et al*, 2012: 316-17.

## DEMOCRATIC GOVERNMENTS AND FEMINISM IN SOUTH AFRICA: TRANSFORMATION FOR GENDER EQUALITY OR ELUSION?

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### ABSTRACT

The ANC-led democratic government, informed by International and local organizations, saw the need to prioritise gender equality among the key national considerations for transformation. It was acceptable practice, pre-1994, that women were marginalised in the socio-economic domain. This practice was more predominant in rural parts of the country, with some less similar practices in urban areas as well. The general believe was that the place of a woman is in the kitchen, taking care of the upbringing of children, fetching firewood and performing unpaid household chores. Sexism was the order of the day. This became a concern that women who can actively participate in shaping up socio-economic status of the country could not be recognized by virtue of them being women. Gender oppression is everywhere rooted in a material base and is expressed in socio-cultural and socio-economic traditions and attitude, all of which are supported and perpetuated by an ideology which subordinates women. Post-1994 policy and legislation made provisions for women to be involved in actively assisting in shaping the socio-economic status of the country, have access to political rights and enjoy equal opportunities the same as their male counterparts. This paper is based on theoretical evidence; therefore, it will rely on information obtained by reviewing existing literature. As the point of departure, focus will be more on the fight for gender equality, economic emancipation, political rights and leadership.

**Keywords:** Feminism; democracy; gender equality; economic emancipation; political rights; leadership

### INTRODUCTION

South Africans are emerging out of an era of institutional racism, one in which a person's worth has been dictated by the colour of their skin. This translates into a reality where the lighter the shade of colour, the greater the value and the darker the skin, the less the value of the individual. The conception of such an ideal emerged from people whose history is steeped in institutional racism where rights, life chances and the distribution of goods and services were predicated along racial lines. More importantly, respect for the dignity of individuals was determined by the colour of their skin and, further within the various racial groupings, by their gender designation. The ANC-led democratic government, as it is informed by International and local organizations saw the need that gender issues need to be put on the table for consideration as time seemed to be ripe for negotiations on gender equality. It was a practice pre-1994 era that women in particular were marginalized in the socio-economic mainstreams. This practice was more predominant in rural parts of the country, with some less similar practices in urban parts of the country as well. The general believe was that the place of a woman is in the kitchen, taking care of upbringing of the kids, going to fetch fire wood and general household chores, depending on which part of the county the women are living in. Sexism was the order of the day.

This became a concern that women who can actively participate in shaping up socio-economic status of the country could not be recognized by virtue of them being women. Gender oppression is everywhere rooted in a material base and is expressed in socio-cultural and socio-economic traditions and attitude, all of which are supported and perpetuated by an ideology which subordinates women. The

socio-cultural dictates of all groups defined women to be inferior to men and as such assigned to them the position of minors in both the public and private spheres of life. This historical legacy of patriarchy influenced essential informal and formal human relationships with a marked impact at the workplace. Achievements on empowerment and emancipation of women are reflected in the country's broad public awareness about the rights of women, as well as better representation of women in key positions of management, increased access to employment opportunities through affirmative action and preferential procurement strategies, economic empowerment, increased access to services, and measures to combat abuse and violence (The Presidency, 2006: 2).

Policy and legislative era (Post-1994) made provisions for women to be involved in actively assisting in shaping the socio-economic status of the country, have access to political rights and enjoy equal opportunities the same as their male counterparts. This paper is based on theoretical evidence; therefore, the author will rely on information obtained by reviewing existing literature. As the point of departure, in this paper the author will focus more on the fight for gender equality, economic emancipation, political rights and leadership

### **FIGHT FOR GENDER EQUALITY**

The fight for Gender equality started alongside the fight for liberation in South Africa. Women also wanted to be recognized as part of the society that contributes to the political and economic landscape of the country. As much as blacks wanted to be liberated from Apartheid and racism, women wanted to be liberated from sexism. Women's organizations were established to radicalize gender equality in South Africa. The African National Congress Women's League (ANCWL) and the Federation of South African Women (FSAW) were particularly active and prominent, and both organizations acknowledged the immediacy of the national liberation movement, while avoiding subordinating gender equality. Within the women's movement, the emphasis was on ensuring that the gains promised by the negotiated transition would be realized, by particularly focusing on formal equality through securing constitutional protection and parliamentary representation. The reliance on legal frameworks as the primary vehicle for transformation and substantive equality is part of the context of understanding why legislation was seen as central to gender equity (De Nobrega, 2009: 23).

With the passing of legislations and adoption of policies to effect for the empowerment of those who were previously disadvantaged, gained momentum after 1994 when government and other international institutions embarked on a journey of liberating women from the male-dominated private and public sector. A number of measures have been taken to establish government machinery that would effectively implement gender equality and non-sexism at various spheres of government. An Office on the Status of Women (OSW) in the Presidency was launched. The task of the OSW is to take forward the National Empowerment Policy document, determining baseline information and launching gender-mainstreaming activities at the national and provincial spheres. This would ensure that gender issues are indeed mainstreamed in government departments (Myakayaka-Manzini, 2002: 2). All these efforts by government were seen as key to moving forward with including women in the drive to a better South Africa. It was not easy though those government efforts could be achieved without having challenges hindering the implementation of the gender equality. The following section looks onto those challenges.

### **Challenges hindering Women Empowerment and Gender Equality**

The following presented challenges are stumbling blocks on government efforts to achieve feminism in the country.

#### ***Poverty***

Poverty is a dangerous situation for one to be trapped in. It makes a person vulnerable. Most of those vulnerable are women in rural areas. Du Toit (2004: 990) states that poverty in South Africa is particularly concentrated in two large groups, the marginal working class and another class made of the dispossessed jobless that are unable to participate fully in the formal economy. Poverty is also gendered the poverty rate among female-headed households is double that of male-headed households. Poverty and inequality are easily understood if discussed together since they always almost occur together. In most male-headed households women are more oppressed, due to their dependence on their partners which leads to forced subordination. This also leads to violence and other forms of abuse not reported because they are scared of being victimized or being thrown out of the house or being charged with insubordination.

Intimate partner violence is perceived as a private matter that should not be publicized even to seek legal action. This is because women were not advised to seek legal help in case of violence and abuse by their partners. The general belief was that even if they can open a case of violence and abuse, they were not going to be listened to. Let alone trying to file for maintenance, it was seen as taboo. Women's poverty-stricken environment made them to accept that they are wrong even if they are initially right. This was because of their total subordination to men. Women living in poverty suffered emotional, social, economic and marital abuse from their married partners. They were to raise a countless number of kids, go fetch wood fire, fetch water from the river, while their partners are sitting doing nothing. It is therefore clear that for these women to be liberated from poverty, they must be educated. This relates to the following section.

#### ***Education***

Education everywhere in every country is a tool for individual development. It is mostly through education that people become knowledgeable in some field of study or areas of expertise. Education is a male-dominated field with women at the bottom as teachers, nurses and social workers. It was made difficult then for women to further their studies after attending high school or after acquiring nursing certificate or teacher's diploma. Compared to their male counterpart, women were trained from an early age to take care of the house chores, which largely denied them the privilege of furthering their studies. Other women got married after their puberty stage, other were made to leave school because of the rurality of the place or family background and while others were made to leave school simply because they had to raise their siblings after the mother went to find employment in the City.

The designated group in South Africa doesn't make it easy in the Education Sector. Challenges range from lack of financial support, low marks from high school, and teenage pregnancy by being forced to be wives. The academy constitutes an intellectual space in which to theorize about women's position in society and to utilize such theory to achieve greater understanding. Research which brings about greater understanding of gender oppression can then inform strategies for change (Cornelisse, 2009: 30). Though

not much was done then, pre-1994, the thought of having women in academia became an idea to live for. Corneilse (2009: 34) further states that Historically black institutions were established by the South African government in 1959s, to serve people classified as black, Indian, and coloured. These institutions were never meant to be fully-fledged universities. As a result they never developed robust research cultures. However, one of the reforms that followed the establishment of a democratic government in 1994 was the creation of a higher education system that falls under the national Department of Education. This saw the emergence of high profiled women in key position. Dr Mamphela Ramphele emerged in 1996 as the first black person and Women holding the position of Vice Chancellor of University of Cape Town

### ***Welfare***

Women, as the primary care providers for children, orphans, the elderly, and those who live with physical and mental disabilities are particularly dependent on social security grants. At times, procedural obstacles in accessing certain grants has resulted in lower take-up rates by women as compared to men for both pensions and disability grants, this is according to the Department of Welfare, (Department of Welfare Population and Development, 1998). Women are known of care giving. It was a challenge as much as is still a challenge that they cannot access other forms of Aid from government the disadvantaged and marginalized learnt it very hard raising kids or looking after the elderly has been tough thing to do without any assistance from government or donors.

### ***Violence against Women***

Violence against women in general was not seen as an act that is against the law, but an act that used as a disciplinary measure on events were women are found to have (assumably) contravened customary provisions in relationships and in most cases in marriages. This behaviour was a norm in most rural parts of South Africa with a lesser extend in (Urban areas) that women are used as punching bags when their spouses are angry with them, or used as sexual objects. Women were and still are been ill-treated and side-lined form issues of traditional importance. The above mentioned statements pose a great challenge on women to stand for themselves simply because they have no right to say anything that is not good to them.

South Africa faces the challenge of combating domestic violence, abuse and rape where the main targets are women, children and girls. Women in general are victim of all circumstances. No does not exist in their vocabulary. Women are stripped off their reproductive rights. From long ago African women grew up wearing long dresses and long skirts. This was a way of life. The greatest challenge came when women started wearing body-showing clothes and mini-skirts. To some men this was seen as an advertisement of one's body and an invitation for sex. Numerous unreported cases of violence against women, children and girls dominate the streets. Below is a typical case of violence against women, which took place in 2008, Johannesburg Noord taxi rank:

*"There was an attack on a woman at the Noord Street taxi rank in Gauteng in February 2008. According to media reports, taxi drivers took offence at the fact that Nwabisa Ngcukana was wearing a mini-skirt. They stripped off her clothes and poured alcohol over her, while sexually and verbally assaulting her. Other commuters and taxi drivers looked on and apparently cheered, instead of coming to the young woman's aid" (Sapa, 2008a, 2008b, 2008c).*

Violence was and is still used to regulate people, not only in the political realm – it also permeated social and domestic spaces, and it became a legitimate response to conflict, while also being used by the dominant group to control the disempowered and remind them of the hierarchical order. According to De Nobrega (2009: 37), numerous meetings and workshops between government officials and civil society culminated in 1995 in an international conference on violence against women in November with a particular emphasis on rape and domestic violence. The two primary women involved in pushing government from within were Geraldine Fraser-Moleketi and Dr. Manto Tshabalala-Msimang. Their engagement with civil society resulted in the formation of the National Network on Violence Against Women, which was funded by the United Nations Development Programme (UNDP)

### **Health**

The Department of Health (1998) indicates that major causes of female deaths in South Africa are: high blood pressure, pregnancy related complications, prolonged labour and obstetric hemorrhage, septic abortions, HIV/AIDS related diseases, cancer of the cervix, tuberculosis, malaria and other opportunistic diseases. The 1998 Demographic and Health Survey found that 58% of sexually active African women, 68% of Coloured women, 80% of Indian women and 75% of white women were using modern methods of contraception. These statistics clearly reflect inherited Apartheid inequalities. Despite relatively easy access to contraceptives, many women still have limited control over their sexuality and reproductive lives. Though challenge has lived long, it was with immediate effect that it was scrapped off by the introduction of a free health system in South Africa. One of the first health programmes that the Government of National Unity implemented after the 1994 elections was free health care for pregnant and lactating women, and for children under the age of six years at state clinics and hospitals. Many health programmes were introduced, more and more Clinics and Hospitals were built to cover a wider aspect of health system and ARVs and other forms of medication were made available free of charge to all South African men and women in an effort to eradicate the Apartheid Health System.

### **Legislative and Policy Framework Supporting Feminism**

South Africa has in place a comprehensive and forward looking legislative framework to ensure the promotion of equality and nondiscrimination and to ensure that women's concerns are integrated into all areas of work. The following are Legislations and policies giving effect to gender equality in South Africa.

*The Constitution* (1996) asserts, in its founding provisions, that the democratic state is founded on values of human dignity, achievement of equality and advancement of human rights and freedom, non-racism and non-sexism. The fact that everyone is equal before the law and has the right to equal protection and benefit of the law, gives the Constitution supremacy. The Equality Section of the constitution includes provision for positive measures or affirmative action. Stating that legislative and other measures may be taken to protect or advance people who have been disadvantaged The Constitution also protects against unfair discrimination on one or more grounds, including race; gender; sex; pregnancy; marital status; ethnic or social origin; colour; sexual orientation; age; disability; religion; conscience; belief; culture; language and birth.

According to the Department of Women, Children and People with Disability (2012) the main purpose of the Gender Policy Framework is to establish a clear vision and framework to guide the process

of developing laws, policies, procedures and practices which will serve to ensure equal rights and opportunities for women and men in all sectors of government including state owned entities. The Policy Framework through its provisions seeks to achieve a 50/50 and equal (if not equitable) empowerment, especially of those who were previously disadvantaged. National Gender Policy Framework introduces spheres and structures of government to facilitate the achievement of gender equality in the workplace, as well as in the community and the family.

The Department for Women, Children and people with Disability (2012: 15) states that all entities must within their ambit of responsibility eliminate discrimination against, and empower women politically, socially and economically by,

- Changing the conditions and circumstances which the achievement of sustainable, substantive gender equality
- Mainstreaming gender in all strategies, policies, programmes, budgets so as to empower and benefit women,
- Ensuring reasonable accommodation of the needs and interests of women,
- Establishing appropriate and relevant measures designed to recognize and support the reproductive, productive, family and community roles of women in various sectors of life,
- Enforcing gender equality legislations, policies, and strategies within their mandate through setting targets to improve compliance with such legislation, policies and strategies, auditing factors that cause and contribute to non-compliance with such legislation, policies and strategies, encouraging and rewarding compliance with such legislation, policies and strategies, sanctioning non-compliance with such legislation, policies and strategies and implementing appropriate corrective measures that may be needed to improve and achieve compliance with such legislation, policies and strategies.

*Employment Equity Act*, No. 55 of (1998) Section 15 states that Affirmative Action measures must be taken in order to provide for suitably qualified people from designated groups to have equal employment opportunities and to be equitably represented in all occupational categories and levels in the workforce of a designated employer. Measures taken must include,

- To identify and eliminate employment barriers including unfair discrimination which adversely affect people from designated groups,
- To further diversity in the workplace based on equal dignity and respect of all people,
- To accommodate for people from designated groups in order to insure that they enjoy equal opportunities and are equitably represented in the workforce of a designated employer.

The South African National Policy Framework for Women's Empowerment and Gender Equality outlines the national vision of a "society in which women and men are able to realize their full potential and to participate as equal partners in creating a just and prosperous society for all". According to the policy framework the responsibility for gender mainstreaming is that of all government officials as well as all within the Executive, including The President (Office on the Status of Women, 2000). *The White Paper on Affirmative Action in the Public Service* (1998) provides that affirmative action in the public service must speed up the creation of a representative and equitable public service and to build an environment that supports and enables those who have been historically disadvantaged by unfair discrimination to fulfil their maximum potential within it so that the Public Service may derive maximum benefit of their diverse

skills and talent to improve service delivery. The White Paper further states that for the White Paper to be feasible and realistic, the following objectives must be achieved:

- Enhancing the capacity of the historically disadvantaged through the development and introduction of practical measures that support their advancement in the Public Service;
- Inculcate in the Public Service a culture which values diversity and support the affirmation of those who have previously unfairly discriminated; and,
- Speed up the achievement and progressive improvement of the numeric targets set out in the White Paper on the Transformation of the Public Service.

*White Paper on the Transformation of the Public Service (1995)* indicates that representativeness is one of the main foundations of a non-racist, non-sexist and democratic society, and as such is one of the key principles of the new Government. The Interim Constitution stresses the need for a "public service broadly representative of the South African community" (Section 212 (2)(b) and Principle XXX of Schedule 4). Achieving representativeness is therefore a necessary precondition for legitimizing the public service and driving it towards equitable service delivery. The White Paper further defines Affirmative Action as "Affirmative action can be defined as laws, programmes or activities designed to redress past imbalances and to ameliorate the conditions of individuals and groups who have been disadvantaged on the grounds of race, colour, gender or disability."

## **ECONOMIC EMANCIPATION**

The statistics on gender in the economy paint a grim and very unequal picture with very large differences between women and men and between black and white women. Compared to men, women, especially black women, have low access to paid employment. When they do find paid work, black women typically have lower incomes and less security than all men. Most black women are found in poorly paid domestic labour and micro-enterprises which do not offer job security and benefits nor much by way of legislative protection. Although gender discrimination has been removed from labour laws, this has not been sufficient to achieve equality in women's participation in the paid labour force. Nevertheless, there are women who demonstrated based on merit their ability to prove otherwise that they can do better as leaders of Organizations. They are Dr Linda Makuleni (South African Weather Service's first female and black Chief Executive Officer) and Gill Marcus (country's first female Reserve Bank Governor). As part of Government machinery, Gauteng Provincial Government (2010: 11) indicates that more women have accessed business opportunities, including provision of tenders to Women in Construction. During the 2009/10 financial year the target of 15% for women on Gauteng Provincial Government, procurement has been attained with a total of 15.48% on women-owned companies benefitting. Higher numbers of women have entered the Senior Management echelons of the Gauteng government. In 2003 the percentage of women in SMS was at 25.4% and by 2010 the percentage was at 39%. The percentage from Gauteng government shows a significant improvement in the empowerment and involvement of women in the formal economy. This is an indication that should the National government follow the lead by Gauteng there can be a 100% Gender Equality South Africa. The fight for Feminism will never be complete without the achievements of political and leadership. Therefore, the following section focuses on Political rights and leadership.

## **POLITICAL RIGHTS AND LEADERSHIP**

Feminism include not only equality in terms of gender, but also political and leadership opportunities. This section looks into the historical background in the fight for feminism, and the political rights and women representatively in South Africa.

### **Historical Background**

Feminism has been a concern to all activists that there need to be gender transformation in politics, with the emergence of women organizations to fight for their right and place in the political arena. Hassim (2003: 84) asserted that the emphasis in the early 90s on mobilizing women as voters was driven partially by donor agendas, as funders encouraged women's rights organizations and activists to focus more on women's inclusion in formal political activity such as voting and participation at the party level. Donors argued that increased political presence would result in positive policy influence. It is important to note that the space for ensuring that gender equality was central to the democratic transition had to be claimed, sometimes forcefully, and was by no means easily accepted into the male-dominated political space in which apartheid negotiations were unfolding (Hassim, 2001: 25). According to Gelb (2003: 18) inequality in South Africa is rooted in military conquest and political exclusion, which took a colonial and racial form, and was bolstered by continuing repression of political and social organisation.

De Nobrega (2009: 27) states that in South Africa, the most visible political and social distinctions have been along racial lines rather than gender. As such, the emphasis of transformative agendas has tended to be on race, with gender being subsumed under racial and economic justice, that is, "fix" racism and we will "fix" gender discrimination. Past policies of segregation and discrimination have left a legacy of inequality and poverty and in more recent decades, low economic growth. The apartheid system was heavily biased towards providing health, education and housing services to the white minority, to the disadvantage of the black population who were denied the opportunity to accumulate human and physical capital. Labour market policies were aimed at protecting the position of white workers through active policies such as job reservation, while inferior education, influx control and the Group Areas Act ensured little competition from other race groups (Woolard, 2002:7).

### **Political and Leadership**

Women's access to political power and decision-making has improved since the 1994 general elections. Women were represented in cabinet as Ministers and Deputy Ministers in the national government, most significantly women were deployed as Members of Parliament (MPs) and that of Members of Provincial Legislatures (MPLs). Though women are less well represented at local government sphere, where Executive Committee positions are still male-dominant, a huge improvement has been made. With respect to the public service, the proportion of women in senior management positions has increased significantly. The increased presence of women in the legislatures, the executive branches and other structures of government has made it possible for women politicians and civil servants to promote women's interests through new legislation as well as through an increasingly strong lobby to transform male-dominated institutional norms, values and cultures

South Africa after 1994 has done a lot though not yet satisfactory that women were catapulted to echelon positions to radically lead the organizations and government institutions and further engaged in

robust decision-making processes. High profile women who acted against gender inequality played an important role to liberate women from sexism in South Africa. These women were formally recognized in taking part by shaping the economic, social and political landscape. The following women are the first to broke the chain by holding high positions that were previously male-dominant. Phumzile Mlambo-Ncuka was the country's first black female deputy President, African Union (AU) Chairperson Nkosazana Dlamini-Zuma and First female Police Commissioner Mangwashi Victoria Phiyega amongst others.

## CONCLUSION

Feminism has been a tag-of-war in both the pre and post-apartheid government. With the ACH-led government coming to power in which continued fighting for gender equality through passing of and adopting legislations and policies to see to it that there is gender representatively across all sectors of government, state owned entities and the private sector. The rationale was and still is to include those previously marginalized women who can positively contribute to the economic and political landscape of South Africa. In the fight against gender inequality in South Africa the African National Congress Women's League and the Federation of South African Women were instrumental. It was made mentioned that in the quest to achieve gender equality there were challenges which hindered the process. Amongst other challenges, poverty and violence against women were strongly touched. Fight for economic emancipation and empowerment was at least won, with the inspiring Dr. Linda Makhuleni and Gill Marcus benefiting for the fruits of democracy by being first female South Africans holding high office in both government and government entities respectively. Political right and leader was achieved through appointment of women in high government positions, with Phumzile Mlambo-Ncuka and Mangwashi Vactoria Phiyega leading the way.

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# GENDERED LAND-USE RIGHTS AS PARADOXES OF SOCIO-ECONOMIC DEVELOPMENT IN RURAL UGANDA

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## ABSTRACT

Whilst the government of Uganda has long been committed to narrow gender gaps through different legal provisions, the persistent gender disparities in land control continues to hamper agricultural productivity, economic efficiency and growth. Women farmers receive little recognition in land ownership, inheritance and control though they play a major role in agriculture (including fisheries, forestry and livestock) and rural development. In Uganda, like in many African countries, they are the mainstay of agricultural sectors, yet they own a minimal land percentage. Land-use intricacies in Uganda have compounded the economic development challenges together with social outcomes of food insecurity at household, national levels. The problem of food security escalates when the land control interests of men for commercial non-food production is reinforced by women commercial food-production at the expense of food security for household consumption. The resultant effects range from poverty escalation to malnutrition and children stuntedness. This paper therefore explores the legal and structural gender frameworks for land usage and its implication on poverty status and food security in the rural areas of Uganda. Drawing largely from a theoretical perspective, the paper suggests ways of neutralizing the gender land use tensions that may enhance socio-economic rural development.

**Keywords:** Land-use rights; food security; gender disparities; socio-economic development; rural Uganda

## INTRODUCTION

In a country where the majority of the population is rural and where agriculture remains the largest sector of the economy like Uganda, the secure management of land is ranked as an economic and social priority. A number of studies document the specific role of the State in the control and formalization of access to land and associated resources and its role in guaranteeing some form of land tenure security in a globalized economy. Uganda is one country in East Africa in which the economy is heavily dependent on agriculture. Indeed, evidence indicates that about 50% of most Ugandan households' wealth is held in the form of land. Household survey results using basic descriptive statistics indicate that land makes up more than 50% of the average household's asset endowment and that 74% of households use agricultural land for subsistence (Deininger & Okidi 2003). There is further records show that over 80 percent of Uganda's households (and 85 percent of the people) live in rural areas, and most of these depend on agriculture for their primary source of income (Uganda National Household Survey, 2005/2006). Key to note in this background is also that of the 199,807.4 square kilometres Uganda's total land area, 99 018.4 sq. km (approximately 49%) is farmland (UBOS 2012). As a fundamental fact of production, land is a critical asset in development. With an estimated population of about 33.6 million and a sex ratio of 1.03 male(s)/female at birth and 1.02 male(s)/female aged 15-64 years (Index Mundi 2013), the Uganda's concerns of land use in a gendered perspective cannot be under estimated.

Uganda being an agricultural country, land is in many ways the most important productive resource, asset or property to possess and to access. Access to land determines economic empowerment as well as influences all social and cultural aspects of life including food security. Under-estimation of food insecurity impact on our Uganda's economy - like many other developing economies - is a big omission

that may require attention to matters of land use by respective nations. Of course, a focus on land and land-use rights should also be inspired by its other basic resource relevancies in terms of space it provides, the environmental resource it contains and supports, as well as the capital it generates and represents (The National Land Policy, 2011). Whilst land use rights is acknowledged as the goal underlying all the above enlisted benefits, the specific concern in this paper is limited to land-use rights in the gendered perspective with focus to agriculture production and food security matters. The fundamental premise is that in the dominantly agricultural economy where women do much of subsistence agricultural production in a society of male majority land ownership, contradictions and dilemmas of land-use are likely to consistently emerge even when the laws exist. This condition is what this paper attempts to explain.

### LAND RIGHTS DEFINED

Rights are defined as claims that are legally and socially recognized and enforceable by an external legitimized authority, be it a village level constitution, some higher-level judicial or executive body of the state (Broomley, 1991). Land rights are part of property rights which are considered to be a bundle of characteristics involving exclusivity, inheritability, transferability, and enforcement mechanisms (Alchain & Demsetz, 1973). These rights define the uses that are legitimately viewed as being exclusive and who has these exclusive rights. And thus Property rights can be categorized into four basic types: private, common, state and nonproperty (or open access). In the law and economics literature, "private property" (*res privatae*) typically denotes property owned by individuals holding rights to use (in socially acceptable ways), dispose of, and exclude others from the resources. However, certain formal or informal limitations on these rights may be imposed by the state or the community; for example, the state may forbid certain uses of resource or its sale. "Common property" (*res communes*) refers to collective ownership situations, in which the owners cannot exclude each other, but can exclude outsiders (Feder & Feeny, 1991). Rights in land therefore can be in form in of the rights of use associated by degrees of freedom to lease out, mortgage, bequeath or sell. Land rights can stem from inheritance on an individual or joint family basis, from community membership, from transfers by the state or from tenancy arrangements, or purchase. Access can be through rights of ownership and use but it can also be through informal concessions granted by individuals to kin or friends.

### LAND LEGAL FRAMEWORK

The necessity of providing access to land in order to facilitate the realization of human rights has been considered in several international principles and interpretive documents<sup>1</sup> but according to Wickeri & Kalhan (2010) no international right to land is explicit in the international legal framework. While a number of states may have indicate low obligations towards individuals and land access a review of the international human rights framework points a number of key areas, suggesting that further consideration by the international community is necessary. These among others rights include *Indigenous rights and women's rights* as determined by Convention 169 on Indigenous and Tribal Peoples, which was adopted by the International Labour Organization in 1989, and is legally binding on States Parties. Other pertinent rights in the international legislation which relate to land include *The right to housing, The right to food and the right to water*. Wickeri & Kalhan acknowledge that Land ownership can be a vital source of

capital, which opens personal credit markets, leads to investments in the land, provides a social safety net, and transfers wealth to the next generation. Beyond the potential for a higher income. A secure access to land provides a valuable safety net as a source of shelter, food and income in times of hardship, and a family's land can be the last available resort in the instance of disaster; and of course as they hold, access to land affects a broad range of fundamental human rights.

Critical legislation and policy reforms on land in Uganda in the past two decades can be seen as attempts to neutralize then gender gaps in the land ownership and usage. First is the 1995 Constitution was a landmark in the land ownership. Chapter 4 of the Constitution (articles 31–33) provides for equality between men and women, including in respect to the acquisition and holding of land. Under Article 31 (1) of the Constitution, men and women above the age of eighteen years are accorded equal rights in marriage, during marriage and at its dissolution. These provisions on equality are further strengthened by the principles of affirmative action, provided for under Articles 21, 32 and 33 of the Constitution, which seek to remedy the historic crimation faced by marginalized groups, including women, and redress the social imbalances that exist against them.

The 1998 Land Act also provides for some protection of women's, children and other persons with disability land rights by emphasizing that their consent in the event of any transaction on family land (Section 27 and 39). While ideally this section resonates the rights of both women and men in the land ownership, the land usage is not well guided by the land policy of 2011 that should be operationalizing the land law. The law enforcement on the sell, exchange, transfer, pledge, mortgage or lease any land by men continues to be effected with laxity with many rural women ending up landless together with their children. Indeed the gaps in the legal system demonstrate their insufficiency to protect women's rights in practice (Bosworth, 1995). Moreover the provision only recognizes the wife's rights to have a say in the administration of family land as long as the legal marriage holds. An attempt to pass the domestic relations bill (lately titled marriage and divorce Bill) in the past two decades, which would resolve some of such property ownership and sharing controversies has proven futile.

The Uganda Land Policy of 2011 recognizes this anomaly and categorically states under section 3.10 that in Uganda, women are generally unable to own or inherit land due to restrictive practices under customary land tenure or are not economically endowed to purchase land rights in the market. The policy points out that customary practices in some areas of the country continue to override statutory law in recognition and enforcement of women's land rights, abating unnoticed land grabbing at family level. Further, the policy observes that attempts to redress this situation by outlawing discriminatory cultures, customs and practices in land ownership, occupation and use, and requiring spousal consent to transactions involving family land in the 1995 Constitution of Uganda and Land Act, have not been effective due to failure in implementation and enforcement. While the Land Act (Cap 227) caters for a spouse to some extent, it is note in the policy that the law does not tackle the land rights of widows, divorcees, women in co-habitation, and children. Such policy observations are clear indications that the existing land law cannot sufficiently resolve matters of gender land use in Uganda

#### **LAND LEGALITY, LAND TENURE SYSTEM AND LAND USAGE**

The Land Act of Uganda 1998 recognizes four major systems of land tenure: *Customary tenure system, Milo land system, Freehold tenure system and Lease tenure system*. The Customary tenure is the

most common tenure system in Uganda whereby access to land is governed by the customs, rules, and regulations of the community. Holders of land under the customary system do not have a formal title to the land they use, but generally have secure tenure. While the majority of Ugandans hold their land in this complex system of land relations, it is alleged that customary tenure is associated with three problems, that (a) it does not provide security of tenure for land owners; (b) it impedes development because it does not allow the advancement of land markets, through which, those who need land for development can acquire it; (c) it discriminates against women, and does not accord them land rights. The Uganda Constitution (1995) and Land Act (1998) have been criticized for their attempts to formalize customary tenure ownership however, which continues to be regarded and treated as inferior in practice, to other forms of registered property rights, denying it opportunity for greater and deeper transformation. Customary tenure ownership is assessed as lesser to other tenures that have titles for proof of ownership in courts of law in the administration of justice (Uganda national Land Policy, 2011). This form of land tenure is known to be one of the most disadvantageous to women as noted in the field blog focus of Leslie Hannay<sup>2</sup> below:

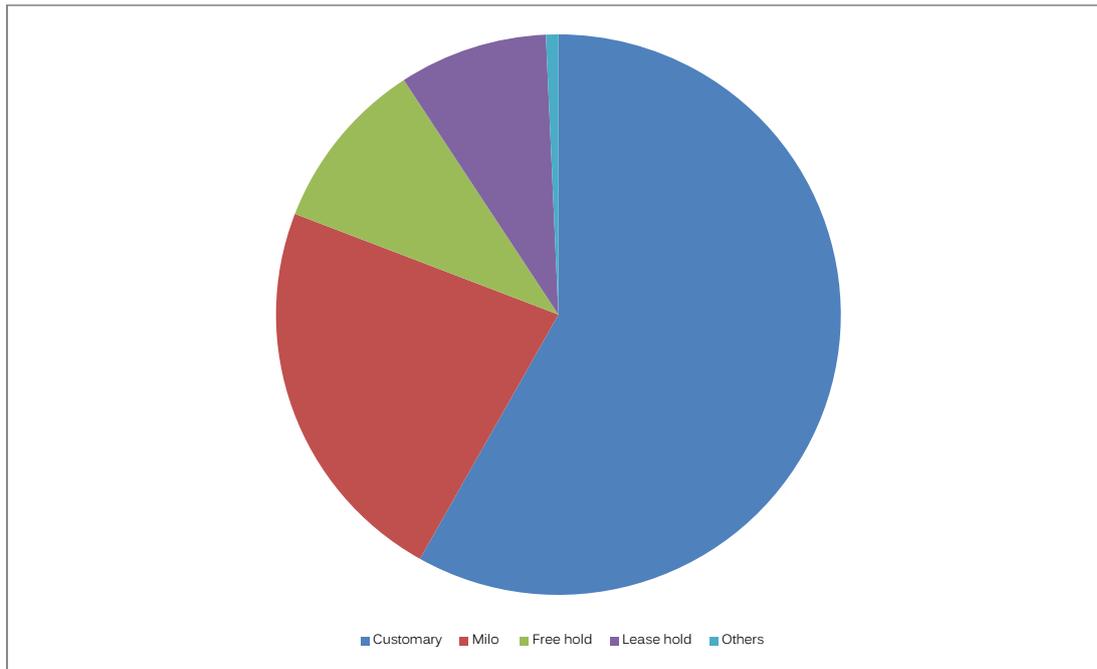
“Land conflict is widely recognized as a major problem in this area of northern Uganda known as Acholi land, where an estimated 90% of land is administered under customary rules, and almost all rural land is held communally. Though Ugandan law grants authority to the customary system, decades of conflict have fractured the households, communities, and institutions that make that system work. Moreover, these customary rules are not consistent, are not codified, and are unevenly upheld by a traditional leadership...., leaving the population – and women in particular – vulnerable in the face of uncertainty over land rights” (Leslie Hannay, 2012).

This is one of the many observations made on women land rights under the customary land ownership implying that land is big concern in the Ugandan social-economic aspects. The *Mailo* tenure is a quasi-freehold tenure system established in 1900 by the British colonial government to reward colonial agents who advanced British interests in many regions of Uganda and remains a relatively secure and well-defined system of tenure, particularly in the Central region. An important feature of mailo land systems is that much of the land is used by tenants who are restricted in their security of tenure on the land they farm. Mailo tenure according to the Land Uganda National Land policy separate the ownership of land from occupancy or ownership of developments by “lawful or *bonafide*” occupants. This creates conflicting interests and overlaps in rights in the same piece of land. The definition of rights accorded to *bonafide* occupants in the Land Act and all the subsequent amendments, lack legitimacy on part of the land owners. The Land (Amendment) Act 2010 grants statutory protection to the *bonafide* as lawful holder and his or her successors against any arbitrary eviction as long as the prescribed nominal ground rent is paid. However, the nominal ground rent provided for, as opposed to economic rent is largely ignored, creating a land use deadlock between the tenants and the registered land owner, leading to conflicts and many times evictions. This tenure system encourages land grabbing and large-scale land acquisitions; the buying or leasing of large pieces of land by domestic and transnational companies, government and individuals in a non-transparent manner using trickery, manipulation of the law according to the National Association on of Professional Environmentalists, Friends of Earth International (FoEI-Uganda, 2011) report. While men and women are affected under such land conflicts, women who are dominantly engaged in subsistence agriculture to provide food and some income for their families are mostly hit hard.

Where there had been eviction of such families, women and children have evidently been suffering most.

*Freehold tenure* is a system in which owners of the land hold a title to their land which allows them to hold the registered land indefinitely. The landowner is given complete rights to use, sell, lease, transfer, subdivide, mortgage and bequeath the land as they see fit, so long as it is done in a manner consistent with the laws of Uganda. These are rights that are largely a preserve of men who are controllers of most property in patriarchal Uganda societies.

**Figure 1:** Land tenure systems in Uganda



**Source:** Uganda National Household Survey, 2005/2006.

*Leasehold tenure* is a system where the owner of the land grants the tenant exclusive use of the land, usually for a specific period of time. Land may also be leased from the state to individuals for typical lease periods of five, 45, or 99 years. In return, the tenant usually pays an annual rent or service under specified terms and conditions. Leaseholders may or may not hold formal contracts with the owner (International Food Policy Research Institute, 2008). Leaseholds promote sophisticated forms of concurrent ownership such as condominiums and time-share arrangements, thus open land to a much larger range of users and use functions. However, like free hold tenure, leasehold tenure system has not favoured the majority of women because it requires land and property rights and privileges that are preserves of most men. Land tenure security based on the land tenure systems becomes central to agricultural production and sustainable use of agricultural resources, and therefore essential for individual livelihoods and poverty reduction. There are now clear indications that governments are recognizing the enduring importance of improved land tenure security and African governments are making efforts to improve the allocation and management of land rights for all citizens (Women's Land Link Africa (WLLA) Report, 2010).

## LAND-USE RIGHTS, ECONOMIC INTERVENTIONS AND INVESTMENTS AND AGRICULTURAL PRODUCTIVITY

Almost all agricultural production in Uganda takes place on smallholder plots, with mixed cropping systems predominating where multiple crops are grown together (Uganda Bureau of Statistics 2004, pp. 5-6). There are few purchased inputs used on smallholder plots including chemical fertilizer, the use of improved seeds and fewer percent irrigate their crops. Some of the common crops account for over 90 percent of the plots under cultivation include matoke (banana for cooking), beans, cassava, sweet potatoes, groundnuts, maize, millet, and sorghum (Uganda Bureau of Statistics 2007a; Gollin & Rogerson, 2010). Some estimates from household survey data (Uganda Bureau of Statistics 2007a) however highlight exceptional circumstances where very large fractions agricultural households in Uganda were growing bananas, (73.1%), maize (85.8%), cassava (74.3%), and beans (80.8%). Other farms also typically include livestock like cows, goats; chicken but in many instances on a very small scale although there may be found sizeable animal farms. The critical assessment of such extensive crop fields and animal farms in many instances indicate the men ownership as opposed to the small plots and crop fields most which belong to women. This phenomenon can be closely associated with the land ownership as well as land tenure systems.

Worst scenarios are where most small farms market some fraction (often substantial amounts) of their output. Some households reportedly sell a bigger percent of the crop harvests like soybeans, maize, matoke, cassava and beans. In more remote areas over 80 percent of households are reported as deriving their livelihoods from subsistence farming (Uganda Bureau of Statistics 2007b; Gollin & Rogerson, 2010). A small but active commercial agricultural sector exist alongside the subsistence farming, producing horticultural crops and grain, as well as tea, sugar, and cotton. It is clear that there have been specific interventions for increasing agriculture productivity through successive programs like Plan for Modernization of Agriculture (PMA), and National Agriculture Advisory Services (NAADS) over the past decade (Kyohairwe & Tibaijuka, 2012). The critical analysis, notes that NAADS which was structured to deliver agricultural extension services under five components including Advisory and Information Services to farmers and Technology Development and Linkages among others; and with overall goal to commercialize agriculture and improve food security has so far reaped minimal achievements. It can be assertively claimed that program failures could be partly attributed to effects of land ownership rights and land usage. The basis of this claim lies in the view that the core entry point of agricultural productivity improvement through farmer groups at the grassroots, could have been hampered by what may be regarded as a “wrong target” of majority women small scale farmers with limited land-use and property rights. Subsequently, little could be achieved in the commercializing of agriculture in the country and improving food security levels. Moreover, even with the assumption that grassroots farmers had capabilities of adopting new technologies and methodologies - including farm inputs like fertilizers and improved seeds – the fact that some of such farmers were rural women and had no exclusive rights to use family land or to access other land for use may suffice to support explanations for the low NAADS program performance.

As we move on, we need to keep remembering that land tenure security is only one of the factors that influence investment to enhance land productivity; and that generally, the investment in land that in customary or milo systems comparatively inhibit efforts to highly invest in the land for increased

productivity because of limited land rights as already emphasized in the previous section. It is widely acceptable to argue that investment in soil management practices may attract less attention from tenants and other occupants other than the legal land owners. The short term investments discourage use of fertilizers, and limits soil exhaustion control measures which affect soil fertility management. Small and temporary land holdings under milo and customary land ownership discourage mechanization and other modern methods of farming.

#### **IMPLICATION OF LAND-USE RIGHTS ON FOOD SECURITY**

The Food Agricultural Organization (FAO)'s definition for food security is "ensuring that people at all times have access to the food they need for a healthy and active life," while the World Bank defines food security as "access by all people at all times to enough food for a healthy active life." The key elements here are the "availability of food" and the "ability to acquire it" (FAO, 2008). Being conceived as a socio-economic issue, the connotation of food security relates to four key elements: sufficiency of food defined in terms of calories needed for a health life; access to food determined by entitlements to produce, purchase or exchange food or receive it as a gift; security in terms of vulnerability, risk and insurance; and, time where food insecurity may be chronic, transitory or cyclical (Duhaime & Godmaire, 2002). It is noted that food security as defined by FAO does not only limit the security in terms of access to and availability of food, but also in terms of resource distribution to produce food and purchasing power to buy food where it is not produced. Availability depends on the ability of producers of food goods (production) and services (circulation) to make adequate supplies for consumers. The availability of food from producers who are majorly women depends on women's accessibility and control of the land available for agricultural production. The view expressed by Food and Agriculture Agency of the United Nations (FAO), rural landlessness is often the best predictor of poverty and hunger. A further argument is that while not the only pathway out of poverty, there is ample evidence which suggests that access to land is effective in helping rural households generate higher incomes through the sale of crops and the money saved when the family feeds itself from the land. Yet, even when land constitutes the main asset from which the rural poor are able to derive a livelihood millions of families, they do not enjoy ownership rights over it and are considered landless (Wickeri & Kalhani, 2010).

The impact of land- use rights on food security is also closely associated with other benefits of tangible assets like water, trees, livestock, and other natural resources as well as physical capital (buildings, houses, infrastructure such as roads and electricity, transportation, and various technologies). Rights to land and houses, in particular, also convey status and power within a community. Yet these assets are unequally distributed between men and women. Quisumbing & Meinzen-Dick (2001) observe that even where women are primarily responsible for food production (as in many African societies), land is owned or controlled by men; and that just as significantly, women's dependence on men for land-use rights reduces their security because they can lose the right to use land if they are widowed or divorced, thus worsening the food insecurity situation.

#### **CONCLUSIONS AND RECOMMENDATIONS ON GENDER AND LAND-USE**

This paper acknowledged and ably highlighted the fact that land use rights in Uganda hampered by not only the inadequacies in land use legislation law enforcement but also by land tenure system that

is largely customary ownership in nature. The paper observed the challenges each of the forms of land tenures systems infringes on women arriving at a general conclusion that nearly all the tenure systems favour men. This undoubtedly has an immense effect on land productivity that is dominantly engaging women as well as food security, no matter what technological or economic interventions may be instituted. From the discussion, it emerges that giving women the same access to land among other resources the similar way as men could increase agricultural productivity, and the subsequent food security. Of course the reverse is true. The low agricultural productivity and food security crises have far reaching effects on the entire national – and at times – international economy – as well as human nutrition and general well-being. Despite this knowledge however, women continue to be marginalized in the land-use due to tradition and custom values dominance. It is however recommended that a strong law enforcement on matters of land use rights of marginalized groups like women and the children should be top on the national agenda. A additional view should concern clear policy frameworks on land use that integrates women as well as men land-use rights. These recommendations notwithstanding, attempts to scale up empowerment of women through education, politics and financial mechanisms should strategically be employed.

Finally, this paper being theoretical in nature was somehow constrained by minimal literature that is available, about women's interaction with land and other assets because this is often not well-measured or articulated in the available national statistics. As a result, current policy frameworks are not adequately informed by credible, well-documented facts, and policy and programmatic action are not shaped by a complete understanding of the factors determining gendered land-use especially in agriculture and its impact on development outcomes<sup>8</sup>. An additional recommendation therefore would be to develop clear indicators for gendered land use such that the national data capture these details that are essential for social economic transformation of the national economy.

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<sup>2</sup> Leslie Hannay is a Fellow, Landesa Center for Women Land Rights, and her internet blog relates to her story on the Northern Uganda and Women Rights to land.

# INDIGENOUS BUILDING METHODS AND RURAL WOMEN EMPOWERMENT: THE GOMBANI PRIMARY BRICK-MAKING COOPERATIVE

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## ABSTRACT

Growth in the construction sector in urban areas in South Africa has significantly increased in recent years, particularly during the 2010 World Cup season, but growth in the rural communities has been distressing. The exclusion in terms of urban-rural divides, gender and social inequalities, low quality employment growth, low human development and economic disparities are central to underdevelopment in rural areas. This disparity is attributed to fewer infrastructures, job opportunities and economic development in rural communities. The Gombani village in the Limpopo Province is an example of such a marginalized rural community. Despite the Government's Anti-Poverty strategies, such as the "War Room Strategy", the village has remained socially and economically isolated. A brick-making co-operative was established in 2010 to empower and improve the quality of lives of the rural women. The establishment was done by the Department of Public Works, in partnership with its sector entities. These women were mobilized, organised and capacitated through a self-help co-operative, using the indigenous building system. Indigenous building systems can be broadly defined as unconventional and traditional building methods that integrate both indigenous knowledge and conventional construction methods. In South Africa, indigenous building methods primarily use natural resources like sand and soil. The women were taught technical skills to produce interlocking bricks, using indigenous soil and 4% of cement, and bricklaying, to build their own houses cheaply. They were also educated in entrepreneurial skills, in order to generate more income for sustainability. This paper reports on the process and outcomes of a participatory action research methodology that was employed to implement indigenous building methods as an effective approach to empower rural women in the Gombani Brick-Making Co-operative. A capability approach, using participatory development methodologies was central to this project. The project currently shows meaningful participation of women from this community in their own development process, the creation of 48 sustainable work opportunities and greater ownership by the local women's co-operative.

**Keywords:** Indigenous building methods; co-operatives; capability; women; rural development; participatory development

## INTRODUCTION

According to Agrawal (2004), indigenous building methods are often seen to exist in a local context, anchored to a particular social group in a particular setting at a particular time. Conventional construction methods, on the other hand, are anchored in a technical solution-oriented development milieu. The conventional construction methods are effective but have ignored the social, political and cultural contexts in which they are implemented. The use of indigenous construction methods has contributed to expediting the delivery of housing for the poor. The Gombani Primary Brick-Making case study has shown that the use of indigenous building methods is labour intensive, a best characteristic for the creation of more work opportunities. Therefore, investing in this unconventional building system and

integrating it into the development process can help reduce poverty. In addition, the introduction of the Expanded Public Works Programme (EPWP) in 2004 by the South African government heralded the recognition of the strength of participatory approach in poverty alleviation work by the government. EPWP provides an important avenue for labour absorption and income transfers to poor households in the short to medium term. It also provides training and enterprise development support to cooperatives.

The Gombani village falls under the Mutale Municipality in the Limpopo Province of South Africa. The Mutale Municipality Indigent Register indicates a 48.8% unemployment rate, an 18.8% illiteracy rate, and a lack of basic commodities (housing, electrification, telecommunications, water supply and road infrastructure). Poverty is also exacerbated by a high proportion of female headed households living below the poverty line. A survey conducted by the Independent Development Trust (IDT) in 2011, shows that the majority of the people in this area (mainly youth, women and elderly) are unemployed. In the Mutale Municipality, only 4.5% of the population has Matric (school leaving certificate); 6.2% have Standard 8 (mid-school level) as their highest qualification, 4.6% have a Standard 5 (primary school level) as their highest qualification, and 22% have Grade 1 to Standard 3 (lower primary level) as their highest qualification. Most of them rely on the child and pension grants in order to survive. These grants are often the sole income for the family, and are used to feed and support entire households. The community is exclusively made up of the Black population group. In this rural community, 89% of the population does not have an income and 4.7% earn between R1 000.00 and R2 999.00 per month. The need for upliftment and training is, therefore, clearly evident (STATSSA, 2012)

The Gombani women's project started in August 2011 as an EPWP. This alternative building technology was intended to demonstrate alternative building systems that could help expedite the eradication of mud schools, as well as speeding up RDP housing in a cheaper way. The project culminated into a registered co-operative in 2011, with a view to offering protection and encouragement to vulnerable groups. The objectives of the project are: to provide a base for holistic development in the Gombani village, to create self-employment job opportunities, to promote sustainable development through capacity building and to mobilise participatory driven sustainable development process. This project has recently been shared as a best practice model at the Millennium Development Goals Summit (2012), and is recognized by the United Nations.

According to Satgar (2007), while government support for co-operative development is important, it is not sufficient. Attempts by the co-operative movement itself to develop support relationships for sustainability are very important. Unfortunately, in South Africa partnering with rural communities in their own development has been elusive. There is still a disproportionately high budgetary allocation for urban rather than rural infrastructure by government. This has resulted in slow transformation of the construction industry, as well as continued poor service delivery in rural areas. This paper examines how the use of indigenous building methods, together with local natural resources can help government and rural communities create sustainable job opportunities. The paper also discusses how the shift from conventional construction methods (mortar and bricks) to indigenous traditional building methods (masonry and the use of natural soil) can expedite infrastructure development in rural communities.

## **THEORETICAL FRAMEWORK**

The South African government introduced the Reconstruction and Development Programme

(RDP) in 1994, and the Growth, Employment and Redistribution (GEAR) policy in 1998. Both are strategic documents showing the country's approach to poverty reduction, and resemble Poverty Reduction Strategy Papers (PRSP) in boosting the performance of economies in order to fight poverty (Hunter, May & Padayachee, 2003). The RDP provided the shared communal vision of the desired goal of combating poverty that the PRSPs emphasized (Hunter *et al.*, 2003). Special emphasis was placed on people-centred, integrated and sustainable development underpinned by the philosophy and principles of participatory democracy (Mubangizi, 2009). Apart from this, it sought to implement programmes that could help meet basic needs and enhance human resource development, provision of social infrastructure and initiatives that addressed poverty and inequality (Mubangizi, 2009).

In addition to GEAR and RDP, other policies that have been introduced are the Rural Development Framework in 1997, the White Paper on Social Welfare in 1997, the Integrated Sustainable Rural Development Strategy in 2001 and the Comprehensive Rural Development Programme in 2009. Consequently, a number of strategies have been initiated focusing on poverty alleviation in rural communities. Such strategies include the Rural Development Strategy of the Government of National Unity in 1995, which identified the mechanisms by which rural people and their elected representatives at District and Local Councils aimed to change the inequalities and inefficiencies of the past, so as to change rural areas to become productive and sustainable. Along the same lines, the Rural Development Framework of 1997 describes how Government, working with rural people, could achieve a rapid and sustained reduction in absolute rural poverty (Government of South Africa, 1997).

A capability approach, using participatory development was central to this project. The approach is based on development of capacity and self-reliance among the community members to participate for better development. Participation in implementation helped to improve efficiency through the mobilization of local resources. A capability approach, which views people as participants and agents of decision-making (*cf.* Duraiappah, Roddy & Parry, 2005) were followed in this study. This comes from the notion that when women contractors are effectively involved in their own development, they can have more influence and control over issues that affect their lives. In this study, the growth and sustainable development of women in construction is mainly dependent on an adequate understanding of their capabilities and specific needs.

## **PROGRAMME DESCRIPTION**

This section presents an overview of the Gombani Primary Brick making project in terms of its background, programme objectives, co-operative delivery partners and programme initiation phase, programme implementation and lessons learned.

### **Background of the Gombani Women's Co-operative Project**

The Gombani co-operative was introduced as a pilot project in 2011, and began as an event to celebrate 'women's month' (August, in South Africa) activities. The 9<sup>th</sup> of August is declared National Women's Day in South Africa. On this day in 1956, over 20 000 women of all races and ages from every corner of South Africa marched together towards the Union Buildings in Pretoria. These brave women were marching in protest against the pass laws that proposed even further restrictions on the movements of women. The march was a resounding success and South Africa recognizes the brevity of these women

who risked arrest, detention and banning by declaring 9 August National Women's Day. The initial focus was to come up with the quickest innovative approach to build houses for two indigent, female headed households in the village. These houses were to be built by a group of women, sponsored by Hydraform and the Government's Department of Public Works. The Gombani village was chosen as the most remote village to focus on how indigenous building methods can create sustainable jobs, expand infrastructure, transform spaces, and unite communities especially in the rural areas. Due to its initial success, the project was then extended to 12 other female headed households in the village. In January 2012, it was registered as a co-operative in order to enjoy the protection of government and the law. Therefore, all the members of the cooperative must adhere to certain legal requirements and obligations. This implies that members of the cooperative must have a common need, must work together on a voluntary basis. Their activities must be of mutual benefit to all members

### **Project Initiation Phase**

The project initiation phase consisted of project formulation and stakeholder identification and engagement. This is a critical phase in creating a solid foundation for success in all the phases and activities of the project. According to McConnell (2010), the project initiation phase is critical to successful project development and implementation. The Gombani women's co-operative was initiated, following a series of engagements with community members in which they were organized to form their own co-operative. A consciousness raising meeting was held with community members in order to establish whether there was enough interest in the proposed project, and to share their experiences with one another on how best they could change their own situation. Several consultative (*khoro*) meetings took place at *khoro*. These meetings were conducted in order to engage and empower community members on the nature of the project that could be established in their community. The community members ended up deciding that community members should volunteer themselves to form project steering committee.

Firstly, a feasibility study (needs assessment survey) to determine the needs of the Gombani community was conducted by the IDT. The results of the survey pointed to the prevailing problems in the area. These problems included disempowerment, poverty and unemployment experienced by community members, especially women. The results also showed a high rate of female headed households in the Gombani village, with many living in overcrowded and squalid conditions. Secondly, a Participatory Rural Appraisal (PRA) was employed to find out the views of the community members in identifying and prioritizing their needs. This survey yielded the need to establish a brick-making project that would create job opportunities for the local community members. They were then given the opportunity to analyse their realities, plan what action to take, and to monitor and evaluate the results. Social facilitation was done by IDT and the Department of Public Works (as external stakeholders). The Hydraform team proceeded to conduct a comprehensive site survey to determine if the project would be viable. Suitable soil was found through the help of local villagers. Soil tests were conducted and the soil was found to contain the minimal amount of clay required to produce building blocks. Due to her natural leadership qualities Lufuno, one of the community members, was chosen as the team leader. Lufuno is a local woman who was born in Gombani and has a passion for helping her fellow villagers. The brick yard was quickly established with her and other women who were trained in choosing suitable soil, working out the correct

amounts for mixing, operating the brick-making machine and curing the brick.

Finally, a bootstrapping process was followed, where the project had to start with 12 women, they were to continue setting up a block yard and assist with choosing suitable soil. At the same time they had to work out a project charter that would lead to registration of their co-operative. All the community members had to work on choosing a name for the co-operative. In addition, the members had to create the legal framework for the co-operative. This co-operative aimed at providing a long-term capacity to the unemployment problem in Gombani. In this project, eight co-operative delivery partners were involved as follows:

- The Independent Development Trust (IDT), who donated a Hydraform multi-functional brick-making machine in order to produce bricks, paving bricks and tiles,
- The South African Women in Construction (SAWIC), who provided education and training to improve participants' skills and capacity, advocacy and lobbying for the project.
- The National Department of Public Works, who offered enterprise development training, material to establish a brick-yard, monthly stipends for the participants, architectural support and SABS approvals of building plans.
- The Small Enterprise Development Agency (SEDA), who supported the project with a small business strategy, and designed and implemented a standard and common national delivery network for the project.
- The traditional leaders, who offered an opportunity to organise the community to engage at khoroni and also offered land for the project.
- The National Development Agency (NDA), who provided a crusher machine for the co-operative to crush local stones for producing paving bricks.
- Hydraform, who provided technical support and training, mentoring and coaching in machine operation and management
- Mobile Technology Network (MTN), who sponsored the co-operative with monies to procure cement and diesel.

## **PROGRAMME IMPLEMENTATION**

To prepare the participants working on the project, Hydraform provided training and orientation sessions. This orientation and training included an introduction to indigenous construction methods, comprising soil identification, machine operation, sand-soil-cement mixing, and treatment of bricks, bricklaying, carpentry, plumbing and plastering. It is estimated that since the start of the project in 2011 up to 2013, the women have been able to produce enough bricks to build at least 10 female headed households. An activity log sheet has been kept, where members register their presence and absence at the project site. This practice is for efficiency purposes. The project is currently 3 years old. Producing the bricks entails soil sifting, mixing soil with 4% of cement, mixing with water, producing bricks using a Hydraform machine, and treating them for 14 days.

### **Project Evaluation**

This section describes the project evaluation process. Evaluation of the project focused on the following broad areas:

- Programme efficiency: the extent to which the programme was efficient and effective in creating jobs and alleviating poverty,
- Impact: economic, social, and gender impact that the project had to the women, the community and the EPWP, and
- Perceptions of participants about the project and the necessary project improvement.

### **Sampling Procedures**

Purposeful sampling was used. This is advantageous because, as the researcher, I had prior knowledge of the population and its elements under study and was thus able to use researcher judgment on who would provide valuable data in the evaluation of the project (Babbie & Mouton, 2004). Potential participants were taken through the ethics of voluntary participation and informed consent. The inclusion criteria included participants having worked in the project for two years and were thus assumed to be knowledgeable about the history of the project and the current activities of the project. The sample comprised of all the key informants, that is, the social facilitator from Independent Development Trust (IDT), the Managing Director from Hydraform, the skills development facilitator from National Development Agency (NDA) and training development specialist from the Small Enterprise Development Agency (SEDA), as they are responsible for support, monitoring and evaluation of the project.

### **Data Collection Method**

An interview guide was used to guide the set of questions that were translated into Tshivenda language. Different categories of participants were interviewed accordingly. The sample comprised of the following categories of respondents: the social facilitator from the Independent Development Trust (IDT); the Managing Director from Hydraform; the skills development facilitator from National Development Agency (NDA); the training development specialist from the Small Enterprise Development Agency SEDA; and, the project leader and co-operative members (4 informants). The project leader and the project members had the same set of questions. This was important for cross-checking. The key informants did not have the same interview guide, as their areas of focus were different. The aim was to establish whether groups were aware of the resources available in their communities and utilizing them (De Vos, Strydom, Fouche & Delport 2005:209).

The first set of questions sought to ascertain the level of involvement of participants in the cooperative. The second set sought to establish the key issues of efficiency, impact, perceptions as well personal experience and lesson learnt from the project.

### **Data Analysis**

Data collection and analysis were done simultaneously. Tesch's (1990) eight steps were employed for data analysis to formulate themes. These are as follows: a careful study of the transcripts; making notes of ideas that came to mind; selecting one interview and read it to get the meaning in the information; arranging similar topics in groups to form unique topics; abbreviating codes that emerged; describing wording for topics and converting them into categories; arranging each category and codes alphabetically; and, organising and analysing data material belonging to each category.

## FINDINGS

The results are presented according to the themes and concepts that emerged. Table 1 lists emerging themes and concepts around project evaluation process.

**Table 1:** Emerging themes and concepts

<i>Themes</i>	<i>Concepts</i>
Programme efficiency	Relevance – whether the programme was implemented as it was designed, whether it was on schedule, what meaningful participation, decision making and collaboration was involved. Positive and negative changes: economic, social and gender impact, increase in awareness
Capacity building	Essential to ensure success and sustainability of the project
Sustainability	Substantial investment in capacity building is required,
Constraints of the project	Lack of funding, lack of support skills & training, illiteracy, lack of market viability.
Project improvement	Technical adjustment, need for improved government support, training on operations, improved sponsorship.

### Programme Efficiency

When asked in what ways they have benefitted from participating in the project, the participants indicated that working on the co-operative changed their lives for the better. Here is a selection of their comments:

*We are able to participate and make decisions on the future of the project. Furthermore, prior to working on the project, we were economically inactive, but now we are able do something with our own hands. We are no longer dependent on handouts from the municipality, but we generate our own income.*

*This project has assisted me to find something that I can specialize in. Today I am called a project leader because of the skills and knowledge I gained from participating in this project. My confidence was even boosted when the project members chose me to represent the project in New York. It was a nice experience I will never forget in my life. I now can stand in front of people and present our work. Since the trip, I have learnt to appreciate speaking English as an important medium. I am even taking English classes to try and improve my command.*

With regards to what aspects of this project they found to be most valuable, most of the participants indicated that they were able to use resources around them;

*With this project, we are able to utilize our own soil, whoever thought the very soil that we have in abundance, can be our bread and butter?*

### Economic Impact

Given the limitations of the time and lack of an outcome monitoring plan, it was not possible to report conclusively on the profitability of the project. The participants felt that they have only started selling the bricks, and the project has not yet accumulated enough profit to can do outcome monitoring. When

asked about how their participation in the project has benefitted them, the participants reported that they now had a better living due to employment opportunities created by the use of an indigenous building system. Income is generated from selling the interlocking blocks. Blocks are sold at R4.00 each. The participants were asked whether their situation over the period since they had joined the project. The response from the participants was that they had increased income earning opportunities. They further reported that they were able to meet some of their household food security requirements. There is certainly a positive change in economic resilience at the community level. Currently the project employs 21 women and 6 men on a fulltime basis, and 12 women and 9 men on a contract basis. Men are employed for the reason that cooperatives are concerned about communities in which they exist. Although the project initially targeted women only, men too are part of the community, and if all is not well with the community as a whole, the project will suffer. So members felt that it was important not to exclude the men folks so as to encourage ownership and safeguarding of the project.

### **Social Impact**

According to project members, this project has provided some sense of belonging in the sense that the village is no longer isolated. One respondent mentioned:

*since the inception of the indigenous building system, we have seen an unexpected outcome of an increase in tourism by people who want to learn about the project.*

Another unexpected outcome is that recently the project was presented as a best practice model at the United Nations Millennium Development Goals Summit.

*As a community we have developed lasting personal connections, we are no longer isolated and divided as in the past. We are grateful to this project because now we are even able to confront our local municipality about the services that we require. We can tell you now that if we want tanks of water to be delivered to our project, it takes only a day, whereas before this project, we could spent months before we get water.*

In addition, the community members interact much better and this has resulted in a far reaching and diverse social capital.

### **Gender Impact**

Contrary to the mixed views about the social impact of the programme, most participants agree that there has been a significant change and positive influence in shaping the role of women's participation in economic development of their own community. There was an increase awareness of the role of women in the construction industry, and that they have the same capability as men. The community members now understand that women have an important role to play in creating work opportunities within their community.

### **Capacity Building**

I have noted that from experience, the quality of training and support play a big part in ensuring that the beneficiaries are able to deliver on the objectives of the project. With respect to capacity building and training, participants seem to be well capacitated in terms of the various skills categories. The majority of participants believe that they are well trained and motivated. Their view on capacity building

and training is that they are satisfied with the training. With respect to the question on capacity building, one respondent explained that they were happy with the types of training that they had undergone so far. A few respondents reported that only certain individuals get exposure in the various capacity building and training programmes and not everyone did. Some indicated that they could not attend such training on business management and project management due to their illiteracy, so only those who can read and write are considered. However, they did undergo training in stone crushing, sand mixing, machine operations, interlocking brick-laying and foundation laying.

### **Constraints of the Project**

When asked what they consider as the three main challenges facing their brick-making project, the participants reported the following constraints: lack of funding, sustainability, lack of supporting skills and training, illiteracy and absence of market viability. Some detail of each is given below.

#### **Lack of Funding**

Concern is that in the long run, once external funding ceases, the project will become dysfunctional. When asked about what has been the worst part of working on this project, many cited that funds for the project have not been flowing, but the experience has been one of survival. Funding was seen to present a challenge in three respects: consistency, focus and priorities to ensure that the project is running optimally. Members of the project use their personal savings. For instance they contributed R100.00 per month towards the upkeep of the banking services. Part of these savings was used to provide for the capital base to sustain the project.

#### **Sustainability**

When responding to the question of what the major factors which influenced the achievements or non-achievements of sustainability of the project were, the participants said the major factor that influenced the non-achievements of the sustainability of the project was non-engagement in a thorough analysis of prevailing market risks before fully committing to this development approach in rural community.

*There are lots of politicians interested in this project, but the problem is lack of understanding and proper coordination. Even when we have to get support, it takes too long due to politicking about whose idea was to start the project. But we do not mind, as long as we can get resources and support to do our work.*

Project members are acutely aware of the need to sustain their efforts. They have even considered the inclusion of Human Settlement in partnering to provide bricks to RDP. Getting a wider support base for women entering indigenous construction in order to create employment and income opportunities for rural communities is important. They hinted that sustainability of the project is dependent on the political leadership and vested interest. There is a plan to ensure sustainability and viability of the project. Unlike in many other income generating projects based in rural communities, women working on this project are highly motivated. They have attended skills development training organized by SEDA, Hydraform and IDT, aimed at enhancing capability for the rural women to face change and be able to adapt and exploit their diverse and natural resources towards their economic development. However, the block yard has grown

bigger than expected. The quarry where the sand is being dug has grown so deep it may pose environmental hazards. Consequently, the quarry needs rehabilitation to ensure environmental sustainability.

### **Lack of Supporting Skills and Training**

Based on the discussions with the project beneficiaries, it appears that some level of support is needed to bolster the functions and activities of the project. They believe that this is a wider project survival issue rather than a challenge, therefore a wider access to skills development and training is of essence to the achievement of the desirable outcomes of the project.

### **Illiteracy**

Most of the participants reported that they were illiterate due to the fact that their village was far away from learning centres, and that no educators were prepared to work in their village. The lack of education hindered participants from participating in the training programmes. Most of the project members said that they were not able to write a project proposal or do proper accounting, due to their inability to write. Literacy training for the project members would help them improve their management capacity.

### **Lack of Market Viability**

Participants further indicated constraints brought about by a lack of viability of the market.

We also do not have a tangible marketing strategy other than word of mouth". We also had difficulty selling the bricks at the beginning of the project, but now since we have Human Settlement's support, we are doing fine. However, going forward, the question is whether the department will continue supporting our programme.

There is a lack of transport to deliver the products to the markets. At the beginning of the project, it was not easy to sell the interlocking bricks to local contractors because they too did not have the knowledge and skills of the bricks. Transporting the bricks from the block yard to the building project site has been a serious challenge that affected their market viability; although they had buyers, they *were* not able to deliver them to the customers. One respondent stated, "*What we really need is at least one light truck (full size pickup)*".

### **Project Improvement**

When asked what they thought should be done to improve the project or what they would like to see as the main program emphasis in the future, several stakeholders and implementers said that the orientation in project management is crucial. Project members recruited at the beginning of the project were properly oriented, but those who joined later were isolated. This is not good for group dynamics and cohesion. Most of the participants reported that some felt more important than others. Several respondents indicated that their working relationship had depreciated because of this gap. Therefore they proposed that there should be a close working relationship between project team members.

### Technical Adjustment:

*"We are not able to write a project proposal or to do proper accounting. Furthermore, we are not able to comprehend the kind of trainings offered to us due to language barriers".*

At the beginning of the project, the project team members did not have any project management experience, and therefore technical adjustment was required. Improved government support: *"we are not able to write a project proposal or to do proper accounting. Furthermore, we are not able to comprehend the kind of trainings offered to us due to language barriers"*. Even though there was stakeholder buy in at the start of the project, government as a stakeholder that controls funding of this project, did not have an approved funding model for this project. This approach indirectly affected other possible sponsorships from the private sector. Empowering project beneficiaries to prioritise, finance and deliver the necessary works in an integrated manner is important.

### Training on Operations

Many cited issues related to capacity building and training on technical assistance of using the machinery. Due to a lack of experience, it took the project members more time to produce the bricks as required. This created a difficult time for the project in terms of the missed opportunities and unearned incomes. This confirms the fact that with less developed skills and lack of experience, any project is not perfect and it requires improvements at the very beginning. Stone crushing and tile making operations were cited as the most important training required.

### Improved Sponsorship

*We have to fight hard in order to get the municipality to deliver water tanks. So most of the times we are not able to deliver on our work due to poor water supply.*

In order for the project to be sustainable, increased financial support from government and other donors is crucial. The participants argued that they experienced slow disbursement of the grant to the running of project. Participants felt that delayed funding and resourcing from the Local Municipality hindered on the progress of the project.

## DISCUSSION AND ANALYSIS

The findings show that the indigenous building methods are an effective approach to women empowerment in the Gombani Village. Community members and project members of the co-operative participated in decision making, and showed greater responsibility in ownership and project management. This means that participation has contributed to the beneficiaries' understanding and ownership of the project. The results show that to this end, the project has been able to achieve its objectives of contributing to poverty reduction and job creation. The outcomes of the project currently shows meaningful participation of the poor in their own development process, the creation of 48 sustainable work opportunities and ultimately greater ownership by the local women co-operative. This is in agreement with anti-poverty strategy that argues for an approach that might promote sustainable development in rural areas where 75% of the country's poor live (Bogopa, 2004). A number of strategies were initiated focusing on poverty alleviation in rural communities.

The success of any income generating venture depends on the availability of funds. The findings

revealed that lack of access to finance presents a serious constraint on the development and sustainability of the brick making project. It is clear that funding affected the operations of the project. Therefore, this brick-making co-operative improved production to ensure that their project is independent, self-sustainable and financially viable, so as to enhance sustained participation of women in the project. Along the same lines, the findings show that the challenge is that in most cases participants cannot access credit so as to increase their output and make them more price elastic while sustainable. Furthermore, Makhura (2001) argues that lack of credit facilities is detrimental to the acquisition of capital goods such as a vehicle to access markets. Makhura (2001) extends the argument by stating that increased transaction costs of information may deter project members from competing in competitive markets. The failure to compete in markets creates a bottleneck in terms of sustainability and also fails to contribute to economic growth in rural areas. Furthermore, the success of any project which is an income generating project is determined by the kind of support and training skills offered to project members. In so doing, there will be sustainability and development of projects that radiate to economic growth. The resultant economic growth is expected to increase employment levels in rural areas, which should raise income levels in the Gombani village and hopefully provide an avenue to exit the poverty cycle (Wynne *et al.*, 2003).

Illiteracy was also found as a limiting factor for the ability of the women to venture into complex projects or expand their activities to more remunerable productive levels. A study of small scale entrepreneurs in Botswana supports this claim that with limited or no formal education, the project members are afraid to take the risk on complex ventures. Thus, it became apparent that the issue of literacy is a priority which should precede training in budgeting and accounting. It is an important step towards independence. The lack of market viability was perceived as particularly problematic during project initiation. Trading within a high uncertain environment is the biggest challenge facing this innovative programme. Both Rwelamila & Lobelo (1996) and Ntuli & Allopi (2009), assert that the construction industry has distinct characteristics that make it more susceptible to failures than others. Thus, the same unpredictable economic conditions within the conventional construction can have similar effects on the indigenous construction methods. This is in agreement with McConnell (2010), who asserted that the project initiation is a very important stage for any project. There is a high demand for the interlocking bricks that women manufacture, but the geographical distance has a bearing on the ability of the project to be profitable. As indicated by the project members, the cooperative does not have a clear marketing strategy. Hurley & Hult (1998: 42-54) concurs that most cooperatives begin production without really testing the market. Hence marketing their finished products has been through a word of mouth, and a very difficult task. So even though that the cooperative does not have the financial muscle to undertake such marketing, it remains a pivotal strategy for the survival of the project. Finally, in order for future improvement on the project to be realized, the participants stressed the need for technical adjustment, government support and improved sponsorship.

## CONCLUSION

The findings illustrate the effectiveness of indigenous building methods as an effective approach to women empowerment in rural communities. The programme has been successful in expanding the number of employed community members notwithstanding that it was originally designed for fewer

participants. The programme is based on the model of capability approach, of which women working on the project have been the dominant beneficiaries of this project. They are able to work independently as a group as they have managed to overcome group dynamics. It is the view of this research paper that indigenous building methods are adequate as an effective approach to empowering rural women. Indeed, the innovation should be seen as an intervention mechanism that can immensely contribute towards the development of women in rural communities.

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<sup>1</sup> Hydraform is a South African and international manufacturers and sell hydraulic block machine. The company specializes in masonry construction using soil cement compressed earth block technology to produce interlocking dry stacked soil cement block.

<sup>2</sup> (a headman (mukoma) will be instructed by the king to call a meeting a special meeting of all community members

<sup>3</sup> It is an open gathering space, especially under the tree where a community meeting take place

<sup>4</sup> Not her real name

<sup>5</sup> Community leaders who derive their authority from tradition and custom, and play a unifying factor, and catalysts for decision-making in their communities

## ENTREPRENEURSHIP, INDIGENOUS FOOD PROCESSING AND POVERTY ALLEVIATION AGENDA IN MOLEMOLE LOCAL MUNICIPALITY, LIMPOPO PROVINCE

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### ABSTRACT

This paper highlights the importance of skills development and training for empowering the unemployed men, women and youth in entrepreneurial activity based on experience gained from the Molemole Indigenous Food Processing Cooperative (MIAC) established in 2006, in Limpopo Province South Africa. The establishment of this cooperative was propelled by the high abundance of prickly pears and marula wild fruits which are utilised for commercial purposes. The objective is to improve people's livelihood in the area which is characterized by high rates of unemployment, semiskilled labourers especially among the youth and young parents. The Cooperative establishment is also in accordance with the policy on recognition and promotion of Indigenous Knowledge Systems (IKS) launched by the Department of Science and Technology in South Africa. The policy emphasizes the use of people centered pedagogy as it maximises local available skills and empower the poor to learn for themselves. The Molemole Indigenous Food Processing Cooperative consists of eight women and two men and produces marula jelly prickly pear jam, juice and peanut butter. It is noted that the participants have high commitment for self enhancement to an extent that they get big orders from government, private sector and local community members for the products they produce. It is also noted that the project's establishment has encouraged entrepreneurial skills development which is seen as the creator of wealth, capital and large organisational empires for poverty eradication in the area.

**Keywords:** Entrepreneurship; indigenous knowledge systems; food processing; poverty; skills development; unemployment

### INTRODUCTION

The report on poverty and inequality in South Africa revealed that although it is an upper middle income country, the experiences of most households is of outright poverty or of continuing vulnerability of being poor (RSA, 1998). Furthermore, the study showed that the distribution of income and the wealth is the most unequal in the world with many households experiencing unsatisfactory access to education, healthcare, energy and clean water. The poorest 40% of the households (about 19 million people or just under 50% of the population), had a monthly household expenditure of R353.00 [1 USA = ZAR 10.40 as at 29 June 2013]. According to the report, 72% of the poor live in the rural areas in South Africa. The Limpopo province, with five districts, had a poverty level of 59%. The report further found that women were more likely to be poorer than men and that the poverty level among female-headed households was 60%. The report emphasised importance of targeting rural women in public works, learning institutions, training programs and to develop Small Medium and Macro Enterprises (SMMEs) programs to help eradicating poverty of vulnerable households. Out of a total of 25 municipalities and five districts, Molemole local municipality (MLM) in Capricorn district falls within the above description. It is characterised by unemployment, prevalent semi-skilled labourers and related problems which particularly affect the youths and young parents. The local municipality is by far a predominantly rural oriented area with a fair potential to small-scale agribusiness.

Commitment in reducing poverty and hunger, improving human health and nutrition through partnership will go a long way to improving food security. Hunger, poverty and malnutrition are widespread in the developing world today, as developing countries are home to the vast majority of the world's 870 million food insecure people (ISPC, 2013). Indigenous Agro Food Processing is one of the innovation activities on the forefront of economic development. The Agriculture Research Council (ARC) was invited to provide training on peanut butter making and *Marula* (*Sclerocarya birrea* subspecies *caffra*) and prickly pears; which are indigenous food prevalent in the area and are believed to contribute to economic development. Other product types of indigenous fruits are fresh products, preserves and confectionary, juice and beer, oil and nuts. The project has still a long way to go because the aim is to attain the level of commercialisation both internally and externally and this challenge demands concerted commitment with quality assurance practise as indicator of competency in the commitment.

This paper explores the role of skills training in assisting individuals who are economically vulnerable and socially excluded in MLM. Roughly, almost one in four of the population in the developing world lives in absolute poverty and this number continues to increase rather than decrease (<http://10-mirror.library.cornell>). Poverty reduction is now at the top of the policy agendas of most bilateral and international development organisations globally.

In the 21st century during which drastic innovations have taken place in all facets of life, Indigenous Knowledge Systems (IKS) inclusive. Knowledge is indispensable for economic and social change in societies, as well as scientific technological knowledge which is considered all over the world. While IKS for sustainable development has in the past decade increased, it is unfortunate that it continued to be disregarded in development planning. An awakening process is therefore needed, meaning that a reconceptualization of the old paradigm needs to be intensified. This paper focusing on marula and prickly pear fruits explores the establishment, methodology, future developments, and the impact of indigenous food processing for economic development. The objectives of the project are to: (a) Impart theoretical knowledge and practical skills to prospective entrepreneurs, (b) Creation of self-employment opportunities, (c) Bring about a people centred driven sustainable development process and (iv) Assist in the mobilisation of rural development initiatives for projects in rural and peri-urban areas.

## Rationale

The rate of poverty, which is caused amongst others by unemployment and limited skills, is gradually depreciating the quality of life of South African citizens from various perspectives, MLM inclusive. An endeavour therefore, for introducing Food Processing Cooperative using indigenous food would contribute towards promotion of quality of life within the municipality; using wild fruits such as marula, prickly pear, melon, peanuts and exotic vegetables (carrots, cabbage, broccoli and cauliflower). Driving along the N1 motorway during December to February, one witnesses many young men and women sitting with tins and buckets full of indigenous prickly pear (*Opuntia spp*) fruits attempting to sell these to motorists. The huge number of these prospective entrepreneurs and the large quantities of produce they carry remain unsold, thus leaving them destitute and frustrated. Marula (*Sclerocarya birrea* subspecies *caffra*) fruit, which are used to produce marula beer, would be transformed for commercial purposes; for example, marula jam and juice would be processed during marula picking season between February-April. This type of commercial activity would definitely yield a very good output financially because all

these fruits are collected from the veld. MLM citizens and others would be sensitized that wild fruits could be commercialized through processing, just like other fruits in the market. The endeavour could therefore be used to make people earn a living and to sustain themselves.

## FOOD PRESERVATION

Food preservation is the term used to describe any process used to slow food's normal decay (Floros *et al.*, 2010: 577). There are many forms of food preservation. They range from simple refrigeration to radiation treatment. Some methods date back to prehistoric times. But methods have only been developed as a result of modern advances. The spoilage of food is caused by enzymes that occur in food and by micro-organisms namely yeast, moulds and bacteria which are present in air, water and food. They cannot be seen by naked eye, but are visible under microscope (South Africa Homemaking Division, 1986). Food preservation requires preservatives such as sugar, acid, vinegar, salt and other chemicals safely in food. They usually serve as flavourings but in higher concentrations they are effective preservatives (South Africa Homemaking Division, 1986). Food preservation helped make today's civilisation possible. Without it, most people would have to grow their own food; food could not be transported from rural areas to urban areas without being spoiled or destroyed by micro-organisms or pests. The chief methods of food preservation included (a) curing, (b) canning, (c) cold storage, (d) freezing, (e) drying, (f) additives, (g) irradiation, and (h) septic packaging. Canning is the most common method of food preservation. In this process, foods that have been sealed in airtight containers are heated to destroy by micro-organisms that cause spoilage. Food processing at Molemole project uses canning by way of bottling using additives during peanut butter, marula, and prickly pear processing.

## METHODOLOGY

The Molemole Indigenous Agroprossesing Cooperative (MIAC) was established in 2006. The Young Women Christian Association (YWCA) which is a non-profit organization (NPO) committed to development in various communities globally; is the one which made this innovative venture in Botlokwa area within MLM. The interested people were invited to attend the first information meeting at Botlokwa Special School (BSS). There were during the first meeting twenty-seven (27) participants. From this number, fifteen of them showed interest and by the time the project started, only ten of the members showed up (Figure 3- at the end of the text). There were two young men and eight young women. There was then no building for the purpose and the BSS housed the project members in their workshop in which there was peanut butter processing machine. The machine was also borrowed to the members to use it for peanut butter processing until they got theirs.

The ARC was invited in August 2006 to come and provide training on peanut butter making as the marula and prickly pears were out of season then. For the project to be sustainable, peanut butter making was included in the project so that when the two indigenous fruits were out of season, work could through peanut processing go on. The training was done through the use of BSS peanut butter machine. The project members were excited to be exposed to peanut butter making skill. Thereafter they continued to go to the centre three times a week in the afternoon and peanut butter was sold at the pay-points for pensioners as well as at schools. A proposal for funding was submitted to MLM and other organisations. A site for the project was already paid for; just waiting for funding release. MLM was provided with a plan for

the project and erection of the building structure started to take place in 2007. It was completed in 2008; though not totally completed and up to the standard. Arrangements were just that work could go on. Besides the project plant, provision for water was made through borehole and putting of a tank on the stand. Furthermore, a toilet was built as well as fencing and electricity.

The project members tracked into their building in 2008. An engineer in Makhado town was consulted to construct a similar peanut butter machine to the one at BSS as the company manufacturing machines such as the one of peanut butter had closed. The project members are now using theirs and processing is going on and marketing is also going on. In February 2009 the project members got training on processing of prickly pear jelly and in March 2009 they were further trained on marula jelly making. In 2011, they were trained on both prickly pear and marula juice processing. The members were also able to go and exhibit their products during marula festival held at Phalaborwa (Mopani District) in Limpopo province between 2 and 3 February 2011. All their products were bought and there was a follow up of what they had produced by way of ordering bottles where they were able to sell products to the value of R24,000.00 [1 USA = ZAR 10.40 as at 29 June 2013] through tender by the Limpopo Department of Agriculture. This was the highest amount they had worked for since the commencement of the project.

### **Future Developments**

The project has still a long way to go because the aim is to attain the level of commercialisation both internally and externally and this challenge demands concerted commitment with quality assurance practise as indicator of competency in the commitment. The building is half done. It needs to be attached with some additional rooms as they appear on the plan. Furthermore, additional equipment is needed to fulfil the obligations for quality assurance in food processing. The project members need consistent training until everything expected from them is stabilised into their minds.

In 2011, Molemole project members were further exposed to Shayandima: Thohoyandou Peanut butter processing small industry in Thohoyandou area of Vhembe District Municipality, Limpopo Province. The industry is now going to supply supermarkets such as Shoprite/Checkers, Pick n Pay as well as hospitals and schools. It now qualifies to supply them because it received South African Bureau of Standards (SABS) certificate for approval of exposing the products to a wider market. This was done in order for them to have a picture of the journey they had started and where or how the journey is going to come to a fruitful end. A short focus group discussion was done with them whereby it elicited the above information. The industry started at a very small scale in a small room wherein only peanut butter was processed. After developing themselves to the level of good peanut butter production, they expanded this activity by introducing prickly pear and marula jellies (jam) processing.

### **Contribution of Indigenous Food for Economic Development**

Indigenous fruits form part of economic development. The products form integral part of the livelihoods for rural people in Africa in supplementing rural diets. Despite the fact that indigenous fruits are well-known and traded among local consumers, very little success has been achieved with the commercialisation of these fruits. Few indigenous fruit products have made it into the international market. Amarula cream, made from the fruits of marula by Distell Corporation in South Africa is probably the best known example. It is currently being further developed and with high potential for new entrants. The

commonly used indigenous fruits used in South Africa are marula, prickly pear and melon. Melon has successfully sustained itself in marketing of melon and ginger jam which is always found on the shelves of supermarkets.

### The Origins of Marula

The history of marula trees goes back thousands of years. Marula (*Sclerocarya birrea* subspecies *caffra*) is one of Africa's botanical treasures. It is prevalent in Zimbabwe, Botswana, and Namibia and in South Africa within Limpopo Province, KwaZulu Natal, Eastern Cape and Mpumalanga. The first three months of the year are beer season across South Africa's northern Limpopo province (MySinchew, 2010: 1). The delicious, all organic taste of marula fruit reflects its origins as the "food of kings". Marula juice is four times vitamin C of orange juice. Local communities have used marula fruit (Figure 4- at the end of the text) for generations to cure and prevent scurvy (Anon, 2013). On the trade statistics, it is stated that the fruits of over 200 indigenous tree species grown in Southern Africa are edible. The flesh of marula, which is one of the common indigenous fruits, contains 180 mg Vitamin C per 100 g – outshining orange, grapefruit and lemon. The kernels are rich in food energy, containing almost 3000 kilojoules per 100 g. Although it is a very important part of the livelihoods and culture of Southern African people, the trade in indigenous fruits and associated products has not been adequately researched and is not well understood (Goyvaerts 2013: 1). Amarula cream liqueurs are one of the biggest selling cream liqueurs in the world and are sold in 63 countries (Anon, 2013).

### Types of Products

The product types of indigenous fruits are as follows:

- **Fresh products:** Indigenous fruits are mostly traded as fresh fruit on informal markets throughout Southern America. Consumers buy these fruits as snacks. The shelf-life for these fruits is generally very short and the industry is marked by high levels of fruit spoilage and low quality standards (Anon, 2013).
- **Preserves and confectionary:** Fruits are processed into jams, jellies and sweets for sale at cottage industry/farm stall level.
- **Juice and beer:** The fruit pulp is mixed with water and either consumed fresh as a juice or left to ferment for beer (MySinchew, 2010: 1). There is increasing interest amongst commercial fruit juice manufacturers in indigenous fruits, especially with marula fruit juices appearing on supermarket shelves.
- **Oil and nuts:** The nuts of many of the indigenous fruits have high oil content. The oil is normally extracted through cold press techniques and is used in the pharmaceutical and cosmetic industry both locally and in Europe e.g. the Facial Scrub and Marula Gold, marula oil and deep tanning gel uses boabab oil (Goyvaerts, 2013: 1).

### INFORMAL MARKETS

Indigenous fresh fruits are traded at most fresh produce town markets in Malawi, Zimbabwe, Mozambique, Tanzania and Zambia (Anon, 2013). Beer and juice products are also sold mostly at an informal market level. Without the communities of the Bushbuckridge area in Mpumalanga province of

South Africa, Marula Natural Products Pty Limited would not exist. There are 42 communities who are harvesting marula fruit and crack the nuts to produce the magical marula oil. These marula natural products support 2400 women in the Bushbuckridge area.

### **Cottage Industries and Farm Stalls**

Jams and jellies made from indigenous fruits seem to dominate this sector of the indigenous fruit market. A cottage industry processor in South Africa reported to have sold 3000 bottles of marula jelly in the 2003 season to the value of R7.50 per bottle. Feasibility studies in Mpumalanga and elsewhere in Limpopo Province have also indicated that there is a market for indigenous fruit, jams, jellies and chutneys packaged specifically for the tourism industry. A group of women in Chipata (Zambia) has been manufacturing jams and wines from indigenous fruits whereby they produced and sold 160 litres wine and 20 kg jam per processor per month in the rural Jerusalem area.

### **Commercial Industries**

Commercial processing of indigenous fruits is dominated by the Amarula Cream success story. Approximately 2000 tons of marula fruits are harvested from the veld by local communities in Phalaborwa area (MySinchew, 2010: 1) to sell pulp to a factory in Phalaborwa town. The Zimbabwean based company, Speciality Foods of Africa, is exporting indigenous food products under Tulimara brand name to Europe, Australia and the United States of America. Their product range includes Masau jam, dried Masau slices, marula jelly and Mazhanje jam. Malawi is also processing indigenous fruits for juice making and selling it.

### **Regulations**

Indigenous trees are protected by law in South Africa. Surprisingly, few regulations pertain to the trade of indigenous fruits and such fruits are often found in appalling unhygienic conditions in local markets. Commercial processors of indigenous fruits need to adhere to all regulations pertaining to food safety and quality as laid down by the Southern African governments. Processors of exported products to Europe need to comply with certain criteria for safety and hygiene like the hazard analysis and critical control points strategy.

### **Constraints**

Some of the biggest constraints in the development of the indigenous fruit sub-sector include: (a) Fruits are seasonal; (b) Droughts cause major reductions of fruit production and fruit quality; (c) Quality control coupled with high perishability of fresh fruit, and (d) shortage of quality packaging materials.

### **PRICKLY PEAR**

Cactus pear (*Opuntia spp*) commonly known as prickly pear, is a wild fruit that grows under arid conditions (Kgatla, Howard & Hiss, 2010: 365-372). It belongs to the Cactaceae family and originated in tropical America. Its genetic diversity in its species is found in the semi-arid Mexican plateau (Kgatla *et al.*, 2010: 365-372). It is also found in the following parts of the world: Southern Italy, Central and South America, Israel, South Africa, Sicily and throughout warm and sub-tropical climates. In South Africa there are more than forty varieties of prickly pear, including Morado, a white fruit with a very delicious taste and

cymnocarpo which has a yellow-orange colour. It is very sweet and is available from December to April. Algeria has a red skinner court which is a large, sweet green white fruit. This is available from January to end of April.

When the prickly pear is in season, the fruit is picked, dethorned, cleaned, peeled and eaten as a raw snack without further processing (Kgatla, *et al.*, 2010: 365-372). In Mexico, cactus pear is processed into juice (SuperNME, 2013: 1), jellies, jams syrups, candies, etc (Nobel *et al.*, 1987: 550-555). Studies concerning post-harvest physiology of cactus pear fruits have increased in recent years due to their nutritional value and economic potential. Extensive efforts in countries such as Mexico, Chile and Italy with respect to prickly pear cultivation are being made for commercial use (Nobel *et al.*, 1997: 291-320).

## **SKILLS DEVELOPMENT AMONG THE ECONOMICALLY VULNERABLE**

The fundamental importance of skills and capacity building in the development process lies especially in the fight against poverty. However; a particular striking feature of most poverty reduction strategies in the country and in developing countries is that the role of Vocational Education and Training (VET) in its wide variety of forms is largely absent (<http://ilo-mirror.library.cornell>). It is generally widely accepted that training for acquisition of skills is an essential instrument of public policy; especially for the most vulnerable groups in society. The acquisition of skills results in people improving their quality of life remarkably so; if correctly following how they were trained. Roughly speaking; almost one in four of the population in the developing world lives in absolute poverty and this number continues to increase (<http://ilo-mirror.library.cornell>). Poverty reduction is now at the top of the policy agendas of most bilateral donor agencies and international development organisations within and outside the United Nations systems as well as a growing number of governments.

## **THE ROLE OF TRAINING**

### **Training and the Poor**

In the context of mass poverty in most developing countries, the critical role of training in furnishing badly needed skills to improve productivity, incomes and equitable access to employment opportunities is particularly obvious and straight forward. Certainly, pronouncements abound on the fundamental importance of skills and capacity building in the development process, especially in the fight against poverty, knowledge, skills and competencies of all men and women have become the cornerstone of personal growth and employability, enterprise competitiveness and society's economic and social sustainability (ILO, 1997). Statements of this kind are backed up by a large body of research that clearly demonstrates that poverty is directly correlated with the level of human capabilities. Self-evident, therefore, is enormous need to upgrade the knowledge and skills of the poor and unemployed.

Training for the informal sector is "a vast and promising area for future action" (United Nations Development Programme-UNDP, 1998). However; a particular striking feature of most government and doner poverty reduction strategies in developing countries and training by VET in its wide variety of forms is largely absent. For example in the UNDP's report on Human Development training is not treated as a basic social service for all unlike primary education and basic healthcare, although it is acknowledged that "there is an urgent need to strengthen the institutional capacity for delivering these services" (UNDP, 1998). Apart from the ILO, the invisibility of training for the poor as a priority issue is equally apparent in

most other high profile reviews of poverty eradication and human resource development which have been produced by both bilateral and multilateral donors (UNDP, 1998).

### **Training Crisis: An overview**

There are two basic sets of concerns about vocational Education and Training and poverty reduction. The first focus on the failure of most targeted training interventions is to have any appreciable, sustained impact on livelihood. The second sets of concerns focus on the alleged failure of national vocational systems to reorient them to meeting the skills needs.

### **Poor Outputs and Limited Impact**

During the 1970s, there was considerable optimism among policy makers, donors and researchers about the potential impact of vocational training on productivity and incomes for the poor. In particular, the discovery of the informal sector resulted in a wave of recommendations and interventions to support mainly non-regulated micro and small enterprises (MSE). There was observation that all persons; whether small or micro enterprises should be helped to acquire minimal training in the trade concerned and in elementary management.

### **The Unemployed**

Large-scale retrenchment of public sector workers is currently one of the largest sources of open unemployment in many countries. Politically retrenches are in a strong position to capture public VET resources. The retrenched workers' training needs are not being supported by the government. The conclusion of most evaluations of training programmes for the unemployed youth is that they have not been successful in raising incomes and job offers for these workers. Training keeps unemployed youth off the streets but does not land them jobs.

### **ENTREPRENEURSHIP**

Entrepreneurship is the engine that drives the economy of most nations. This has led to an increased interest in the development of education programs to encourage and enhance entrepreneurship and a recognition that much research needs to be carried out into what makes an entrepreneur and how these characteristics may best be imparted (Gorman, Hanlon & King, 1997: 56-77). Entrepreneurship cannot be divorced from skills training because one becomes a successful entrepreneur if proper skills for success are utilised from the beginning up to the end. "Small business success depends on a particular set of skills and a particular set of organisational dynamics. In essence, the person who moves from being unemployed to being the owner of their small business is moving from a position of dependency to a position of multiple dependencies (upon customers, suppliers, competitors and others)" (Masipa, 2002).

### **RESUMÉ AND RECOMMENDATION**

The introduction of this paper highlighted some issues raised by the report on poverty and inequality in South Africa. Amongst some important livelihood issues emphasised were the following:

- Targeting training programs for rural women and to develop SMMEs to eradicate poverty of

vulnerable households.

- The role of skills training
- Poverty eradication is now at the top of the policy agendas for most bilateral and international development organisations globally.
- Indigenous food, creams and oils form part of economic development globally.

It is recommended that there is a need to expand significantly training provision for women. High priority should be given to management training for women. Furthermore, progress in increasing the participation and integration of women in training and employment should be carefully monitored. The importance of business activities promoting IKS in various ways should be an on-going process for sensitising the people; particularly youth as some of them are the future entrepreneurs.

## CONCLUSION

The 21st century propels for innovations in all facets of life to take place for holistic development. Indigenous Agro Food Processing is one of the innovation activities which is on the forefront of economic development; adding value to the indigenous food which was not regarded as important for human development. There is a need therefore to continue conducting research in facets which have got relevance for promotion of indigenous knowledge.

## LESSONS FOR ECONOMIC TRANSFORMATION

The prowess of women in communities, such as Bushbuckridge area, where marula natural product support 2400 women; in Chipata (Zambia) where they manufacture jams and wines from indigenous fruits, shows the role of women in indigenous fruit processing and by implication in the science and technology of food production. The present advances in food technology could be traced back to indigenous knowledge and the contribution of women. In 2005 a woman producing marula beer at Kgapane township in Mopane district tried an experimental research on marula achar using marula fruit peels from beer production process. She used the recipe for producing mango achar. The results were fantastic such that consumers prefer it than mango achar. Marula achar processing activity is now prevalent in Limpopo province in areas where there are marula trees. The prickly pear sweets are also produced though not yet as prevalent as marula products. It is postulated that the indigenous food products shall have penetrated the market through women in the next five years.

It is said that "commitment in reducing poverty and hunger, improving human health and nutrition through partnership will go a long way to improving food security". The authors wish to express that (a) partnership between women in academia and women in our communities would go a long way in tackling hunger, poverty and malnutrition that are widespread in the developing world today, and (b) helping women groups in indigenous food processing projects for their own consumption and to sell at market outlets is the most powerful way of combating hunger and poverty around the world as indirectly alluded by Bill Gates (Kropff, Van Arendonk & Loffler, 2013: 97).

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### ABSTRACT

From the advent of the democratic dispensation in South Africa in 1994, it is imperative not to see the reflection of food security challenges nineteen years later. The world's population was estimated to be beyond 7 billion people by the end of March 2012. Therefore it becomes important to ask if the earth can provide sufficient food for all these people, and for the 9-10 billion people expected by 2050 and beyond. Permissibly, over 1 billion people already do not have enough to eat. Economic stigmatization and inefficiency, susceptibility to diseases and unemployment have formatively been established as normative. Population growth has major effect on rural areas of South Africa hence their incapacity to sustain themselves. The premise of food security can be measured from three dimensions; utilization, adequacy and accessibility. Academics around the world have bestowed faith on arguing whether Green Revolution has the capacity to adequately provide means to feed the ever-growing population. An analysis of the Green Revolution of the 1960s and 1970s should inspire caution, however. The main question emanates from its effectiveness/efficiency, promotion and funding of small scale farmers and utilization of presently available resources. Alternatively, consideration should be given on its slow effect towards climate change, declining areas of fertile land, contamination of under-ground aquifers and decreasing bio-diversity. Therefore, this paper seeks to discuss conceptual issues around the premise of food security. After that, the paper will demonstrate how population growth has effect on food sufficiency, adequacy and self-reliance. The role of land and women in rural food security will be discussed briefly. Additionally, the paper will recommend copying strategies from which the effect of population growth on food security can be reduced.

**Keywords:** Population growth; food security; green revolution

### INTRODUCTION

Metamorphism of global population growth has gained momentum to a historical peak of 1.14% per year (United Nation Projections, 2013). It is however eminent not to notice the expeditions of the death of two masters which empirically contradict traditional beliefs of family size. The United Nation Projection (2013) worldometer arrives in 2013 with a global population count of 7, 2 billion and counting. Throughout history, human populations have experienced deficiencies in food production (Deitchler, Ballard, Swindale & Coates, 2010; Ziegler, 2010). However, as the 20<sup>th</sup> century dawns, more people are hungry and many children suffer from malnutrition. Growing populations in the past have caused local over exploitation of natural resources leading to the extinction or collapse of several ancient societies (Diamond, 2005). However, today's resource scarcity is not only an acute problem in isolated locations; it is also a global threat (Diamond, 2005; Ziegler, 2011). Food security has always been a blanket of concern in developing countries, despite Africa being the breadbasket of the world (Zita, 2012). However, the concept relating population growth changes to food security, presently has manipulated ways to creep into the latter. The empirical relationship between population growth and food security has been a consonant unleashing its effects on rural South Africa, as it denoted a position of food insufficiency to a hungry, undernourished, impoverished country in the space of 30 years from 1980 to the year 2000 (Food Bank South Africa, 2013).

According to Food & Agricultural Organisation Statistic (FAOStat, 2013), more than 20% of the population in South Africa today; is food insecure. This means, approximately 11 million South Africans do not know where their next meal will come from. Despite mechanised, intensive labour, agribusiness capital initiatives and policy reforms towards agriculture, rural South Africa remain within the food insecurity trap (Zita, 2013). Contrary to this, Landau and Freemantle (2012) arrive with a standing argument that polarises science and technology as unable to guarantee food security. Economic, political, and psychological issues also play key roles. Yet there is synopsis that a Green Revolution is possible in Southern Africa (Ziegler, 2011; Zita, 2013), although maintaining good governance throughout the world is crucial to success (Diamond, 2005; Lio & Liu, 2008; United Nations, 2011).

Women in rural areas play a very pivotal role in terms of subsistence agricultural activities; hence, their role has an incredible effect that substantially reduces the rate of food insecurity. However, this to some extent has an inert atonement that lacks the capacity to provide invocation within the sporadic sphere of food security within rural South Africa. Based upon this background, population growth is a significant determinant of agricultural production and food supply. Food security has numerous dimensions which will be discussed in this paper but narrowing down towards the 'access' dimensional element. The main line of argument of this paper is to bring to discussion a consonant which many scholars and policy makers globally turn a blind eye on and to make realisation towards population growth being a factor, which narrows access of household food supplements thereof.

It is within such a scope that the paper seeks firstly, to unpack the concepts food security and population growth. This section will explore the four key dimensions and indicators of food security. In addition, a deep insertion of the term population growth will be defined and explored thereof. The second section will discuss various literatures proposing the intimate relationship between population growth and food security. In the same section, the paper will also review literature from the Malthusian theory of scarcity and agriculture production. It continues by developing a theoretical framework in which suggest that population growth is increasing at a higher rate than agriculture production. Lastly, the paper seeks to provide a bird's view of how the effect of population growth on household food (in) security can be mitigated in order to improve the quality of life.

## **FOOD SECURITY**

As global food prices have spiked in recent years, the international community has paid increasing attention to prospects for the world food situation, particularly in light of global climate change, population and income growth, and the evolution of dietary habits (Butler, 2009; Alkire & Santos, 2010). Despite the importance of the topic, however, the international community currently lacks any form of consensus on the core household food security indicators that are needed in order to properly measure and monitor food security around the world, partly due to a lack of global coordination and consensus on methodology across institutions and various survey efforts (Chen & Ravallion, 2012; FAOStat, 2013). As a result, the degree to which household food security have been affected by these trends remains as yet unclear, nor can easily identify in a consistent manner the areas where food security has been most seriously affected.

According to Chen & Ravallion (2012), the World Bank defines food security as the extent to which people are able to obtain and consume enough food of the right quality and nutritional mix in an

environment, which ensures that they can remain healthy and productive. Food security delineates access by all people at all times to sufficient food in terms of quality, quantity and diversity for an active and healthy life without risk of loss of such access (Alkire & Santos, 2010). Access to food prescribes the capacity of households to obtain food either through production or purchase in a market transaction or acquisition through gifts and transfers (Chen & Ravallion, 2012).

### **Dimensions of Food Security**

Food security according to Chen & Ravallion (2012) encompasses four key dimensions which are availability, access, utilisation and stability.

#### ***Availability***

The availability of sufficient quantities of food of appropriate quality, supplied through domestic production or imports (including food aid).

#### ***Access***

The access to adequate resources (entitlements) to acquire appropriate foods for a nutritious diet. Entitlements are defined here as the set of all commodity bundles over which a person can establish command, given the legal, political, economic and social arrangements of the community in which he or she lives (including traditional rights such as access to common resources).

#### ***Utilisation***

The utilisation of food can be achieved through adequate diet, clean water, sanitation, and healthcare, to reach a state of nutritional well-being in which all physiological needs are met. This highlights the importance of non-food inputs in food security. For example, it is insufficient for an individual to receive an adequate quantity of food, if he or she is unable to make use of the food due to illnesses resulting from inadequate sanitation or poor sanitary practices.

#### ***Stability***

The stability of access to adequate food at all times is important. However, it should be independent of shocks (such as economic or climate-related crises) or cyclical patterns. This includes issues of seasonal food insecurity, such as the agricultural period before harvest known as “the hunger season”. The four dimensions adopted from Chen & Ravallion (2012) stresses food availability and access at the individual level, as well as food quality and cultural preferences. It highlights the fact that food security is a multidimensional concept, the assessment of which requires the measurement of several indicators that can together capture the various dimensions of food security. A clear hierarchy is evident across these dimensions; availability is necessary for food security, but is not sufficient to ensure access, whereas food access is similarly necessary but insufficient to ensure proper utilization of food (Butler, 2009; Alkire & Santos, 2010). Meanwhile, the concept of stability cuts across the first two dimensions, and can refer to variability and uncertainty in both availability and access. As recognized by the international community of practice (FBSA, 2013), no single indicator has the capacity to capture all four dimensions of food security. Therefore, a combination of measures and indicators is needed to fully reflect the complex

reality of food insecurity in any given context.

### **Indicators of Food (In)Security**

This section explores some of the most commonly used indicators of food security which have been adopted from various scholars.

#### ***Undernourishment***

A commonly used measure identified by Chen & Ravallion (2012) and FAO (2013), is undernourishment, which is used to quantify food security at the national level by capturing the average availability of food against requirements at the national level. The first step in measuring food availability through the FAO (2013) methodology is the estimation of the per capita dietary food energy supply derived from aggregate food supply data. Based on income or consumption distribution data, a number of assumptions are made on the distribution of the food supply across households.

#### ***Household Survey Food Consumption Data***

While the move to the exclusive use of household surveys to derive global undernourishment figures may not itself be fully practical, more and better food consumption data from household surveys is likely to be a game-changer in improving the FAO undernourishment estimates (FAO, 2013). That said it is important to recognize that the issue of frequency of data is unlikely to be fully addressed on a global scale by household surveys alone, as the likelihood of generating comparable household survey data on a frequent basis from every country is extremely low. When household surveys collect information on quantities of food consumed (or purchased), these can then be converted into kilocalories with the use of appropriate conversion factors, for the purpose of comparison against household/individual energy requirements.

#### ***Dietary Diversity***

One of a number of faster measures that have been proposed over the years as an alternative means of capturing food access is dietary diversity, which is of particular importance in developing countries where diets are composed mostly of starchy staples, include few or no animal products, and may be high in fats and sugars (Mathiassen, 2012; FAO, 2013). In some developing countries, it has been established that many nutritional problems are not the result of a lack of calories, but rather a lack of diet quality (Mathiassen, 2012). Thus, the measurement of dietary diversity indicators has gained increasing prominence, particularly as the close relationship of dietary diversity with household per capita consumption and daily caloric availability as well as with anthropometric indicators of nutritional outcomes has been confirmed by several empirical studies (Mathiassen, 2012; FAO, 2013). The use of dietary diversity as an indicator of dietary quality both at the individual and household level has been advocated as well, but the empirical evidence remains scant. The indicator is usually measured by summing the total number of foods or food groups consumed over a given reference period, typically ranging from one to three days (Mathiassen, 2012; FAO, 2013).

### ***Household Food Insecurity Access Scale***

As in other domains of welfare analysis, approaches to food security measurements based on subjective responses have recently received considerable attention. The Household Food Insecurity Access Scale (HFIAS) is based on the idea that there is a set of predictable reactions to the experience of food insecurity that can be summarized and quantified, allowing for measurement through household surveys (Zita, 2012). The HFIAS was adapted from the current United States methodology for estimating national prevalence of food insecurity, and measures household access to food and the degree of anxiety involved in its acquisition. Its classification system uses a set of nine questions used in surveys around the world that have been proven to be effective in distinguishing the food secure from the food insecure at the household level (Coates *et al.*, 2007). The HFIAS questions thus represent universal aspects of the experience of food insecurity, capturing information on food shortage, food quantity and quality of diet to determine the status of a given household's access to food. According to Mathiassen (2012), the information generated by the HFIAS can be used for geographic targeting as well as for monitoring and evaluation, by assessing the prevalence of household food security and detecting changes over time in household food security status (Coates *et al.*, 2007). A variant based on a subset of the HFIAS questions is the Hunger Scale (HS), developed with the intent of improving the cross-context and cultural comparability of the index in highly food-insecure situations (Deitchler *et al.*, 2010).

### ***Food Adequacy***

Other, coarser, subjective methods to assess food security such as the food adequacy question (FAQ) have been proposed and implemented in large-scale household surveys. The FAQ is typically worded as follows: "concerning your food consumption, which of the following is true?" Answers are generally coded as: (a) "more than adequate"; (b) "just adequate"; and, (c) "less than adequate" (FAO, 2013). The advantages of this method lie in its simplicity as well as its ease and rapidity of deployment. Nonetheless, this indicator shares with other subjective indicators the unfortunate characteristic of being particularly likely to capture a series of the respondent's latent characteristics, which renders problematic the comparability of this type of indicator across households/ individuals. The abundance of food reserves in a country does not interpret food access; organisations like the Food and Agricultural Organisation (FAOStat, 2013) have reported cases of hunger in countries with food surpluses. In a broad overview of food insecurity in 58 developing countries, researchers found that the group of countries that exhibited the highest severity of food insecurity were those that had high poverty and food surpluses (UN, 2000; Butler, 2009; Caeyers *et al.*, 2011). The proportion of undernourished in the total populations of most countries of sub-Saharan Africa was very high between 1990 and 1992. In Chad, Mozambique, Malawi and Angola the proportion remained high from 1997 to 1999. Although more food is being produced worldwide than ever before, globally 800 million people are chronically undernourished (Ehrlich & Ehrlich, 2009).

### **Population Growth**

Population problems are not new to the world (Butler, 2009). Throughout history there have been concerns about too many, too few, too many old, too many or too few young people (Hopfenberg & Freemantle, 2012; Landau & Freemantle, 2013). Recently, however, the concerns about population have centred on the mounting population growth in the world. Yet, a growing population in some parts of the

world is a step towards economic and industrial transformation (Landau & Freemantle, 2013). This technically interprets that there is an optimum set of conditions, which must be met to balance population growth and to obtain sustainable agricultural production. Numerous scholars have defined population growth. But the figurative concern raised within this section arrives at the dynamics of population growth. These dynamics emanate propensity in form of population growth in form of natural increase (birth and mortality) and through migration (Hopfenberg, 2003; Landau & Segatti, 2013).

### ***Natural Growth***

According to Hopfenberg (2003), the concept of natural growth represents the births and deaths in a country's population. He further contributes that the contribution of birth and death rates towards the increase of a population is calculated and the difference represents either an increase or a decrease. In most cases population increases because death rate is high in less developed countries however, birth rates transcend (Ehrlich & Ehrlich, 2009; Landau & Segatti, 2013). The fall in death rate has to be seen as comprising of two elements; Firstly, a lengthening of the life of adults, and secondly, a fall in infant mortality (Malthus, 1826; Landau & Segatti, 2013). The life span of adults is not much different from what was experienced before the fall in the death rate, as this has been concentrated in the first year of life. The rapid rise in population is therefore seen as a consequence of the fall in infant mortality and to a lesser extent as a result of a greater life expectancy once the first critical year has been survived (Landau & Freemantle, 2012).

### ***Migration and Emigration***

The movement of people from one location to another can be viewed as a spontaneous human effort to achieve balance between population and resources (Landau & Freemantle, 2012; Landau & Segatti, 2013). A migrant is a person entering and added to, or leaving and subtracted from the population of a given area. That is, the total gross and net increments caused by the entrance or departure compromise migration (Lee *et al.*, 2009; Landau & Freemantle, 2012). It is a natural phenomenon, which produces demographic, social, economic interaction. Together, these aspects reduce some of the disequilibria in nature. Without these interactions the spatial imbalance of such factors as wealth, food consumption and agricultural output would be very large (Bradley, 2011). Therefore migration is both a result and cause of the physical and human environment. Certain environmental, political, social and economic issues encourage movement of people and these movements in turn alter the environmental conditions (Bradley, 2011; Landau & Freemantle, 2012). According to Landau & Freemantle (2012), the growth rate can be used to determine a country or region or even the planet's "doubling time," which tells us how long it will take for a country's current population to double. This length of time is determined by dividing the growth rate into 70. The number 70 comes from the natural log of 2, which is 70 (UNP, 2010). Hence, in trying to bring synthesis to the above content, population growth can be understood as change in population size contributed from both natural growth and migratory factors. According to Hopfenberg & Segatti (2013), the amount of growth is obtained by mathematically subtracting some earlier population count against the latter count. In other words, the population growth in a specific area during a specific time interval equals; the number of births per 1000 (B), less the number of deaths (D), plus the net migration (M) (Malthus, 1826; Lee *et al.*, 2009). Net migration is the balance between immigration and

emigration. This can either have a positive or negative change to the count (Hopfenberg & Pimentel, 2001; Coates *et al.*, 2007; Landau & Freemantle, 2012).

Rapid increase in population in the less economically developed nations has come about as the result of a marked fall in the death rate, without a corresponding fall in the birth rate (Ehrlich & Ehrlich, 2009; Hopfenberg & Segatti, 2013). What happened since the Second World War, many less economically developed nations like India, was that both the birth and death rates were around 40 per thousand of population to start with. Thereafter the death rate fell to 15 per thousand. Hence this led to an increase of population by 25 per thousand, or 2, 4 per cent (Ehrlich & Ehrlich, 2009; Lee *et al.*, 2009; UNP, 2013). The fall in the death rate has to be seen as comprising of two elements. This may firstly be caused by a lengthening of the life of adults and secondly, due to a fall in the infant mortality rate (Hopfenberg & Pimentel, 2001; Hopfenberg, 2003; Landau & Freemantle, 2012). The life span of adults is not much different from what was experienced before the fall in the death rate, as this has been concentrated particularly in the first year of life. The rapid rise in population must therefore be seen primarily as a consequent of the fall in the infant mortality and to a lesser extent as a result of a greater life expectancy once the first critical year has been survived (Ehrlich & Ehrlich, 2009; Hopfenberg & Segatti, 2013). Most of the population takes place in the less economically developed countries, which are least equipped to absorb and deal with it. According to Lio & Liu (2008) and FAOStat (2013), the less developed nations are growing two or even three times as fast as the developed nations. This is due to the fact that the developing nations receive more of the benefits of medicine and the worldwide awareness of proper nutrition. This has combined to cause a decrease in the death rate (FAOStat, 2013). The long established custom of placing a high value on children and moral value continues to promote and encourage high fertility rates (UN, 2000; WB, 2013). Most men and women in less economically developed countries want to have as many children as they can. Hence the arriving point of ignorance towards demographic impact towards household food security. The relationship between family size and access to food supplements is imminent (Lio & Liu, 2008; Deitchler *et al.*, 2010).

## **RELATIONSHIP BETWEEN POPULATION GROWTH AND FOOD SECURITY**

The relationship between population growth and food security emanates debate as long as the introduction of Fleming's spinning Jenny agricultural mechanisation tool (Lio & Liu, 2008; Ehrlich & Ehrlich, 2009; Landau & Freemantle, 2012; Landau & Segatti, 2013). Although there is a widespread awareness of the high population growth rate, there is not always agreement or consensus about its implications. On the contrary, there is considerable disagreement about the implications of population growth. Thus, although the population explosion is beyond dispute, its meanings and interpretations have been topics of lively controversy (Maxwell, 2007; Lee, Puleston, & Tuljapurkar, 2009). One school of thought sees the global population growth as a crisis for humankind, for human subsistence, and for living space (Malthus, 1826; Harris & Kennedy, 1999; Magdoff & Tokar, 2009; Zita, 2012; Landau & Segatti, 2013). According to this view, high population growth is likely to increase pressure on food, space and agricultural resources. The result of scarcities in resources is likely to lead to an increase in hunger, malnutrition and perhaps the death rate (Food and Agricultural Organisation, 2013; Landau & Segatti, 2013).

Ecologists and population biologists have long used the logistic model of population dynamics as a way to understand the cause and effect relationship between carrying capacity and population size

(Hopfenberg, 2003). Numerous literatures have explored this relationship using mathematical human carrying capacity models that proved not to explore adequately the consonant. Mathematically population growth and food security cannot either be equilaterally defined not obfuscated (Maxwell, 2007; Lee *et al.*, 2009). According to Lee *et al.* (2009), population growth plays a conflicting role in fundamentals of food security. It can either act as a stimulus and/or impediment to food access and availability. The common view as far as developing countries are concerned, is that rapid population growth presents an obstacle to the determinants of food security, which are access, and availability of food (Lee *et al.*, 2009; Zita, 2012). This is because a rapid increase in population can force a country to allocate a large share of national revenue to consumption requirements. This in turn can limit the amount of revenue necessary for the development of other economic generation sectors available, which may be crucial in order to build opportunities for improving the standard of living of the population as a whole. A slower rate of population would free these resources needed to provide for other requirements and sectors.

Thomas Malthus first discovered the problem of population explosion in 1810 and he warned that population would grow beyond their limit of available resources and keep the world in poverty. Malthus estimated that given no checks of self-restrain, the human population can double every twenty years (Malthus, 1826). The rapid population growth in developing countries places a major setback and lack in terms of food security and quality of life. An increase in population has a negative effect on the improvement of food supplies and agricultural activity. Lee *et al.*, (2007); Landau & Segatti (2013); Zita (2012) arrive with an accession that suggests that rapid population growth hinders a nation's ability to progress and to satisfy the growing demand of its people for a better life. This coincidentally leads to wide spread misery and starvation in the country (Lee *et al.*, 2007).

A higher rate of population growth has a negative effect on the improvement in food supplies and also intensifies the constraints on the development and household savings. This happened because the increase in population growth reduces household savings ratio as it leads to a higher level of dependency ratio of children who consume but do not produce (Landau & Freemantle, 2012; FAO, 2013). The savings per capita tend to be depressed. Magdoff & Tokar (2009) & Bradley (2011) arrive with a cognitive statistic that suggests 12% of the global population (approximately 36 million people) suffer from hunger and live without secure access to food. Decreased food production in less developed countries, increases in the price of food, and growing production of bio-fuels are responsible for current rates of food scarcity (Zita, 2012). Global warming, crop diversity loss and urban sprawl also affect agriculture production. Zita (2012); Club of Rome (2013), arrive with an optimistic observation, that current per capita grain production seems to be decreasing worldwide. The situation is particularly distressing in Africa, where grain production is down 12% since 1980. Africa only produces 80% of what it consumes (Zita, 2012; FAOStat, 2013; FBSA, 2013). Food insecurity has the potential for worsening far beyond anyone's expectations. Have we finally reached Earth's carrying capacity? Scholars' opinions vary depending on their perspective. While Neo-Malthusian scholars such as Ehrlich & Ehrlich (2009) believe the only way to avoid this catastrophe is by restraining population growth, others such as (Russell Hopfenberg, 2003; Coates *et al.*, (2007); Caeyers *et al.*, 2011; Chen & Ravallion, 2012) assert that we must curb food production to limit population growth.

### **Neo-Malthusian Model**

According to Ehrlich (2009), Thomas Malthus (1826) was the first to address food scarcity as an

issue and defended the hypothesis that growing global population will eventually eclipse the Earth's capacity to feed it. "The power of population is indefinitely greater than the power in the earth to produce subsistence for man" (Malthus, 1826: 13). Ehrlich & Ehrlich (2009) extended Malthus' theory on population growth by asserting that humans were going to fail in the battle against hunger. Despite his predictions, Ehrlich (2009) recognised that the some societal shifts have occurred that indicated that at least some populations were slowing their growth. For instance, fertility rates in most developed nations have dropped to less than replacement levels and the Green Revolution had a larger impact than expected (Hopfenberg, 2003; Ehrlich, 2009; Magdoff & Tokar, 2009). However, the absolute number of people without enough to eat in 2005 – approximately 850 million – was similar to the number reported in 1968 (Ehrlich, 2009). Numerous scholars have questioned Malthus' Scarcity theory by proposing that increases in food supply are responsible for population growth. Scholars as Hopfenberg (2001, 2003) have supported this hypothesis. Hopfenberg (2001, 2003) determined earth's carrying capacity by studying the dynamics between food production and agriculture. He estimated future population numbers by using past food productions numbers, which were similar to those estimated by FAO (2013). According to Hopfenberg (2003), Malthus & Darwin understood that in the absence of limitations of resources – such space and food – populations would grow exponentially. If resources are limited, the growth rate will begin to decline as the population reaches the maximum that the environment can support. Population will continue to decline until equilibrium is reached. Although Hopfenberg's hypotheses has strong biological foundations, it does not seem to maintain when confronted with cases such as Africa, where population sizes have continued to increase despite declining food production on the continent as expected by the Malthusian model. Currently, African nations such as Liberia (4.1%), Nigeria (3.49 %) and Uganda (3.24 %) have among the highest population growth rates in the world (World Bank, 2013). *Neo-Malthusians* have negative expectations concerning agriculture production, since they consider agriculture as a land-restricted and economic-oriented process. Population has the potential to outstrip agricultural production. Deitchler, Barnard, Swindle & Coates (2010) argues that regions with higher population will present a negative relationship with agriculture production. They further argue that developing regions will present higher population growth rates and lower agriculture production rates and developed nations will present an inverse relationship.

### ***An increase in Population Growth and Decrease in Agriculture Production***

Neo-Malthusians predict a difference between developing regions: Africa, Asia and Latin America; and developed regions: Europe, North America and Oceania. Recent trends show that since 1990, agricultural output has declined in Oceania, Europe and North America (Magdoff & Tokar, 2009). On the other hand, Asian regions experienced an increase in their agriculture production, particularly because of increases in use of fertilizers and genetically modified crops (Lio & Liu, 2008).

### **RECOMMENDED POLICY AND PROGRAM ACTIONS**

The fast rate of population growth within Sub-Saharan Africa is a denominator towards food security (UN, 2011; Zita, 2012). Hence the paper suggests the following measures to be adopted within sub-Saharan African in order to curb population growth as it poses a threat towards food accessibility.

### **Support Voluntary Family Planning Programs**

Reducing hunger in sub-Saharan Africa will depend on the size of future population projections thus, an increased investment in family planning is essential. Almost two out of three women in the region who want to avoid pregnancy, delay or space their births are not using a modern method of contraception (USAID, 2009). Providing family planning information and services to these women would reduce unintended pregnancies by 77% and cost US\$2.4 billion annually (USAID, 2009; UN, 2010; FAOStat, 2013). These investments would reduce high-risk births that result in infant and maternal deaths. Smaller, healthier families also demand less from education, health, and other services, including agricultural extension (USAID, 2009). Unfortunately, family planning programs remain underfunded and do not meet current needs, much less future needs, and support for population policies and family planning programs is often isolated in the health sector (UN, 2010). Slowing population growth through voluntary family planning programs demands stronger support from a variety of development sectors, including finance, agriculture, water, and the environment.

### **Empower Women and Girls to Improve Health and Eliminate Hunger**

Rihani, Kays, & Psaki (2006) and Kenya National Bureau of Statistics (KNBS, 2013) arrive with an analysis which suggests that women in many parts of sub-Saharan Africa, lack decision making power especially on reproductive health, farming, or basic household spending. The Bureau further asserts that programs that help women complete their education benefit both agriculture and health (Rihani *et al.*, 2006; USAID, 2012). Girls who complete a secondary education and who are empowered to participate in household decision making choose smaller families, are healthier, and have healthier children. These same women then can better invest in the health and nutrition of their families and in the necessary improvements in agriculture (Rihani *et al.*, 2006). Agriculture and health programs must continue to focus on investments in women and girls, particularly their education, thus giving them the resources, information, and services they need to play an effective role in meeting future agricultural and nutrition challenges.

Support research and programs that link agriculture, nutrition, and reproductive health  
Donors and development agencies are making great strides in linking agriculture, nutrition, and health programs, but many funders still hesitate to address population and family planning (USAID, 2009, 2012; KNBS, 2013 ). Innovative examples from the field, however, show that beneficiaries, community leaders, and practitioners recognize the benefits of programs that integrate health needs, including family planning, into efforts to improve agricultural systems (UN, 2010, 2011; Chen, 2012). These programs represent a potential win-win solution for some of the long-term challenges to reducing hunger. Integrated programs, through agricultural extension, may be more successful at reaching rural people who have no access to health systems; engaging men who receive little information about family planning; and reaching women more efficiently with health, nutrition, and agriculture services.

### **CONCLUSION**

This paper sought to understand the relationship between population growth and food security. Hence the following recommendations will be made: firstly, the repositioning of sub-Saharan Africa is crucial! The blanket of contention should not bias ideology to settle within hopes of foreign aid as a

substitute for its efforts. Ideological entities such as from the NEPAD should help form a contemporary base from which food security and population growth can be contended. Policy frameworks within NEPAD should not be polarised with western propaganda. Throughout the paper, it has been noted that women play a very crucial role in terms of food security within the region. Hence, investments in women's agriculture, education, and health are critical to improving food security in sub-Saharan Africa. Improving access to family planning is a critical piece of fulfilling future food needs, and food security and nutrition advocates must add their voices to support investments in women and girls and voluntary family planning as essential complements to agriculture and food policy solutions. Furthermore, relief alone only treats the symptoms and doesn't really solve the problem. Today, enumerable organisations such as Food and Agricultural Organisation (FAO) and Operation Hunger (OH) clamour for feeding schemes in rural South Africa. The harsh truth is that all these altruistic schemes are of no avail in them except as a temporary palliative, because they only relieve the conscience and are myopic; they do not solve the real problems which stem deeper.

Anyone familiar with *The Tale of Two Cities* by Charles Dickens would identify with what can transpire when hunger and desperation gnaw at the poor and the destitute. It envisage the same scenario unfolding in South Africa and it is noted that government is alive to this and no doubt, its social assistance grant system and other interventions are in place, but not enough was submitted. It was at a nationally branded supermarket in Durban and it has noticed the ever-spiralling price of basic foodstuffs and wondered how those on such grants were coping. From what was experienced, not well. However, the consonant of population growth and food security leaves room in debt to exploration and feasible mitigations impaired.

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# POST-APARTHEID ECONOMIC TRANSFORMATION AND THE MULTIPLICITY OF MACRO-ECONOMIC FRAMEWORK POLICIES IN SOUTH AFRICA

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## ABSTRACT

In the apartheid era economic under-development of non-white settlements was both legal and constitutional through the policy of separate development. A plethora of pieces of legislation were passed to deliberately and economically under-develop homelands and self-governing territories. Blacks were viewed as job-seekers in whites-only industrialized and developed areas of South Africa. They were not legally allowed to engage in business ownership in the productive sectors of the economy. The apartheid government did however create jobs for the majority of blacks who looked for employment as a source of economic livelihood. The democratic government of South Africa has a unique pre-occupation with employment creation than economic transformation through productive sectors ownership by the historically dispossessed black people of South Africa. A few politically-connected Liberation Movement Elites (LIME)s, get financially and economically empowered to amass wealth in the mining sector, citrus, forestry, property, transport, game, energy and water sectors through such policies as BEE,(Black Economic Empowerment) leaving the majority of South African unbelievably poor. The democratic government of South Africa overemphasizes job-creation than economic share-ownership of agricultural, mineral, industrial and energy resources by indigenous South Africans as an avenue of economic transformation. Development means ownership and effective, efficient and competitive full utilization of economic resources by the indigenous people for purposes of improving the standards of living locally than elsewhere outside their borders. The overemphasis on jobs by the current government is both misleading and illogical on a long term basis. The emphasis on any government economic transformation policy should be on share-ownership and redressing the legacies of apartheid of slavery, annihilation of indigenous kingdoms and tribes, land and mineral rights dispossession, cheap labour, deliberate lack of infrastructure, Bantu education, and a plethora of other underdevelopment factors in South Africa. The post-apartheid policies of GEAR (Growth Employment and Redistribution) and RDP (Reconstruction Development Programme) and the NDP (National Development Plan) inadequately address the economic underdevelopment factors in South Africa hence the slow pace of economic transformation. It is the contention of this paper that government was pre-occupied with social welfare issues than greater economic transformation when GEAR, RDP and the NDP were weaved. This discourse fundamentally explores the necessity of the above macro-economic frameworks as means of economic transformation in the post-apartheid South Africa.

**Keywords:** GEAR; RDP; NDP; economic transformation; Bantu education; South Africa

## INTRODUCTION AND BACKGROUND

During the apartheid each two economic processes lived side by side, one was development in whites-only areas (WOA)s and the other one was under-development in blacks-only areas(BOA)s. The Group Areas Act legalised separate development in apartheid South Africa. Thus two nations lived side by side, one rich and white and the other one black and extremely poor. Mineral exploitation was, however, done successfully and profitably, using cheap labour mostly from indigenous South Africans. Coal, gold, diamond, platinum, asbestos and iron and steel, to mention a few enriched and developed historically

whites-only areas. Inequality was legal and perpetuated by the political masters over the colonized. Black only areas were severely and irreparably underdeveloped, economically, gradually and financially. However, indigenous South Africans were exploited as cheap labour, in the mining, agricultural, non-metallic mineral industries and other sectors such as fishing and transport. Lack of political power, by the black citizens, was sufficient enough to under-develop them because they would not participate in public policy making processes. The new post-independence government had to formulate sound and viable policies to develop the new country. RDP and GEAR, were formulated and implemented. The main objective of this paper is to examine the necessity of RDP.

GEAR and NDP are seen as viable programmes and solid basis of a developmental state. Reconstruction and Development Programme (RDP), is a South African socio-economic policy framework which government implemented in 1994 following intensive debates with different stakeholders. As the policy framework is named, the main focus is on reconstruction and development of the post-apartheid South African society. South Africa inherited huge socio-economic policy framework which government implemented in 1994 following intensive debates with different stakeholders. Additionally, it inherited huge socio-economic inequalities from the apartheid regime. Historically, black communities were legally and constitutionally underdeveloped, with the result that the new government faced a tremendous challenge of revamping and constructing infrastructure that has been neglected since 1652. In other words the RDP programme was propelled by the desire to address the immense socio-economic problems brought about as the consequences of the apartheid regime. Legalised underdevelopment precipitated high levels of poverty in most historically black communities, mainly in the, self-governing territories and homelands. Due to international sanctions against the apartheid government, economic growth was acutely affected. Economic growth was stagnant at an average of 1.7% declining per capital income (averaging,-0,7 % yearly , increasing unemployment, (using the broad definition up from around 20% at the start of the 1970s to around 30% by 1994 ) and a spiralling debt problem (under the De Klerk government -1978-1994 alone, debt rose from less than 3% of GDP to more than doubled. The RDP framework identified political, moral, socio-environmental, socio-economic problems that beset the country by 1994. It was significant to formulate a novel socio-economic policy framework to take government goals forward. Economic ownership and economic resources re-distribution was a major policy concern to the new black aristocracy. In fact the main objective of engaging in a liberation struggle was hinged mainly on ownership of land resources and illegal dispossession, which took place commencing 1652, until 1993.

The democratic government of South Africa conceptualised neo-Keynesian project called RDP and however, implemented it partially and dropped it after two years of trial and error, in support of GEAR (Growth Employment and Redistribution). To McKinley, the socio-economic results of GEAR have been very obnoxious. Increased unemployment, rising from 16% in 1990 to more than 40% in recent years, a fall in the average income of working class families of around 19%, in particular in those sectors linked to the informal economy, around 50% of the economically active population, a strong polarization of the distribution of wealth and income, an increase in poverty, with the official rate at 70% and of extreme poverty, estimated at 8%, an increase in the price of basic public services, like water or electricity lightening, due to privatization and the policies of cost recovery, that have caused massive cuts in supply to some 1 million families for not having paid bills, and maintenance of the structure of land ownership which has undergone very few alternations with respect to the period of apartheid (McKinley, 2004).

## MOTIVATION FOR THE STUDY

Since the advent of democracy, a potpourri of economic policies has been enacted in South Africa. The Mandela government, the Mbeki administration and the Zuma government have all formulated different economic policies to represent macro-economic frameworks upon which the economy would function. Thus RDP, GEAR, NGP and NDP came at different stages of the South African democracy. Very little research has been done to explore the necessity of these varying macro-economic programmes in South Africa. Thus this paper is a critical exploration of these economic programmes of action in order to impart a balanced perspective on government economic policy after apartheid. It is also critical to examine if the development agenda is not scuttled by the enactment of a blizzard of different macro-economic frameworks within just a period of 19 years and their desirability thereof.

## RESEARCH METHODOLOGY

This study should be viewed as both a discussion document and a conceptual exploration of the government programmes of economic development and transformation. RDP, GEAR and NDP have been selected as specific policy programmes for examination in this paper. This paper has utilised empirical and theoretical approaches to data acquisition. Lastly, this study is guided by assumptions from the NyPUF theory in so far as they relate to approaches to state macro-economic management. In fact a triangulation method was used to gather data for this paper.

## BACKGROUND TO RDP AND GEAR

At independence South Africa faced deep-seated socio-economic and structural –financial problems most of which were a result of apartheid. To deal with the structural inefficiencies, the new government had to produce an economic framework. The RDP white paper was unveiled to deal with critical problem areas in the legal, social, economic, political, moral, cultural and environment spheres. A novel macro-socio-economic framework was developed to deal with a plethora of the socio-economic issues inherited from the apartheid. Due to the policy of separate development introduced by the architects of apartheid, two economic processes unfolded in South Africa, that time, namely underdevelopment of BOAs and development in WOAs. The RDP White Paper outlines six major principles that guided and gave substance to the remainder of the programme:

- The RDP would be an integrated, well-coordinated and sustainable programme, to be conducted in and integrated amongst all three spheres of government , along with civil society, business and parastatals.
- Development is not about the delivery of goods to a passive citizenry. It is about active involvement and growing empowerment. In taking this approach the government will build on the many forums, peace structures and negotiations that our people are involved in through the lan.
- The RDP would attempt to play a role in ending the endemic violence within the South African community by embarking on a national drive for peace and security. Such conditions, the programme noted, would also help to encourage investment, thus feeding back the drive towards economic expansion and greater development (RDP, 1994).
- The commitment of all parties to the RDP would encourage and further the grand project of

Nation-building. Here the programme noted:

“We are single country, with a single economy, functioning within a constitutional framework that establishes provincial and local powers, respect and protection for minorities, and a process to accommodate those wishing to retain their cultural identity. It is on the basis of our unity diversity that we will consolidate our national sovereignty” (RDP, 1994).

- The RDP would link growth, development, reconstruction, redistribution and reconciliation into a unified program, held together by broad infrastructural programme that would focus on creating and enhancing existing services in the electricity, water, telecommunications, transport, health, education and training sectors. Crucially, the programme notes that :  
“.....attention will be paid to those economic factors inhibiting growth and investment and placing obstacles in the way of private sector expansion.”
- The success of the five first principle would in turn facilitate the six principles.

The Six Basic RDP Principles are: an integrated-driven process; peace-driven process; peace and security for all; nation building; link between reconstruction and development; and, democratisation of South Africa. Marais (1998: 180) gives a brief overview of what the RDP policy document specifically promised the people of South Africa. The RDP base document had pledged, among other things, to: create 2.5 million new jobs in ten years; build one million low-cost homes by the year 2000; provide electricity to 2.5 million homes by the year 2000; provide running water and sewage system to one million households; redistribute 30% of agricultural land to small-scale black farmers within five years; provide ten years of compulsory free education, as well as revise the curriculum, reduce class size and institute adult basic education and training programmes; extend infrastructure through a public works programme; and, restructure state institutions to reflect the racial, class and gender composition of South Africa society.

In 1996, the RDP office was closed down and the new macroeconomic policy called GEAR announced. Just like other economic restructuring programs across the world, GEAR was seen as panacea to new democracy. The architects of GEAR saw it as a useful tool to ward off socio-economic stagnation, recession which emanated from the apartheid failures politically and economically. The former President, Mr Mandela, echoed that GEAR is a good strategy to drag our economy out of the mess that apartheid left us. It has enabled us to turn the economy around (Cosatu, 1997). The GEAR policy document stipulated that it was a strategy for rebuilding and restructuring the economy, in keeping with RDP goals. GEAR was established as a strategy to set the economy into a path that would ensure: a competitive and fastest growing economy which creates enough jobs for all work seekers; a redistribution of income and opportunities in favour of the poor; a society in which sound health, education and other services are available to all; and, an environment in which homes are secure and places of work are productive.

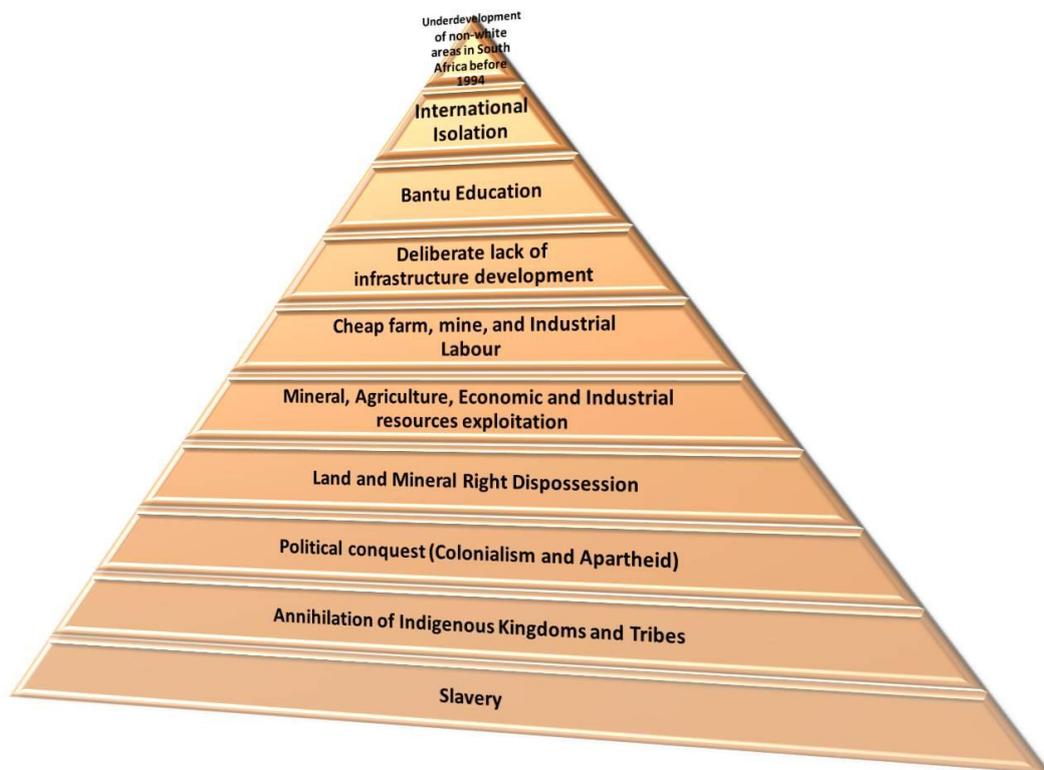
To some scholars GEAR was socio-economically less successful because it did not fulfill all its promises. The architects failed to identify factors that led to the underdevelopment in South Africa of predominantly black only areas. The following model below depicts those factors clearly. The (NyPUF) model, argues that for substantive economic growth and development to take place accurate identification of underdevelopment causality must be done first, so that it can be dealt with accordingly.

The NyPUF (pyramid of underdevelopment factors) has identified a number of issues that require government attention for development to take place. Apartheid may have been defeated politically but in the economic growth sectors, it is still alive and that defeats the whole purpose of the RDP, GEAR and

NDP. The main goal of the government when RDP was formulated was to address the socio-economic problems that were precipitated by the apartheid particularly social inequality and poverty in black settlements. Social services at independence were a critical problem. Because of centuries of deliberate underdevelopment in black areas, social life for blacks was unbearable. The restoration of the dignity of pre-colonial and pre-apartheid communities is critical for purposes of economic transformation and development.

Figure 1: The NyPUF (Pyramid of Underdevelopment Factors)

## (NyPUF) Model



For example, the Khoi-Khoi and the San are supposed to be revived actively so that they participate in local economic decision –making in the issues concerning their lives. Progress has been recorded in Northern Cape about restoration of the indigenous tribes and people of South Africa. South Africa is a mineral rich country but in the hands of a minority and external companies who repatriate profits out of the country instead of developing locally. This is the heart of development. Profits from the mining sector, energy and agricultural segments of the economy should be used to develop life locally, but this will not happen unless the local indigenous people own the mineral wealth and other resources natural to the country. GEAR, NDP and RDP say very little in this regard. Bantu education was poor and is still bad. Modernization of education is critical for development to take place in South Africa. Bantu education during the apartheid did the opposite. It created professionals in the clerical and nursing categories who did little in terms of economic decision making. The new government of South Africa should address the

skill shortage problem. Cheap labour undermined the economic potential of local workers but benefited the business owners. Development can be achieved by dealing completely with the issues raised by the NyPUF model. RDP excelled on the social front and it was however criticized for providing poor quality and cheap products.

Adelzadeh (1996) criticises GEAR for the lack of integration and over-reliance on the private sector for promotion of development. He concedes that all the GEAR targets were missed by huge margins for 1996-1998. To him the GDP declined from 3.2% to 1.7% ,to 0,1% in 1996,1997,to 1998, per capita income fell 2.6% from 1996 to 1998,unemployment increased with job losses of 71000,126000, and 186000 yet GEAR had promised job gains of 126000,252000,246000 respectively (Bond, 2000). Gear forms the substrate for government's privatisation policy, which has led to more than 150 000 job losses in the semi-government sector and the rest of the economy. It is critical to realize that most post-colonial states in Africa failed to resolve the problems caused by colonialism and slavery. In reality they became gatekeeper states: states that acquired most of the revenue from customs duties, concessions to foreign companies, visas, foreign exchange control and foreign aid and in many ways this built upon the legacy of the colonial period and the slave trade. It led to particularly fierce competition for control of state apparatus and authoritarian regimes- both military and civilian under various ideological banners - became the order of the day in African states from the end of the 1960s (Simensen, 2010). Development was not the primary aim of these regimes, their priority was to tighten political control, control the flow of resources and develop personal networks rather than building well-functioning institutions according to Simensen (2010). South Africa fell into the same snare. On the political front RDP was used to attract support from the masses of South Africa while the post-apartheid, LiMEs consolidated their political power and position and creating economic opportunities for themselves individually. The way BEE (black economic empowerment) policy was conceptualized and implemented in South Africa is a good example of lack of commitment for economic development but personal interests are put first by the post-apartheid leaders in South Africa. However, the NDP (National Development Plan), which aims to eliminate poverty and reduce inequality by 2030, has pronounced a set of prescriptions for local government, but the plan has done very little in terms of specificities as identified by the NyPUF model.

The plan has six major priorities: using all South Africans around a common program to achieve prosperity and equality; promoting active citizenry to strengthen development, democracy and accountability (NDP, 2011); bringing about faster economic growth, higher investment and greater labour absorption; focusing on key capabilities of people and the state; building a capable and developmental state; and, encouraging strong leadership throughout society to work together to solve problems (NDP, 2011). The three priorities which stand are: raising employment through faster economic growth; improving the quality of education, skills, development and innovation; and, building the capability of the state to play a developmental transformative role. The commission's diagnostic Report identified the following nine primary challenges: too few people work; the quality of school education for black people is poor; infrastructure is poorly located, inadequate and un-maintained; spatial divides hobble inclusive development; the economy is unsuitably resource intensive; the public health system cannot meet demand or sustain quality; public services are uneven and often of poor quality; corruption levels are high; and, South Africa remains a divided society (NDP, 2011).

## THE NDP VISION FOR 2030

To address the twin challenges of poverty and inequality, the state needs to play a transformative and developmental role. This requires well-run and effectively coordinated state institutions with skilled public servants who are committed to the public good and capable of delivering consistently high-quality services, while prioritizing the native's developmental objectives (NDP, 2011). This will enable people from all sectors of society to have confidence in the state, which in turn will reinforce the state's effectiveness. This vision requires a capable and developmental state: capable in that it has the capacity to formulate and implement policies that serve the national interest; developmental in that those policies focus on overcoming the root causes of poverty and inequality, and building the state's capacity to fulfil this role. The National Developmental Plan highlights the need of a developmental state that is capable of driving the country's development. Building state capacity is the most important step to achieve a developmental state. However, the plan also recognizes that not all capable states are developmental and so emphasizes the importance of building a capable and developmental state within a vibrant democratic system.

A developmental state brings about rapid and sustainable transformation in a country's economic and/or social conditions through active, intensive and effective intervention in the structural causes of economic and social underdevelopment. Developmental states are active; they do not simply produce regulations and legislation. They constantly strive to improve the quality of what they do by building their own capacity and learning from experience. They also recognize the importance of building constructive relations with all sectors of society, while insulating them from capture by sectional interests.

Developmental states have been created in both authoritarian and democratic countries. In many cases, democracy has been crucial in ensuring the state has sufficient legitimacy to bring about transformation. This is particularly important in South Africa where, as the plan identifies one of the most critical roles of the state to enable people to develop their capabilities. A robust democracy is therefore not just compatible with building a capable and developmental state it is an essential prerequisite for a developmental state.

### Prescriptions of the NDP for a Developmental State

The NDP prescribes that South Africa needs to focus on building a capable and developmental state. What needs to be done? South Africa needs to focus on building a capable and developmental state. The experience of other countries proves that this cannot be done overnight. Measures would have to be strengthened over time. There are eight areas where targeted action is particularly important (NDP, 2011).

- Stabilise the political-administrative interface: Build a professional public service that serves government, but sufficient autonomous to be insulated from political patronage. This requires a clearer separation between roles of the political principal and the administrative head (NDP, 2011).
- Make the public service and administration careers of choice: Build skilled and professional public services from the top to the bottom. At senior levels recruitment and management should be based on experience and expertise, while at junior levels the focus should be on developing the skills and expertise that will be necessary for future public service cohorts (NDP, 2011).
- Develop technical and specialist professional skills: Reinvigorate the state's role in producing the

specialist technical skills to fulfil its core functions. Develop appropriate career paths for technical specialists.

- Strengthen delegation, accountability and oversight: Promote greater and more consistent delegation supported by systems of support and oversight. Make it easy for citizens to hold public servants and politicians accountable, particularly for the quality of service delivery. Ensure effective oversight of government through parliamentary process (NDP, 2011).
- Improve interdepartmental coordination: Adopt a less hierarchical approach to interdepartmental so that most issues can be solving between officials through routine day-to-day interactions. Strengthen the cluster system and the role of Presidency in resolving strategic issues (NDP, 2011).
- Take a proactive approach to improving relations between national, provincial and local government: The state needs to recognise the wide variation in capacity, particularly at municipal level and develop greater responsibilities where capacity exists, while building capacity in other areas. Where capacity is more limited particularly in many rural areas, municipalities should be allowed to focus on their core functions and not be burdened with too many extra responsibilities. A pragmatic fit between roles and capacity will only resolve challenges in the intergovernmental system. It is inevitable that there will be disagreements about how responsibilities are divided, and national government should intervene when necessary to mediate disputes (NDP, 2011).
- Strengthen local government: Develop an enabling framework for local government with active support and oversight from national and provincial government. Take a more long-term approach to developing skills together with a professional ethos and commitment to public service. Mainstream citizen participation (NDP, 2010).
- Clarify the governance of SOEs: The major SOEs need clear public-interest mandates and straightforward governance structures that enable them to balance and reconcile their economic and social objectives (NDP, 2011).

## CONCLUSION

Finally, Tony Blair wrote, at first we govern with a clear radical instinct but without the knowledge and experience of where that instinct should take us in specific policy terms. In particular we think it plausible to separate structures from standards; that is, we believe that you can keep the given parameters of the existing public service system but still make fundamental change to the outcomes the systems produces. In time we realize that this is wrong unless you change structures you cannot raise standards more incrementally (Blair, 2011). Essentially the problems of South Africa are about structures in the economy. The inherited structures socio-politically and socio-economically have not been changed. The factors identified by the NyPUF model are still perpetuated by the existing structures of socio-economic governance. Thus RDP, GEAR and NDP though very desirable at all costs, the titanic obstacle of their successful implementation are the structures inherited from the apartheid epoch. It is critical to note that this paper posits that GEAR, NDP and RDP have inadequately focused on economic development but rather pay more attention to social issues and the economic transformation thrust is blurred in favour of civic human dignity considerations. Any policy that seeks to address economic development in South Africa must deal appropriately with the underdevelopment factors outlined by the NyPUF model. There is a symbiotic code of relationship between indigenous ownership of the economic, agricultural, mining,

citrus, water, energy and industrial resources and economic growth and development. Jobs are not development, per se, but should be a by-product of internally generated economic development initiatives. The problem of RDP, NDP and GEAR is that their core focus is not economic resources ownership by the local people through various sources of local ownership modes like in Norway. The three programmes are geared towards employment creation projects. The (NyPUF) model is clear about the 9 broad factors which led to the ferocious and corrosive underdevelopment of the BOAs in South Africa. Thus after the attainment of democracy the solution is simple- deal with these factors completely .It is not just South Africa that has been affected by the underdevelopment factors but almost all former colonies globally and those that managed to come out of such economic quagmire formulated economic policies that dealt with the factors unapologetically and strategically. Most Neo-liberal policies in a country with alarming economic and social inequality, engender poverty to majorities of poor people. In a developmental state government has a role to play in the economy through regulation and political intervention otherwise the markets are most likely to exploit the vulnerable economic groups in pursuit of better profits and markets: an agenda that was born for Africa at the 1884 Berlin Conference which pioneered the Scramble and Partition of Africa. The problem with most economic, political and religious African Leaders is that they have forgotten and forgiven their economic and colonial past for personal and individualistic reasons while it does not seem that the erstwhile colonizers have forgotten how they brought some level of modernisation to the so called less developed states. The high level of economic stagnation and poverty amongst indigenous South Africans makes neo-liberal policies a failure. It is the thesis of this paper that the need to foster economic development was a priority when GEAR, NDP and RDP were formulated but the implementation proved otherwise.. South Africa needs socio-economic revival and reformation through changing patterns of economic ownership of resources postulated by the (NyPUF) model. RDP mirrors the government proclivity for social spending especially on RDP housing projects. This paper has explored RDP, GEAR, NDP and the NyPUF model in a bid to examine the necessity of those programmes in the new South Africa.

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# AN INVESTIGATION OF THE EFFECT OF PROVINCIAL EDUCATION EXPENDITURE ON THE LITERACY RATE OF THE SOUTH AFRICAN POPULATION, 2008-2012

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## ABSTRACT

Governments all over the world have taken a prominent role in financing education. Some of the documented reasons are that education is essential for stimulating economic growth and increase in life expectancy, through improvements in literacy. Many papers in the endogenous growth literature have formalized a link between public education expenditures, human capital accumulation and long-run growth. Demography theories have also shown that there is a strong positive relation between education attainment and public health. Evidence shows that public health improves with years of education, irrespective of race or gender. There have been many documented challenges facing the population of South Africa currently such as unemployment and public health issues. These challenges have a direct relation to the public education. Budget and expenditure on public education has increased over the years, attendant to increased enrolment rates in both primary and secondary education, evidenced through the share of government education expenditure in GDP, which has reached statistically significant level of 1 per cent. In practice, though, the impact of education public expenditure on literacy rate, economic growth, public health and life expectancy remain untested in South Africa. This paper seeks to examine the impact of government education expenditure on literacy rate, economic growth, public health and life expectancy in South Africa. The study will compare the expenditure of government roll out on education and the outcomes of the population in close detail. This will be done by investigating the provincial departments' expenditure on education and the population education attainment at both primary and secondary school level. The data used will be the Budget Statements submitted by the provincial departments to the National Treasury and the population dynamics found in the Labour Force Survey. Descriptive statistical methods will be applied to describe the data and tabulation methods will also be applied to display the comparisons and relationships of the population characteristics such as adult literacy or illiteracy rate will also be investigated between the years 2008-2013. The conclusion of the paper should highlight areas of relevance to policy making in regard to the possible interventions.

**Keywords:** Education expenditure; literacy; public health; economic growth; life expectancy; budget statement; South Africa

## INTRODUCTION

Education is regarded as one of the most important aspects of regeneration and progress (Education, 2009). In a strategy to invest on education in nation building, South Africa has embarked on massive campaigns to ensure that all children in the country have access to education. This is achieved through country wide programmes and commitment to international agreements such the Southern African Development Community (SADC) and African Union (AU) Implementation of the Regional Education and Training Plan also referred to SADC/AU Second Decade Plan of Action. (South African Country Report, 2011). In an analysis of investments, education can be viewed by economist as a Human capital because of its ability to rise productively when increased. This productivity results to a rate of return which can be deduced and compared with returns of other investments.

Government plays an important role in the economies of countries where human capital development is high than in those with low or medium levels of human development. Studies reveal that investment in human capital development (through formal and informal education) provides individuals with many benefits. (Amon Okpala, 2006). Education promotes open-mindedness, and with it there is an ability to adapt to new techniques and situations. A literate person is said to enjoy a higher lifetime of earnings and consumption, and hence is able to make a greater contribution to social welfare. To economists, education produces benefits that accrue not only to the individual acquiring the education, but also to society as a whole. Hence, an educated populace is a very important determinant of the quality of life in a society. (Amon Okpala, 2006). The economic and financial problems faced by many developing economies, especially those in sub-Saharan Africa, have compelled them to adopt strict budgetary policies that have put a significant strain on public school expenditure. Furthermore Sub-Saharan Africa Educational systems has experienced natural and artificial (i.e., man-made) disasters (for example, poor economic performance, corruption, financial malfeasance, and excessive population increases, and the diversion of resources from education to political projects) during most of the post-independence period (Amon Okpala, 2006). This has resulted to a large population of youth and adults who are poorly trained and highly illiterate in most Sub-Saharan Africa countries.

Especially troublesome for these countries is the fact that girls and women comprise nearly two-thirds of the uneducated and unskilled individuals (Amon Okpala, 2006). Intellects have stated that the education system in South Africa is challenged with financial malfeasance and has a high-cost educational system that results to low-performance and does not compare favourably with education systems in other African countries, or in similar developing economies. According to the department of education, on the report, "the challenges of education", South Africa's policy on education focus has been to strengthen existing schools, build new ones, and appoint competent teachers regardless of their former or current allegiances (South African Country Report, 2011). Furthermore this includes inspiring and motivating teachers, engaging the teachers' unions, focusing on the role of principals as critical managers, and making teachers and principals feel that they were a crucial component in the building of the nation (Education, 2009). These policies with the aid of the fiscal policies are believed to achieve quality education and produce literate adults who are able to participate in the demanding economy and contribute to the society at large. As South Africa is attending all these forums and formulating policies and legislation on the activities of education, which are believed to produce literate and competent adults, and the fiscus been distributed accordingly, the question remains whether the fiscus that is distributed amongst the provinces and amongst the schools is adequate. What are the key items brought by the department in order to achieve the above objective and most importantly how has this fiscus impacted the population of South Africa.

This paper does not focus on the quality of education but the actual outcome of literacy rates within the South African population and the expenditure of education for the financial years 2008/9–2011/12. The impact of education expenditure to the South African population literacy rate is addressed by asking and answering two basic questions: (a) at what level is literacy in South Africa (b) Is there an association between literacy rate and bursary attainment in South Africa (c) What are the factors that contributors to the literacy rate in South Africa? These questions are addressed empirically in a cross-section of South African population in the year 2012. The paper will unfold as follows. The role of provincial

education in South Africa is explained followed by a brief description of the data and variables. A model of the literacy rates and the provincial expenditure variables is developed. The solution of the model and the discussion that follows leads to the conclusion that the effect of expenditure has on the population is made.

## **ROLE OF THE PROVINCIAL EDUCATION DEPARTMENT IN SOUTH AFRICA**

The SA Constitution (RSA, 1996a) provides for the national government to have exclusive responsibility for tertiary education, whereas responsibility for other levels of education is a concurrent responsibility of the national government and the nine provincial governments. The National departments of education function are administered by two departments, namely the Department of Basic Education (DBE) and the Department of Higher Education and Training (DHET). At provincial level, each of the nine provinces has its own education department (COMEDAF, 2011). The Department of Basic Education (DBE) is responsible for the school system and adult literacy. The Department of Higher Education and Training (DHET) is responsible for higher education institutions (HEIs), further education and training (FET) colleges and adult learning centres. It is also responsible for the system of workforce skills development, including the National Skills Authority, the Sector Education and Training Authorities (SETAs), trade testing centres and skills development institutes that had previously been developed and managed by the Department of Labour. The DBE focuses on schooling, from Grade R to Grade 12.

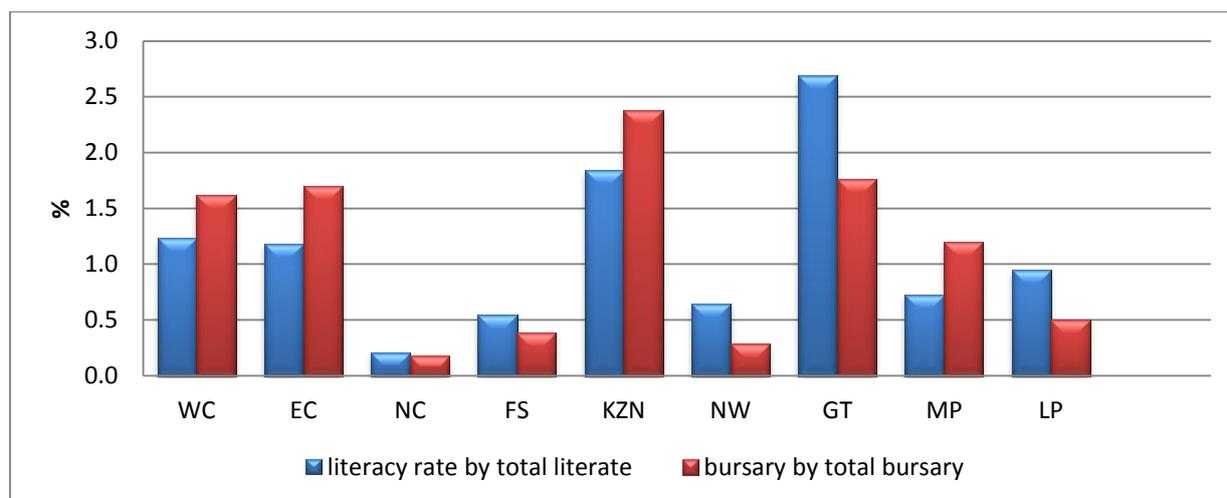
The constitutional framework states that schools, adult learning centres and further education and training colleges must be administered by the provincial education departments (PEDs) in terms of national policy and legislation and supplemented by provincial policies and legislation. When a national or provincial department is not able to deliver its administrative responsibilities due to lack of skills, resources, to name a few, a delivery agreement must be constructed. The Delivery Agreement was government's Outcome 1, of the 12 outcomes approved by Cabinet during 2010, aimed at improving government performance and service delivery. The objective of Outcome 1 is to improve the quality of basic education. The signatories to the Delivery Agreement are the national Minister of Basic Education, the national Deputy Minister of Basic Education, the nine provincial MECs for Education, and an additional 17 ministers whose departments have a direct or indirect role to play in the improvement of basic education (COMEDAF, 2011). This paper shall only focus on the provincial department expenditure on education as they are responsible for the administration of all the policies set in place by the national departments.

## **DESCRIPTIVE EVIDENCE ON EDUCATION LITERACY AND GOVERNMENT EXPENDITURE**

The quantity dimension of education in the present study is measured by schooling literacy rates and provincial expenditure on education. Literacy rate was chosen because it is associated with the MDG and to investigate its dependency on the provincial expenditure on education. Literacy rate is defined as the percentage of population aged 15 years and over who can both read and write with understanding a short simple statement on his/her everyday life. Generally, "literacy" also encompasses "numeracy", the ability to make simple arithmetic calculations. Adult illiteracy is defined as the percentage of the population aged 15 years and over who cannot both read and write with understanding a short simple statement on his/her everyday life. The government plays an important role in the provision of education

to the population. Providing relieve to parents in funding for education has been should as one of the factors which stimulate children to continue and complete formal education. Evidence indicates from the national policies with South Africa that government has put in resources so that it is easier to apply for relive of funding by both parents and the students. One such policy is the Free Basic Education in schooling policy introduced by the South African government. Below is a graphical representation of the population within South African that have received such relieve by province and the literacy rate if the population 15 years and above.

**Figure 1: Literacy rate and bursary attainment by province**

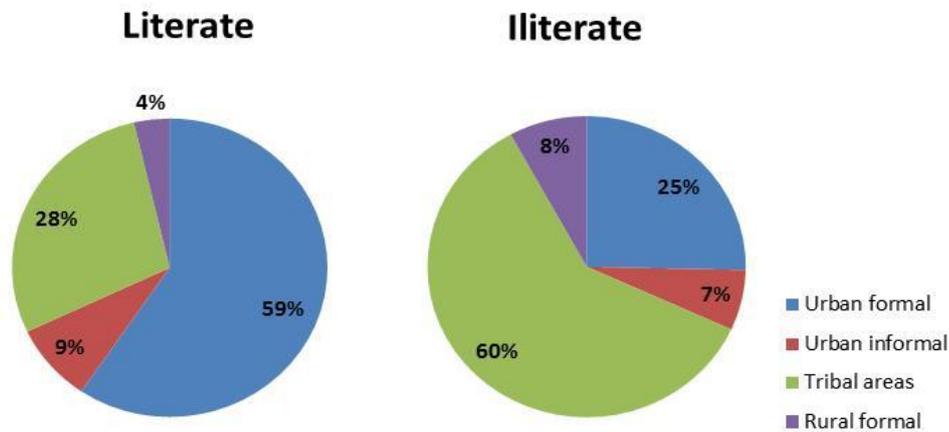


Source: Stats SA, GHS 2012

The figure depicts the rates of those that are literate by province and the rate of those that attained a bursary or financial education relief by province. This is to graphically demonstrate the how bursary attainment and literacy are related. The literacy rate discussed in the paper uses a denominator of the total population with an age greater than 15 years. 92% of the population in South Africa is literate (see appendix). Of those that are literate the figure above shows us that a large majority of them reside in Gauteng followed by Kwazulu Natal. The data revealed that only 1.4% of the population surveyed received relive in educational fees. The figure shows that of those that have received aid for education, a majority of them reside in Kwazulu-Natal. Children who become successful readers have exposure to adults who involve them in purposeful literacy experiences during the early childhood years.

Successful readers are likely to attend schools that provide pupils with frequent and intensive opportunities to read and write, while building upon early childhood experiences with opportunities for pupils to learn the nature of the alphabetic system. Successful readers experience overall progress that is steady and sure, despite periodic difficulties, and in line with this have the ability to build on informal experiences with literacy from early years as they encounter more formal and complex tasks (Howiea, Ventera, & Stadena, 2006). Most educational facilities are located in the urban areas. Unfortunately, most Africans are resident in the rural areas. As a result, a significant part of the population does not have effective access to human capital formation opportunities. (Amon Okpala, 2006). Figure below displays literacy by geographical type in South Africa in the year 2012.

Figure 2: Comparisons of literacy and illiteracy rates by settlement type



Source: Stats SA, GHS 2012

The data contains unspecified respondents or respondents who did not specify whether they are literate or not during the survey. This results in the percentage between the two pie charts not adding up.

#### DATA AND VARIABLES

In addressing the research questions mentioned above, the paper uses cross-sectional regression techniques utilizing data from the General Household Survey (GHS) 2012 and the Budget Statements for the financial years 2008/09 to 2011/12. The GHS was downloaded from the Stats SA website and the Budget Statements was downloaded from the National Treasury website.

The expenditure of National departments of education expenditure was not included in the study. To test whether there is a relationship between bursary attainment/school relieve fee received and literacy in South Africa an analysis was carried out using the Chi square test. The ordinary least squares regression (OLS) methods were used to establish whether the provincial expenditure does contribute to the literacy rate in South Africa. Table 1 displays the expenditure of education from the financial years 2008/09 to 2011/12. The table further displays the year on year growth rate and the average growth rate for that period.

The expenditure displayed is only of the department of education. It is also exclusive of the conditional grants towards education project and policies as they are displayed on the annexure page. There has been a significant growth in the expenditure of education in South Africa where on average the expenditure as increased by 16% in the mentioned financial year. The question however continues; has this increase contributed to the literacy rate observed in South Africa?

**Table 1:** Education expenditure and year-on-year average growth rate

Province	2008/09 R mil	2009/10 R mil	2010/11 R mil	2011/12 R mil	year on year growth 08/09 09/10	year on year growth 09/10 10/11	year on year growth 11/12 12/13	Ave growth 08/09 11/12
EC	17 524	20 750	22 577	26 694	18%	9%	18%	15%
FS	6 713	7 846	8 461	10 767	17%	8%	27%	17%
GT	16 688	20 058	22 256	28 270	20%	11%	27%	19%
KZN	22 992	26 231	28 747	35 095	14%	10%	22%	15%
LP	14 697	17 865	20 202	22 984	22%	13%	14%	16%
MP	9 308	10 888	11 543	14 285	17%	6%	24%	15%
NC	2 789	3 105	3 421	4 311	11%	10%	26%	16%
NW	7 179	8 391	9 102	10 970	17%	8%	21%	15%
WC	9 192	10 613	11 956	14 360	15%	13%	20%	16%
<b>Total</b>	<b>107 081</b>	<b>125 747</b>	<b>138 266</b>	<b>167 736</b>	<b>17%</b>	<b>10%</b>	<b>21%</b>	<b>16%</b>

Source: *The Budget statement of all the provincial departments, National Treasury*

#### VARIABLES

To test financial factors which contribute to the literacy rate observed in South Africa, a linear regression model was developed. The dependent and indent variables of the model are discussed hereunder. *Dependent variable:* Literacy Rate (LR) which can be explained as the percentage of the population aged 15 years and older who can read and write according to results from Stats SA GHS 2012. *The Independent or explanatory variables* are as follows:

(1) Personnel expenditure (compensation expenditure) of education as a percentage of current expenditure for education, at a provincial level. This will highlight whether the expenditure of compensation (salary of teachers) as appose to goods and services (the expenditure for daily usage of items within the department such as computers, books, pens, etc.) does contribute to the literacy rate observed.

(2) Current expenditure as a percentage of total government spending on education, at a provincial level. This account is for education spending on current expenditure as appose to the overall spending of which in inclusive of capital assets, etc.

(3) Expenditure on education at a provincial level as a percentage of total spending of all the other functions at provincial level. We expect this rate to be positively related to literacy, because it captures government commitment to education.

(4)The last explanatory variable is the percentage of the population that was relieved in payment of education fees by province. Although this constitutes a small minority within the population, it is has been shown that most of the population in Africa remain illiterate due to financial constraints and we expect to see that this variable does contribute to the literacy rate observed in South Africa.

### Model 1

Literacy rate =  $\beta_1 + \beta_2^*$  Personnel expenditure (compensation expenditure) of education as a percentage of current expenditure for education, at a provincial level +  $\beta_3^*$  Current expenditure as a percentage of total government spending on education, at a provincial level. +  $\beta_4^*$  Expenditure on education at a provincial level as a percentage of total spending of all the other functions at provincial level. +  $\beta_5^*$  percentage of the population that was relieved in payment of education fees by province.

### Model 2

Literacy rate =  $\beta_1 + \beta_2^*$  Personnel expenditure (compensation expenditure) of education as a percentage of current expenditure for education, at a provincial level +  $\beta_3^*$  Current expenditure as a percentage of total government spending on education, at a provincial level. +  $\beta_4^*$  Expenditure on education at a provincial level as a percentage of total spending of all the other functions at provincial level.

Model two does not include the percentage of the population that was relieved in payment of education fees by province. This is to see if other factors apart from the fiscus do contribute to the literacy rate observed.

## RESULTS

### Descriptive Statistics on Survey Data

Tables 1-5 consists of the descriptive statistics of all the variables used in this paper. As can be seen from the data, the total population of those that are literate in South Africa is of the population of 37 million, 34 million where found to be literate. That means that 92% of the population responded that they can both read and write in the year 2012. This consists of 63% who are under the age of 39 years. Most of these people who are literate reside in Gauteng followed by Kwazulu-Natal.

Investigation of the relationship between literacy rate and bursary attainment/School relive fund received reveal important statistical statements. When investigating if there is a relationship between the adult literacy rate and relive received for the payment towards education a chi square test was performed to test whether there is significant association between the variables. Tables 6 and 7 capture the p-values for significance and explanatory variables, respectively. There is a low p-value of 0.0000 (table 6). This indicates that there is a significant relation between adult literacy and bursary attainment/relive fee fund received at 5% level of significance. This shows that if more initiatives are done to make the population aware of the bursary schemes and aid by government and the donors, the literacy rate would increase (the test however does not test whether the relationship is positive or negative).

The table above shows the expenditure of provincial departments as a percentage of selected variables by province. Personnel as a percentage of current expenditure shows how much of the current expenditure is used for payments of salaries within the provincial education departments in each province. We see that 94% of the fiscus received for current expenditure in the provincial department of education in Eastern Cape is spent on the salaries of the teachers and those within the department. This also shows that only 6 % is spent on goods and service items which items purchased by departments for everyday operational needs.

Table 2: Provincial expenditure on education 2011/12

Province	Personnel as a percentage of current expenditure	Current expenditure as a percentage of total government spending on education	Expenditure on education as a percentage of total spending on the provinces
EASTERN CAPE	94%	14%	46%
FREE STATE	90%	5%	41%
GAUTENG	87%	14%	38%
KWAZULU-NATAL	91%	18%	41%
LIMPOPO	87%	13%	48%
MPUMALANGA	88%	8%	45%
NORTH WEST	90%	6%	41%
NORTHERN CAPE	90%	2%	37%
WESTERN CAPE	89%	7%	36%

Current expenditure as a percentage of total government spending looks at how much as a percentage of totals spending is spent on current expenditure (compensation and goods and services) as appose to capital expenditure. Here we see that the department of education in KZN has the highest pull of current expenditure from their fiscus, followed by the department of education in Gauteng.

Expenditure on education as a percentage of total spending on the provinces describes the pull of spending for education as appose to the other provincial functions such as health, etc, which the department is mandated to achieve. The table shows that almost half with Limpopo at 48% of spending was used for the education function. It is closely followed by the Eastern Cape department which shows that 46% of spending was made by the department of education.

Questions have to be asked if these variables contribute to the literacy rate observed. *The OLS Estimates of literacy and the explanatory variables*: Model 1 shows a p-value of 0.02609, which indicates that the model does explain the deviations in the dependent variable, at the 5% level of significance model1 fit. The adjusted R square shows that 88% of the variance was explained. R square measures the proportion of the variation of the dependent variable. Model 1 results indicate that 95% of the variation of the dependent variable was explained.

*Model 1*: Literacy rate =  $1.94103 - 1.77525 \times$  Personnel expenditure (compensation expenditure) of education as a percentage of current expenditure for education, at a provincial level +  $1.08648 \times$  Current expenditure as a percentage of total government spending on education, at a provincial level.  $-0.86089 \times$  Expenditure on education at a provincial level as a percentage of total spending of all the other functions at provincial level.  $-0.07799 \times$  percentage of the population that was relieved in payment of education fees by province.

*Model 2* shows that a p-value of 0.00772 which indicates that the model does explain the deviations in the dependent variable, at 5% level of significance model1 fit. Adjusted R<sup>2</sup> shows a 83% of the variance was explained. R<sup>2</sup> measures the proportion of the variation of the dependent variable. Model 1 results shows that 89% of the variation of the dependent variable was explained. Model 2 does fit: Literacy rate =  $0.94909 - 0.72804 \times$  Personnel expenditure (compensation expenditure) of education as a percentage of current expenditure for education, at a provincial level +  $1.24635 \times$  Current expenditure as a

percentage of total government spending on education, at a provincial level. There is a  $-0.76302^*$  expenditure on education at a provincial level as a percentage of total spending of all the other functions at provincial level. Whereas both models fit, model 1 fits best is, and it is inclusive of the extra variable.

## CONCLUSION

Youth literacy is especially essential in a diverse society such as South Africa, where people are expected to communicate across different ethnic groups, carry out commerce, and conduct public affairs in the language of their former colonizers. South Africa, which has 11 languages with English, the language of the country's former colonizer, remains the main tool for communication across all races. It is also the language of record for government business, education, and commerce. Hence, being literate in English should be considered very important for personal and national development. The ability to read and speak English is critical for survival in modern South Africa. The results indicate that the public finance expenditure on education at provincial level has a significant effect on the population literacy rate of South Africa. With the provincial departments administering basic education within the country, variables such as current expenditure as a percentage of total expenditure do contribute significantly to the literacy rate observed in South African.

The results are inconclusive regarding the roles of government expenditures on education in explaining literacy rates. Bursary attainment was found to have a statistically significant impact on literacy rate. This means that if more bursaries for educational funding are distributed to the population the literacy rates would increase, this would be true at most in tribal areas where evidence suggest literacy rates are still high. The low reading literacy levels observed may be a function of under resourcing, poor teaching practices, inadequate training in reading practices and lack of available resources for the indigenous languages, a lack of motivation to alter the situation, the oral tradition of the indigenous languages, the general role and influence of television, and a function of the time we live in, where instant gratification in so many aspects of life is propagated. Further studies should investigate whether those who are illiterate are young or are of an aged population. In addition the literacy rate of parents is quite a powerful force in encouraging and increasing youth literacy rates. Education and learning actually begins at home. The conclusion of the paper is that government consumption expenditure for education is considerably increasing in the years investigated. It has however affected the population as more than 90% of the population interviewed are literate. However when looking at close detail we found that most of the fiscus spend for current expenditure is on compensation and less on the purchase of daily operational needs and this could cause problems in the delivery of quality education. There need to be a review the current policies such as the Schools Act to include the discrepancy of what is experienced by pupils in different geographical areas. It is fundamentally flawed to have one act that governs all the schools in South Africa although there different challenges faced in different geographical areas. An article by (Education, 2009) of legislation, stats that the legislations of education in South Africa was influenced by overseas consultants and devalued experiences gained both in South Africa and neighbouring countries such as Botswana and Zimbabwe. It does not focus sufficiently on teachers, principals or even the greater majority of South African schools, which are located mainly outside urban areas. As literacy rates increase the crime situation in South African might also be impacted. Research indicates that a time-series analysis shows that declining rates of serious crimes of violence and passion-inspired homicide were associated

with increasing literacy. On the other side, literacy and rates of cold-blooded murder were unrelated, and literacy was a positive predictor of suicide (Gillis, 1994).

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## Appendix: Descriptive Statistics

TABLE 3: percentage population by age group

Age group	Freq.	Per cent	Cum
15 - 19 years	5 163 969	14%	14
20 - 24 years	4 966 691	13%	28
25 - 29 years	4 707 803	13%	40
30 - 34 years	4 301 910	12%	52
35 - 39 years	3 883 982	11%	63
40 - 44 years	3 157 042	9%	71
45 - 49 years	2 581 482	7%	78
50 - 54 years	2 259 238	6%	84
55 - 59 years	1 782 052	5%	89
60 - 64 years	1 371 752	4%	93
65 - 69 years	1 087 365	3%	96
70 - 74 years	756 430	2%	98
75+	795 272	2%	100
Total	36 814 987		

Table 2: population by race group

Population Group	Freq.	Per cent	Cum.
African/Black	28 590 722	77,66	77,66
Coloured	3 408 954	9,26	86,92
Indian/Asian	1 024 758	2,78	89,7
White	3 790 551	10,3	100,0
Total	36 814 986	100,0	

Table 4: percentage literacy rate by total population

Province	Literacy rate by total population
Western Cape	11,31
Eastern Cape	10,81
Northern Cap	1,92
Free State	4,97
KwaZulu-Natal	16,89
North West	5,88
Gauteng	24,68
Mpumalanga	6,61
Limpopo	8,67
Unspecified	8,26
Total	100,00

Table 5: Economic classification of the population, 2008-2011

Economic classification '000'	2008/09	2009/10	2010/11
<b>Current payments</b>	<b>94 394 799</b>	<b>110 984 850</b>	<b>121 626 512</b>
Compensation of employees	84 013 252	99 144 388	110 074 334
Goods and services	10 380 112	11 829 139	11 546 892
Interest and rent on land	1 435	11 323	5 286
<b>Transfers and subsidies</b>	<b>7 907 356</b>	<b>9 053 356</b>	<b>10 875 245</b>
Provinces and municipalities	3 362	795	1 714
Departmental agencies and accounts	55 645	62 792	77 730
Foreign governments and international organisations	5	0	0
Universities and technikons	25 321	33 152	17 571
Public corporations and private enterprises	59	105	0
Non-profit institutions	7 506 259	8 487 624	10 092 003
Households	316 705	468 888	686 227
<b>Payments for capital assets</b>	<b>4 764 453</b>	<b>5 583 107</b>	<b>5 484 119</b>
Buildings and other fixed structures	4 373 185	5 156 827	5 190 036
Machinery and equipment	365 107	391 278	262 942
Software and other intangible assets	14 547	22 983	8 695
Land and sub-soil assets	11 614	12 019	22 446
<b>Payments for financial assets</b>	<b>14 653</b>	<b>125 771</b>	<b>279 795</b>
Payments for financial assets	14 653	125 771	279 795
	<b>107 081 261</b>	<b>125 747 084</b>	<b>138 265 671</b>

Table 6: Chi-square test on literacy rate and fee reductions or bursaries received

Number of strata = 363  
 Number of PSUs = 64219  
 Number of obs = 64219  
 Population size = 36814986  
 Design df = 63856

Fee reduction s or bursaries	Literacy			Total
	Literate	Illitera	9	
Yes	.0127	1.2e-04	3.4e-04	.0131
No	.1393	9.1e-04	.0043	.1446
Do not k	5.7e-04	0	8.6e-06	5.8e-04
Not appl	.7423	.06	.0143	.8166
Unspecif	.0225	3.9e-04	.0022	.0251
Total	.9174	.0614	.0212	1

Key: cell proportions

Pearson:  
 Uncorrected chi2( 8) = 1097.9877  
 Design-based F( 7.57, 4.8e+05) = 121.5369 P = 0.0000

TABLE 7: OLS estimates of literacy (YL) and explanatory variables

Explanatory Variables	Model 1		Model 2	
	<i>Coefficients</i>	<i>P-value</i>	<i>Coefficients</i>	<i>P-value</i>
Literacy rate	1,94103	0,07118	0,94909	0,09434
Personnel expenditure as a % of current expenditure	-1,77525	0,09781	-0,72804	0,22188
Current expenditure as a % of total government spending on education	1,08648	0,01416	1,24635	0,00179
Expenditure on education as a % of total spending on the provinces	-0,86089	0,07061	-0,76302	0,03468
Bursary attainment by total population	-0,07799	0,63868		
<i>Multiple R</i>	0,97533		0,94378	
<i>R Square</i>	0,95128		0,89073	
<i>Adjusted R Square</i>	0,88633		0,82517	
<i>Standard Error</i>	0,02501		0,02903	
<i>Observations</i>	8		9	
<i>Significance F</i>	0,02609		0,00772	

## TRANSFORMING THE SCHOOLING CONDITIONS OF AN AFRICAN SECONDARY SCHOOL LEARNER: PAVING THE WAY TO INSTIL ECONOMIC EMANCIPATION IDEALS

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### ABSTRACT

The study aims at highlighting and explaining why it could take long to eradicate the anti-schooling ideology of the current African secondary school learners. A good number of parents including even classroom educators are in dilemma regarding why the 21<sup>st</sup> century learners resist and resent teaching and learning. This is being vindicated by the explicitly expressed frustrations by parents and the mounting number of educators who opt out for either early retirement or quitting the teaching profession because of a generation of secondary school learners who rebel and revolt against schooling. The persistence of this challenge could lead to public secondary schools being drained of competent and productive educators who provide tuition to learners who still attach value to schooling. The research question guiding the study is: to what extent could the emerging tradition and culture of anti-schooling by current African secondary school learners, spread and delay instilling economic freedom ideals in learners, if not urgently curbed? The research methods employed to emerge with data germane and pertinent to this study were literature search and interviewing technique. Out of the population of 13 African public secondary schools of Kgakotlou circuit in Capricorn District of Limpopo Province, three African secondary schools were conveniently sampled. In each secondary school, three respondents were interviewed. Three of the peculiar findings which the research inquiry yielded and unearthed are that lack of transformative management and leadership by school principals destroy the learning enthusiasm in schools. Furthermore, schooling conditions of a democratic South Africa do not talk to the country as secondary school learners of today wish. Finally, current schooling conditions do not adequately encourage future economic learner independence. As part of the conclusion, the investigator regards it to be advisable that further studies around the anti-schooling mentality by today's learners be undertaken. This is in acknowledgement of the sophistication and peculiarity of the concept of anti-schooling by the present African secondary school learners.

**Keywords:** Anti-schooling; African learner; transformative; ideology

### INTRODUCTION

Clarke (2007: 3) notes that transforming performance in schools depends on management and leadership. This underscores the significance of leadership and management in every learning institution. Since schooling conditions keep on undergoing mutations, institutional heads have to evolve to ascertain their relevance, given the clientele they are serving, namely, parents and learners. Organisational captains have to always utilise their power and influence to advance the cause of educational development and economic emancipation ideals. Myriad schools are currently bereft of strong and visionary transformational leadership and management (Modiba, 1997:13). The manner in which learners manipulate leadership and management vacuum in schools, to entrench anti-schooling tendencies confirms that. Learners do so by turning teaching and learning conditions hostile for instilling economic emancipation ideals. Schooling conditions in myriad African secondary schools are deplorable and deserve transformation for they are devoid of the delivery of economic emancipation ideals (van Deventer & Kruger, 2010:4). Since schools exist to develop the youth educationally, for economic viability and

emancipation, then this mission flounders from the inception owing to anti-schooling practices by learners. Averring their unavailability for schooling through sabotaging everything that has to do with successful lesson delivery, implies that the transformation of schooling conditions has to be prioritised. Shaky non-transformational leadership in schools prevents them from dispensing economic emancipation knowledge required for learners these days (Holly, 1989: 68).

Instructional leadership as a model of educational leadership that concentrates on great teaching that leads to great learning by learners through incorporating economic emancipation ideals to all learners is missing in schools. Attending in an untransformed schooling conditions deter the delivering of economic emancipation knowledge that could attract learners to schooling. There is an overwhelming consensus by educational practitioners that no learner ever resists a good lesson. This signifies that no learner would fail to resent mediocre, purposeless teaching bereft of the facilitation of economic emancipation ideals. It has to be stressed that in the main, African secondary school learners are suffering from institutionalised mediocrity prevalent in their schooling conditions that instigates anti-schooling inclinations (Clarke, 2009: 1).

## **THEORETICAL FRAMEWORK**

In order to conform to the conventions of scholarly writings, the researcher is expected to view his problem of study, from the particular point of view. To cite but just few perspectives, there is Functionalism, Marxism, Interpretivism, Critical theory and the Learning Organisation Philosophy. Both the Critical theory and the Learning Organisation Philosophy have been selected to be the theoretical perspectives that underpin this study. The relevance the researcher finds in these world views necessitated their choice. A research problem such as: to what extent can the transformed schooling conditions facilitate the dispensing of economic emancipation ideals could at best be investigated through the guidance of the Critical theory and the Learning Organisation Philosophy. The two selected theoretical frameworks enabled the investigator to frame the study as well as making meaning from the whole notion of educational worlds of current African secondary school learners being educationally inaccessible. Higgs & Smith (2010: 67) advise that knowledge and how we understand truth, including scientific truth, moral truth and historical, should not be separated from everyday life. This implies that comprehending the behaviour of current African secondary school learners, the context of the manifestation of that behaviour is as essential as those behaviours themselves.

Recognising that teaching is an interventional human activity, directed at the enlightening of learners, the Learning Organisation Philosophy accentuates the evolutionary nature of schools as educational institutions (Moloi, 2002: 56). This generates the notion that African secondary school learners may have not been born obdurate, adamant and recalcitrant against learning and schooling, but having been instigated and orchestrated by untransformed conditions to become anti-schooling. The world views such as the Learning Organisation Philosophy and the Critical theory assist in arriving at the bottom of this matter. These schools of thought consider the flexibility and fluidity of schools as human inventions. The relevance of the Critical theory and the Learning Organisation Philosophy become sufficiently pronounced considering a great deal of emphasis they place on ethics. Since ethics is the study of good and bad behaviour by human beings, the Critical theory could illuminate whether African secondary school learners have lost a moral compass of what is right and what is wrong when they are up in arms about

what helps them to craft and develop their future, namely, learning and schooling. It has to be stressed that the basic contentions of all the ideas come from human beings and all of them are naturally being influenced by the world they live in (Higgs & Smith 2010: 67). The relevance of the above statement is that developing an insight of what precisely is taking place in the minds of African secondary school learners when they resist teaching and learning, deserves to be interpreted within the living environment of those learners. Although the Critical theory could be lambasted for its non-scientific approach, its legitimacy and credibility in relation to the research problem like the one above can never be in doubt (Higgs & Smith 2010: 67). One other point that stands out vividly about Critical theories and the Learning Organisation Philosophy are that they discourage separating "real life testing" from scientific theory. This is to signify that scientists are bound by social reality and norms as much as the rest of us are. Put the other way round, both the Critical theory and the Learning Organisation Philosophy emphasise credibility and legitimacy so that as human beings we are all greatly influenced by the society and the conditions we work in. The implication gleaned here is that when African secondary school learners behave strangely by rebelling against imbibing school knowledge, both the society in which the school is situated and the context of resistance cannot be ignored. The world we all grow up in, influences almost everything including the way we think; and, so is how the African secondary school learners act and think, correctly or incorrectly on schooling (Higgs & Smith 2012: 70).

Not every theory could productively illuminate and delineating a problem of study such as why African secondary school learners would decide to make their educational world inaccessible and impenetrable. Only the Critical theory being partnered with the Learning Organisation Philosophy could do so. This is by virtue of these theoretical frameworks advocating for critical reflection on society in order to discover the hidden assumptions that maintain the existing power relationships that keep the societal members perpetually enslaved (Higgs & Smith 2010: 71). African secondary school learners who resent schooling are educationally enslaving themselves. Such a condition according to the Critical theorists and the Learning Organisation Philosophy could best be traced back to the nature of the society where those learners are sourced. Obviously, not all theories would preach and advise that the closure of educational worlds of learners be linked with the society where schools are built. Most theories are likely to separate learner misbehaviour at school to the context and society where the school operates. Fortunately the chosen theoretical frameworks, for this study are comprehensive enough to enable the researcher to view the problem of study from a very strong vantage point. The reality is that when African secondary school learners are anti-schooling through closing their educational world, they act out their learnt social oppression. They can only be liberated from all forms of social oppression once they become conscious of how this oppression operates (Higgs & Smith 2010:71). This can be summarised to mean that the way people think and behave, including learners, is the product of their society. Fascinating about the theoretical frameworks undergirding this study is that they centre on the point that a researcher's search for knowledge of why African secondary school learners resist schooling has to be based on the investigator's desire to improve the quality of human life of those learners. Blinkered as those learners are, the standard and status of their human life could never soar and enhance unaided or being left to continue ruining their schooling opportunities.

Both the Critical theory and the Learning Organisation Philosophy enabled the researcher to revolutionise and re-conceptualises what was supposed not to be happening in educational institutions if

the society was not contributing massively to that set-up. These theoretical frameworks are capable of exposing hidden assumptions and ideologies that dominate the modern educational institutions and the modern societies. The researcher was impressed by the fact that quite often critical theorists apply critical pedagogy which is the theory and practice of teaching. So, locating this study within the Critical theorists was an attempt by the investigator to comprehend why African secondary school learners are anti-schooling. Very strange, it is Critical theorists who boldly contend that schools and teaching do not educate people, not at all. Their contention is that what actually happens in schools, is that learners learn to accept the power structures of their society (Higgs and Smith 2010:74). This is pertinent in this study as part of helping to illuminate and elucidate exactly the contribution of educational institutions to the resentment of schooling and learning by current African secondary school learners. This fluently justifies the complexity of the problem of this study, such that with the Critical theorists it becomes well illuminated, understood and largely researchable. This is being summed up so well by Freire (1990: 172) when asserting that schooling is a tool in the hands of the powerful. Without justifying learner misbehaviour when they obstruct and avert teaching and learning, untransformed conditions in schools which do not promote the delivery of economic emancipation ideals, are not aiding to surmount and subside unwanted learner misbehaviour. Schools experience resistance from learners owing to education being structured along rigidly hierarchical lines that somehow promote the domestication of learners than the reverse thereof. Actually, this suggests that largely schools are highly structured, manipulative in the form of implicitly encouraging an oppressive way of life. This is tantamount for schools promoting a situation whereby people see themselves mechanically. This signifies people being worthwhile when they are able to perform certain functions and when they allow the forces of global capitalism to use them as efficient instruments (Higgs & Smith 2010:75). Critical theory and the Learning Organisation Philosophy are firmly rooted on the peculiar ethos, values and traditions that explain and define a society. All of those spill over to what takes place in a school. So, comprehending the challenges experienced and witnessed by a school has to begin with accurately locating a school in a particular society. The resentment and rejection which African secondary school learners display in their educational institutions, is a demonstration of how deeply alienated from themselves current learners are. A mercurial and talismanic comprehension and exposure are missing to deal with the discussed challenge of African secondary school learners being anti-schooling and thus the dispensing of economic emancipation ideals within the transformed schooling conditions.

The review of literature on what is behind the lack of impartation of economic emancipation ideals to learners by schools, reveals that learners do not come to schools being anti-schooling. It is schools that inculcate that spirit in learners. Where learners foresee chances of succeeding with classroom lessons; they are likely to keep their educational worlds open to be assisted educationally and economically (van Niekerk & van Niekerk, 2009: 12). The reverse holds. It has to be mentioned that embracing the school or resisting it by learners begins in the classroom, so is dispensing economic emancipation ideals. Every school that displays first class learner performance succeeds from the quality classroom interactions between learners and educators. The implication is that every educational institution stands or falls on the nature and quality of classroom management, relations and interrelations within the classroom practitioners (Coetzee, van Niekerk & Wydeman 2008: 29). This supports the educational assertion to the effect that a learner does not come to school as a failure but may go back

home as one. Learner resentment against schooling commences with what obtains in the classroom. Literature search abundantly demonstrates that upon strengthening and enhancing the classroom transformation, then the tradition of anti-schooling could be nipped in the bud. Since rebelling against schooling leads to institutional underperformance, Mashabela (2013: 5) advises that schools need to be freed from underperformance through transforming schooling conditions and delivering economic emancipation ideals. Hence Blko (2013: 33) proposes that worst performing schools in the country be identified and have big companies taking over their running.

Transforming schooling conditions enables the impartation of economic emancipation ideals. Effective and efficient educational service delivery to parents and learners has to be based on the values of the country and community and has to obstruct and impede anti-schooling ideology by learners. Lillie (2012: 21) is spot on when remarking that her research highlighted the problem of poor management and leadership as one of the major causes of schools experiencing anti-schooling. Seloane (2012: 20) concurs through finding fault with the department, when noting that the department seems to be manufacturing a society without the direction. He was referring to district offices forcing schools to allocate 40% in mathematics to all learners before they could approve the schools' final results in schedules. Literature search confirms that current learners are such that they are ever ready and eager to become active participants, leaders and managers of their own learning experiences but subject to the creation of the transformed schooling conditions (Mncube & Harber, 2009: 35). Denying them such a role could be a precedence for conflict and confrontation which if learners win it, would lead to chaos, crisis and anarchy in the school, given the anti-schooling mentality they could spread, and given the lack of transformational practices that incorporate the instilling of economic emancipation ideals (Ramalho, Arlestig & Tornsen, 2011: 101).

The delivery of economic emancipation ideals to learners in a transformed schooling conditions disarm learners of their anti-schooling ideology and mentality to allow educators to exert influence on learners' learning and teaching environment in which transformational leadership is provided, by creating the best possible conditions for learner achievement. Olivier (2012: 27) stresses that 21<sup>st</sup> century educators have to benchmark their teaching practice by learning achievement. This refers to the learning achievement that incorporates the instilling of economic emancipation ideals to learners which occurs in the transformed schooling conditions. This relates to learners realising why they are at school and that it is actually sensible to make the best of their school career, with the curriculum as their point of departure (Runhare & Hwami, 2009: 95). From the discussion above, learners who normally instigate anti-schooling philosophy in a school could be having learning difficulties and thus requiring more attention and support, from their educators (Coetzee et al., 2008: 69). To sum up Maluleke (2012: 17) reminds that to contain and counter anti-schooling attitude by secondary school learners demands that solutions be researched other than being thumb-sucked. This emphasises avoiding fabricating solutions which may not directly be tailored to the problems.

## **RESEARCH DESIGN AND METHODOLOGY**

From 13 African public secondary schools of Kgakotlou Circuit in Capricorn district of Limpopo Province, three public secondary schools were sampled. The semi-structured interviews were conducted with the convenient purposeful sampling. In each sampled African public secondary schools, three

respondents were interviewed. Purpose sampling was used to select the respondents. Additionally, the school governing body of a sampled school that availed an educator, a parent and a learner for participation in the interviews. Qualitative research approach was chosen to in order to ensure in-depth understanding of how the transformed schooling conditions contribute to the instilling of economic emancipation ideals to learners and exposure of the anti-schooling mentality by African secondary school learners of this century. The researcher developed an interview schedule in advance which was piloted with the other African public secondary schools of Kgakotlou Circuit to identify the shortcomings and ambiguities and surmount them timeously. The exercise was designed to corroborate and triangulate the data. Content analysis was selected to dissect the raw data collected with the semi-structured interviews in view of its relevance. It is an inductive and interactive process where attention is on the similarities and differences in texts that would corroborate or disconfirm the theory. Utilising content analysis as part of the qualitative data, focuses more on understanding rather than dwelling on explaining social actions and events within their particular settings and contexts. The constant comparative method was used in the analysis.

## **FINDINGS AND DISCUSSIONS**

### **Schools Serving the Wrong Master**

One of the fundamental reasons why in some African secondary schools, learners resisted schooling and its delivery of economic emancipation ideals and succeeded, was due to the failure by those schools to become conscious that they have a new master to serve, namely, parents and learners. Research evidence in this study abundantly demonstrated that failure by schools to always keep it in mind that they were owing their existence to parents and learners, emerged to have contributed monumentally to a set-up of parents and learners caring less on what was obtaining in their schools. So, this explains unequivocally that any form of rancour to teaching and learning has to be frowned upon in view of it defying the aims of the Batho Pele principles. Furthermore, these days any act of wildcat boycott and disdain to schooling and its transformed conditions which is part of instilling economic emancipation ideals to learners, can no longer aim at unsettling the state but disrupting the community or parents and learners who are the key beneficiaries of schooling. So, failure to open the educational world by African secondary school learners is tantamount to scoring an own goal. Such a move hits back at parents and learners more than it does to the intended state. Briefly, the confusion by schools with regard to whom are they actually supposed to serve, was found to have exasperated an anti-schooling ideology by African secondary school learners. This suggests that had schools been clear about servicing parents and learners from inception, the chance of anti-schooling mentality by African secondary school learners taking root could have been lessened.

### **Schools as Self-managing Educational Institutions**

Evidence in this study vividly demonstrated that the bulk of South African schools are still not certain as to whether they are still largely dependent on the state for their management and leadership or whether they have started embracing the concept of schools as self-managing institutions within the transformed schooling conditions. The investigator contends that the prevailing confusion in schools over self-managing institutions contributes to learners keeping their educational worlds hard to invade and

penetrate by educators and thus blocking progressive teaching and learning from taking place in the classroom. South African Schools Act no. 84 of 1996 legitimises the self-management statuses of schools. The researcher contends that when scores of educational institutions warm up to the concept of self-managing schools, within the context of the transformed schooling conditions then the habit of closing educational worlds by learners is likely to be lessened as per the research evidence. In that kind of a schooling conditions, school governing bodies would ascertain that everything pertaining to teaching and learning proceed unhindered. Furthermore, allowing schools to self-mange, enables them to deal head-on with the newly introduced culture of anti-schooling. Creating and managing an enabling classroom conditions exquisitely could take the school back to its performing ways so long as learners accept to be taught and engage in progressive learning. Serache (2013:12) concludes that educationally promising learners are senselessly being robbed of their performance by other unthinking ones that disrupt schooling under untransformed schooling conditions.

### **School Principals as Lead-learners**

Research evidence confirms that school principals succeed in creating a learning institution with unshakable learning tradition and culture for all, when she operates as a “lead learner” (Naidu et al., 2012: 8). The investigator emphasises that learners in a sampled schools kept their schooling conditions hard to invade and penetrate because they lacked proper educational role models who should have guided them correctly by their own behavioural display. So, resistance and resentment to teaching and learning as acted out by African secondary school learners is ascribed to school principals who in part could not be lead learners in their own educational institutions through transforming schooling conditions and instilling economic emancipation ideals in learners. Such school principals as the research evidence vindicated, remained the directionless role models (Naidu et al 2012:9). Current school leaders and managers deserve to be always supported to act as “lead learners” so that they move away from the slippery ground from which they normally operate, given their failure to promote great teaching and great learning in their schools within the context of the transformed schooling conditions that facilitate the instilling of economic emancipation ideals to learners.

### **The Predicament of Responsibility-virus**

Legally, no school should be without the accounting officer. One of the interesting findings in this study was the prevalence of the responsibility virus in schools. This is to signify that in the sampled schools, those who were supposed to be responsible in terms of ascertaining that everything proceeded well, were found to be shirking their responsibilities. Hence the phrase “responsibility virus.” Findings of this study have shown that responsibility virus could be of two patterns. It could come in the form of over-responsibility or through under-responsibility both of which are not healthy for the successful performance of the institution. The former refers to a form of centralism that stifles organisational emancipation mainly by people populating the institution. The latter implies laissez-faire of organisational operation which derails institutional focus and performance. In nearly all the African secondary schools were learners were found to be inaccessible in their learning environments, they opted for that route upon detecting that school principals had a huge challenge of responsibility-virus in their schools (Naidu et al 2012:9). This habit by school principals of abdicating their legislative responsibility of leading and managing their

schools brilliantly to promote the enterprise of teaching and learning within the revolutionised schooling conditions, put their educational institutions in an unusual quandary.

### **Inability to Create a School Climate of Cohesion and Trust**

Ramphela (2012: 16) observes that unionisation of more than 80% of teachers over the last three decades, is a major factor in the underperformance of the school system and the anti-schooling tendencies of learners. By its very nature, an enterprise of teaching and learning demands a school climate of cohesion and trust. Their lack could keep a school in a quagmire of exponentially growing educational woes where no silver-bullets solutions exit. To the researcher's chagrin, such was missing in the sampled schools where learners were largely anti-schooling, anti-teaching and anti-learning. What is intriguing though about the absence of such a vital school climate, was not because school managers could not create those, but because of lack of consciousness of their own abilities, in generating organisational cohesion and trust in their own schools. Experience constantly teaches that institutional cohesion and trust enable a school to move away from adversarial relationships characterised by a high degree of mistrust, intolerance, polarisation and alienation to unity in diversity, which is characterised by a high degree of mutual trust, cooperation, racial, political, tribal and cultural tolerance (Naidu et al., 2012: 11). Evidence in this study vividly vindicated that in many African secondary schools, principals were found to be struggling to establish a revolutionised schooling conditions that are characterised by the climate of cohesion and trust. Their failure to do so was premised on their conditioned understanding of expecting people to operate within a tightly structured bureaucracy where there is little time for listening to all the voices or allowing for deliberation and collective contributions to decisions (Naidu et al., 2012: 12). The investigator argues that as long as the business and purpose of schools is dispensing knowledge, it should be inadmissible to impart knowledge devoid of economic emancipation ideals to learners in an untransformed schooling conditions. The point at issue is not being able or unable to create a school climate of cohesion and trust but that every institution has a potential to reach its required crescendo in terms of its exquisite learner performance or results as long as it operates in a schooling conditions that are transformed that promote the instilling of economic emancipation ideals in learners.

### **Failure to Identify the Key to Implementing Transformational Agenda**

Successfully, rolling out the transformation agenda in schools, commences with putting learners in the learning driving seat instead of them being in the teaching driver seat (Olivier 2012: 1). In the case of educational institutions, it is essential that transformation be continuously introduced in order to avert boredom which could lead to institutional mediocrity and underperformance. School principals whose learners were found to have made their educational worlds inaccessible and impenetrable and thus blocking progressive teaching and learning, were exposed by research findings to have been unable to identify the key to implementing transformational agenda in their own schools. Implicitly, this suggests that those principals were being outfoxed and outperformed by their own learners through pushing the anti-schooling, the anti-teaching and the anti-learning philosophy successfully. Looking at this matter critically, when learners are uncontrollable in school, the problem is not so much the learners or the school, but the state of the nation. Actually, bad schools are a reflection of the nation's psyche. The investigator avers that anti-schooling learners reflect the psyche of the black powerless majority. It is no

secret that in South Africa, leadership and management are indispensable as regards being the keys to operationalizing the transformational agenda in education. Management and transformational leadership have a clout on learner results but within the revolutionised schooling conditions that also orchestrate the instilling of economic emancipation ideals to learners.

### **Absence of Educator Emotional Intelligence**

Research evidence showed that by and large, current secondary school educators lack emotional intelligence to match their learners pound for pound. This question of lack of emotional intelligence, is visible when educators are not benchmarking their teaching practices against learning achievements by learners. This creates a tension in the teaching- learning environment where educators and learners are connected and have to interrelate and interact through the learning content. Given the predicament faced by current African secondary schools wherein there is a culture of anti-schooling, by learners, an educator with sufficient emotional intelligence stands to be in a firm position to deal with learners at school better than another without an emotional intelligence. These statements have to be understood to emphasise that in today's teaching, emotional intelligence by educators matters for it helps the educator to be able to handle all emotions involved in educating learners in an intelligent fashion. The investigator contends that there is great likelihood that African secondary school learners are taking full advantage of lack of emotional intelligence by current educators to toss them around in the classrooms and the school at large. This brings forth the idea that only the emotionally fit educators can best handle today's teaching better than their counterparts.

### **Availability of Educator Stress**

Given the schooling conditions within which educators have to operate within daily, it is not entirely amazing that some instantly become stressed. Copious evidence in the study indicates that stress has set in the lives of myriad African secondary school educators. Apart from the hostile schooling conditions triggering and mounting stress on educators, even the general behaviour of current African secondary school learners contributes in no small degree to this stress issue. Looking into this matter critically, the investigator argues that some of the behaviour acted out by learners, do depict suffering from stress as well. So, the whole question of stress affects educators as well as learners. Where two educational partners, namely, teachers and learners are both sufferers of stress, then an enterprise of curriculum delivery is likely to be hugely compromised. This was found to be the case from the schools where data were collected for this study. Experience persists to teach that educators that are stressed are more or less likely to operate with thwarted authority in the classroom. On the part of learners, by virtue of being stressed, they are likely to lack discipline and motivation the key ingredients of successful learning encounter between teachers and learners. Research findings point out that a stress-free educator would easily understand and use specific techniques in his association with learners in the classroom in terms of managing tasks, people, time and resources to maximise learning by learners (Coetzee et al., 2008: 24). Learners who are stress-free are likely to remain focused in the classroom and to shoulder full responsibility for excellent learner behaviour which is a precondition for successful classroom learning. Availability of educator or learner-stress aside, performance in schools should not be allowed to continue to be eclipsed by underperformance or non-performance of learners.

### **Failure to Acknowledge Classroom Heterogeneity**

No two learners are identical in all respects. Every learner is uniquely herself and never similar to another. Acknowledging this point by educators could enable them to teach theatrically and produce maverick scholastic learner results with the set achievement bar that is higher. Olivier (2012: 85) remarks that current educators have to understand differentiation which means knowing that learners learn in different ways and that their paces vary. This signifies that all learners are entitled to receive support according to the individual needs. Ramphela (2012: 16) confirms that the performance of teachers is hampered by many factors not least of which are absenteeism and poor content knowledge of the subject they are teaching. One of the intriguing findings in this study is that African secondary school educators were found to be teaching learners as if they were homogeneous. This is a pernicious and precarious practice because some learners felt excluded and not accommodated in the lesson delivery by educators. A plethora of research evidence keep on pointing out that no learner ever resists a good lesson. Looking critically at what could be triggering some African secondary school learners to be anti-schooling, could be ascribed to the manner of learner treatment in the classrooms and the untransformed schooling conditions of learners. Implicitly, it is educators who unconsciously orchestrated learner resentment against schooling. Learners feeling out of place in the classroom, are the first to see little sense of persisting schooling and subjecting themselves under the authority of educators. The interesting part of this argument is that, it is actually schools that stir learners to be uncontrollable and unmanageable in as far as teaching and learning go. When learners make their educational worlds inaccessible and impenetrable for educators that is due to little relevance, those learners attach to schooling as a whole and maybe failure by schools to instil economic emancipation ideals in them. Since the school drops them, they in turn reciprocate by dropping the school. All of these commence in the classroom which is the genesis of the exquisite scholastic learner performance or the opposite thereof. The investigator retorts that classroom management in the 21<sup>st</sup> century has to be performed with empathy and sensitivity to remain accommodative to diverse and heterogeneous learners there. This stands to help to scale down learner antics that are triggered by badly managed and led schooling conditions.

### **Placing Undue Restrictions on Learners**

In the quest for order and discipline, educators have to guard against being excessively strict with learners. Failure to do so could be a source of protracted confrontation with learners. 21<sup>st</sup> century schools have to be alert to the reality that they are populated by ordinary learners of flesh and blood who are highly sensitive and susceptible to restrictions. Ignoring this point could spark antagonism and rivalry which stands to meddle with the exercise of dispensing knowledge some of which has to include economic emancipation ideals. The analysis of data revealed that African secondary schools are in the main placing undue restrictions on learners. As a result learners fight back in the form of making their educational worlds difficult to invade and penetrate and thus frustrate the process of knowledge impartation. As per the research findings, this challenge of placing undue restrictions on learners, is most performed by both novice and incompetent educators. The aftermath of this is that it affects learner's abilities to fulfil their roles as learners. The investigator contends that given the above discussions, then the 21<sup>st</sup> century educators have to relate differently with their own learners, something which could trigger

learners to reciprocate. The meaning gleaned from the preceding argument is that were learners are advanced and ahead of an educator, an educator could attempt to reclaim the lost authority over learners by becoming restrictive with them. That is no solution for it is likely to aggravate the set-up and situation other than salvaging or helping it. Persisting to place undue restrictions on current African secondary school learners by educators, could be commensurate with pursuance of ideologically irrational position of anti-schooling by learners something that can be remedied with the delivery of economic emancipation ideals to learners within the transformed schooling conditions.

## CONCLUSION AND RECOMMENDATIONS

On the basis of the discussed research evidence, the investigator proclaims that the 21<sup>st</sup> century African secondary school learners have an inclination of keeping their educational worlds inaccessible and impenetrable for educators. This is a common practice in African secondary schools where school leaders and managers lack the management and leadership competencies that enable them to keep all learners to the vision and mission of great learning through great teaching. Where every learner in a school learns amongst others the economic emancipation ideals within the transformed schooling conditions, then there may be no need of making her educational world inaccessible for educators. Mange (2013: 10) laments that unless the invaluable contribution made by the transformed schooling conditions to the dispensing of knowledge including economic emancipation ideals is genuinely acknowledged, problems besetting our education including anti-schooling could persist.

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# THE ROLE OF DISASTER MANAGEMENT IN THE INTEGRATED DEVELOPMENT PLANNING PROCESSES: A CASE OF LIMPOPO PROVINCE

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## ABSTRACT

The Disaster Management Act 57 of 2002 and the Municipal Systems Act 32 of 2000 provides for municipalities in South Africa to prepare disaster management plan as part of Integrated Development Plan (IDP). The purpose for disaster management plan is to structure mechanisms for dealing with disasters and also to anticipate future disasters. Although the above mentioned legislative prescripts have a legal mandate on municipalities to perform the function of disaster management, most local and district municipalities in South African still lack understanding of their roles and responsibilities to administer disaster management. Natural disasters such as floods, wildfires, drought and storms are globally well known, but the degree of dealing with them is challenging. These disasters cause environmental destruction and they disrupt developmental projects and programs. Previously developmental projects and programs were not assessed in the context of disasters, neither from the effect of disasters on development; this is because disasters were viewed in the context of emergency response, not as part of long term development planning. When disasters occurred, the response was directed to emergency needs and cleaning up. Communities affected by disasters were seen as unlikely places to institute development and the post-disaster environment was seen as too turbulent to promote institutional changes aimed at promoting long term development, this statement holds true in South Africa whereby many communities are still neglected. This paper adopts a view that municipalities in Limpopo Province lack disaster management units that can convene disaster management in order to cope and anticipate disasters which may occur. The paper aims to analyse lack of multi-sectoral cooperation which is a key factor for ensuring integration of disaster management into the IDPs, much emphasis will be given to the role of disaster management in the integrated development planning processes of municipalities in Limpopo Province.

**Keywords:** Disaster management; disaster risk management; Integrated Development Plan; South Africa

## INTRODUCTION

South African municipalities are mandated to incorporate the function of disaster management into the existing integrated development planning processes. The aim is to ensure that all developmental projects and programmes are safely implemented in a manner that will enforce risk reduction and sustainability. The *Disaster Management Act (57 of 2002)* and the *Municipal Systems Act (32 of 2002)* are legislative imperatives which aim to operationalize this process, these Acts of are key pillars for incorporating disaster management into the IDP. However, the implementation of these key Acts does not seem to address the incorporation of disaster management issues into integrated planning as it is envisaged. This is understandable because disaster management is still ambiguous at some district and local municipalities. This points out to the fact that disaster management responsibilities of municipalities is poorly understood or taken for granted by municipal officials. This is evident because very few municipalities incorporate disaster management issues in their respective IDP's. This is in spite of the fact that literature on the discourse of development indicates undoubtedly that development practitioners recognise disaster risk planning and management as a precondition for development. This perception is

true because development is a process which is brought through projects and therefore every developmental project must be assessed in order to avoid or lessen the risk which might negatively affect project sustainability and set back the gains of development. Disaster risk management is a key foundation to speed up recovery and dealing with disasters efficiently and effectively. It is a process of aligning projects with mitigation measures. The primary purpose of this paper is to examine and clarify the role of disaster management in the integrated development planning process of selected municipalities within Limpopo Province. It commences by providing a comprehensive conceptualisation of the notion of disaster management or disaster risk management, the legislative and policy framework for managing disasters, the challenge of integrating disaster management into IDP's and challenges faced by municipalities in the process of managing disasters. The paper concludes by proposing measures that can be implemented by municipal officials in trying to incorporate and encapsulate disaster management plans into municipal IDPs required for securing sustained development efforts within municipalities in Limpopo Province.

### **CONCEPTUALISATION OF THE NOTION OF DISASTER MANAGEMENT**

It is important to note that over the past decades, development practitioners and academics alike have opted to use the term disaster risk management to indicate the function of "disaster management" in Government as well as the multi-sectoral and multi-disciplinary activities for reducing disaster risks (Van Niekerk, 2008; Vermaak & Van Niekerk, 2004; Van Riet, 2009a). Disaster risk management is an activity of all spheres of government, it relates to integrated, multi-sectoral, multi-disciplinary approach aimed at reducing the risk associated with hazards and vulnerability (Republic of South Africa, 2003; Republic of South Africa, 2005). For this reason, disaster management should immaculately emerge as one of the key performance areas of every municipality's IDP (Republic of South Africa, 2002). The incorporation of disaster management into the IDP is further supported by the South African Local Government Association (SALGA). SALGA has vested interest in the successful implementation of Disaster Management Act in order to successfully support local government and to assist with capacity enhancement. To this end, SALGA needs a clear understanding of disaster risk management within the local sphere of the government. This will enhance synergised IDP and it will also assist municipalities in responding to disaster management challenges faced at different spheres of government. Although the *Disaster Management Act (DMA) 57 of 2002* was promulgated in the year 2002, it is important to note that over a decade later, overwhelming majority of district and local municipalities still do not have adequate disaster risk management measures in place. This does not only complicate the implementation of the DMA, it also adds to the existing disaster risk profile of many municipalities (SALGA, 2011). The above statement indicates there is a missing link between disaster management plans and the IDP. Therefore, IDP as an overarching fulcrum for developmental local government must strategically embrace the function of disaster management as a key performance area. Disaster risk management requires coordination of multiple stakeholders and sector departments and this is a challenging case in Limpopo province municipalities. The next section will provide the mandate of South African Disaster Management legal imperatives.

## THE LEGAL MANDATE OF DISASTER MANAGEMENT IN SOUTH AFRICA

The *Constitution of the Republic of South Africa* (1996) places a legal obligation on the government to ensure safe and healthy environment. This can be achieved through the establishment of legal imperatives which serve as operational guidelines. South Africa is one of the first countries to comprehensively legislate disaster risk reduction within the public sector. Since the advent of the democratic dispensation in South Africa in 1994, the South African government has promulgated a comprehensive and thorough legislative and policy framework for managing disasters. In a process, which started in June 1994 (Republic of South Africa, 1998; Republic of South Africa, 1999) culminated in the *Disaster Management Act 57 of 2002*, and the National Disaster Management Policy Framework in 2005 (Raju & Van Niekerk, 2013). The *Disaster Management Act 57 of 2002* aims to ensure a safe and healthy environment; this Act places a legal obligation on municipalities to carry out disaster management. The promulgation of the *Disaster Management Act 57 of 2002* took place before the adoption of the Hygo Framework for Action in 2005. The purpose of the Hygo Framework for Action is to address the overemphasis on the costly disaster response focus of government by the adoption of elimination, prevention and mitigation measures (Van Niekerk, 2011).

The inception of the Green Paper on Disaster Management (South Africa, 1998) established the National Disaster Management Centre (NDMC). The purpose of the National Disaster Management Centre is to function as a conduit and repository of information relating to disasters, hazards, vulnerability and disaster risk. The NDMC would further be the coordinating body for the implementation of cross-sectoral management activities. The Disaster Management Act 57 of 2002 also makes provision for the establishment of disaster management structures from across all the spheres of government. The need to implement these structures was recognised by a number of provinces and municipalities even before the promulgation of the new legislation. These structures have gradually occurred within the provincial and local sphere of government since 1994. The new legislation places responsibilities on metropolitan, district and local municipalities to establish disaster management centres within their respective areas of jurisdictions (SALGA, 2011). Disaster management centres have the same responsibilities as the NDMC but their powers and duties apply to the provincial and local sphere. In terms of the above, there is no question that the function of disaster management forms an integral part of South African public sector, particularly the local sphere of government (South Africa, 1999). The Bill of Rights of the constitution suggests that the government's disaster management policy not only pursue the constitutional obligation, but it must give effect to the right of life, equality, dignity, environment, property, healthcare, food, water and social security.

The other important piece legislation that regulates disaster management in South Africa is the *Municipal Systems Act, Act 32 of 2000*. Section 41 of the Municipal Systems Act (MSA) requires municipalities to set measurable performances in respect of development priorities and objectives, this process requires municipalities to develop integrated development plan in order to enforce integration of all development efforts within a municipality. IDP was first introduced in an amendment of Local Government Transition Act (No. 209 of 1993) it was the time when the government shifted from national and provincial government to a new system of local government. IDP get its mandate from the Municipal Systems Act 32 of 2002, the purpose of the IDP is to assist municipalities to perform their functions in a coordinated, strategic, developmental and fiscally responsible manner. Therefore, integrated development

plan (IDP) should be the vehicle for integrating this process of development and it must also depict the baseline and the state of disaster risk reduction in any municipality. The White Paper on Local Government (1998), states that municipalities should integrate development planning with community based goals. However, in South Africa the situation is far from being transformed because local municipalities strive to achieve their policy mandate through increasing transparency and openness in planning and implementation of services (Madzivhandila & Asha, 2012).

Pieterse, Parnell, Swilling & Van Donk (2008) indicate that the national government places a mandate on local government to plan and implement provision of various basic services such as water, sanitation, waste management, electricity reticulation, roads, storm-water drainage, land use planning and control, and transport planning through the adoption of IDP's. However, the researchers mentioned are silent about the function of disaster management in the IDP. Hence this paper aims to express the importance of disaster management in the processes of integrated development planning. Historically, disaster management has been viewed from a paramilitary perspective; that is, it has been conducted for, not with the community (Pearce, 2003). Pearce (2003) further points out that community members are becoming increasingly frustrated not only with being excluded from the decision-making processes involved in community planning, but also with being excluded from those involved in disaster management. This paper argues that in order for disaster management to be implemented in South African municipalities; multiple stakeholders should be engaged to formulate realistic strategies that will address the gap of disaster management and lack of multidisciplinary synergy in the IDP. The next section discusses the significance of disaster management in the integrated development planning processes of municipalities in South Africa.

## **INTEGRATED DEVELOPMENT PLANNING AT LOCAL GOVERNMENT**

The integration of disaster risk management into development planning cannot be ignored, this is significantly emphasised by the *Disaster Management Act 57 of 2002* and the *Municipal Systems Act 32 of 2000* (Van Niekerk, 2011). Schipper & Pelling (2006) also stress the need to integrate disaster risk management into IDP's. This is due to the dramatic rise in the number of disaster events and their consequence on development gains. Although Limpopo province does not experience frequent disasters, it is vital for municipalities to integrate disaster management into existing IDP's. The ideal world requires disaster risk management coordinators and professionals to form part of the IDP meetings. The rationale for holding the meetings is to avoid rebuilding of structures after every disaster strike, lack of proper planning and coordination with sector departments involved in various activities has contributed to repeated damages and this makes disaster management dysfunctional. The Disaster Management Act mandates municipalities to integrate the function of disaster management into the integrated development plan in order for local government to achieve its developmental ambitions.

This paper is of the view that an integrated development plan should be a true reflection of the situation at local government. The IDP document should be able to inform development practitioners, researchers and investors about different key performance areas of municipalities. This must include disaster management as crucial component of the IDP. The perusal of IDP's of thirty (30) municipalities in Limpopo province shows very little evidence of integration of disaster risk management in municipal IDP's. This has been identified as a hindrance for the implementation of disaster management in municipalities,

especially local municipalities. Lack of coordination and responsibilities for those involved in disaster management has been identified as a serious setback for incorporating the function of disaster management in the IDP. This makes disaster management to be vague and dysfunctional in most municipalities in the province. The analysis of IDP's emphasised the need for incorporating disaster management into the IDP.

According to Koma (2010) and Pieterse (2007), lack of integration of disaster management plans into the IDP's is worrisome. This is because local government is the sphere of government that is mostly responsible for development given its closer proximity to communities. It can therefore be argued that this is a huge challenge confronting local government. This will complicate the ability of municipalities to fully execute their developmental mandate. Since the transformation of local government in the year 2000, municipalities have been under tremendous pressure to implement IDP's as a process that requires municipalities to coordinate and integrate developmental activities within their areas of jurisdiction. The aim is to promote the economic and social development communities. Political and administrative authorities at local government are expected to be involved in the process of development planning. Section 26 of the *Municipal Systems Act 32 of 2000* & the National Disaster Management Framework (2005) declare that disaster risk management should be incorporated into the IDP (Republic of South Africa, 2005). This indicates the link that exists between development planning and disaster risk management. However, such link is not clear to administrative and political structures in South African municipalities particularly in Limpopo Province which is significantly affected by this problem. Disaster risk should be managed through careful planning and the sensible conducting of the day to day activities of all organs of the state and all relevant role-players.

The White Paper on Disaster Management (1999) indicates that the capacity for managing disasters varies from on-going service and infrastructure provision as part of long-term development initiative. The link between disaster management and development is clearly articulated in the international literature on the discourse of development (Twigg 2004; White *et al.* 2004 & Wisner *et al.*, 2004). Disaster risk management requires a wide range of skills, such as those of town planning, engineering, public health, community development and public management to mention only a few (Van Riet & Diedericks, 2010). Disaster Risk Management is most effectively implemented at municipal level by ensuring that functional strategies, policies, programmes and projects find embodiment at community level. This is achieved through development and implementation of standing plans, local policies, procedures and rules. Van der Waldt *et al.* (2007; 242) points out that the IDP is the functional plan according to which municipalities must operationalise the supply of goods and services. It therefore serves as an operational plan and fulcrum for development and disaster risk reduction in any municipality. It is in this context that disaster risk management must be integrated into IDPs. To realise this, it is important that disaster risk reduction projects only should not only be aimed at reducing vulnerability to a specific hazard be included in IDPs, but projects, in the project phase of the IDP should be considered in terms of their potential risk reduction effects.

The successful implementation of disaster risk management can only be achieved if municipal managers can be inculcated because this function falls within the ambit of the responsibilities of the municipal manager. However, it is important to note that in Limpopo province, the role and responsibilities of some municipal managers with regards to disaster management are not clear due to political

deployment. This is in reference with the state of disaster risk management that is prevalent in the province. Disaster risk management in most municipalities in the province is still significantly underdeveloped. This situation is further exacerbated by ignorance on the part of municipal senior officials, lack of disaster management centres. Financial, infrastructural and human resource capacity has been identified as teething areas of concern for the implementation of effective disaster risk management. In response to address the gap of disaster management in the integrated development plan, the paper conveyed the significance of having disaster management in the IDP. The next section will deal with challenges facing disaster management.

### **CHALLENGES FACING DISASTER MANAGEMENT**

The White Paper on Disaster Management (1999) indicates that the capacity for managing disasters varies from on-going service and infrastructure provision as part of long-term development initiatives. It also identified the following challenges which hamper the implementation of effective disaster management:

- Lack of effective and comprehensive disaster management strategy;
- Coordination and responsibilities for those involved in disaster management are not clear;
- Local government lack capacity to implement disaster management in rural areas and
- Lack of integration of civil society into effective disaster management activities particularly those concerned with risk reduction (White Paper on Disaster Management, 1999).

In light of the above, and the established understanding of disaster management, the primary responsibility for disaster management in South Africa rests with the government. As it is stipulated in Part A, schedule 4, disaster management is a functional area of concurrent national and provincial legislative competence. However, this does not exempt local government from disaster management responsibilities. Universally, the application of disaster management occurs most effectively at local government. It would therefore be correct to argue that disaster management is a key function of local government because it is in this local government that smaller but more frequent hazards occur but in most cases disaster management structures are found in district municipalities. The local sphere of the government should focus on the actual implementation and planning in order to ensure effective integrated and coordinated disaster risk management. Schedules 4 and 5, and Part B of the *Constitution of the Republic of South Africa 1996*, requires local government is to provide functions that are closely allied to disaster management. Those functions inter-alia include air pollution, fire fighting services, building regulations, municipal planning, and municipal health care, and water and sanitation services. The previous statement suggests that disaster risk management in South Africa is more than a mere response to chaotic events. SALGA (2011) identified lack of finance, equipment, skilled personnel, political will, involvement of government department, community participation and government department, community participation and community strategies as major challenges which hinder municipalities to implement disaster management effectively. Disaster risk management entails a unique responsible management element within the public sector that will guide, oversee and advice on disaster management related issues. Therefore it must be integrated into development planning processes. This will ensure that disaster risk is provided for in every programs and projects, it will further anticipate disasters which may occur.

## CONCLUSION AND RECOMMENDATIONS

The study identified lack of disaster management in the integrated development process as a key challenge; therefore this might hinder investment opportunities and also result in a continuous and paralysed disaster management. The district and local municipalities in the Limpopo Province must establish a municipal disaster risk management plan as an integrated part of the municipality's integrated development plan; they must also establish a municipal disaster risk management policy framework; disaster management centres; municipal disaster management advisory forum and municipal interdepartmental disaster risk management committees. The purpose of these structures is to facilitate inter-governmental cooperation and also to administer disaster risk management in municipalities. Previously local municipalities were not required to develop disaster management plans but the amendment of Municipal Systems Act and Disaster Management Act, legislates local municipalities to include disaster management as an emerging new key performance area. The function of disaster management must not be segregated from integrated development planning processes. It is recommended for disaster management to anticipate development programs and also to be aligned with development initiatives such as Limpopo Economic Growth Development Plan (2009-2014), New Growth Path Framework (2010) and the National Development Plan (2030), a special focus should also be placed on Provincial Growth Points Municipalities (PGPM) such as Musina for (Musina to Africa Strategic Supplier Hub Initiative), Lephalale for (Medupi Power Station) and Tubatse (Mining). This sophisticated development programs and projects need thorough and in-depth intervention of disaster risk assessment and local government must ensure the provision of this function. The integrated development plan as a strategic plan for developmental local government must also ensure that integration of disaster management is incorporated, implemented and administered, this process must be adhered by all local and district municipalities in Limpopo Province.

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## SPIRITUAL WORKPLACES: DIFFERENCES BETWEEN PERCEPTIONS AND INTENTION

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### ABSTRACT

The changing nature of the contemporary workplace forces organisational leaders to rethink their current approach to work and employees. This requires organisations to institute new systems in order to successfully embrace the changes which can be achieved with the introduction of spirituality to the workplace. The objective of the study was to investigate workplace spirituality, and to compare it with the organisation's vision and mission statements, and core values. A cross-sectional study was conducted with a sample of 600 white collar workers chosen from two organisations in different industries in South Africa. The results of this research indicate that generally employees do not view their organisations as being spiritual even though the organisation has a spiritually-based vision and mission statement. This implies that in order for organisations to embrace the benefits of creating spiritually-based workplaces, organisations need an appropriate vision, mission statement and core values which should be authenticated by organisational leaders.

**Keywords:** Workplace spirituality; contemporary workplace; organisational leadership; organisational vision; mission statement; core values

### INTRODUCTION

The construct "spirituality" is receiving increasing attention, particularly in the context of the workplace. The following factors have contributed to this interest from management and academics, which is suggested to be a manifestation of broader societal concerns (Bell & Taylor, 2001: A1). Organisations seek increased commitment from their employees, which cannot be realised without caring for the entire person. Changes in the global economy, such as restructuring, globalisation, diversity, competition, downsizing, re-engineering, aging populations, as well as environmental pollution, have led to the realisation at organisational level that current structures, policies and processes are no longer appropriate in the 21<sup>st</sup> century. These factors are leaving workers demoralised, alienated and unable to cope with the compartmentalised nature of their work and non-work lives. The community structures given to employees, formerly provided them with a source of meaning, but are now viewed by some as less relevant. Furthermore, work is replacing the role that community structures fulfilled previously (Gill, 1999: 726), and is becoming increasingly central to employees' personal growth (Dehler & Welsh, 2003: 118).

Organisations are currently undergoing extensive and permanent changes in response to changes taking place within the dynamic environment in which it operates. Modern organisations are forced to re-examine their current states of existence to ensure organisational effectiveness and competitiveness in this ever-changing external environment. In response, modern organisations are becoming much flatter and flexible, placing more emphasis on employee empowerment and collaborative employee relationships (Burack, 1999: 282). For individuals to embrace these organisational changes and challenges facing them successfully, they need to be focused, fulfilled, productive, creative, happy and motivated. Having these types of employees in the workplace may be the most important

factor which will eventually distinguish an organisation from its competitors in an increasingly competitive environment.

Unfortunately, employees possessing these characteristics are not easily come by in today's organisations. Due to the changing environment employees are feeling stressed, anxious, insecure, demoralised, unfulfilled and fearful, with a need to be spiritually fulfilled (Rutte, 2003). It appears that this sense of emptiness, frustration and unfulfilled needs motivates people to find meaning in their lives. In order to achieve meaning in life (and therefore in the individual's working life), the introduction of spirituality into the workplace may be a means and source of creating this meaning (Haroutiounian *et al.*, 2000: 662-682).

Therefore, organisations have to rethink their current approach to work and employees. This requires organisations to institute new systems in order to successfully embrace the changes which can be achieved with the introduction of spirituality to the workplace. In the context of the workplace, spirituality does not necessarily imply that the organisation itself should be of a spiritual nature, but merely that the organisation should allow and encourage employees to experience spirituality within the working environment. It is, however, assumed that when the organisation is spiritual as well as its employees, value congruence might occur, which may imply even greater organisational outcomes, such as quality, productivity and profitability.

## **BACKGROUND**

Although the study of spirituality in the context of the workplace still appears to be in its infancy, ground-breaking work is being conducted confirming significant relationships between spirituality and work-related phenomena, such as organisational performance (Neck & Milliman, 1994: 10; Tompson, 2000: 18-19), organisational commitment, job involvement (Milliman, Czaplewski & Ferguson, 2003: 440), ethicality (Giacalone & Jurkiewicz, 2003b: 85), emotional intelligence, self-efficacy (Hartsfield, 2003:20), as well as intrinsic, extrinsic and total work rewards (Kolodinsky, Giacalone & Jurkiewicz, 2004: 1).

The importance of spiritual leadership has also been investigated. Fry (2005: 694-695) defines spiritual leadership as "... the values, attitudes, and behaviors necessary to intrinsically motivate one's self and others so that they have a sense of spiritual survival through calling and membership..." Thus, an effective leader should be a spiritual leader focusing on the spiritual needs of his or her followers in order to ensure organisational success. According to Reave (2005: 681), spiritual values have led to leaders being judged as more effective, and these effective leaders have been proven to increase worker satisfaction, motivation, productivity, and profits.

## **SYSTEMIC NATURE OF WORKPLACE SPIRITUALITY**

Workplace spirituality should be viewed from an individual, organisational or interactive perspective (Kolodinsky *et al.*, 2004: 2). From an individual perspective, spirituality is viewed as the application of an individual's personal spirituality to the working environment. This implies that a person may experience spirituality personally through his or her working environment even though the organisation does not support this experience.

The second perspective of workplace spirituality focuses on the nature of the organisation itself (Kolodinsky *et al.*, 2004: 2). In accordance with this perspective the organisation can be regarded as being

spiritual even though the members of the organisation are not necessarily spiritually orientated.

The third perspective of workplace spirituality should focus on the interactive nature of spirituality (Kolodinsky *et al.*, 2004: 2), which indicates that individual and organisational spirituality should be congruent in order to achieve desirable organisational outcomes, such as job satisfaction. This perspective suggests that both the organisation as well as its employees should be spiritual. Although more research is needed to determine the relationship between personal spirituality and organisational outcomes, Kolodinsky *et al.* (2004:10) states that future research is also needed to establish a relationship between organisational spirituality (workplace spirituality) and job satisfaction. In this study, the relationship between spirituality and job satisfaction will be analysed from an individual, an organisational and combined perspective (integrating the individual and organisational perspectives).

### **BENEFITS OF HAVING A SPIRITUAL WORKPLACE**

Having a spiritual workplace implies numerous benefits to the organisation. Employees will be more creative, which will lead to them making a more effective contribution to the organisation (Rutte, 2003). Neck & Milliman (1994: 9) posit that employees become more creative when they have a clear purpose. Therefore, organisations should ensure that clear direction is given to employees in the form of a spiritual-based philosophy, vision, mission and core-values.

Apart from having a more creative workforce, spirituality has the potential to advance individuals' feelings of intuition (Neck & Milliman, 1994: 9). A study by Freshman (1999: 318) shows that intuition is identified as a theme related to spirituality. The study also found that intuition supports a person's work and spirituality, it leads to higher purpose, and that awareness (an aspect of spirituality) is an aspect of intuition (Freshman, 1999: 318). Neck and Milliman (1994: 10) further assert that intuition is an important leadership and management skill which has been found to be related to personal and organisational productivity. Furthermore, having intuitive and creative employees may lead to increased organisational performance, improved problem-solving, financial success, and enhanced organisational competitiveness (Gull & Doh, 2004: 135; Krishnakumar & Neck, 2002: 157).

Another benefit of a spiritual workplace is increased authenticity in communication, which will allow employees to speak about their spirituality without fear of punishment (Rutte, 2003). This is mainly because a spiritual person will have a sense of connectedness with others and will also be more aware of others' concerns. This improvement in communication will eventually lead to employees being more honest, as well as increased trust amongst organisational members (Rutte, 2003).

A spiritual organisation increases the morale of employees as well as their ethical behaviour which leads to trust not only between employees, but also between employees and employers, and between the organisation and consumers (Rutte, 2003). Trust, in turn, also implies many benefits to the organisation, such as better organisational performance, improved decision-making, communication, and an enhanced focus on customer issues and greater innovation (Krishnakumar & Neck, 2002: 157). Spiritually inclined organisation may also increase employees' growth, development (Neck & Milliman, 1994: 10), personal fulfilment, and achievement (Burack, 1999: 284). It may also create tolerance for work failure, lower susceptibility to stress, favouring a democratic style of leadership, bring about higher tolerance for human diversity, altruism, citizenship behaviour, as well as increased organisational and workgroup commitment (Mohammed, Wisnieski, Askar & Syed, 2004: 104-105). Although spirituality holds

many individual and organisational benefits, it also seems necessary to mention the potential costs and negative effects which workplace spirituality may suggest. Polley, Vora & SubbaNarasimha (2005: 50-56) postulate that the negative aspects associated with spirituality in the context of the workplace include costs when attempting to create a spiritual organisation, potential exploitation of workers, manipulative control, increased stress, decreased organisational performance, group cohesiveness, and group think. Therefore, organisations should be aware of, and guard against, the potential disadvantages which may be associated with a spiritual organisation.

Organisations should not view spirituality as a “quick fix” for organisational problems. Spirituality in the context of the workplace requires genuine commitment and understanding in order for organisations to reap the benefits thereof. Should organisations not understand that spirituality is a sensitive concept which should be embraced with care; it may lead to potential costs and negative effects hampering organisational effectiveness.

### **IMPLEMENTING SPIRITUALITY IN THE WORKPLACE**

Bell & Taylor (2001: A2) indicates that when introducing spirituality into the organisation there is a distinction between those who are of the opinion that workplace spirituality can be deliberately introduced to the organisation to enhance employee commitment and improve performance (Milliman, Ferguson, Trickett & Condemi, 1999: 221-233), and those who regard spirituality as a cultural phenomenon, which has the potential to enhance human understanding and quality of life (Mitroff & Denton, 1999: 83-92). Whichever perspective is the ideal, introducing spirituality to the workplace, can be done from two perspectives, viz. an individual or an organisational perspective.

The organisational perspective suggests that spirituality should be implemented in the organisation as a whole (Krishnakumar & Neck, 2002: 160). This implies a transformational initiative which will focus on transforming the organisation as a whole to become more spiritual. On the other hand, the individual or micro-perspective, suggests that spirituality should be implemented and encouraged by individual requests (Krishnakumar & Neck, 2002: 159-160). Organisations may find a pro-active approach more appropriate, and not necessarily wait for individuals' requesting the implementation of spirituality. The individual perspective focuses on individual differences in terms of the experience and practice of spirituality. Organisations should therefore acknowledge that some employees would prefer not to bring spirituality into their workplaces.

Although Krishnakumar & Neck (2002: 159) distinguish between these two perspectives to implement and encourage spirituality in the workplace, the two perspectives appear to complement each other. The opinion is offered that, in order to bring about spiritual transformation in an organisation, spirituality should be implemented and encouraged simultaneously from an organisational and individual level. This includes fundamental changes in the organisation's philosophy, vision, purpose, and mission, as well as changes in its individual members.

Polley *et al.* (2005: 61) indicate that, due to the potential disadvantages associated with workplace spirituality, the following key managerial issues need to be taken into consideration when implementing spirituality in the workplace:

- basic skills needed in the areas of diversity and appreciative listening must be incorporated into the introduction of spirituality;

- training and introduction of spirituality may need to be done on the basis of entire work units in order to create the environment in which trust can be developed;
- management must address the manner in which spirituality will be rewarded and acknowledge the importance of fairness in the distribution of economic gains;
- management must be aware of the problems associated with high levels of cohesiveness at both group and organisational level;
- there must be recognition that spirituality will not be without conflict – thought must be given on how religion should be approached, and
- employees who do not wish to bring spirituality into their working environment must be embraced.

Organisations should therefore be well prepared to introduce spirituality to the workplace. Not only should organisations be aware of the benefits associated with workplace spirituality, but also the potential disadvantages thereof. This will force organisations to thoroughly examine the environment and organisation before implementing spirituality in the workplace.

## RESEARCH DESIGN

### Research Approach

To empirically examine the relationship between workplace spirituality and job satisfaction, a cross-sectional study was conducted. This method was found to be inexpensive and adequate to achieve the goal of the research e.g. to measure workplace spirituality and job satisfaction. Primary data were collected with a structured quantitative questionnaire. A total number of 600 questionnaires were distributed to white collar workers from two different industries in South Africa: one a private hospital (N=243), and the other a semi-public educational organisation (N=357). The study focussed specifically on white collar workers because work centrality and meaningful work seem to be more important to them (Friedman & Havinghurst; Morse & Weiss, Orzack, quoted by De Klerk, 2001). The final sample comprised of 242 respondents of which 21.5% were males and 77.7% were females. The sample consisted predominantly of people in the age group 41-62 years (N=106, 43.8%) who are College or University of Technology graduates (N=83, 34.3%). In terms of the respondents' ethnical grouping, 73.1% were white, 17.4% African, 7% Coloured and 1.7% Asian.

The sample consisted predominantly of professional workers (N=84, 34.7%). This group consists of occupations such as psychologists, pharmacists, doctors, and professional nurses. A large number of workers also fell into the administrative group (N=62, 25.6%). Of the other respondents 8.7% were academic personnel, 12.4% managerial personnel, and 8.3% technical personnel. The sample consisted predominantly of Christians (93.4%) with very strong or strong religious convictions (83.1%). Similar findings were obtained by other researchers conducting studies in South Africa (e.g. De Klerk, 2001). These findings indicate that this sample is a very religious society with people generally having strong religious convictions.

### Measuring Instruments

Workplace spirituality was measured by the Organisational Spiritual Values Scale (OSVS) (Kolodinsky *et al.*, 2004). The OSVS was developed by Kolodinsky *et al.* (2004), and it assesses a person's

perceptions of spiritual values exhibited by his or her organisation. The OSVS consists of 20 items using Likert-type scaling, ranging from one (completely false) to five (completely true). The internal consistency reliability estimate for the scale was 0.93, indicating a strong reliability.

**Research Procedure**

It was decided to collect data by using self-administered questionnaires. This data collection method is evaluated as effective to collect data on a topic such as workplace spirituality, because it allows respondents to answer the questions anonymously and to reflect on the questions before answering them. The self-administered questionnaire was distributed to the sample (which was randomly chosen) through the internal mail systems of the two organisations. The purpose of the study was explained in a cover letter attached to the questionnaire, and respondents completed the questionnaire anonymously and voluntarily.

**Statistical Analysis**

The statistical analysis of the responses was done by means of the SAS and BMPD statistical packages.

**RESULTS**

The mean, standard deviation, maximum and minimum scores of the respondents are shown in table 1.

**Table 1:** Workplace spirituality and organisation (n=212)

ORGANISAITON	N	MEAN	SD
Educational Organisation	68	57.35	14.83
Private Hospital	144	39.80	13.37

The mean score for the educational organisation (N=68) was 57.35, with a standard deviation of 14.83. The mean score for the private hospital (N=144) was 39.80, with a standard deviation of 13.37. The educational organisation is thus perceived by its organisational members as having more spiritual values than the private hospital. Although the organisational members of both organisations did not perceive their organisations as spiritual, reference is made to spiritual values in these organisations' mission statements or core values. The visions, mission statements and core values of the two organisations are summarised in Table 2.

Both the educational organisation and private hospital incorporated spiritual values into their mission statements and core values. Often information contained in visions, mission statements and core values are not practically implemented and lived by organisational leaders. This leads to organisational members not perceiving their organisations as being serious about their vision and mission statements. Miller and Skidmore (cited in Cartwright & Holmes, 2006: 204) state that if mission statements are not practically implemented and fail to have authenticity they will result in an unmotivated and uncommitted workforce. One may therefore deduce that although the educational organisation and private hospital do to some extent have spiritually-based values, this is possibly not evident to organisational members because of organisational leaders' non commitment to these values, which may potentially lead to

employees being dissatisfied.

**Table 2:** visions, mission statements and core values of the private hospital and educational organisation

	EDUCATIONAL ORGANISATION	PRIVATE HOSPITAL
<b>VISION</b>	To be a globally connected African university of technology that focuses on the needs of Southern Africa and supports graduates for citizenship with skills and competencies in appropriate technologies.	To be regarded as the most respected and trusted provider of hospital services by patients, doctors and funders of healthcare.
<b>MISSION STATEMENT</b>	<ul style="list-style-type: none"> <li>▶ Deliver high-quality appropriate Science, Engineering and Technology (SET) academic programmes supported by applied research.</li> <li>▶ Engage with the community for mutual beneficial development.</li> <li>▶ Promote access with success in attracting potentially successful students and support them to become employable graduates.</li> <li>▶ Attract and retain expert staff and support their development and well-being.</li> <li>▶ Forge strategic partnerships.</li> </ul>	<ul style="list-style-type: none"> <li>▶ We will focus relentlessly on the needs of our clients</li> <li>▶ Every hospital will be the preferred service provider in the community it serves</li> <li>▶ We will provide the most cost-effective quality care possible</li> <li>▶ We will maintain a contented workforce</li> </ul>
<b>CORE VALUES</b>	<ul style="list-style-type: none"> <li>▶ Customer service</li> <li>▶ Integrity</li> <li>▶ Diversity</li> <li>▶ Innovation</li> <li>▶ Excellence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Client orientation</li> <li>▶ Team approach</li> <li>▶ Mutual trust and respect</li> <li>▶ Performance driven</li> </ul>

Dissatisfied employees have been found to have a negative impact on organisational effectiveness, and thus profitability. Organisational spirituality is however more than a mere statement on its spiritual values, it requires organisational leaders to show genuine commitment towards these values in order for employees to perceive the organisation to be truly spiritually-based. This in turn may potentially lead to them being satisfied with their work, which will ensure greater organisational effectiveness.

**DISCUSSION**

Contemporary workers are viewed as being more concerned about achieving meaning in their lives, and therefore being part of something greater than themselves, which will allow them to make a contribution to the world at large. In order to achieve this, they need to be supported by a spiritually-based organisation. Gull & Doh (2004: 128) postulate that organisations are generally lacking a spiritual foundation and deny their employees the opportunity to express their spirituality through their work. Today’s organisations are still characterised by non-spiritual practices such as excessive individualism, over protectionism, paternalism, authoritarianism and absenteeism, instead of focusing on aspects such as accountability and responsibility, creating productive connectivity, increased accessibility and encouraging authenticity (Marques, 2005:153).

Although non-spiritual practices are still prevailing in many organisations, employees are increasingly relying on organisations to care about them as holistic beings consisting of physical, psychological and spiritual dimensions, as well as providing them with community structures in order for them to find meaning in their lives. This can, however, only be achieved if organisations are spiritually-based. It is hypothesized that respondents having high levels of personal spirituality are dissatisfied with their work because they are not supported by spiritually-based organisations. It is postulated that in order to achieve organisational success, both the individual and organisation should be spiritual. Neither the

private hospital nor the educational organisation was perceived by respondents to show strong spiritual values. One may speculate that because respondents are spiritual, they would expect their organisations to have similar spiritual values. Employees who are not necessarily spiritual, may also expect their organisations to display spiritual values.

The findings of this study support the spiritual-values-based management model proposed by Milliman *et al.* (1999: 223). In this model it is indicated that the values of a spiritual organisation influence business and employees' plans. It is also indicated that organisational spirituality influences outcomes such as organisational performance and employee attitudes. It is further revealed that it is not enough to have a spiritual mission statement, but rather that these spiritually-based values should be interwoven into business strategies and practices (Milliman *et al.*, 1999: 230). They further propose the following (Milliman *et al.*, 1999: 230-231):

- Organisational spiritual values should tap both the mental and emotional aspects of employees in order for them to be more positively related to employees' work, spiritual attitudes, etc.
- Employees should be truly empowered to participate in company decision-making, as this moderates the linkage from organisational spiritual values to employee attitudes and organisational performance.
- The company's HRM practices should be aligned with the organisation's spiritual values as this moderates the linkage of the organisation's spiritual values to employee attitudes and organisational performance.

## CONCLUSION

The role of spirituality in the context of the workplace has been neglected in the context of the workplace. The findings of this study can be applied practically in the work setting. In order to create a spiritually-based workplaces, organisations need an appropriate vision, mission statement and core values which should be authenticated by organisational leaders. Future research should explore why employees view their organisations as not having spiritual values, when these values indeed appear to be included in their visions, mission statements, core values and beliefs. This might include investigating the valuable role of having spiritual leaders in the organisations in order to ensure that spirituality is successfully integrated into the organisation; in addition how different workers experience workplace spirituality as well as the impact thereof on organisational performance.

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# PERCEPTIONS ON BATHO PELE PRINCIPLES: VIEWS FROM SERVICE USERS OF A PERI-URBAN HEALTH CENTRE AND IMPLICATIONS FOR SOCIAL TRANSFORMATION

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## ABSTRACT

The purpose of South Africa's 1997 White Paper on Transforming Service Delivery was to transform the Public Service into a people-centred institution. The success or otherwise of the implementation of its principles (also known as *Batho Pele*) has been widely debated. Factors such as low management skills, weak monitoring processes and inadequate intergovernmental relations have been advanced as possible causes for its areas of failure. While these are valid in themselves, it can be argued that such observations focus on only one side – that of the service provider. They ignore the contribution of those seeking public services – those whom the *Batho Pele* principles are, in fact, intended to benefit. Research has not adequately addressed the perceptions and experiences of the users of the public service facilities and, in particular, what contribution they (can) make towards the successful implementation and monitoring of *Batho Pele* principles and public service provision in general. This is particularly so in rural and peri-urban areas which generally lag behind in service provision and public policy input. In an attempt to fill this gap, this paper reports on a study that examined how ordinary users of public services perceived not only the implementation of the *Batho Pele* principles by service providers, but also their own roles and responsibilities in the process. Influenced by the managerial model of public administration and drawing on the notion of good governance, this paper argues that service users and service providers exist in a mutual relationship and that successful implementation of *Batho Pele* principles would therefore require both users and providers to have a shared understand these principles. The paper is based on a qualitative study which sought views from community members in the vicinity of Inanda Community Health Centre, a peri-urban area in KwaZulu-Natal Province. Using an open ended questionnaire and one-on-one interviews, the study established that as service users, community members are aware of *Batho Pele* principles, but there is a need to conscientise them as to their roles and responsibilities in order for community-based healthcare services to function optimally. From this case study, conclusions are drawn regarding the role of service users in general in the attainment of a successful, user-centred public service and on transforming society in general.

**Keywords:** Batho Pele; public service facilities; user perceptions; peri-urban; South Africa

## INTRODUCTION

Prior to 1994, the South African health system was based on the apartheid system and was characterised by geographical and racial disparities (Whiteside, 2003), as well as the fragmentation and deregulation of the health sector. In an attempt to fully segregate all the aspects of the South African society, the apartheid government developed the so called "ethnic homelands". Each of these homelands, called *bantustans*, was in charge of the provision of its own health and other public services. There were numerous health departments for each homeland – with each acting independently (Hongoro, Botha & Masilela, 2008). The establishment of these self-governing homelands resulted in a poorly organised, inefficient and often ineffectively managed public health sector. Within South Africa, the apartheid government further established departments of health and separate health services for each racial group

(African, Coloured, Indian and White). The introduction of separate health services reinforced racial divides and institutionalised discrimination in health care access (Whiteside, 2003). As a result, health care was allocated not in terms of need, but in terms of access to racially-defined power. Bound by the law and often by their own vested interests, hospital administrators and doctors did not treat patients impartially. The centralisation of the system left no room for participation by public servants or the community in the decision-making process.

With the dawn of democracy, several policies geared towards transformation and equity were put in place. Among these was the National Health Plan, which envisioned a fundamental restructuring of the national health system. Specifically, it sought to eliminate the fragmentation and duplication of services by integrating all health services under a single Ministry of Health; to decentralise the organisation and management of health services through a well-coordinated district health system; and to make comprehensive, community-based health care accessible to all South Africans by establishing primary health centres (Van Niekerk, 2009). Another important policy geared towards transformation and equity was The 1997 White Paper on Transforming Public Service Delivery which envisioned a turn-around in public service delivery and a change of attitude from public servants. Through the introduction of the *Batho Pele* principles, its intention was that citizens would no longer be regarded as passive recipients of delivery, but as active participants in shaping priorities and government effectiveness.

The extent to which these principles have effected improvements in public services by adopting a more citizen-centred approach is the subject of this paper. It begins with a discussion of the White Paper and its theoretical underpinnings, followed by a short survey of the state of public service delivery in South Africa and other countries. The paper then goes on to present the findings of a research study on the perceptions of ordinary users of public services in the Health Services sector. Based on their perceptions of (a) the meaning and implementation of the *Batho Pele* principles by service providers, and (b) their own roles and responsibilities in this regard, conclusions are drawn as to the ideal relationship between service providers and users in transforming public service delivery.

#### **THE WHITE PAPER ON TRANSFORMING PUBLIC SERVICE DELIVERY (*BATHO PELE* PRINCIPLES)**

Following the enactment of the *Public Service Act in 1994*, the then Government of National Unity released its White Paper on the Transformation of the Public Service in November 1995. In pursuit of its commitment to improving the lives of all South Africans, it presented a vision of a public service that is “representative, coherent, transparent, efficient, effective, accountable and responsive to the needs of all” (Republic of South Africa, 1995: 3). To achieve this, it outlined the following mandate for the public service: “The creation of a people centred and people driven public service which is characterised by equity, quality, timeousness and a strong code of ethics.” The first White Paper on the translation of the public service (1995) further acknowledged that achieving this vision and mission depended on a complete revision of the relationship between the State and civil society – one characterised not by the command-and-control approach of the apartheid regime, but by a mutual, consultative partnership between the government and the representative organisations of civil society. The public service of the time was poorly suited to deliver on this vision and mission, characterised as it was by a legacy of a lack of demographic representativeness, a lack of popular legitimacy, a poor service delivery record vis à vis the needs of the majority, a culture of centralized control and top-down management, a lack of accountability and

transparency, a lack of effective management information, low productivity, poorly paid and demotivated staff, conflicted labour relations and in many cases a poor professional ethos and work ethic (Republic of South Africa, 1995: 7). In the early years of democracy, further pressure was placed on the public service as a result of fears regarding the pace of change (too fast for some, too slow for others), the lack of a well-articulated vision of change, a lack of clearly defined roles and responsibilities, the persistence of a rule-bound culture, a lack of skills and capacity and on-going financial constraints.

The 1997 the World Development Report identified the need for an “effective, responsive and legitimate state for sustaining an effective market economy” (Crook, 2010: 483). From an economic, political and social point of view, then, it was imperative that the public service – as the branch of government tasked with meeting the most basic needs of the electorate – become more effective, more responsive and more legitimate in its service delivery. Emphasis slowly shifted to bringing about service delivery improvements through citizen participation and collaborative implementation. Effectively, this meant that public servants had to seek the opinions of service users in formulating the service delivery standards which form part of their performance improvement plans (Crook, 2010: 483). It was against this backdrop that the White Paper on Transforming Public Service Delivery was launched in September 1997. Elaborating on one of the 1995 White Paper’s transformation priorities, namely “Transforming Public Service Delivery”, it provides a service model that includes the public as a stakeholder and puts public needs above its own. Collectively labelled “*Batho Pele*” (Sotho for “people first”), the White Paper’s eight principles flesh out the vision of the public service articulated in the 1995 White Paper. These principles are: consultation, service standards, access, courtesy, information, openness and transparency, redress, and value for money.

The purpose of the *Batho Pele* principles was – and still is – to provide a policy framework and a practical implementation strategy for the transformation of service delivery. According to the *Batho Pele Handbook*, the concept of *Batho Pele* focuses on ‘how’ public services are provided, rather than “which” services are provided, and its main interest is to improve the efficiency and effectiveness of service provision (Republic of South Africa, 2003). *Batho Pele* is moreover a transparent mechanism which allows customers to hold government departments accountable for the type of services they deliver (Republic of South Africa, 2003). In this regard, the primary intention of the *Batho Pele* principles was to change the attitude of public servants and instil compassion and commitment in them.

The White Paper on Transforming Public Service Delivery (1997) emphasises that public services are not a privilege in a civilised, democratic society; they are the right and legitimate expectation of every citizen. If *Batho Pele* is indeed “the soul of the public service and the heartbeat of the nation that will help us rise above the legacies of the past and drive us forward with courage and pride” (Republic of South Africa, 2003: 16), then public servants – and health care workers at that – should relish the challenge of providing improved service to all. However, it is important to understand that *Batho Pele* is not a ‘plan’ as such, but rather an attitude that shapes the character of the public service. In essence it could be said that *Batho Pele* is an ideological concept put forward to change the mindset and hence the behaviour of public servants.

In the public health sector, the *Batho Pele* principles would be applied to improve the quality of health care for all citizens. The principle of “information” would be fulfilled by providing the consumers of health care services with information related to their care, the principle of “access” would be fulfilled by

ensuring that every citizen has equitable access to health care services, and so on. As the Report on the Evaluation of the Implementation of the Batho Pele Principle of Consultation (2007) points out, each principle is interlinked and consultation is crucial to every one:

“For example, the promotion of the principle of access requires that consultation takes place with citizens to better understand their needs and to ensure services can indeed be accessible to them. Without such consultation, the risk exists that what government regards as accessible service delivery may be different from what citizens have in mind” (Republic of South Africa, 2007: 9)

Thus fulfilling each principle assumes a two-way relationship between health service providers and service users, such that the latter are able to ascertain the needs of the former and tailor health services to them. These principles further embody the values enshrined in the Bill of Rights, namely the right to human dignity, the right to information and the right to access services (Republic of South Africa, 1996).

The *Batho Pele* principles were intended as an empowerment tool for both citizens and public servants by instilling in both sides a sense of responsibility and awareness regarding the proper use of state health care funds and services (Miza, 2011: 11). In other words, patients or users of health care facilities are supposed to take responsibility for their own health and exercise their right to competent and responsive health care, while health care providers are responsible for providing appropriate services to their patients. The *Batho Pele* principles work on both sides of the spectrum, therefore; they do not only favour and empower the recipients of health care services, but the health care providers as well. It follows that a well-informed citizenry (in terms of their rights and responsibilities) makes it easier for health care providers to execute their duties. The focus on the citizen rather than the public servant represents a paradigm shift in public service provision – a discussion of which follows.

## THEORETICAL UNDERPINNINGS

While this paradigm shift in South Africa's service delivery is largely attributable to the advent of democracy in the country, the shift is also very much in line with public sector reforms sweeping both the developed and developing world. Administrative and management reforms of government in sub-Saharan Africa – more commonly called public sector (management) reforms – have been under way since the 1980s, and are influenced largely by the managerial model of public service delivery. This model represents a move from the traditional Weberian model of public administration (characterised by continuity, hierarchy and impartiality) to a public administration that is more prudent in its use of resources, managerial in approach, and people-centred in its values (Mubangizi, 2013).

This so-called New Public Management (NPM) model argues for a more managerial and market-oriented framework for delivering public services. According to Aye (2005: 12), NPM reflects structural, managerial and organisational changes that took place in Western countries in the 1970s, based on the introduction of private sector ideals into the public service. Public administration was accordingly shifted towards public management, and the state leaned more towards a market-based public service with a managerial and entrepreneurial culture. Broadly, NPM falls into two interrelated strands (Dassah, 2013): first, a managerial and organisational improvement aspect focusing on decentralisation, and secondly, a market-based and competition-oriented component – both of which are preoccupied with a restructuring of internal arrangements for more efficient and effective performance. South Africa's service delivery

process fits well into these two strands while the *Batho Pele* principles extend the competition-orientation to a greater focus on the recipient of services.

Cucciniello, Nasi & Osborne (2013: 3) point out that, while the issues of efficient and effective utilisation of public resources implicit in NPM still present a challenge, they have become subsumed increasingly within the reality of a post-modern fragmented society and decentralised state. This reality has meant that the *intra-organisational* focus of the NPM and previous paradigms do not reflect the *inter-organisational* and interactive nature of contemporary public service provision. They further note that public service provision has become “increasingly processual and systemic, as opposed to discrete and transactional” (Cucciniello *et al.*, 2013: 4). Because of this, the development of novel approaches to this reality are required, including an improved relationship between the providers and the recipients of public services. Osborne, Radnor & Nasi (2012) submit that the performance of a public service is not (solely) about its effective design in relation to its purpose, but that it is equally about the subjective experience of that service by its users. This ‘subjective experience’ is an amalgam of their expectations of the service and their perceptions of the experience of the service delivery process.

The interface between expectations and perceptions of the actual service impacts upon the actual performance of that service. At the point of interface, the service user and a specific public servant – usually a frontline staff member of the public service institution – interact. The quality of this interaction, argues Normann (1991) affects not only the satisfaction of the service user but also their service outcomes. This supports Osborne *et al.* (2012) view that, in addition to the effective design of public services, successful public services management requires both governing and responding to the service expectations of service users – and training and motivating the service delivery workforce to interact positively with these users. This is precisely what the *Batho Pele* principles seek to achieve. However, it is evident from media reports on the widespread service delivery protests; NGO expose’s as well as Government Reports on the State of Public Service Reports by the Public Service Commission (Mathoho, 2013; PSC, 20120, PSC 2013) that the *Batho Pele* principles have not yet achieved their intended objective. Below we take a snapshot of the current scenario and compare it with the state of service delivery in selected countries.

## THE STATE OF SOUTH AFRICAN PUBLIC SERVICES

All nations around the world are engaged in transforming their public service in one way or another (Rakate, 2006: 11). The primary aim of these transformations is to improve the national and regional state of service delivery, human rights and individual quality of life as well as ensure economic transformation and development. In South Africa prior to 1994, public service delivery in non-white areas was characterised by poor service quality, low basic skills, inefficiency, a lack of commitment and a lack of respect for the citizens. As a result of this culture, people had little trust and confidence in public institutions. For example, the health system was characterised by such racial and geographic disparities that rural black people expected – and experienced – the very poorest treatment and facilities. Decision-making took the top-down approach, where there was little or no room for input from officials in the lower ranks.

According to Cullinan (2006: 5), the ANC adopted a Primary Health Care philosophy in 1994. This philosophy was based on community development and community participation in the planning,

provision, control and monitoring of services. Section 27 of the South African Constitution (Republic of South Africa, Act 108 of 1996) stressed the importance of access to health care services, including reproductive health; sufficient food and water; and social security (including appropriate social support if citizens are unable to support themselves and their dependents). In this regard, Section 27(2) of Constitution obliged the State to take "reasonable legislative and other measures within its available resources to achieve the progressive realisation of each of the aforementioned rights". Since there have been numerous reports of health care services getting worse rather than better, one could consider the Government's current management of the health system to be unconstitutional.

A study conducted by von Holdt & Murphy (2006: 3) on Chris Hani Baragwanath Hospital established that: Public hospitals are highly stressed institutions due to staff shortages, unmanageable workloads and management failures – a finding consistent with the results of other investigations into public hospitals (Commission of Inquiry, 1999; Landman *et al.*, 2001; Skuatu, 2003). By "stressed institution" we mean that institutional functioning is stressed (weak functioning, problems and breakdowns not addressed, dysfunctional management, lack of systems), staff are stressed (high workloads, stressed health, high levels of conflict, poor labour relations), and public health outcomes are poor. The outcome of this is poor and inconsistent clinical outcomes, increased costs of poorly managed illness and – most importantly – inadequate patient care. The issue of inadequate patient care in South Africa has been a point of concern for some time.

In the *South Africa Health Review 2011*, it is noted that many concerns have been raised regarding the quality of care that rural people are receiving at public sector facilities. Recent community consultations around healthcare in rural areas showed that rural health care users have identified shortages of staff, bad staff attitudes, large distances to health facilities and services, insufficient medication, lack of monitoring and evaluation, patient transport and a shortage of ambulance services as major areas of concern. Furthermore, the diagnostic report noted that South Africa was faced with an ailing healthcare system that was collapsing largely because of policy mistakes and also severe staff shortages. From the foregoing discussion, it is easy to see that service delivery in the health sector is not sufficiently attuned to a service- and citizen-oriented model. The following section will consider some global models of service delivery in an attempt to evaluate how similar they are to the *Batho Pele* principles.

## **SERVICE DELIVERY IN EUROPEAN COUNTRIES**

Hoogwout (2005: 1) states that in most European countries there is a huge gap between government and the citizens, causing the citizens to lose trust in their government. Prokopec (2005) disputes Hoogwout's claim, questioning whether there really is a gap; the extent to which the gap should be considered as a problem; and how likely it is that citizens' trust will be restored by involving them in policy making. According to Hoogwout (2005: 1), citizen participation, increasing transparency and service delivery improvements are the key issues in dealing with service delivery improvements. Scholars such as Fountain (2001) are of the opinion that a healthy distrust of government keeps government on their toes. In contrast, Oosterom (2007: 2) contends that "the first step to 'delivering the customer promise' is to know your customers and their needs". Importantly, both positions acknowledge the citizen as being an integral component of service delivery.

Governments around the world are constantly faced with new demands and expectations when it comes to improving service delivery. According to a 2011 Report (World Economic Forum, 2011), governments of the future will need to adapt and continuously evolve to create value. This means that governments need to stay relevant by being responsive to rapidly changing conditions and citizens' expectations, and building capacity to operate effectively. The report further states that today's civil service requires considerable modernisation. Modernisation in this sense can be interpreted as using the power of the Internet, including social media, to transform governance, empower citizens and rebuild the social contract between political leaders and citizens. According to the same report, European countries have adopted the FAST model (flatter, agile, streamlined and tech-enabled) to improve service delivery. This model entails reducing the size of the civil service and it also places more emphasis on the importance of carefully planned workforce reductions coupled with significant organisational, technological and workforce advances. This will result in slim and streamlined organisations that are able to thrive in the new world order and also cater for the ever-changing needs of the citizens. Technology is one of the main components of this model. This means the future of the country will no longer be placed in the hands of government alone, but citizens will also be given an opportunity to voice their opinions and non-government other agencies in society will increasingly contribute to service provision.

Technology, through e-governance for example, will empower ordinary citizens by offering them a way to make their voices heard and challenge government leaders about their ability and willingness to address public concerns and requests. A good example of using technology as a transformation tool in government would be that of Egypt, where the youth organised themselves through social networks (Facebook and Twitter) to overthrow the authoritative regime of the then president, Hosni Mubarak. Given the power of social media to elicit and shape public opinion, it follows that technology is a vital tool for the government itself to use in gaining public opinion and feedback. In this way, the public is included rather than excluded from policy making. It is for this reason that Oosterom (2007) states that government should modernise the civil service to accelerate innovation in government. In addition to that, professional schools and public management and administration programmes should be updated to educate and train civil servants for twenty-first century government by emphasising the skills and knowledge required for public management in an interdependent, technologically-sophisticated world.

#### **MODEL OF SERVICE DELIVERY IN CANADA**

Canada is one of many countries that have identified benchmarking as a useful tool for improved service delivery. According to Draper, Melding & Brodaty (2005: 84), performance monitoring through benchmarking will serve as an effective approach to improve the efficiency of service delivery. The benchmarking initiative was adopted in 2003 by the Ontario Municipal Sector in an attempt to change citizens' perceptions of the public sector. Using this mechanism, corporate reputation and the allocation of future contracts would be based on actual performance rather than perception, marketing and public relations), and incentives would be used to reward good performance. By making information available in the interests of transparency, citizens and stakeholders could be meaningfully involved in public decision making and oversight, rebuilding their trust in public service delivery.

Prokopec (2012) places more emphasis on innovation as the key to improved service delivery. Given the pressures of raised public expectations and limited budgets, she argues that the government

has to move away from the traditional vertical manner of addressing challenges and adopt a more horizontally-integrated approach. Another important issue which Prokopec (2012) raises is that the public of the twenty-first century is one that demands change, so for government to be able to cater for the needs of the people, change is therefore the first step. People require government to be accountable, transparent and more effective and efficient with their tax monies.

Based on work done in Victoria, Australia, the Canadian province of Ontario has now created an Innovation Action Plan which focuses on the creation of a culture of creativity and innovation (Prokopec, 2012). In this context, creativity is defined as “the generation of not a single idea but many”. Prokopec (2012) describes the new Canadian approach as follows: We have developed tools and are taking new approaches to how we talk about our complex challenges through the adoption of a design thinker process. We are generating ideas to support staff in finding solutions to their everyday challenges. We are working closely with our learning organization to define the skills and capacities we will need in the future to face our challenges and we are developing formal and informal learning tools to support staff and leaders. We are also supporting peer-to-peer learning and experimentation by working with our grassroots communities of practice and engaging them in finding solutions to our challenges. In addition to face-to-face connections we have developed a virtual space for sharing knowledge and learning and connecting with one another. By involving each and every person within the public sector and integrating their ideas, this creative and innovative culture will ultimately improve outcomes to the people. As Christian Bason points out: the journey towards the highly innovative public organization must lead simultaneously across four dimensions: creating consciousness of what innovation is and means to the organization, building capacity to innovate, from political context over strategy and organizational structure to people and culture; mastering a process of co-creating new solutions with people, not for them; and finally to display the courage at all levels of management to really lead innovation (Anschutz, 2012).

Clearly, if government wants to solve service delivery problems, new approaches need to be learnt. Albers and Kahane (cited in Prokopec, 2012) describe these new approaches as “systemic rather than piecemeal; [they] must involve stakeholders rather than rely only on authorities, and [they] must be creative and emergent rather than merely replicating existing best practice”. From the above international examples, it is clear that in an effort to improve service delivery, many countries are moving away from traditionally structured, rigid and inward-looking systems. The universal language when it comes to improved service delivery is transparency, flexibility and participation. In order to equip the civil service systems for this, new characteristics are required.

These new characteristics include: updating the legislative framework, reforming organisational structures and processes, changing organisational culture and civil servants’ mindsets, promoting the sharing of information and modernising public administration education and training. Large sums of money are invested in the public service to improve service delivery. Improved service delivery does not only mean good governance, but economic growth as well. A healthy citizenry will ultimately contribute to the growth of the country – hence this paper’s emphasis on improved health care services and, by extension, all other government services that in combination contribute to general socio economic transformation of a society.

## IMPLEMENTATION OF THE *BATHO PELE* PRINCIPLES: LESSONS TO DATE

According to the 2003 *Batho Pele* Policy Review (Job Makgoro Consulting cc, 2003), the initiatives of the various public sector institutions to implement the *Batho Pele* principles are poorly coordinated; there are communication barriers between the role players within the institutions; the implementation of the principles has not been accompanied by a culture of change; the progress made tends to be superficial; and the true determinants of service improvement have not been addressed. These failings the report attributes to the absence in government of a clearly spelt-out “bottom line” and clearly articulated targets. According to the report,

[t]he government has a tendency of following a multiplicity of soft targets, many of which are not measurable or are only important to the service provider rather than to the citizens. What tends to happen is that when public participation is practiced, only the elite group within society is given first preference, so the best services are given to those who can mobilize the loudest “voice”. This has a negative impact on the poorest of the poor because they are cut off from access to make their needs heard (Job Makgoro Consulting cc, 2003).

Stack & Hlela (2002: 8) are of the opinion that the failure of the *Batho Pele* principles’ implementation is attributable to their “irrational” formulation. They contend that the policy was formulated hurriedly because the ruling party wanted to show that it could rapidly improve the standard of public services. The policy is met with different reactions from different people. For example, as much as health care workers are obliged to adhere to the *Batho Pele* policy, the patients also have a role to play. Miza (2011) study found that nurses felt that the introduction of the *Batho Pele* principles had made matters worse for them. They reported that patients and their families had been impossible towards them, making unnecessary and sometimes impossible demands. The nurses felt that patients are more aware of their rights, but not of their responsibilities and the rights of health care workers.

The 2003 *Batho Pele* Policy Review (Job Mokgoro Consulting cc, 2003) found that the main criticism leveled at *Batho Pele* was the lack of attention paid to its implementation, mainly as a result of a lack of resources to monitor and implement it. The recommendation arising from this survey was that there should be an independent agency to certify departments as *Batho Pele* compliant. This approach has been used with success in the United Kingdom and Australia as the charter mark. It must be borne in mind that a “one size fits all approach” is not always the best solution because the contexts are different. Public servants should also be accountable to citizens. A deliberate policy design and implementation framework should serve as a guideline to government departments in order to enhance successful implementation (Job Mokgoro Consulting cc, 2003).

## RESEARCH PROBLEM AND DESIGN

The research study sought to investigate perceptions regarding the implementation of the *Batho Pele* principles amongst users of Inanda Community Health Centre (IHC). Both a qualitative and quantitative research approach was adopted as a means to achieve this objective. The target population in this study was the inhabitants of Newtown C, Ezimangweni and Nhlungwane, which are the areas that IHC caters for. Probability sampling was utilised to source 40 respondents for the study. These were obtained through door-to-door visits and every tenth willing household was selected for inclusion in the study. Through this process, 13 respondents each from Ezimangweni and Nhlungwane wards and 14

from Newtown C were selected randomly and presented with questionnaires and follow up discussion through one-on-one interviews. The study utilised both structured and open-ended questions. The latter allowed respondents an opportunity to express their feelings, and more time to think about their answers. The questions were structured in such a manner that the responses would indicate the implementation of the *Batho Pele* principles or lack thereof. The questions were to a large extent based on six *Batho Pele* principles, namely: courtesy, information, consultation, value for money, service standards and redress. Following a number of closed-ended questions, the following open-ended questions were put to respondents in the questionnaire:

- Are you aware of the *Batho Pele* principles and your rights as a patient?
- What is your interpretation and understanding of the concept of *Batho Pele*?
- What are your ideal performance standards that would portray the true implementation of the *Batho Pele* principles?
- Did your personal experience at the health care centre conform to your expected standards?
- Would you recommend the health care centre to another person?

The information gathered from the respondents was entered into the Statistical Package for Social Sciences (SPSS) computer software programme which allows for comparison and tabulation of data when using descriptive statistics. The qualitative technique that was used in the analysis was theme identification.

## RESEARCH FINDINGS

A questionnaire return rate of 100% was achieved from 40 respondents, which represent 10% of the clinic population. The summary of the findings below is discussed based on the research questions of the study.

### AWARENESS AND CONCEPTUAL UNDERSTANDING OF *BATHO PELE* PRINCIPLES AND PATIENTS' RIGHTS

To establish patients' awareness and conceptual understanding of the *Batho Pele* principles and their rights, the following criteria were used: knowledge of the principles; understanding of the Patients' Charter; and clarity and visibility of the Patients' Charter at the health care facility. Respondents showed a sound understanding of the principles of *Batho Pele*. Half (50%) understood the principles to refer to a citizen-oriented form of service delivery; 33% understood them to refer to public consultation; and the rest understood them in terms of respect and dignity for all. This sound understanding was also reflected in the respondents' high levels of awareness of the Patients' Rights Charter. An overwhelming 77.5 % agreed that they were indeed aware of this charter. This is largely due to the fact that 62.5% of the respondents agreed that the charter is clearly displayed on the clinic wall for all to see. In addition, it is displayed in a language that is understandable to all. These relatively high awareness levels can be attributed to the fact that the majority of people who participated in the study are of post-secondary education and below 35 years of age. One can thus conclude that the clinic staff has facilitated an awareness of their service standards and that the majority of Inanda community is aware of these standards. It should be emphasised that knowledge of the principles is one thing while implementation of these principles is another. The following section will establish the extent to which the *Batho Pele* principles are, in the eyes

of the public, implemented.

## **IDEAL PERFORMANCE STANDARDS IN GAUGING THE IMPLEMENTATION OF THE *BATHO PELE* PRINCIPLES**

To establish this research objective, opinions were sought on the following performance standards: availability of ambulances; cleanliness of the physical environment; ease of communication; waiting time before being attended to; and friendliness of staff. While the majority of the respondents (52.5%) thought the physical environment was always clean, a large number (57.5%) felt that important factors like the timely availability of an ambulance was not satisfactory. The main reason for this is that ambulances are usually, by policy, stationed at hospitals and not clinics, hence the lack of immediate availability of ambulances at ICHC. An overwhelming majority (65%) of the respondents thought that they were being deprived of essential information such as the lunch hour times (and thus accessibility) of the nurses and doctors. To the users of ICHC, this suggests that they are not considered as an integral part of service delivery since they are not involved in the decisions of when lunch breaks should be taken. This view was confirmed by the 42.5% of respondents who stated that the community is never involved in the planning of service provision at the ICHC – in other words, there is no public consultation. In addition to this, 45% of the respondents indicated that their illness is never explained to them during consultation and that they are not given an opportunity to participate in decision-making with regard to their health. In most cases it was felt that change pertaining to the operation of ICHC is imposed on the community.

The findings also revealed that 50% of the respondents were not satisfied with the quality of equipment used at ICHC. The perception is that the users of the facility are not getting value for money as even the medication they receive is felt to be of poor quality. Furthermore it appears that the nursing staff of the clinic is not always courteous when delivering services to the patients. This was the opinion of 65.5% of respondents who stated that the manner in which services are rendered is characterised by disrespect on the part of the nurses – as if they lack the spirit of *ubuntu*. A large number (67.5%) of respondents was also highly dissatisfied with the time they have to wait until they are attended to by either a nurse or doctor. This could to a large extent be caused by low staff morale as a result of poor remuneration and/or a lack of human resources. It can therefore be deduced that the service offered at ICHC does not mirror the service standards pasted on the wall. This is caused largely by a lack of compassion on the side of the health care providers, causing them to see patients as mere recipients of services rather than ‘co-producers’ who should always be part of the planning and provision of services.

## **PERSONAL EXPERIENCE REGARDING CONFORMITY TO EXPECTED STANDARDS**

To establish this objective the *Batho Pele* principle of “redress” was used to assess whether the service offered indeed conformed to the advertised standard. The opinions of the respondents were categorised into two groups, namely, “immediate feedback” and “no feedback”. The findings revealed that an overwhelming 80% of the respondents stated that their personal experience of service provider feedback did not conform to the standard envisaged in the *Batho Pele* principle of “redress”. These people did not get any feedback on complaints laid; in addition to this, 45% were of the opinion that the officer in charge of complaints is “not sympathetic” and “does not act with immediate effect”. It can thus be deduced that as much as ICHC complies with the government requirement of informing the people about

their rights and the quality of service they are entitled to, they fail to practise what is expected of them. Pasting charts on the wall is not good enough if what is written on the charts is not effected – in other words, mere “following of procedure” is viewed as tokenism rather than effective service.

#### **OVERALL VIEW OF THE FACILITY AND WHETHER USERS WOULD RECOMMEND IT TO OTHER USERS**

To obtain an overall assessment of the services at ICHC, the researcher needed to establish whether the respondent would recommend the facility to others. The results indicated that 45% of the respondents would not recommend the clinic to anyone due to the poor quality of serviced offered, while 42.5% of respondents were satisfied with the quality of service they received and would definitely recommend it to other people.

#### **CONCLUSIONS**

All the findings of this study suggest an implementation gap in various *Batho Pele* principles, but more specifically the principle of courtesy. That a citizen-orientation is largely absent at ICHC is evident from respondents' reports of being excluded from decision-making (in respect of the clinic's operation and their own health care); from their sense of being treated discourteously; and from their reports of long waiting periods. Generally the facilities are felt to be adequate, but the lack of service-orientation makes them reluctant to recommend the clinic to others. This suggests that a gap still remains between the ideals of *Batho Pele* and its practice on the ground. Bearing in mind Miza (2011) findings, the public may have over-inflated expectations of the clinic service because of the publication of the principles without a corresponding education in the public's roles and responsibilities.

The findings also point to the fact that service users know what to expect from service providers – in this case the community clinic, are aware of the possible problems and appreciate community participation. There is thus an understanding that community participation is an important aspect of service provision within a given community as is the centrality of communication. Thus is not the availability of ambulances that seemed to irk the community but the fact that they have not been told upfront. Nor is it the fact that they had to wait long hours in the queues but rather that they were not made aware of change in the time for lunch breaks. One can conclude that there is a level of vigilance within the community and a vigilant public can only assist government, and in particular the public service in becoming more accountable. The centrality of an accountable public service with respect to economic development and social transformation cannot be over emphasised.

#### **RECOMMENDATIONS**

The recommendations that follow seek to integrate both the service user and the service provider in the public service dynamic under discussion.

- It appears that there is a lack of strict consequences in the event of a lack of performance at ICHC. The researcher proposes that performance management be used to assess the true implementation of the *Batho Pele* principles (this can be done through client satisfaction surveys at the end of each quarter) and also to serve as a monitoring and evaluation mechanism. This would integrate the service user into the management process and work against the alienation many people currently

feel.

- Community health centres are equally important as hospitals; therefore ambulances should not only be stationed at hospitals. The eThekweni health district should make it a priority that each and every clinic/community health centre is allocated at least one ambulance that will be stationed at the clinic and be readily available.
- As the Canadian case has shown, the universal language when it comes to improved service delivery is transparency, flexibility and participation. In order to equip the civil service systems for this, new characteristics are required Both the *Batho Pele* principles and the Patients' Rights Charter should not only be pasted on the wall. Instead the management of ICHC should also communicate verbally with the patients, assuring them that their opinions are valued and taking care to incorporate into the service standards any patient input on matters related to the operation of ICHC.
- The European case discussed above highlights the centrality of awareness and responsibility on the part of service users. A drive to educate public service users on their responsibilities in relation to their stated rights is essential, both at the ICHC and across all aspects of the public service. Given the power of social media to elicit and shape public opinion, it follows that technology is a vital tool for the government itself to use in gaining public opinion and feedback. In this way, the public is included rather than excluded from policy making.

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## THE ROLE OF DIGITAL EVIDENCE IN THE INVESTIGATION OF CARTELS IN SOUTH AFRICA

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### ABSTRACT

Cartels are generally considered among the most serious economic competition infringements in the world. Competition authorities around the world are increasing their efforts to pursue cartel offences, both domestically and internationally. When competitors agree to forego competition for collusion, consumers lose those benefits. The competitive process only works when competitors set prices independently. Secret cartel agreements are a direct assault on the principles of fair economic competition and are universally recognised as the most harmful of all types of anticompetitive conduct. However, the fight against cartels is a legally and practically demanding. First of all, cartelists are by definition secretive about their illicit behaviour, and therefore competition authorities have to undertake great efforts to detect concealed cartels. Secondly, competition agencies need extraordinary powers and skills to collect sufficient evidence to mount a viable case against sometimes uncooperative defendants. Thirdly, only in the cartel area do agencies operate sophisticated leniency programmes to destabilise such conspiracies. Fourthly, the investigation of international cartels test the limits of agencies' jurisdictional reach. Lastly, the growing trend to criminalise cartel behaviour obliges many agencies to work to a particularly high standard of procedure and proof. Therefore, it is important to point out that before the appreciation of evidence in a court of law, the pathway of evidence must be taken care of how it is procured, preserved, transmitted, produced, and finally presented before the court. All these factors should be taken into account before one could understand the legal parameters required and necessary for having legally admissible digital evidence.

**Keywords:** Cartels; digital evidence; economic competition; anticompetitive conduct; South Africa

### INTRODUCTION

A truly global effort against cartels has emerged in the past decade. Governments have enacted new anti-cartel prohibitions or strengthened existing enforcement programmes. There has been an expansion of leniency programmes and enforcement cooperation between Competition authorities. Today, cartels are generally recognized as the top priority for antitrust enforcers. This worldwide consensus is based on the recognition that cartels harm consumers and damage economies. Any debate as to whether cartel conduct should be prohibited has been resolved, as the prohibition against cartels is now an almost universal component of competition laws. Therefore it is important to outline and explain what cartels are before embarking on investigative procedures.

### CONCEPT AND TYPES OF CARTELS

Cartels are agreements between enterprises (including association of enterprises) not to compete on price, product (including goods and services) or customers. The objective of a cartel is to raise price above competitive levels, resulting in injury to consumers and to the economy. For the consumers, cartelisation results in higher prices poor quality and less or no choice. A cartel is said to exist when two or more enterprises enter into an explicit or implicit agreement to fix prices, to limit production

and supply, to allocate market share or sales quotas, or to engage in collusive bidding or bid-rigging in one or more markets (Holmes, 2005:76). An important dimension in the definition of a cartel is that it requires an agreement between competing enterprises, not to compete, or to restrict competition. Reflecting the widespread consensus, the most basic statutory elements that define a cartel or hard core cartel are remarkably consistent across jurisdictions. The three common components of a cartel are (a) an agreement (b) between competitors and (c) to restrict competition.

## **Types of Cartels**

### ***Bid Rigging***

Bid rigging refers to “any agreement, between enterprises or persons who are engaged in identical or similar production or trading of goods or provision of services, which has the effect of eliminating or reducing competition for bids or adversely affecting or manipulating the process for bidding.” Bid rigging takes place when bidders collude and keep the bid amount at a pre-determined level. Such pre-determination is by way of intentional manipulation by the members of the bidding group. Bidders could be actual or potential ones, but they collude and act in concert (Bloom, 2002). Bidding, as a practice, is intended to enable the procurement of goods or services on the most favourable terms and conditions. Invitation of bids is resorted to both by Government (and Government entities) and private bodies (companies, corporations, etc.). But the objective of securing the most favourable prices and conditions may be negated if the prospective bidders collude or act in concert. Such collusive bidding or bid rigging contravenes the very purpose of inviting tenders and is inherently anticompetitive.

Collusive bidding or bid rigging may occur in various ways (Hutton, 2005). Some of the most commonly adopted ways of bid rigging ways are: agreements to submit identical bid agreements as to who shall submit the lowest bid, agreements for the submission of cover bids (voluntarily inflated bids) agreements not to bid against each other, agreements on common norms to calculate prices or terms of bid agreements to squeeze out outside bidders, agreements designating bid winners in advance on a rotational basis, or on a geographical or customer allocation basis agreement as to the bids which any of the parties may offer at an auction for the sale of goods or any agreement through which any party agrees to abstain from bidding for any auction for the sale of goods, which eliminates or distorts competition (Bhattacharjea, 2002). Inherent in some of these agreements, is a compensation system to the unsuccessful bidders by dividing a certain percentage of profits of successful bidders. If bid rigging takes place in Government tenders, it is likely to have severe adverse effects on its purchases and on public spending. There are different forms of bid rigging.

**Complementary bidding:** Complementary bidding (also known as 'cover' or 'courtesy' bidding) occurs when some competitors agree to submit bids that are either too high to be accepted or contain special terms that will not be acceptable to the buyer. Such bids are not intended to secure the buyer's acceptance, but are merely designed to give the appearance of genuine competitive bidding. Complementary bidding schemes are the most frequently occurring forms of bid rigging, and they defraud purchasers by creating the appearance of competition to conceal secretly inflated prices (Hutton, 2005).

**Bid rotation:** In bid rotation schemes, all conspirators submit bids but take turns to be the lowest bidder. The terms of the rotation may vary; for example, competitors may take turns on contracts according to the size of the contract, allocating equal amounts to each conspirator or allocating volumes

that correspond to the size of each conspirator. A strict bid rotation pattern defies the law of chance and suggests that collusion is taking place (Holmes & Papadopoulos, 2005).

**Subcontracting:** Subcontracting arrangements are often part of a bid rigging scheme. Competitors, who agree not to bid or to submit a losing bid, frequently receive subcontracts or supply contracts in exchange from the successful bidder. In some schemes, a low bidder will agree to withdraw its bid in favour of the next low bidder in exchange for a lucrative subcontract that divides the illegally obtained higher price between them (Hutton, 2005).

### **Price Fixing**

Price fixing is an agreement between participants on the same side in a market to buy or sell a product, service, or commodity only at a fixed price, or maintain the market conditions such that the price is maintained at a given level by controlling supply and demand. The intent of price fixing may be to push the price of a product as high as possible, leading to profits for all sellers but may also have the goal to fix, peg, discount, or stabilize prices. The defining characteristic of price fixing is any agreement regarding price, whether expressed or implied. Price fixing requires a conspiracy between sellers or buyers (Bloom, 2002). In price fixing, the purpose is to coordinate pricing for mutual benefit of the traders. For example, manufacturers and retailers may conspire to sell at a common "retail" price; set a common minimum sales price, where sellers agree not to discount the sales price below the agreed-to minimum price; buy the product from a supplier at a specified maximum price; adhere to a price book or list price; engage in cooperative price advertising; standardize financial credit terms offered to purchasers; use uniform trade-in allowances; limit discounts; discontinue a free service or fix the price of one component of an overall service; adhere uniformly to previously-announced prices and terms of sale; establish uniform costs and markups; impose mandatory surcharges; purposefully reduce output or sales in order to charge higher prices; or purposefully share or pool markets, territories, or customers (Buccirossi, 2006). Price fixing is permitted in some markets but not others; where allowed, it is often known as *resale price maintenance* or *retail price maintenance*. In neo-classical economics, price fixing is inefficient. The anti-competitive agreement by producers to fix prices above the market price transfers some of the consumer surplus to those producers and also results in a deadweight loss.

In South Africa, price fixing is prohibited by section 4(1)(b) (i) of the Competition Act 89 of 1998. Examples of price-fixing agreements include those agreements that seeks to: establish or adhere to price discounts; hold prices firm; eliminate or reduce discounts; adopt a standard formula for computing prices; maintain certain price differentials between different types, sizes, or quantities of products; adhere to a minimum fee or price schedule; fix credit terms; and, not advertise prices; or exchange current price information. In many cases, participants in a price-fixing conspiracy also establish some type of policing mechanism to make sure that everyone adheres to the agreement.

### **Output Restrictions**

An output control is an agreement between competitors to prevent, restrict or limit the volume or type of particular goods or services available in the market, through production or sales quotas (Hutton, 2005). The aim is to protect inefficient suppliers by creating scarcity in order to either increase prices or stop prices from falling. Any business may independently decide to reduce output to respond to market

demand. What is prohibited is an agreement with competitors on the coordinated restriction of output. Generally, the action needs the support of key market participants to achieve the cartel's desired result. By reducing the available supply of particular goods or services, cartel participants artificially increase the demand for the product, and so increase the price. This leads to less choice and higher prices for consumers and businesses.

### **Market Sharing**

According to Conrad (2003: 30), when competitors agree to divide or allocate customers, suppliers or territories among themselves they are sheltering from competition, denying consumers the benefit of choice and engaging in cartel conduct. Such actions include: allocating customers by geographic area; dividing contracts by value within an area; agreeing not to compete for established customers; agreeing not to produce each other's products or services; and, agreeing not to expand into a competitor's market.

The key in this instance is that competitors agree among themselves on how the market will operate, rather than allow competitive market forces to work. Market share is the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity. Increasing market share is one of the most important objectives of business. The main advantage of using market share as a measure of business performance is that it is less dependent upon macro-environmental variables such as the state of the economy or changes in tax policy (Bhatia, 2009). However, increasing market share may be dangerous for makers of fungible hazardous products, particularly products sold into the United States market, where they may be subject to market share liability. Market share is a key indicator of market competitiveness - that is, how well a firm is doing against its competitors. This metric, supplemented by changes in sales revenue, helps managers evaluate both primary and selective demand in their market. That is, it enables them to judge not only total market growth or decline but also trends in customers' selections among competitors.

Generally, sales growth resulting from primary demand (total market growth) is less costly and more profitable than that achieved by capturing share from competitors. Conversely, losses in market share can signal serious long-term problems that require strategic adjustments. Firms with market shares below a certain level may not be viable. Similarly, within a firm's product line, market share trends for individual products are considered early indicators of future opportunities or problems. On the other hand market share is a desired asset among competing firms. Although some academics and experts, however, discourage making market share an objective and criterion upon which to base economic policies. The aforementioned usage of market share as a basis for gauging the performance of competing firms has fostered a system in which firms make decisions with regard to their operation with careful consideration of the impact of each decision on the market share of their competitors (Chowdhury, 2006).

### **COMMON CHARACTERISTICS OF CARTELS**

Usually cartels function in secrecy. The members of a cartel, by and large, seek to camouflage their activities to avoid detection by the authorities. Perpetuation of cartels is ensured through retaliation threats. If any member cheats, the cartel members retaliate through temporary price cuts to take business away or can isolate the cheating member. Another method, known as compensation scheme, is resorted

to in order to discourage cheating (Bloom, 2002). Under this scheme, if the member of a cartel is found to have sold more than its allocated share, it would have to compensate the other members.

### **HARMS CAUSED BY CARTELS**

Cartels have the aspects of protecting corporate profits and stabilizing the management of enterprises, and they are said to allow enterprises to avoid wasteful use of resources, such as repetitive spending of production or advertising expenses. However, larger wasteful use of resources or harms to parties other than the enterprises concerned arises from cartels. Harms of cartels manifest themselves in the form of interference with wholesome functions of market mechanisms. Firstly, social welfare loss arises as a result of price increases and curtailment of production volume. According to Forrester (2002: 70), this is called generation of dead-weight loss.

In addition, efficiency in distribution of resources is hampered because of the retention of non-efficient marginal enterprises, or dynamic economic development is prevented due to the loss of inducement to higher efficiency or due to prevention of innovation. Secondly, cartels represent the most easy-going method to maximize profit through avoidance of competition among enterprises, and because cartels are directly aimed at completely eliminating competition among cartel participants, they resultantly restrict competition in the entire market. Thirdly, cartels are considered to run counter to justice in distribution in that they impose high prices, secure excessive profits, and compel, on the strength of many parties, the acceptance of arrangements that cannot be forced by a single party (Gauer, 2002).

### **METHODS OF DETECTING CARTELS**

Cartels are by their nature hidden and secret. Where there is a low risk of detection by the Competition authorities, companies participating in a cartel have little incentive to report their behaviour since the benefits derived from participation can be extensive (Rai & Saroliya, 2003). Conservative estimates assume that prices in a cartelised industry tend to be at least higher than they would be if no cartel existed. The extent to which there is a perceived risk of detection depends on many factors, including a history of the competition authority detection and a belief that the authority has strong tools to use. If competition authorities do not have sufficient capacity or means to detect cartels, its leniency program is likely to be ineffective. To optimise its level of detection, competition authorities need to find, among other things, the right complement of reactive and proactive detection methods.

### **CASE SELECTION AND PRIORITISATION**

Once a cartel has been detected, it is essential for Competition Commissions or any agency empowered to do so to make informed decisions regarding case selection and prioritisation. Before detailing the criteria for making decisions on case selection and prioritisation, it is useful to set the context within which agencies investigate and adjudicate cartels (Gauer, 2002). A variety of factors impinge on the decisions that are made about cartel investigations including available resources (both financial and human), relevant legislation, the current regulatory, judicial, political and economic environments, international developments, government priorities and activities undertaken by other domestic and international agencies. All these factors create a need for consistent and coherent processes through which the selection and prioritisation of cartel cases are managed.

## **MAKING A DECISION TO LAUNCH AN INVESTIGATION**

Depending on the internal processes of a Competition authority, the relevant staff may determine the 'weight' or 'score' of potential matters against the criteria or priorities set by the agency. A decision can then be made as to which matters meet the criteria most successfully and should therefore be pursued. Agencies may create special committees of senior managers whose role it is to assess staff recommendations based on the agency's priorities and policy settings. Alternatively, assessment can be reviewed by someone not working on the matter. The use of established and well-developed selection and prioritisation criteria in priority setting should greatly enhance an individual agency's efforts to bring a focused, strategic approach to cartel investigations (Lampert, 1999). However, while objective criteria are essential to an agency being able to rightly argue that it is selective and conscientious in its targeting of alleged anti-competitive conduct, the experience and expertise of decision-makers and investigators remains a fundamental strength of any competition authority.

## **PRE-INVESTIGATION PHASE**

Information concerning cartel activities comes to the attention of competition agencies from a variety of sources. The early stages following receipt of information about an alleged cartel are particularly delicate, and actions taken at the beginning can influence the ultimate success of an investigation. Timely screening and early evaluation of allegations is necessary to assign resources appropriately to take further steps. It is recognised that different types of evaluation may be required in cases where criminal enforcement for cartel violations is mandatory (Bhatia, 2009). To a large extent, however, the types of inquiry taken during a pre-investigatory phase are the same whether cartel enforcement proceeds on either a criminal or civil basis. Systems designed to responsively deal with the public are critical. Development, articulation and application of clear standards for dealing with cartel allegations can increase public confidence that violations will be pursued. Establishing methodologies for early verification and assessment will assist investigators to make determinations about the likelihood of developing the allegations into successful cases (Holmes, 2005). While no single approach answers the needs of every situation, the goals of complaint screening and early evaluation are to assign scarce agency resources to enhance anti-cartel enforcement and to increase public willingness to report cartel activity.

## **AUTHORISATION TO UNDERTAKE AN INVESTIGATION**

Legally and practically, competition authorities have specific criteria that must be met before a full-scale investigation can be initiated, while others have more informal criteria. Competition authorities that do not have formally published criteria for case selection and prioritisation generally tend to develop informal means for prioritizing investigatory activities and assigning cases. Each agency has discretion to determine what evidence is sufficient and what steps must be taken to justify activities that will make the investigation public, such as a search, raid or inspection or subpoenas or orders for production (Kist, 2002). Where authorisation to conduct a search, raid or inspection is to be obtained to launch the full-scale investigation, the agency will have clear written procedures. It may be particularly important to rely on information obtained from complainants and other sources in support of the authorisation.

Accordingly, there is no substitute for keeping meticulous records of statements, investigatory leads and other information obtained from complainants (Holmes, 2005). Where hard-core cartel behaviour is alleged and there is sufficient corroboration, the decision to proceed to full-scale investigation may be swiftly taken. In situations where a jurisdiction is unsure whether the investigation should proceed as a civil matter or criminal investigation, legal considerations may determine how to assign the matter. In some jurisdictions the courts and other authorities may prohibit sharing information between criminal and civil investigations. In other jurisdictions the considerations are more informal and involve the burden of proof - for instance, whether, for a specific jurisdiction, it is easier to convert a criminal investigation where crimes are to be proved beyond a reasonable doubt into a civil case involving a lesser standard of proof, or the other way around.

### **THE INVESTIGATION STRATEGY**

Early analysis of the cartel and investigative environment should enable investigators to assess the evidence obtained to date, and analyse any further evidence needed to prove the case. Having established the scope of the suspected cartel and the theory of the case, investigators will then determine their investigative strategies for resource allocation and effective evidence-gathering methods (Morici, 2000). An analysis of the evidence required to prove the offence will allow the investigation team to identify any gaps in the evidence gathered to date and will focus the investigation on acquiring any further relevant evidence from appropriate sources. Some agencies draft an outline of the evidence gathered (for instance, in "an evidence matrix"), setting out an evidence trail. The evidence trail is a useful reference throughout the course of the investigation to determine whether the evidence obtained would be admissible in and likely to sustain adjudicative proceedings (Kist, 2002).

### **ESTABLISH AN INVESTIGATIVE PLAN**

There are numerous ways to conduct a cartel investigation. The degree of information that a competition commission has during the early stages of the investigation is a critical factor in determining how an investigation will be conducted. The key concern of investigators in the beginning phase of a full-scale investigation is the identification of evidence and potential sources of such evidence. Accordingly, investigators should analyse and assess information and evidence gathered during the preliminary inquiry before embarking on a full-scale investigation. In light of this consideration, it can be useful for investigators to establish an investigative plan to assess the facts and evidence relevant to determining whether an offence has been committed (Laudati, 1996). The investigative plan is a living document that should be revised throughout the life of the investigation.

There is no single model for investigative planning. It is a continuous process driven by the course of the investigation and should serve as a guide for the investigation. Accordingly, investigative plans should be revised and adjusted to reflect the developments in and the understanding of the case. Two essential features are typically reflected in an investigative plan, the analysis of the target cartel and investigative environment, and the activities relevant to evidence-gathering. It is a standard practice to include the following in the investigation plan: the features of the suspected cartel, the proposed evidence-gathering strategy; and the administrative tasks and assignments for the investigation (Lampert, 1999). The investigative plan is intended to serve as a guide to assist in gathering information necessary to prove

the infringement, to test theories of the case and to evaluate the course of the investigation.

### **THE INVESTIGATIVE TOOLS**

The success of an investigation often largely depends on the choice of investigative tools. Inappropriate choice of investigative tools may lead to the investigation being ineffective. The choice of investigative tools should be re-evaluated as facts and evidence come to light during the course of the investigation. Several factors may influence the choice of investigative tools at particular stages of an investigation. Provisions in the general legal framework (such as constitutional law principles) may limit the use or introduction of a certain tool in a particular jurisdiction. The investigation will often become public knowledge once investigators take formal action on the basis of official decisions, such as conducting a search, raid or inspection (Koob & Antoine, 2006). Searches often prompt leniency applications or cooperation from cartelists, which may provide a valuable source of evidence. The element of surprise is often a key factor when conducting searches to ensure that all relevant evidence is secured. Accordingly, investigators will often conduct investigations in a discreet way before taking any formal public action.

### **THE ROLE OF DIGITAL EVIDENCE IN IN THE INVESTIGATION PROCESS**

In today's world of advancing technologies, more and more information is being generated, stored and distributed by electronic means. This requires law enforcement agencies to increase the use of digital evidence gathering as a frequent or standard tool in their fight against cartels.

#### **Advantages of Digital Evidence Gathering**

In many jurisdictions, digital information gathered during searches, raids, or inspections, or obtained through compelled discovery, even if not decisive by itself, has contributed to proving competition infringements. Digital evidence gathering is becoming an increasingly powerful tool for agencies in their fight against cartels. It can be used individually or alongside more traditional methods of evidence gathering. Collection and the review of digital evidence have become a standard and regular practice in cartel investigations (Robbins, 2008). As more companies become aware of the forensic techniques used by competition authorities it is important to continue to develop digital evidence gathering techniques. This will ensure that companies will not be able to anticipate all methods which will be used by competition authorities during an investigation. Digital evidence may be used as key evidence however it can also serve as a complement to other types of evidence. Furthermore, digital evidence may help in the course of the investigation phase to prepare the next steps. The use of digital evidence gathering in cartel investigations has the following advantages:

#### **Storage of Information**

Developments in technology influence the way in which companies create and store digital information. Companies rely to a lesser extent on hard-copy documents. Some hard-copy documents located at a search, raid or inspection site, or obtained through compelled discovery can be a hard copy print-out of digital information, while other information may never appear in paper format (Kruse, 2001). This information may not be obtained when gathering evidence in more traditional ways.

### **Recovery of Destroyed Information**

Companies under investigation for competition infringements are increasingly looking for ways to avoid agencies finding evidence that may contribute to proving these infringements. Destroying hard-copy documents is an easy way of hindering or obstructing the investigation. Using digital evidence gathering for locating evidence does not in any way rule out the possibility of obstruction of the investigation (Masters, 2007). It does however provide the possibility of recovering deleted or destroyed evidence. In more traditional ways of gathering evidence, this would not be possible.

### **Hard-copy Information is Limited to the Content**

Information or evidence that can be derived from a hard-copy document is limited to the content of the document. Digital files or programs on the other hand also contain metadata or data about the digital information which can give access to a new source of information. It can provide information about the origin, size and format of the digital information, including the author of a file and the date when it was created, last altered, accessed or deleted. It may also give detailed information about the revisions of a document (Stallings, 2003). Information can also be obtained concerning the exchange of information, the identity of the sender and receiver of the digital information and what actions individuals have undertaken with this information. Digital evidence gathering has in some jurisdictions contributed to proving competition infringements. It is clear that digital evidence gathering is becoming increasingly important. Nevertheless, it is still an additional method and will not replace more traditional ways of evidence gathering in the short term (Casey, 2000).

### **Legal Authority**

The legal basis for digital evidence gathering is derived from the interpretation of already existing provisions in national laws that permit the agencies to collect or seize documents. The law of evidence has always attached great importance to the fact that the signatures of two parties to a legally binding document (or any other signatories for that matter) should be genuine or "authentic". This ranges from the area of private law to an area such as the law of negotiable instruments and includes the law of evidence, which forms the basis of exploration for this article (Turner, 2007). In South Africa, the basic requirement of authenticity for documentary evidence still applies. This is usually taken care of in civil trials by means of the process of discovery, in other words, by presenting the opposing party with a list and copies of documents which it is proposed to use in litigation, accompanied by notice according to which the opposing party should concede that all these documents have been properly executed and are authentic.

In the case of foreign documents, the Supreme Court Rule 63 read with Rule 27(3), gives the court the discretion to condone non-compliance with the prescribed rules. In criminal trials the Criminal Procedure Act 51 of 1977 provides for a number of statutory exceptions to the general rule requiring proof of authenticity. These mainly have to do with public documents and documents sealed or stamped by persons holding public office. Admissibility and weight considerations regarding electronic documents are taken care of by the provisions of the Electronic Communications and Transaction Act 25 of 2002, which are now also applicable to documents in criminal matters. The predecessor of the above Act, the Computer Evidence Act 57 of 1983, specifically excluded criminal matters from its purview.

## **MAIN DISTINCTIONS IN DIGITAL EVIDENCE GATHERING**

There are two main practices used by investigators to gather digital evidence; searches, raids and inspections on the one hand, and compelled discovery on the other hand. A majority of Competition authorities use searches, raids and inspections as their primary tools and only some especially from South America use both searches, raids and inspections, and compelled discovery.

### **Searches, Raids and Inspections**

Digital evidence gathering by means of a search, raid or inspection can be carried out in different ways. Some agencies are allowed to seize digital information. Others can copy or make forensic images of digital information. In most cases this information is collected on-site, but analysed at a later time. This generally takes place at the offices of the agency (Turner, 2007). In South Africa, law enforcement agencies such as the Competition Commission use searches, raids or inspections as the primary tool for collecting digital information. Investigators may then operate personal computers and view the digital information in storage media to determine whether it contains digital evidence relevant to the case, subject to the consent of the administrator of such personal computers (PCs)."

### **Compelled Discovery**

Compelled discovery, whether by subpoena, order for production or request for information, is used to compel companies or individuals to produce any requested documents or records– whether paper or digital – that are relevant to the investigation. An agency may compel a company or individual to preserve all potentially responsive digital evidence. In this case, it is the company or individual and not the agency that performs a thorough search for all responsive evidence and produces the evidence in an acceptable format. It is important to learn about the computer systems and the efforts made by the company to preserve digital information (Wang, 2007). The search methodology used by the company is also an important issue. Several agencies throughout the world make use of digital evidence gathering in addition to searches, raids or inspections. Companies can be requested to produce information in form of printouts, CD-ROM/DVD, floppy discs or other portable media where this is considered to be the most appropriate medium.

## **RESOURCES FOR DIGITAL EVIDENCE GATHERING**

### **Personnel**

Digital evidence gathering as an investigative tool requires special skills and expertise that go beyond normal information collection and preservation techniques. Gathering digital evidence from electronic devices means that staff must be up-to-date with the latest technological developments and techniques (Icove, 1995).

### **The Position of Digital Evidence Gathering in the Organisation**

Most Competition authorities have specialised units dealing with digital evidence gathering. In Hong Kong for example, the Independent Commission Against Corruption has an effective ICT unit which is used to gather digital evidence (Wang, 2007). The number of people working in these units varies.

These units generally work in the collecting phase but they have a special role in the early processing phase, that is, indexing or retrieval of the digital information. These specialists also assist case teams during searches, raids or inspections, and analysis of digital evidence. Outsourcing such an activity is generally subject to national procurement rules. Outsourcing digital evidence gathering to other public entities is a practice some agencies engage in frequently. This concerns not only the retrieval of digital information, but also the analysis of digital information however in this phase usually the external party works together with the case handlers. In all cases of outsourcing digital evidence gathering to private companies, the companies involved have to sign either a statement on confidentiality or a confidentiality agreement (Robbins, 2008). In some cases there are also agreements restricting the companies from working for companies under investigation by the Competition authority.

### **Forensic Specialists**

It is a standard practice for investigators and forensic specialists to work closely during all stages in the gathering of digital evidence. When it comes to analysing digital information, there should be a close working relationship between the IT-staff/Forensic Analysts and the case handlers. This working relationship typically starts at the earliest possible moment in order to ensure that the relevant digital information is copied and prepared for analysis in the most effective way (Kruse, 2001). At some agencies this working relationship starts at a later phase namely when the collection of digital information is settled.

### **Co-operation with other Law Enforcement Agencies**

It is advisable that Competition authorities establish some kind of cooperation on digital evidence gathering with other local/domestic law enforcement agencies. In South Africa, this can be done in terms of Intergovernmental Relations Act 13 of 2005. Examples of government departments that the Competition Commission has established relationship include the South African Police Service (SAPS), the National Prosecuting Authority (NPA) and the National Intelligence Agency (NIA) among others).

## **ELEMENTS OF DIGITAL EVIDENCE GATHERING**

### **Tools (Software and Hardware)**

Most Competition Commissions use commercially available computer forensic tools for digital evidence gathering. The use of self-developed software is, in general, limited. While most agencies do not limit their searches to PCs and Laptops, but also examine CD-ROMs, DVDs and USB devices, evidence suggests that others that searching smart phones and cell phones may be restricted by national laws governing telecommunications. According to Casey (2000: 108), software that may be used for gathering and analysing digital information includes:

- ♦ boot Software – used to start a computer for imaging and / or analysis without making changes to the hard drive
- ♦ computer Forensic Software – used for imaging and analysing digital information
- ♦ forensic software write blockers – used to allow acquisition of digital information on a hard drive without changing and altering the contents
- ♦ hash Authentication Software – used to validate that a copy of digital information is identical to the original information

- ♦ analysis Software – used for analysing digital information or extracting digital information from cell phones
- ♦ bit stream imaging software – used to create an image of all areas of a data carrier. A bit stream image is an exact replica of each bit contained in the data carrier
- ♦ Intelligence Analysis Software – used to create a link chart, a time line and a theme line with computer graphical software
- ♦ Anti-Virus Software – used to protect the computers (of the party being investigated and the agency) from viruses.

### **Specific Computer Forensic Areas**

Most agencies use either dedicated rooms or computer forensic laboratories for processing and analysing digital evidence. These labs are separated from the agency's computer network system (stand-alone) and are only used for Forensic IT tasks. Some agencies have developed small internal networks with workstations or, in the analysing phase, with access possibilities from normal workstations (Wang, 2007).

### **Practices and Procedures of Digital Evidence Gathering**

According to Turner (2007: 40), investigators must ensure that practices and procedures should comply with overarching established forensic principles, including the following: lawful collection of information (legality principle); all involved officers know the procedures; proper storage of information (security and integrity principle); chain of custody (authenticity principle); reproducible results using up-to-date forensic software; validation of the integrity of the data; and, auditing functions of forensic software are used to produce reports

### **Chain of Evidence**

The chain of evidence relates to how the digital information is gathered, processed and analysed. In most jurisdictions it is necessary to have a valid record of the authenticity of the digital evidence, or proof that the digital evidence is unequivocally identical to the acquired digital information, in order for the digital evidence to be legally admissible (Turner, 2007).

### **Chain of Custody**

Chain of custody is the record of the custodial history of the evidence. In most countries a valid record of the chain of custody, or describing who has had physical possession, and why and where they had physical possession, is required for legal admissibility of the evidence in court.

### **Evidence Gathering**

The following practices or procedures generally apply to searches, raids or inspections, but may also apply to compelled discovery in certain circumstances (Wang, 2007). Furthermore, it is good practice to establish control of the company's digital information in order to prevent destruction of digital information and evidence. It is good practice to seek the company's systems administrator's cooperation as the administrator is generally an important person with regard to digital evidence gathering. It is also

important to solicit information about the computer systems, devices, access codes and practices and procedures for backups, destruction and retention of digital information.

### **Preservation of Digital Evidence**

It is important that agencies take some measures to prevent deletion of digital evidence. However, even if some of the data is deleted, agencies may have the possibility to retrieve this information with forensic software (Kruse, 2001).

### **Obstruction**

It is good practice to have digital evidence gathering practices and procedures that inhibit and help prevent destruction of digital evidence and obstruction. In South Africa, during the execution of the search warrant, the team leader will advise the company official of the obstruction provision as provided in section 70 of the Competition Act, namely, that a person who impedes an inquiry or who contravenes a search warrant by refusing to provide access to the premises and the computer systems covered under the search warrant is guilty of the offence of obstruction (Icove, 1995). Furthermore, it is recommended that members of the investigating team are stationed near to key workers' desks to ensure they do not amend or destroy evidence. Other methods that can be used to prevent obstruction include; isolate people and equipment in a search, raid or inspection to prevent obstruction and destruction of digital information and evidence; and lock mailboxes at server level. Although the Act is silent about this, the destruction of digital evidence constitutes an offence that can lead to criminal and/ or administrative sanctions.

### **Processing**

It is good practice to work on duplicates and not on the originally-acquired digital information for ensuring the chain of custody/evidence. It is also good practice to keep data and forensic images until the case is closed, all defendants are successfully prosecuted or all appeals are exhausted. Processing may include extracting of forensic images, e-mails, zip files, etc., filtering of "known files" or other non-relevant recognised files, decryption, indexing, etc. In general, images of data carriers (made at the premises during a search, raid or inspection) need processing afterwards (Robbins, 2008). Processing of data means to make available and/or visible the collected digital information for investigating purposes. Investigators are also advised to make duplicates of the originally acquired digital information before processing to avoid changing the hash values and thus breaking the chain of evidence.

### **Storing Information after Finalising the Case**

After case closure it is of vital interest to the subjects of the investigation what happens to the digital information gathered during searches and raids. In some cases, agencies are required to return all digital information to the company after case closure. This depends on whether the material is an original or a copy. In other countries, the non-relevant documents are deleted from the working copy when the investigation phase is finished (Wang, 2007).

## CONCLUSION

Evidence is the most important thing before a court of law. It must be something that the court can rely upon and based on which it can arrive at its findings either for conviction or acquittal or deciding on damages. The requirement of law is that evidence must be of such amplitude as warranted the seriousness of the offence for awarding the sentence. Before the appreciation of evidence in a court of law, the pathway of evidence must be taken care of: how it is procured, preserved, transmitted, produced, and finally presented before the court. All these factors should be taken into account before one understands the legal parameters or mandates required and necessary for having legally admissible digital evidence.

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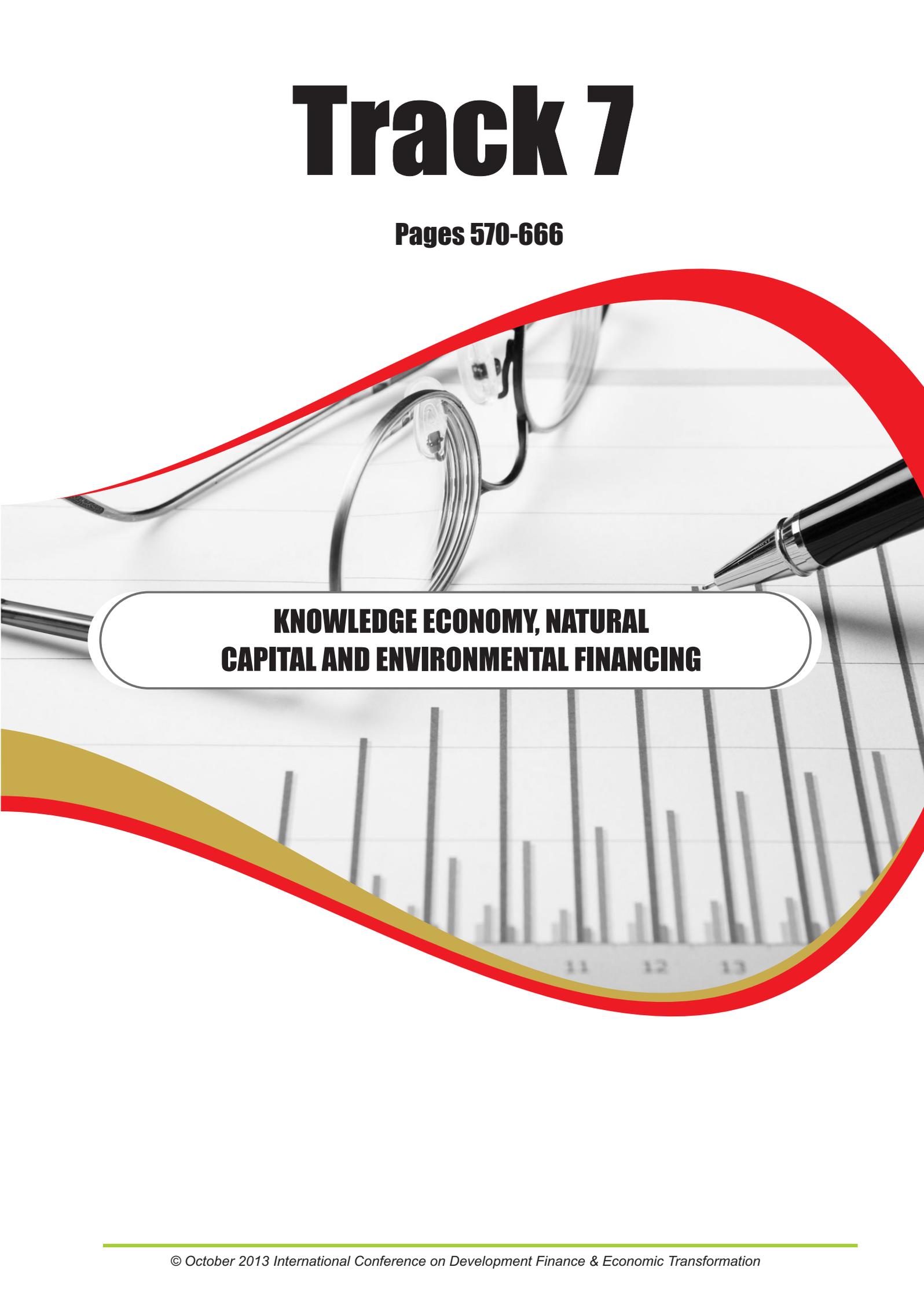
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# Track 7

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**KNOWLEDGE ECONOMY, NATURAL  
CAPITAL AND ENVIRONMENTAL FINANCING**

## IN THE FIELD WITH THE KUKUKUKU TRIBE OF PAPUA NEW GUINEA: EXAMINING THE EMBODIED FOR ANALYTICAL INSIGHT

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### ABSTRACT

The Kukukuku people, a remote tribal community of approximately 98,000 population live from across the Kaintiba District in the Gulf Province to Menyamya and Wau Districts in the Morobe Province of Papua New Guinea. The name for their customary land is Mekaanga. Since the 1930s, powerful and often uncompromising global demands for resources, land and control have guided state expansion into the remotest parts of Papua New Guinea. Subsequently, the autonomy and mobility of subsistence-based tribal communities, such as the Kukukuku within their natural yet rugged terrains have increasingly narrowed and in several cases, been obliterated. This article draws on a longitudinal ethnographic and historical study of this tribal community. It originates from an invitation from this community to the researcher in 2009 to actively engage and document what is an urgent mobilization by the Kukukuku people to take charge of determining their own future and building sustainable lives; in the coalface of these many challenges driven by inside and outside forces of development. The struggles of this remote tribal community in the thirty five year old post-colonial state which has only very had a very shallow penetration into the social fabric of its people – to recover an identity and subsistence not alienated from customary place and nation is complex, uneven, and challenging. Any documentation of these socio-economic transformation activities demands the need to rethink traditional notions of tradition, community, culture, power and the sacred in the contemporary frame of development references. This article suggests that from these collaborative local-global activities of social transformation; the Kukukuku people appear to be re-building a pattern of life and poetics, and in the process, a capacity for a rich and enduring cultural affair with their tribal identity and ideas of development. There is much to learn from such creative assertions of socio-economic transformation in the internal politics of the homeland as a response to deep social inequalities. This study draws on a engaged theory approach - in which concepts of “tribal”, “traditional”, “modern” and “postmodern” are employed as provisionally useful designations of ontological difference, helping to negotiate this complexity. In exploring the making of a Papua New Guinea marginal culture, the researcher is also seeking to explore the re-assertion of a remote tribal community in Papua New Guinea within a contemporary frame of socio-economic development.

**Keywords:** Global resources demand; land; development; tribal community; Mekaanga; Papua New Guinea

### INTRODUCTION: POSTCOLONIAL DEVELOPMENT

September 16, 1975 was an important day for the Sogeri National High School. There was a flag raising ceremony in the morning on Independence Hill, Waigani, followed by the installation and constitutional ceremonies at the Sir Hubert Murray Stadium in the afternoon. The Sogeri students were going to be cultural aides during the week-long Independence celebrations from September 13, 1975, when the dignitaries first arrived until Thursday September 17<sup>th</sup>, when they would be farewelled at the inaugural Qantas flight out of Port Moresby to Sydney. One of the largest countries in size and population amongst South Pacific developing countries, southern Papua was first colonized by Great Britain and then

ceded to Australia in 1904; earlier Germany had possession of the northern half, and then called the territory of New Guinea. Following the end of World War 11,

At the end of World War 1 Australia was granted the administration of German New Guinea and also separately administrated the British territory of Papua, maintaining two separate administrations until 1949 when Australia controlled both territories under a single administration. In 1972, the official name of the country was changed to Papua New Guinea and elections saw the formation of a ministry headed by Chief Minister Michael Somare. At one minute past midnight on September 16, 1975, the Proclamation of Independence was announced by the Governor-General in a radio broadcast, followed by the National Anthem and a 101-gun salute. At 9.30am, the flag raising ceremony commenced. In *Uno Voce* (September 2005), David Marsh, an Australian administrator, recalls his role in organising the Independence Day celebrations.

It had to be a PNG show, yet there was no expertise amongst the indigenous people or government for it, and government departments were reluctant to release their more senior staff. I also explain in that piece that there were some early concerns over micro nationalistic movements that had sprung up, cults and also emotional talk from University students.

There were many Papua New Guineans, resident expatriates and overseas observers who were sceptical about the future of an independent Papua New Guinea. People in the highlands were apprehensive of being dominated by better resourced coastal, surrounding islands and urban people, whilst urbanites, particularly those in the capital Port Moresby, feared being swamped by migration from the highlands. They were many too, amongst the educated administrators who were anxious about the dominance of a new single-party government. Within such a structure, cronyism and corruption was more likely; and certainly that made the likelihood of an economic collapse high. It is impossible to ignore the ninety years of colonial history, during which time, specific attitudes to customary law, or the seemingly paradoxical amalgam of Christianity and tradition or custom which serves as an uneasy ideological basis for identity, had affected the everyday-lived realities, practices, livelihoods and traditions of Papua New Guineans.

Michael Somare was the focus of huge and contrary pressures, not only from Australia, but also from his own coalition and constitutional planning committee. A constitution, written within a prevailing orthodoxy of large-scale capitalist development and resource extraction activities was, as Miller (1965) pointed out, 'the obvious features are the lack of anything approaching national unity; the lack of a local elite; an economy with little to sell; a government which is necessarily expensive; a heavy dependence upon Australian subsidies; ... an incalculable neighbour in the shape of Indonesia'. As Denoon (2005) explains,

Placating impatient Australians, reassuring anxious Highlanders and holding an angular coalition together, the fledging Coalition also negotiated a constitution, defused secession, created policy and planning capacity, and transformed the Public Service ... independence in Papua New Guinea was marked by flurries of activity and stately rites, anxiety as well as elation across town, negotiations had to be completed before midnight to secure the future of the OK Tedi copper mine.

Yet 1975 was a time also of great dreams; proclaiming a more complex aspiration than that of a one dimensional modern focus on the nation-state. The Constitution of Papua New Guinea was a doubly extraordinary document given that it was written in the context of a prevailing global orthodoxy of large-

scale capitalist development and mega-projects (James *et al.*, 2012). In this, the Papua New Guinea Constitution gave expression to two basic reformations of the modern nation state. First, it reformulated modern ideals in response to the continuing importance of tribal and traditional life. Secondly, it explicitly articulated an understanding of Papua New Guinea society in which individual and community interdependence are basic principles and in which development would occur primarily through the use of Papua New Guinean forms of social and political organization. This was an extraordinary vision –reflecting the hopes of an emerging nation-state, and was intended to enable PNG to develop in a way that was uniquely its own. The country was to be developed with land-ownership rights for the people, focusing on small locally-owned and run enterprises. The social and cultural formations of individual PNG communities were to drive economic development in ways that reflected small-scale artisan, service and business activity (James *et al.*, 2012) and made use of the skills and resources available. This was to mitigate the risk that the wrong kind of economic development might encourage dependence on imported skills and resource extraction, undermine Papua New Guinea's self-reliance and self-respect or promote dependency on donor countries. At the same time, such a development would not stray away from that was central to Papua New Guinea's tribal character: spirit, land and kinship.

Aia on the road he walks!

Aia all naked

On the road he walks

Aia my hand is faultless!

Aia all naked

You shake your spear.

Aia in war decoration!

Aia all naked,

In War decoration!

Allan Natachee (Avaisa Pinongo) 1973<sup>2</sup>

Having lost his mother at the young age of five, Avaisa Pinongo was brought up by the Catholic mission. Caught between the education in the mission and his own culture, Pinongo represented the many Papua New Guineans of that time struggling to establish a new identity as they approached independence from Australia. In his book, *Decolonising the Mind*, Beier (2005)<sup>3</sup> remembers a conversation with Pinongo in 1967,

Well, Pinongo said, when I was three or four years old, I used to hear the older people sing. Then when they stopped singing, I used to repeat their song from memory. They were very surprised to hear me sing. As a small boy I was very fond of rubbing my skin with red native paint. The first song I learned to sing was one of the war songs that speak about the god Aia. Then my poor mother died and I was taken to the nuns. There were no more songs for me...By mouth wind of Aia, we were made, By lip wind of Aia, we were made, Aia lighting alight, lighting our earth, lighting our home...

The crucial question for Papua New Guinea is the extent to which its colonial history and attitudes will continue to define and construct its-post colonial future. Although nineteenth –century frontiers of colonial expansion was imposing because of its technological superiority and increasingly efficient firepower, there is a long history of the local populations fighting as best they could to preserve their ancestral lands

and ancestral modes of life in the face of this European invasion. Isolation, inhospitable and economically unviable places enabled some communities to hold on to their sovereignty well into the 20<sup>th</sup> century, but even the most remote and conservative of communities were progressively caught up in the processes of colonization, missionary work and more recently aggressive capitalist expansion. Powerful demands for resources grow across the world, land and military control, ironically and primarily from the Global North has also increased state expansion to the most remote corners of Papua New Guinea. The autonomy, mobility and basic sustainability of marginal groups in once inaccessible places like the the Watut and Upper Watut regions of the Eastern highlands, where the Kukukuku people live – rainforests, mountains, and rivers – are now deeply threatened. And James et al (2012: 4) attest; “the farmers of the Constitution could have been more prescient about the dangers. Many of the problems they identified have been realized – some tragically, some as farcical reruns of earlier tragedies, and some as problems endemic to any development process”.

Before European contact, Papua New Guinea's population consisted almost entirely of small, largely independent communities of subsistence cultivators. Within these communities, social, political and economic relationships appeared to be relatively close and fairly well defined. Between them, notwithstanding some extensive trading networks and political alliances in the Pacific region, relations tended to be limited. But under the influence and impact of missions, traders and colonial administrators, the situation gradually changed, heralding the establishment of administrative and commercial centers, plantations and processing plants. This has prompted many Papua New Guineans to move outside their land and traditional boundaries in search of wage employment in the colonial economy. Cash cropping as an alternative form of small enterprise was encouraged – enabling many in rural areas with the means to purchase goods and services and engage in the emerging modern sector of enterprise. And as has been the pattern in many developing countries, particularly those affected by colonial rule – a growing proportion of the population began migrating to rapidly expanding urban areas. Many became wage earners, while others used established networks, called *wantoks* in Papua New Guinea, to stay on in the hope of employment or to forge a new livelihood

## **THE SOCIO-POLITICAL CONTEXTUALIZATION OF POSTCOLONIAL PAPUA NEW GUINEA**

The thirty-two years since independence have seen substantial changes in Papua New Guinea's society, economy, politics and physical environment. Certainly many of these changes have been influenced or even dictated by external circumstances beyond Papua new Guinea's control; while much also reflects the efforts of a new government keen to build a sense of national identity and purpose. Yet despite many efforts, there is a troubling sense that much of Papua New Guinea political corruption and law and order problems continue to be exacerbated in urban and rural areas alike. As industry continues to extract economic value from local communities with limited regard for their land or environment, it is evident that Papua New Guinea is reaching a critical point in its development as a nation-state. The possibility of Papua New Guinea emerging as the great economic giant of the Pacific is even more unlikely today than thirty years ago. Both the colonial administrators and successive Papua New Guinea governments since independence have failed to deliver to the people of PNG a future that is either self-sufficient or sustainable. Many communities are finding that conflict, violence and detachment from community law are increasingly undermining their capacity to respond to the problems they are facing,

and particularly as rural-urban migration throws diverse and differing communities into close physical and cultural proximity. As Denoon (2005) has written, "Every element of this cumulative crisis was discussed during the transition from dependency to sovereignty in the 1970s. None was then addressed, and most have become even more intractable with the passage of time".<sup>3</sup> Where does all this leave Papua New Guinea, 38 years after independence? What is the nature of its community as it propels itself within national development goals and purpose; whilst holding itself against the external circumstances of globalisation?

About ninety percent of people in Papua New Guinea live in rural areas, and about 95 per cent of land is under customary title. The population is sparsely spread, and much of the country is covered by thick jungle which is difficult to penetrate. Accordingly, people have traditionally been organised into distinct and relatively self-contained villages isolated from one another by distance, environmental factors and differences in language. There are over eight hundred and twenty languages indigenous to Papua New Guinea. Because of this, forms of community in PNG have been, and continue to be, fundamentally shaped by forms of tribal-social relationships and reciprocity associated with village life, as well as relationships to place. As James Weiner (2004) argues, place and landscape have a profound role in anchoring forms of sociality in Papua New Guinea. As different local cultural practices were treated to varying levels of outlawing, preservation or encouragement, by both colonial authorities and external influences, what was also being put in place was an essentialising view of culture (and thereby community practices). Other factors such as the widespread construction of airstrips to mining lands, missions and churches provided what many view as the "social watershed" which inaugurated 'in local accounts, new times, new ways of thinking and living, new forms of social organization and settlement. Potier (1999) also draws attention to the manner in which the:

...historically and spatially specific processes of colonisation, Christian missionisation and capitalist expansion have sought to create, control or maintain cultural processes and definitions of "community". Such definitions are contested within local groups, between local groups' and external forces, and even between these external forces themselves.

The early relationship between the colonial administration and what it termed as its subjects was exploitative, ensuring primarily that colonial economic and strategic interests were addressed. The Second World War was a watershed in many ways – the vulnerability of the colonial regime became more apparent as such movements began to question and react to the inequalities between the colonizers and the colonised. For many of the Papua New Guineans who came into contact with great numbers of people from others parts of the region a new sense of national identity was growing, bringing with it an expanding world view and understanding of the effects of modernization. One of the most remarkable aspects of social and political change in post-war Papua New Guinea was the proliferation of spontaneous local movements, differing in their origins and specific objectives but sharing a broad concern with the achievement of economic, social and political development through communal action. Some of the movements emerged from a background of local cult activity; others were established ostensibly to organize local opposition to particular policies of central government but came to assume wider objectives; still others were specifically motivated by a desire to achieve development through local community action; a few emerged to press for a geographically more broadly based regional autonomy. Many of these movements displayed economic consideration and political moderation, even though

several expressed opposition to incorporation in the colonial local government councils. Records of these pre-war and post-war movements remain sketchy and largely undocumented in any of the government materials; except through community records and stories. John Waiko for example, after completing his course in creative writing at the University of Papua New Guinea in 1970, went back to his village in Binandere, and spent a lot of his time persuading his people not to sell their forests. John Kasaipwalova left the university early to form the Kabisawali movement in the Trobriand Islands in the 1970s. Kabisawali was a political/cultural movement that attempted to replace the local government structure of the then Australian administration. Kasaipwalova also encouraged his people to sustain their lives through surplus production of yam and the revival of traditional feasts and dances. Stories continue to emerge in many PNG communities of similar movements: contemporary examples include the Gildipasi group in the Madang province, and the Pariet/Amman genealogy and customary land ownership mobilization activities; and more recently the Kukukuku (Patea) Collective.

Social development and economic development are complex concepts that may be interpreted very differently in different contexts and at different times. The provision of goods and services by the state often creates competition for sections of society – and groups of people do often resort to drawing ethnic differences amongst themselves when in competition for state resources with regard to how they are served by the state. Unlike market situations where the allocation of goods and services is dictated by supply and demand principles, the allocation of state provisions comes down to deliberate distribution by the state. This is compounded by an increasingly complex exploitation of the notion of kinship and wantok; the growing spread of nepotism and corruption; and what many claim has only added to the increasing problems of urban and rural lawlessness. The wantok system was founded on a deep tribal ethic of reciprocity, but with the intersecting of tribal, traditional and modern life worlds and relationships, especially in urban settings, such reciprocities can either be helpful or exploitive. As the volume of urban drift also increases; and the bonds which once held spatial settlements - particularly rural settlements - are changing or at the least dissolving, dispersing settlement over a wider area, what is actually happening on a day-to-day basis? How are Papua New Guineans responding to changes in this contemporary time in the practice of their everyday living? What is to be done?

Development in this part of the world, as elsewhere in the Global South, continues to be a struggle. As our five year study in Papua New Guinea (James et al, 2012)<sup>6</sup> attested in more ways than one, the lives of people that corporate- and state-led development is meant to enrich are often being made more difficult by the very developmental process that purports to help them. Despite well-intentioned attempts to the contrary, most development projects do not know how to engage with the complexity of community-life. While paradigm shifts from 'things' to "people" have been discussed and supported, many have not been well translated into practice. Consensus has emerged amongst commentators in the fields of education, anthropology, community development and political ecology that sustainable development is something that comes from within communities rather than something that can be imposed from the outside. This nevertheless leaves us with many questions.

## **IN THE FIELD WITH THE KUKUKUKU PEOPLE**

The Kukukuku (Patea) tribal Community, which has an approximate population of 98,000 people, stretches from Kaintiba District in the Gulf Province, Menyamya District and part of Bulolo/Wau District in

the Morobe Province of Papua New Guinea. The number of households (calculated at 8-12 persons per household) is 11,265. The name for the customary land is Mekaanga. This tribe, like other remote tribes, is primarily disconnected from government community building initiatives. It also has a long history (from as early as the 1930s) of threats to their land and livelihoods from the activities of a growing number of foreign-owned mining and forestry companies, operating within the vicinity of many of the Kukukuku villages. A remote area is hard to get to from major cities and access to major services and major urban centres is not viable for the majority of the area's population due to the high cost of travel, geographic location (days of travel by foot to nearest accessible road transport); political sensitivity (travel through different tribal lands), and language barriers. The majority of development initiatives to engage remote communities involve short-term funding for projects that are often irrelevant to their remote environment or divisive for their needs. Projects that are designed outside of the tribal regions often result in a lack of take-up and ownership: such projects are reliant on on-going resources and funding (dependency model), get culturally hollowed out and end without tangible results.

To date, many of the issues faced by rural and remote communities remain unaddressed because of the effort it takes to set something up – they are usually put into the "too hard" basket. In addition, rural and remote communities are being dramatically affected by the extent of large-scale resource extraction activities and need urgent attention due to the scale and pace of these activities. Much of the mountain area offers a contrast between undulating slopes and dense forests, crisscrossed with trails and a muddy dirt road which changes nature after a night of rain. So much of the mountain terrain is also changing due to the heavy explosives and open cast mining methods used by many of these multinational resource extraction companies. Sporadic mining stills occur – though there is now more focus on the eastwards side of the mountains – and currently negotiations are underway with the national government for new licenses and services before the commencement of mining.

I first travelled to Papua New Guinea in 2007 as one of 3 key researchers in a national study. This study, entitled "Sustainable Communities, Sustainable Development" (see footnote, page 7) was in partnership with the Papua New Guinea Department of Community Development. The study's aim was to address problems and gaps in the literature on development and create a new qualitative conception of community sustainability informed by substantial and innovative research in Papua New Guinea. In 2009, in the process of fieldwork, I met the Kukukuku people, distant, suspicious of any form of research intervention and development promises. A significant aspect of the Kukukuku tribal identity in external/foreign/colonial literature on Papua New Guinea is articulated in images such as "ferocious", 'harsh-featured (Sinclair, 1998); fierce and detested for their unwelcoming disposition and apparent love of fighting and ambushes. Such narratives prevail.

As I returned several times to these places, some of the Kukukuku Elders would visit me if I was in their vicinity, sit with me and talk to me about what I was trying to study and map. Often, their questions were about how this study would make their lives better. As we got to know each other, I also began to hear from them the way they lived and responded to the many changes that state-led development had brought to their villages. Ironically, these developments, notably large scale resource activities, purported to raise local jobs and revenue were primarily rhetorical. Since the 1930s, powerful and often uncompromising global demands for resources, land and control have guided state expansion into the remotest parts of Papua New Guinea. Consequently, the autonomy and mobility of subsistence-

based tribal communities such as the Kukukuku have been increasingly narrowed and in several cases obliterated. External-led development efforts or strategies have created a deep dependency and more often than not had left such remote, marginalised even more vulnerable, isolated from their cultural traditions and unprepared for any of the contemporary challenges.

My conversation with the Kukukuku people highlighted for me the deep ideological legacy of colonialism and the challenges of revitalising discourse on identity and history. Such conversations were often difficult, exposing, altering, but also aesthetic, imaginative and transforming. Deepening into such a space takes effort and attentiveness. But such deepening also brings with it the possibilities of contemplating the unpredictable, the irregular and experiences with the "more-than-human" world (Abram, 1996). It began to offer ways of engaging with the irregular and unpredictable in a language of the emotions as much as the intellect; with text as much as non-text. It also highlighted the incredible gap between theory and practice - and how development agendas remain disconnected from what communities such as the Kukukuku were attempting to do from within their villages and their places in these remote mountains. The long struggles of the Kukukuku in pre-war colonial New Guinea through to globalising Papua New Guinea to recover their livelihoods and identity not alienated from place and their nation's development agenda is far from over. As older, sustainable form of kinship and wantok reciprocity are being hollowed out, the determined efforts of this tribal collective to organise itself in the face of massive, complex forces of modernity within a common ground of identity, resilience, belonging and nationhood was more significant than I had imagined. In late 2010, the Elders of this tribe invited me to their land and to their main village. "*Leave behind your books*" they said. "*They will only be useful as pillows. Come with your heart, ideas and your spirit. That is all we really welcome*". For me, it was also the opportunity to invest in seeking alternative ways of 'doing' development that isn't afraid of embodied personal and collective experiences; to be led by the community rather than to lead.

Like Tsing (1993), I find the task of describing the Kukukuku tribe across an abyss of time a complex and daunting process. Any attempt at description must take into consideration current political and cultural dilemmas; without losing the dream space of possibilities that this tribal community holds as spaces of possibility against the advancement of ecological destruction and coercive annihilation. Part of the response has been to write these accounts in the present tense and to keep open the possibilities and dreams that such cultures and tribal movements have stimulated. It is a process that undoubtedly, has its own uncertainties, as well as its critical moments of research; attempting to balance the context, the culture, and the intersubjectiveness of "writing in solidarity". Fieldwork, as I was to learn through hard work, does not usually have some concrete shape. It is a long process and as Lye Tuck-Po (2005) has said in her longitudinal study of the Batek community on the Kechau River in north central Pahang State, Malaysia,

...fieldwork is a long process of uncovering information, searching for patterns and connections and collecting, sometimes at dull, decelerated, monotonous speed (*or in revealing spontaneous packed moments*), bits and pieces of answers to the questions we ask. Shapes come only later, after fieldwork, when it's time to organise information, coherently, make insights concrete, analyse, and write.

In my first visit to one of the villages, deep within the mountains, a gathering of nearly 2,000 tribal

members staged their first production of a play they called 'Tears of the Rainforest', a haunting performance of betrayal, destruction and loss. More than a retelling of the Kukukuku's grim past and troubling present; the theatrical production was a resonant reflection of the extraordinary efforts of a growing group of development actors; youth, women, men and elders, who now call themselves the *Kukukuku (Patea) Collective*. They stand at the brink of their own voice; negotiating the complexities and opportunities of performing and telling of a tribal subjectivity and sensuality that is deeply connected to the past, present and future – and which gains its memory, potency and political power through these multiple connections. The Elders said: "Our goal is to be masters of our fate, to lead development rather than be led by it, to shape our tribal future in our form with our values". My visit in 2010 was also an invitation to become part of their story of seeking self-determination and developing alternate responses to their community-driven development strategies. It also initiated a relationship of this community with researchers at RMIT University – and the birth of a new development project entitled the *Patea Eco-Enterprise*

### THE KUKUKUKU (PATEA) ECO-ENTERPRISE

Over the next year, there have many expressions of ideas and views as the community groups across Kukukuku land met in large and small groups. Tribal dances, old songs and musical instruments have been recovered – enabling a recovery of traditional customs and rituals of identity and culture. Members of the community and RMIT researchers also travelled by road to the many Kukukuku villages and sites by car and/or by foot with the tribal leaders and elders; allowing time to stay at these villages and to consolidate the relationship built through the mobilisation activities as well as the shared idea of the Patea Eco-Enterprise. These journeys are arduous, sometimes taking more than twelve hours to go from one village to another (which may be only 90 kilometres apart). As the idea of the Patea Eco-Enterprise started to take form, it also became apparent that there was much to recover of the Kukukuku's lost cultural knowledge and identity. There was also much work to be done to find their voice and place in Papua New Guinea's development agendas and activities.

A Charter of Commitment, Social Enterprise & Development 2012–2017 was drawn up in late 2012 on behalf of the Chief of the Kukukuku people, the Kukukuku Hausmen (Men's House), Hausmeri (Women's House), the Kukukuku clans together with researchers at RMIT University, Melbourne, Australia. The Charter is a manifesto of a shared vision, principles, strategy and partnership, beginning 2010. Funding ideas rather than activities, enabling community members to take ownership at every level from the very start of the project, this Charter was also to address questions of cultural protocols and enable the space for both tribal and modern ideas to work their way through from the ground up.

The Patea Eco-Enterprise is also not about violent resistance to the outsider (in particular the larger resource extraction industries), but a process of responding to what was needed in the community; determining their own future and building sustainable lives in the many challenges driven by inside and outside forces of development and change. Paramount in this Charter was the nurturing of the *Cultural Form*, upon which the social business enterprises sit; and without which values get distorted. This development approach recognises that any development is most effective when it is intertwined with the spiritual and the cultural to be sustainable, to flourish and to grow with the people and by the people.

The *Cultural Form* is primarily about recovering, documenting and expressing the Kukukuku

name, stories and ancestry, heritage and culture through publications (written and visual), forums and gatherings, festivals, feasts and travel through Patea land with Elders, women, men and children and our trusted partners. These processes of recovery and expression are also about acquiring new knowledge, building capacity and skills as the tribal community negotiates its ways through tribalism, nationalism and processes of globalisation and modernity. Seven key development principles were developed to underpin this Charter of Commitment:

- a. Development is on our terms, from the ground up
- b. Development, slowly and in time, will serve all the people in many different ways
- c. Development unequivocally respects the land, the river, the mountain and the sky
- d. Empowers our ancestry, our heritage, our spirits, our Elders, our Chief to guide us, to bless us and to keep us true
- e. Enables our leaders, our partners, to challenge us, to take us forward, to bridge our people and the world
- f. Embolden the people to come forward, to build and hold together, to create and be owners of their enterprises and trade
- g. Inspires our partners to work alongside us, to develop, reflect and establish robust, dynamic and viable enterprises which can serve as models and sources of inspiration for others

In January 2012, a small seed funding grant from a philanthropic organisation in Australia enabled the Kukukuku community and RMIT researchers to commence ground work towards establishing this shared idea of a Kukukuku (Patea) Eco-Enterprise. Ideas proposed and initiated by the various Kukukuku clans across the region were funded directly through this collaborative project. This meant that community members had the chance to work on their ideas, invest their own resources and knowledge; and in time, identify the skills, partners and research they needed to establish these ideas as viable business and trade. Within a year, 11 such ideas have mushroomed and taken seed; and are progressing to the exploring capacity for production and trading. These ideas have been grouped as new livelihood activities to respond to new needs and land changes (from a once nomadic trading lifestyle to community farming); women-led enterprises and cooperatives; developing a remote agricultural hub; and innovating local transport solutions. Underpinning these activities are integral cultural and sacred renewal programs, being expressed through textual, non-textual and oral documentations, and collaborative publications and exhibitions. Currently, several cultural maps and a co-authored book with Kukukuku Elders are underway.

## **AN EMBODIED RESPONSE TO DEVELOPMENT**

The Kukukuku (Patea Collective) began in 2008 as a response to the rapidly advancing and destructive elements of development which was promoted to the local tribal communities as a mutually beneficial development in a remote environment. Promising to bring improved changes to their lives, such operations more often than not had destroyed their environment and also affected the subsistence farming capacity of local communities. For many of the Elders and community leaders of this tribal community, the key factor that gave rise to community consciousness was realisation of the excessive exploitation of their land and environment; further aggravated by the by the marginalization from the benefits of the very resources gained from these places. The incremental loss of a capacity to farm, the

impact of soil erosion and river flooding, the increasing incidences of child mortality through lung infections and the divisions amongst what was once a much more harmonious tribal community had become toxic.

The Collective started exploring cost-effective, self-sustainable solutions to improve their rapidly declining quality of life and reduce urban migration by improving employment and well-being within their villages. A shared and determined recovery of their cultural identity has also taken on a level of self-consciousness and politically reflexive projection to take the strengths of their ground – their people and their place into a difficult and challenging world whilst also linking their struggles to a much larger international space. The partnership with RMIT University has enriched their efforts.

For local people marginalised by capitalist enterprises and environmental irresponsibility, who are seeking to maintain a customary, environmental ethic for their own cultural survival; their tribal identity has become a means for both transgressing and maintaining political, social and cultural boundaries. Attempts by communities to control their own resources and to resist being marginalised within the processes of development are integral to local responses to globalization and to their sustainability. The localised impacts of mining and the experiences that these communities undergo as a result are no longer simply a question of the environment or that of economics. It is simply a question of sustainability – of whether the livelihoods, resources and the identity of these people across all aspects of culture, politics, economy, ecology and the social is so affected that these people can no longer, in what used to be fertile rich lands, live sustainable lives. As one elder put it, *our children are dying, our food gardens are gone, our old ways are lost, our young are angry, we have nowhere to go. We will act now. No one will act for us. This is our land; our culture; our traditions. We will look after them; even if we have to raise our spears*

Robertson (1984) contends that major 20<sup>th</sup> Century structures and processes of national development planning have become routine as part of the apparatus of the modern state. His work across several countries has shown how externally made plans ignorant of lived realities invariably become still-born or have drastic negative effect. Yet in many places, communities who appeared to be caught in the midst of development and globalisation paradoxes, had established extraordinary ways in which their community life and neighbourhoods remains resilient and peaceful in contrast to many other unsettled and failing communities.

One of the pressing questions is how does one understand an individual's or group's everyday practices, ways of operating or doing things. Like de Certeau (translated 1984) has indicated, analysis shows that a relation (always social) determines its terms, and not the reverse, and 'each individual is a locus in which an incoherent (and often contradictory) plurality of such relational determinations interact. What are the systems of operational combinations (what de Certeau terms *les combinaisons d'operations*) which also compose a 'culture' of a place and the people's responses back into the world. As Polier (1999) has suggested, in Papua New Guinea, the trajectory of capital development has been historically and internally uneven over the twentieth century, beginning in coastal and island regions, moving to the highlands, and finally to the western Province, where a gold and copper mine was established in the years following independence. Maybe it is in this twilight zone, in the unsettling embrace of tradition and modernity, experienced as a crisscrossing of connections and misconnections, breakdowns and compromises that one is able to somehow negotiate "some sort of" way to live on a day-to-day basis (Nadarajah, 2011).

The Kukukuku (Patea) Eco Enterprise is a vibrant story of how a tribal community, gathering itself through its tribal lineage and memory is constructing an embodied, alternate response to development. Such efforts, growing in magnitude bear testimony to the power of the ideal of community-driven development; and offer a way to move beyond the apparently insoluble problems of a rapidly modernizing post-industrial society and the welfare state. The socio-cultural political field around the issues of a tribal-way-of-life, attentive to the constantly shifting and ambiguous realm of cultures and peoples, and an understanding that cultural processes of both integration and resistance are continually unfolding, evolving and ambivalent are also important indicators of how community is reacting to their individual and collective place in a developing nation state.

The Kukukuku people are a contemporary example of a Papua New Guinean tribal community that has taken on an embodied form of self-conscious effort to remain grounded – and to negotiate their own terms and understandings into this difficult and challenging world. Concepts and practices of modernism and traditionalism – called either “new ways” or old ways by both locals and government officials and /or academics and researchers remain contested – and remind one of the fragility in a world that no longer allows grounded communities to change incrementally or organically. But the Kukukuku tribe has sought through its partnership, community mobilisation efforts and a reclaiming of a tribal identity – a way in which it will not be swept into the dominant current of change. These embodied mobilization strategies – asserted in direct confrontation with the perceived modern development agendas and activities with which this community coexists must be seen to be effective. As Braithwaite (1999) indicates, “all cultures must adapt their restorative traditions in ways that are culturally meaningful to them. Traditions and cultural meanings are invariably contestable and constantly being refashioned. In this respect, the Kukukuku (Patea) people’s development process is part of a creative fashioning of the past in the present; guided by history, to the demands of a modernizing state, negotiating the politics of identity, community and development not only from without, but also from within the tribe itself.

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<sup>1</sup> Constitution of Papua New Guinea, 1975

<sup>2</sup>This poem was narrated by one of Papua New Guinea's best known poets Allan Natachee, a Meko man whose real name was Avaisa Pinonga, to Ulli Beier in 1967. Beier is an anthropologist, who encouraged the development of Papua New Guinean writing during his tenure as Professor of Literature at the University of PNG during the late 1960s to the 1970s. Avaisa Pinonga uses traditional form to express himself; his chant-like prose in this rendition covers the entire theme on "Gods", particularly the creationist god Aia. This poem is derived from his renditions centred on *Aia the creator during the period of 1967 to 1971*. Pinonga's works are available in the book entitled *Words of Paradise* by Ulli Beier – a collection of Papua New Guinea poems that have been translated from the vernacular. The book was published in 1973, two years before the nation's independence in 1975; and joins Papua New Guinea's list of classical literature from the pre-independence or nationalist era.

<sup>3</sup> Wantok, a Melanesian term, refers to relationships, based on reciprocal exchange that may have their basis in kinship. The Papua New Guinea concept of wantok relations has its foundation in grounded (embodied) community relations, but at the same time, is lifted out of that context and can be used as a lifestyle relationship between relative strangers

<sup>6</sup> The title of this study, *Sustainable Communities, Sustainable Development: Other Paths for Papua New Guinea (2006-2010)* expressed the ambitious nature of the project. The study exploring the manner in which other development strategies may contribute to community-building, and by implication, to the sustainability of communities through a connective process of learning across different knowledge systems—customary tribal, traditional cosmological and modern analytical. In this emphasis, processes of development and community sustainability are not seen as separate concerns, but as interdependent. This study also resulted in a publication, (2012, University of Hawaii Press)

## TRANSFORMING ORGANISATIONS IN DEVELOPING COUNTRIES INTO KNOWLEDGE ORGANISATIONS

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### ABSTRACT

The main challenge confronting organisations in developing countries is how to transform themselves into knowledge organisations. This will enable them to become part of the global knowledge economy and benefit from globalisation. The exceptional growth of information in the knowledge economy focuses attention on the importance of managing knowledge in organisations. Such organisations, which are known as 'learning organisations' recognise the value of knowledge within their organisations. Although there is general consensus that the knowledge society and the knowledge economy has arrived, and that knowledge is a key business asset, organisations in developing countries are still in the early stages of understanding the implications of knowledge management. For the purpose of this paper, the phrase 'knowledge economy' includes the following terms: the knowledge era, the knowledge age, the information age, the new economy and the new information world. The knowledge economy is driven by organisations' and individuals' ability to effectively acquire, develop, resolve, use, store and share knowledge. It is clear that the successful organisations of the 21<sup>st</sup> century will not be able to rely solely on production factors, namely, labour, capital, and land, for their success. Successful knowledge management is only possible if it is part of an organisation's philosophy. This paper presents general guidelines to assist the successful implementation of knowledge management in developing countries. Specific guidelines are provided on how to apply knowledge management as a strategic tool. The paper identifies strategic and organisational questions that have to be answered before this process can commence. The ways in which knowledge management can be adopted as a strategic tool are outlined. The paper discusses the implementation of knowledge management and outlines the major components of a framework for knowledge networking.

**Keywords:** Knowledge-based economy; knowledge organisations; knowledge management; tacit and explicit knowledge; intellectual capital

### INTRODUCTION

Knowledge management (KM) is a key driver of innovation and achieving a competitive advantage in today's knowledge-based economy (Baltson, 2012: 57). It is also recognised as the fundamental activity for obtaining, growing and sustaining knowledge in organisations (Kodama, 2009: 18). This means that the successful management of intellectual capital (IC) is closely linked to the KM processes an organisation has in place. In turn, this implies that the successful implementation and utilisation of KM is the foundation for the successful acquisition, application and growth of IC in an organisation. This basic principle also applies in transforming organisations in developing countries into knowledge organisations. This paper explores the importance and implementation of the principles of the knowledge economy and KM in developing countries. Although there is wide recognition that the knowledge society and knowledge economy has arrived, O'Brian & Marakas (2011: 101-102) note that, organisations in developing countries are still in the early stages of understanding the implications of knowledge management for the organisation as a whole. These implications will be addressed in this paper. For organisations to be successful in the 21<sup>st</sup> century, they will have to be part of the knowledge

economy. The meaning of the concept “knowledge economy” and its implications for organisations for developed and developing countries are discussed. Knowledge management is the first competency an organisation needs for the successful management of IC. To understand this core competency, a brief discussion is presented on KM’s characteristics, creation and application. Kodema (2009: 18-190) states that the successful management of KM is only possible if an organisation’s management team embraces KM as part of the organisation’s philosophy. Guidelines are provided on how to achieve this.

Specific guidelines are provided on how to apply KM as a strategic tool in the organisation. Strategic and organisational questions are identified that have to be answered before this can be achieved. The ways in which KM can be adopted as a strategic tool, are also outlined. The application of KM as a strategic tool requires a framework for knowledge networking. The main components of such a framework are explained (O’Brian & Marakas, 2011: 102). General guidelines for the successful implementation of KM in organisations in developing countries are also outlined.

### **THE KNOWLEDGE ECONOMY AND ITS IMPLICATIONS FOR DEVELOPING COUNTRIES**

For the purposes of this paper, the term ‘knowledge economy’ includes the following terms: the knowledge era, the knowledge age, the information age, the new economy and the new world and developing world. The knowledge economy refers to a knowledge-based economy. According to Stair & Reynolds (2013: 495), the knowledge economy era is driven by organisations’ and individuals’ ability to effectively acquire, develop, resolve, use, store and share knowledge. It is also made possible by the ability to transform and share both tacit and explicit knowledge. It clear that successful organisations of the 21<sup>st</sup> century will not be able to rely solely on production factors, namely, labour, capital and land, for their success. Instead, they will have to manage these tangible assets along with intellectual assets and intellectual property. In this knowledge-based economy, organisations in developing countries increasingly have to deal with the following demands and issues: increased complexity of products and processes; a growing oversupply of information and knowledge, both technical and non-technical; increasing competition in an economy with shorter product life cycles, which requires that learning processes are accelerated; and, an increased focus on the core competencies of organisations which have to be co-ordinated (Ko & Dennis, 2011: 134).

Basic forces drive visible trends in the knowledge economy. Gyopos (2008: 9) and Raviahankar (2011:39) note that, as a result of these driving forces, the typical changes that affect organisations in developing countries are: the law of economics has changed. Knowledge, information and intellectual capital have become the most valuable commodities; the very nature of work has changed. There is a major shift to self-reliance and lifelong learning; the speed of change is in continuous acceleration mode; the business environment is more competitive than ever before; the state of competitive advantage can be very temporary; the shift to service-based businesses is a significant factor; and, technologies that enable global knowledge-sharing have been and are being developed and improved on an almost daily basis.

### **KNOWLEDGE MANAGEMENT AS A POINT OF DEPARTURE IN DEVELOPING COUNTRIES**

Knowledge Management constitutes the ability of an organisation to learn, to remember what is learned, and to leverage what is learned internally and externally. Internal leverage refers to transferring knowledge to different departments, while external leverage involves sharing knowledge with suppliers,

distributors, partners and customers. Knowledge management's critical importance lies in building a platform of knowledge from which innovation and other core business processes, like IC, can be launched (Perez & De Pablos, 2003: 83). Since knowledge is the core competency in a knowledge economy, it is useful to briefly explore Chen's (2010: 21) assumptions concerning the characteristics of knowledge, the circumstances of its creation, and the value of its application in developing countries: knowledge is an important productive resource in terms of its strategic significance; different types of knowledge vary in their transferability. The critical distinction is between "explicit knowledge" which can be articulated and is transferable at low cost, and "tacit knowledge" which manifests only in its application and is difficult to transfer. The ease with which knowledge can be transferred also depends on the capacity of the recipient to aggregate units of knowledge; individuals are the primary agents of knowledge creation and, in the case of tacit knowledge, are the principal repositories of knowledge. If individuals' learning capacity is bounded, knowledge creation requires specialisation. However, an increase in the depth of knowledge normally requires sacrificing breadth of knowledge; and, most knowledge is subject to economies of scale and scope. This is particularly true for explicit knowledge, which, once created, can be deployed in additional applications at low marginal cost.

This suggests that information in itself has little value and will not become knowledge until it is processed by the human mind. Knowledge involves the processing, creation, or use of information in the mind of the individual (Xu & Mark, 2011: 186). The literature (Gupta, Pike & Roos, 2003: 771-781; Perez & de Pablos, 2003: 82-91), identifies several advantages of managing KM through individuals in organisations in developing countries, namely, to: improve efficiency; improve relevant competencies; improve market position by operating more intelligently in the market; improve communication between knowledge workers; enable professionals to learn more efficiently and effectively; and, enhance the profitability of the company.

## **EMBRACING KNOWLEDGE MANAGEMENT AS A PHILOSOPHY IN ORGANISATIONS IN DEVELOPING COUNTRIES**

According to Chen (2010: 1-22), many organisations recognise the importance of KM and engage in activities to enhance their knowledge processing; however, few have embraced knowledge as an underlying management philosophy. The effective management of knowledge has significant consequences for the structure and culture of the organisation, and the roles of managers and workers. Will (2008: 16-17) is of the opinion that senior managers and executives in developing countries need to answer the following questions before moving to full implementation of a KM philosophy: what is the central objective of KM within the organisation? What are the levels at which KM should be considered, and how can it be executed at different levels? What is the scope of KM in relation to the types of knowledge it should focus on? What technologies and techniques should be employed in KM? What organisational roles are needed to support KM, and what are the associated competencies that both individuals and the organisation need to acquire? There are no simple answers to these questions because in a diverse and changing business environment, the nature of KM is likely to change constantly. In order to survive in the knowledge-based, global marketplace, organisations need to develop the necessary KM capacity (Ko & Dennis, 2011: 31-41). The concept of KM capacity is discussed in the following section.

## **KNOWLEDGE MANAGEMENT AS A STRATEGIC MANAGEMENT TOOL**

Managing knowledge is a key element in the achievement and sustainability of competitive advantage. Gypos (2008: 12-13) and Schweywer (2006: 9) suggest that the following KM aspects should be addressed before a KM strategy can be formulated in a developing country: the management of an organisation must develop a long-term vision that indicates where the organisation wants to be in the future. A mission and long- medium- and short-term goals must also be formulated. The long-term vision should ideally reflect the collective values and ambitions which the workers of the organisation share. The medium- and short-term goals should be reflected in a KM policy which is known by and accessible to all members of the organisation. It is important that the management of the company knows what the market needs, what customers want and what the competition is doing. The most important aspect of the KM process is how learning is stimulated in the organisation and how knowledge is managed. Management has to take note of what knowledge is available and what is needed, develop and/or purchase knowledge, share it and evaluate its use. The knowledge infrastructure must form part of the overall organisational structure. Furthermore, the organisational structure must facilitate various knowledge management practices.

### **Strategic Questions**

Gypos (2008: 16-17) poses the following strategic questions to ensure that KM is effectively used as a strategic management tool:

- Is the management of the organisation aware of the kind of activities competing organisations undertake with regard to the development of knowledge?
- What are the core competencies of the organisation in terms of knowledge assets?
- Does the management of the organisation have a long-term vision of the knowledge which will be needed in the future?
- Are short- and medium-term strategies in place for the acquisition, sharing and evaluation of knowledge?
- Has management formulated a knowledge policy?

### **Organisational Questions**

These include:

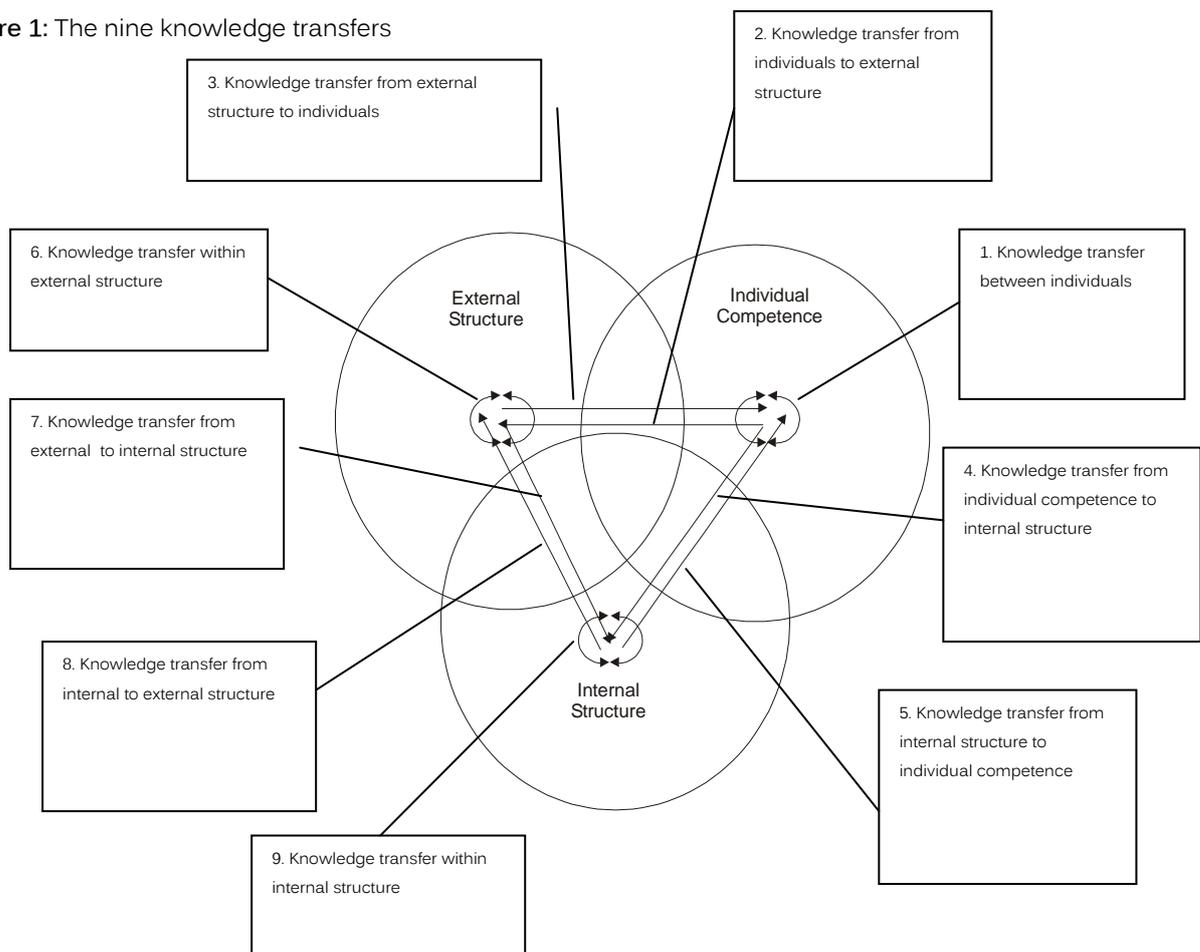
- Does the organisation have a KM-friendly structure that facilitates the acquisition, sharing and evaluation of knowledge between workers?
- Does the organisational culture enhance the acquisition and sharing of knowledge?
- Does the management style adopted by the organisation stimulate acquisition and sharing of knowledge between workers?
- Is there integrated knowledge infrastructure in the organisation that sets out methods to determine the gap between required and available knowledge?
- Does the organisational infrastructure make the development, purchase, sharing and evaluation of knowledge possible? (Gypos, 2008:16-17).

## THE TRANSFER OF KNOWLEDGE IN ORGANISATIONS IN DEVELOPING COUNTRIES

Sveiby (2012: 346) identified nine basic knowledge transfers as part of the strategic management process, which creates value for the organisation. This transfer process is briefly discussed below:

Knowledge transfer between individuals: the transfer of knowledge between individuals refers to the determination of how best to enable communication between employees within the organisation. According to Sveiby (2001: 4), the strategic questions are: "How can we improve the transfer of competency between workers in the organisation? How willing are people to share what they know with co-workers?" Activities such as team building; trust building and team activities are necessary to foster trust among workers.

**Figure 1:** The nine knowledge transfers



Source: Sveiby, 2012: 352

Knowledge transfer from individuals to the external structure: the transfer of knowledge to the external structure is concerned with how an organisation's employees transfer their knowledge to the external business environment. The strategic question (Sveiby, 2012: 347) is: "How can the organisation's employees improve the well-being of customers, suppliers and other stakeholders?" The answers to this question result in the provision of better service. This is made possible by transferring high quality knowledge as part of the service to the aforementioned stakeholders.

Knowledge transfer from the external structure to individuals: this refers to learning from

customers, suppliers and community feedback. Examples of such transfer include ideas, new experiences, feedback and new technical knowledge. According to Sveiby (2012: 347-348), the strategic question is: "How can the organisation's customers, suppliers and other stakeholders improve the competence of the employee?" The answers focus on activities that create and maintain good personal relationships between the organisation's workforce and stakeholders outside the organisation.

Knowledge transfer from individual competence to internal structure: the strategic question (Sveiby, 2012: 348) is: "How can we improve the conversion of individually held competence to systems, tools and templates?" The answers lead to activity-focused tools, templates, processes and systems that can be shared among workers.

Knowledge transfer from internal structure to individual competence: Once competence is 'captured in a system' it needs to be made available to other individuals in the organisation. This has to be done in a way that ensures that competence improve workers' capacity to act, otherwise the investment is wasted. The strategic question (Sveiby, 2012:348) is: "How can we improve individuals' competence by using systems, tools and templates?" The answers to this question focus on activities that improve the human-computer interface of systems, action-based learning processes, simulations and interactive e-learning environments.

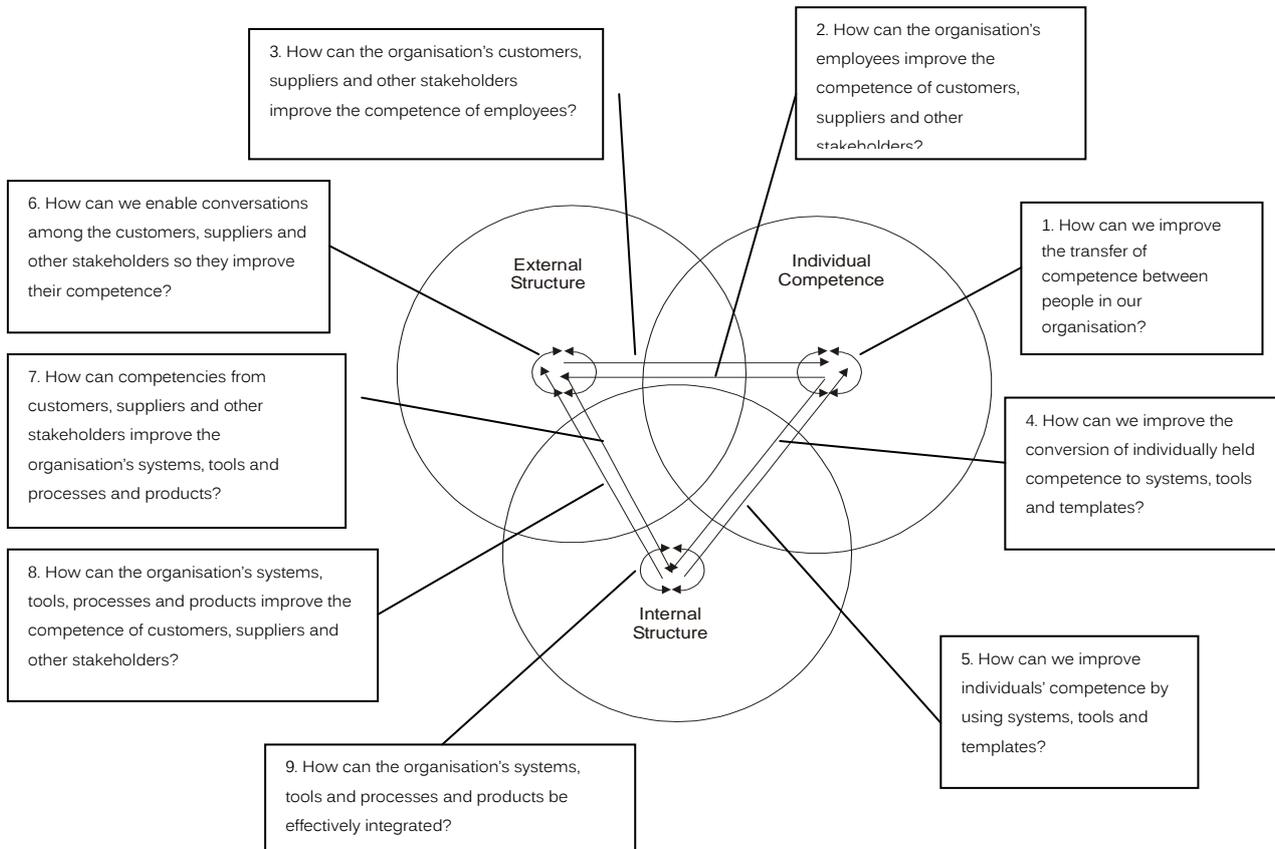
Knowledge transfer within the external structure: this refers to what customers tell each other about an organisation's service. A knowledge perspective provides a wider range of possible activities than traditional customer satisfaction surveys. This is achieved by focusing on how customers' competence is transferred between the stakeholders in the external structure. According to Sveiby (2012: 348) the strategic question is: "How can we enable conversations among the customers, suppliers and other stakeholders so they improve their competence?" Answers focus on how the organisation will enhance partnerships and alliances, improve its image and the brand equity of its products and services, improve the quality of the offering and conduct product seminars.

Knowledge transfer from external to internal structure: This focuses on how knowledge can be transferred from external to internal structures, the kind of knowledge the organisation can gain from the external market and macro environments and how this learning process can be converted into action. The strategic question (Sveiby, 2012: 349) is: "How can competence from customers, suppliers and other stakeholders improve the organisation's systems, tools, processes and products?" According to Sveiby (2012: 349), the answers to this question lead to activities focused on empowering call centres to interpret customer complaints, and creating alliances to generate ideas for new products.

Knowledge transfer from internal to external structure: The strategic question is: "How can the organisation's systems, tools, processes and products improve the competence of customers, suppliers and other stakeholders?" (Sveiby, 2012: 349). The answers lead the organisation to focus on making the organisation's systems, tools and processes more effective in serving customer, extranets and e-business in general.

Knowledge transfer within internal structure: The internal structure is the platform from which the organisation functions. The strategic question (Sveiby, 2012: 349) is: "How can the organisation's systems, tools, processes and products be effectively integrated? The answers to this question focus on streamlining databases and building integrated IT systems (Sveiby, 2012: 349).

Figure 2: The nine knowledge strategy questions



Source: Sveiby, 2012: 352

## A FRAMEWORK FOR KNOWLEDGE NETWORKING IN DEVELOPING COUNTRIES

The term "knowledge networking" signifies cooperation between a number of people, resources and relationships. Knowledge creation and transfer add value to an organisation (McQuary, 2009: 44). The framework of knowledge networks comprises of the following components: Actors – individuals, groups and organisations; Relationships between actors that can be categorised by form, content and intensity; Resources which may be used by the actors within their relationships; and, Institutional properties which include structural and cultural dimensions such as control mechanisms, standard operating procedures, norms, rules and communication patterns (Måtersson, 2000: 206-207). McQuary (2009: 45) conceptualises knowledge networks in terms of the three building-blocks briefly discussed below.

### Facilitating Conditions

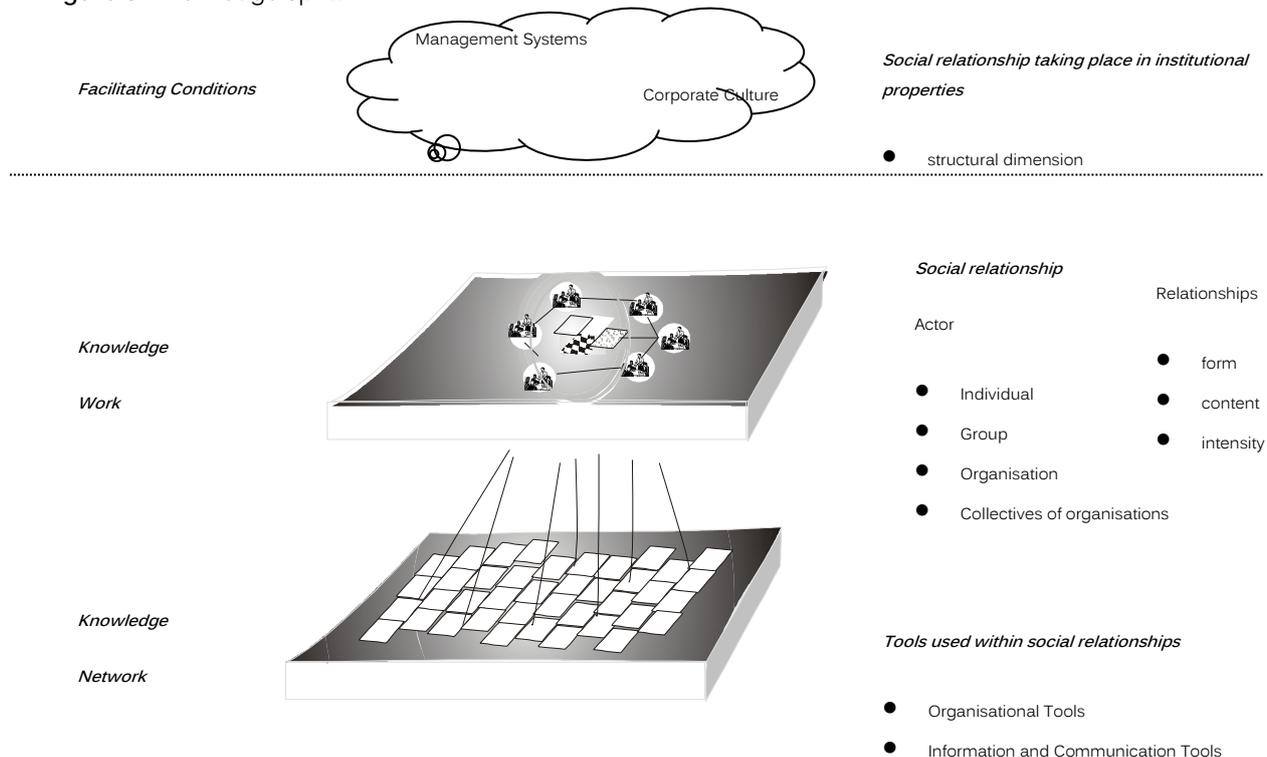
This comprises the network's internal structural and cultural dimensions in which knowledge work processes take place. Facilitating conditions enable the creation and transfer of knowledge.

### Knowledge Work Processes

These comprise social interaction and communication processes at individual and group level

within organisations. These processes can be conceptualised as a knowledge spiral. This is described by Will (2008: 87) as a dynamic transformation process between explicit and tacit knowledge at different levels (see Figure 3). Socialisation refers to the exchange of tacit knowledge between individuals in order to convey personal knowledge and experience. Joint experience results in new, shared, implicit knowledge, such as common values or technical skills.

**Figure 3: Knowledge spiral**



Source: Will, 2008: 87

### Knowledge and Network Architecture

This comprises the “tool-set” used within social relationships (Laudon & Laudon, 2010: 152-154). These “tools” include organisational information and communication tools (figure 3). To fully understand the dynamics of a knowledge framework and the subsequent knowledge architecture to make this process work, the following aspects are important.

Interconnect the different levels and areas of knowledge: knowledge results from linking previous knowledge with new knowledge. Networking between individual knowledge types such as explicit and implicit knowledge is therefore essential. Networking between different levels, for example, individuals and groups and different areas of knowledge in the organisation, is also important.

Interconnect knowledge work processes and knowledge network architecture: knowledge creation and transfer (Hendrix & Johannsen, 2008: 6-7) can occur at different real, virtual or mental “places” in an organisation: Knowledge is also established through formal and informal networks. The fact that knowledge in the “modern” organisation occurs more and more in different time zones and

different physical places makes the application of modern information and communication technologies a critical success factor.

Interconnect knowledge work processes and facilitating conditions: for organisations (Laudon & Laudon, 2010: 152-154) to be able to develop optimal knowledge creation, transfer and facilitation, these activities must be cross-linked with one another. The processes must be synchronised with the environment and the corporate culture within which they occur. Organisations should furthermore develop and maintain conditions that allow and support efficient and effective knowledge facilitation. This will ensure efficient and effective knowledge creation and transfer. Although knowledge networks (refer to Figure 3) are described in the form of different layers in organisations, we have to take into account the macro-perspective of interdependence between the knowledge network itself and the surrounding organisational unit. In order to develop high-performance knowledge networking, these activities have to be synchronised by means of facilitating conditions. These conditions are divided into structural systems, for example, organisational structure and management systems, and cultural structures such as the corporate culture and organisational behaviour.

#### **GENERAL GUIDELINES FOR THE SUCCESSFUL IMPLEMENTATION OF KNOWLEDGE MANAGEMENT IN ORGANISATIONS IN DEVELOPING COUNTRIES**

McQuary (2009: 117) identifies the following broad objectives of implementation of knowledge management in organisations in developing countries: leverage the organisation's knowledge; create new knowledge and promote innovation; increase collaboration between employees; enhance the skills level of organisations; and, provide the organisation with a competitive advantage. To achieve these broad objectives, the 'knowledge' organisation in developing countries will have to continually ask, and provide answers to the following questions: Does our knowledge work? Does the organisation have a knowledge management-friendly organisational structure that facilitates the acquisition, sharing and evaluation of knowledge between workers? How do we create knowledge? How do we maintain and enhance knowledge? Does the organisation's knowledge infrastructure ensure that the necessary steps are taken to determine knowledge gaps, and develop, purchase share and evaluate knowledge? Has the organisation adopted specific tools to determine the difference between available and required knowledge? (Laudon & Laudon, 2010:156; Hendrix & Johannsen, 2008: 12).

By asking and providing answers to these questions, the organisation will be able to achieve its KM objectives as well as its overall objectives. Du Toit (2002: 22) and Hackett (2000: 5) are of the opinion that all KM programmes should be linked to the organisation's income statement. This includes factors such as cost reduction, revenue enhancement, financial performance and the management of risk associated with the marketplace. Hackett (2000: 5) states that, for knowledge management to be successful, value has to be created from the organisation's intangible assets. Achieving this objective requires the adoption of an integrated and systematic approach to identifying, managing and sharing the organisation's entire information and knowledge assets. Drawing on the work of Laudon & Laudon (2008: 152-154), Hendrix & Johannsen (2008: 9) and McQuary (2009: 117-118) the following serve as general implementation guidelines for organisations: senior management members have to buy in to the idea of managing knowledge; implementing KM activities is the responsibility of senior management; the organisation must be able to respond to structural and cultural changes; the knowledge and capabilities

of employees have to be understood and developed; and, track must be kept of all sources of information, especially if there is a need to go back to the source for more information. These guidelines are the point of departure for the successful implementation of KM.

## CONCLUSION

This paper asserts that, for organisations in developing countries to be successful in the era of the knowledge-based economy knowledge has to be acquired, developed, stored and shared in the organisation. Organisations in developing countries must also develop the ability to transform and share both tacit and explicit knowledge. It is clear that without effective management of KM, the harnessing of IC in an organisation will not be possible. In this regard, it was established that KM must form an integral part of the management philosophy of an organisation. Guidelines were provided on how to develop a KM strategy for organisations in developing countries. Furthermore, the application of KM as a strategic tool requires organisations to establish a framework for knowledge networking. Such a framework will ensure that knowledge is transferred effectively in the organisation.

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## MODELLING SUCCESSFUL INTELLIGENCE THEORY: TESTING THE SI WITH ENTREPRENEURSHIP CONSTRUCTS

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### ABSTRACT

Successful Intelligence (SI) received little attention, lacked emphasis and was almost ignored by entrepreneurial experts – especially with regard to how they associated the intelligence “g” factor with entrepreneurship constructs. Instead, researchers focused on emotional intelligence, cultural intelligence and social intelligence, but not on the construct of Successful Intelligence. Research shows that entrepreneurial intelligence had not received much attention from researchers because few of them considered intelligence as improvable. It has been demonstrated that intelligence was an important requirement for the success of an entrepreneur. On the one hand, several researchers focused on single-level theory testing but ignored multilevel level approach theory testing. Proponents advocate that future research trends should promote a shift from Micro to Meso – the conceptualisation and conducting of multilevel research to reduce possible ecological fallacy. Apparently, there is increasing interest in, and proliferation of, research that attempts to bridge the micro-macro gap via modelling phenomena that cut across multiple levels of analysis. The aim of this paper is to develop a model on the relationship between Successful Intelligence (SI), combined with Entrepreneurial Skills, Business Skills (general management) BS (gm), and whether these constructs have an impact on Venture Success Measures (VSM). The paper will verify claims made about SI contribution to the entrepreneurship field. A field survey will be conducted into the Small Medium Enterprise (SME)-targeted population with maximum variation of sectors containing sufficient and within-unit homogeneity. Clustering and hierarchical sample design will be employed. These three constructs already have validity evidence. The cross-level operator analysis (CLOP) or hierarchical linear modelling (HLM) is recommendable for application in multilevel theory modelling. The paper will adapt the CLOP to test the predicted link of SI with other constructs and the impact on VSM (growth and profit). Considering the nested nature of the constructs to be applied in multiple theoretical modelling, the researcher will use a mixed method approach when testing the model. Analysis variation (ANOVA) will be utilised in order to determine the relationship between these constructs. The paper could offer insights from the results of the paradigm shift from a single-level theoretical model to a multilevel theoretical model, and capture the nested complexity of real organisational life at an early stage. Although multilevel theory testing models are complex, researchers benefit from construct validity that is extended to emerging constructs after the analysis of multilevel theory models. Researchers could benefit from selecting an appropriate conceptual and intelligence measurement model, as it may further increase the likelihood of a novel discovery of a model that could improve entrepreneurial activity and venture success.

**Keywords:** Successful Intelligence; entrepreneurial skills; business skills; Venture Success Measures; Multilevel Theoretical Models

### INTRODUCTION

Over the past decade, research in entrepreneurship tended to focus on other types of intelligence; opportunity recognition; developing conceptual thinking about the entrepreneurial process; arguably insufficient attention being paid to the relationship between SI and, more in particular, skills in

entrepreneurship; what entrepreneurs and innovators do; and how they do it. The paper synthesizes the literature in an area that is crucial in terms of the advice given with regard to the high failure rate of business, due to a lack of entrepreneurial and business skills. It does so while building on the frameworks used in previous reviews and then identifying new research trends and approaches that are needed to promote an understanding of these constructs. On-going investment in skills development is not necessarily regarded as key to competitive survival. Hirschsohn (2008: 200) suggested that Small and Medium Enterprises (SME) in South Africa primarily respond to competitive forces and growth objectives, and investment in training where there is an immediate, recognisable need and demonstrable return. Nieman *et al.* (2003:21) states that contribution of entrepreneurs to the economy can be attributed their special quality and hence it is crucial assist more people in developing their own entrepreneurial ventures. Urban (2012) advocates that it is imperative for the entrepreneur to be knowledgeable about all the functional areas in business.

The intentionality of this article is to develop a model on the relationship between Successful Intelligence (SI), combined with (a) Entrepreneurial Skills (ES); (b) Business Skills (general management) (BS) (gm); and whether these constructs have an impact on Venture Success Measures (VSM). The study, via a literature review, will verify claims made by Sternberg's (2001-2004) theory of SI as to whether it can contribute to the entrepreneurship field and observe empirical evidence. Successful Intelligence (SI) received little attention, lacked emphasis and was almost ignored by entrepreneurial experts – especially with regard to the way in which they associated the intelligence “g” factor with entrepreneurship constructs. Instead, researchers focused on emotional intelligence, cultural intelligence and social intelligence, but not on the construct of Successful Intelligence. According to Baum *et al.* (2010:407), entrepreneurial intelligence had not received much attention from researchers because few of them considered intelligence as improvable. During the period 1994 to 2010, Timmons (1994), Barons & Shane (2005) and Baum *et al.* (2010) mentioned that intelligence was an important requirement for entrepreneurial success. On the one hand, several researchers focused on single-level theory testing but ignored multilevel level approach theory testing. Klein *et al.* (2000) advocated that future research trends should promote a shift from Micro to Meso – the conceptualisation and conducting of multilevel research to reduce possible ecological fallacy. Vogt (2011: 36-43) clearly states that there is increasing interest in, and proliferation of, research that attempts to bridge the micro-macro gap via modelling phenomena that cut across multiple levels of analysis.

## ENTREPRENEURSHIP

Ligthelm *et al.* (2003: 1) state that it is estimated that the failure rate of small, medium and micro enterprises is between 70% and 80%. For the purpose of this study, we will adapt the definition developed in Nieman *et al.* (2003: 9), which state: An entrepreneur is a person who sees an opportunity in the market, gathers resources, creates and grows a business venture to meet these needs. They bear the risk of the venture and are rewarded with profit if it succeeds. Baum *et al.* (2010) in their study empirical study suggests that specific intelligences should be included as predictors in studies of venture outcomes. Cramer & Gstraunthaler (2012: 66) state that their findings also contradict a wide body of literature that blames the failure of SMMEs primarily on the shortage of financial resources. Rather, the lack of business acumen seems to be at least as much of an obstacle as the limited access to capital. Given this definition,

entrepreneurs are required to identify an opportunity in the marketplace and grow the business. Wickham (1998), Van Vuuren (2004) and Barons (2005) agree that successful entrepreneurs are those people who identified and closed opportunities, capitalised on them, close the window and make sustainable profits. Baum *et al.* (2010) state that PI predicts new venture growth. According to Timmons (2003), entrepreneurial success is linked to venture growth. Therefore we can conclude that intelligence is a contributor to entrepreneur success as SI, where PI is a predictor of business growth.

### **GENERAL INTELLIGENCE**

Collins *et al.* (2006) define intelligence as the ability to think, reason and understand instead of doing things automatically or by instinct, and defines someone successful as a person who achieves what he or she intends to achieve. Baron *et al.* (2005: 64) state that intelligence is indeed an important ingredient of success, but it is not necessarily the kind of intelligence measured by standard IQ tests. Instead, it is intelligence that is useful in meeting the many challenges of life – challenges posed by an ever-changing world. Timmons (2003: 68) advocates that Entrepreneurial IQ is a unique combination of creativity, motivation, integrity, leadership, team-building, analytical ability and the ability to deal with ambiguity and adversity.

### **SUCCESSFUL INTELLIGENCE**

Sternberg (1999: 296-298) defines Successful Intelligence as the ability to achieve success in life in terms of one's personal standards, within one's socio-cultural context. According to Sternberg (1999), this theory of Successful Intelligence comprises three key variables, namely practical, analytical and creative intelligence. Therefore, Sternberg emphasises that intelligence largely pertains to one's own goals rather than to some set of standardised, prefabricated goals in which "one size fits all". Sternberg (2003) contends that success is attained via a balance of analytical, creative and practical abilities. Analytical abilities are used to analyse, evaluate, judge, compare and contrast. Creative abilities are used to create, invent, discover, explore and suppose. Timmons (2003: 69) states that the dynamic and subtle complexities pertaining to the entrepreneurial task, require their own special form of intelligence.

Analytical Intelligence (AI): Sternberg states that analytical intelligence is involved when the components of intelligence (which are specified by the componential sub-theory of the triarchic theory) are applied to analyse, evaluate, judge or compare and contrast.

Creative Intelligence (CI): According to the theory of Successful Intelligence, (creative) intelligence is particularly well measured by problems – assessing how well an individual can cope with relative novelty. Lumsdaine *et al.* (2003: 23) emphasise that creativity and effective problem-solving are indelibly linked with entrepreneurial activity in all forms. Bhide (1999: 62) stipulates that the creativity of successful entrepreneurs varies considerably. Some implement a radical idea and some show no originality. A capacity for execution also shows no originality and varies amongst entrepreneurs.

Practical Intelligence (PI): According to Sternberg's theory, practical intelligence involves individuals applying their abilities to the kind of problems that confront them in daily life – such as on the job or in the home. Practical intelligence involves applying the components of intelligence to experience, so as to (a) adapt to, (b) shape and (c) select environments. Adaptation is involved when one changes oneself to suit the environment. Shaping is involved when one changes the environment to suit oneself.

Practical Intelligence is the application of tacit knowledge within a personally important context; such as the entrepreneurship setting (Sternberg et al. 2000).

**Table 1: Definitions**

Definition	
Element 1: The ability to achieve success in life according to one's personal standards within one's socio-cultural context.	
Element 2: Types of processing skills contributing to Successful Intelligence.	Analytical Creative Practical (in the above order)
Element 3: The use of processing skills for Successful Intelligence.	Adaptation to environment Shaping of the environment Selection of environment
Element 4: Mechanisms for the utilisation of processing skills in Successful Intelligence.	Capitalisation on strength Correction of weakness Compensation for weakness

Source: Sternberg, 1999: 296-298

In 2003, Sternberg further states that entrepreneurs require attributes of Successful Intelligence in order to close opportunities successfully. According to Nieman *et al.* (2003: 19) highly successful entrepreneurs have sufficient knowledge and skill regarding their enterprise to ensure reasonable success and they depend on their own strength to keep core competency in their enterprise.

#### EPISTEMOLOGICAL APPROACH

This study will adopt a post-positivist thinking approach. The rationale for using this approach is that of establishing whether there is a relationship with a theory, combined with other constructs. Firstly, the link between the theories outside the entrepreneurship field, while combined constructs within the field of study will be tested if they have an impact on other variables, in order to have a pragmatic model developed for claiming knowledge. According to Creswell (2003), traditionally the post-positivist assumptions cited claims about what evidences knowledge. It describes post-positivism as the thinking after positivism; challenging the absolute truth and recognising that cannot be "positive" about claims of knowledge when studying the behaviour and actions of humans in within the context of the social sciences.

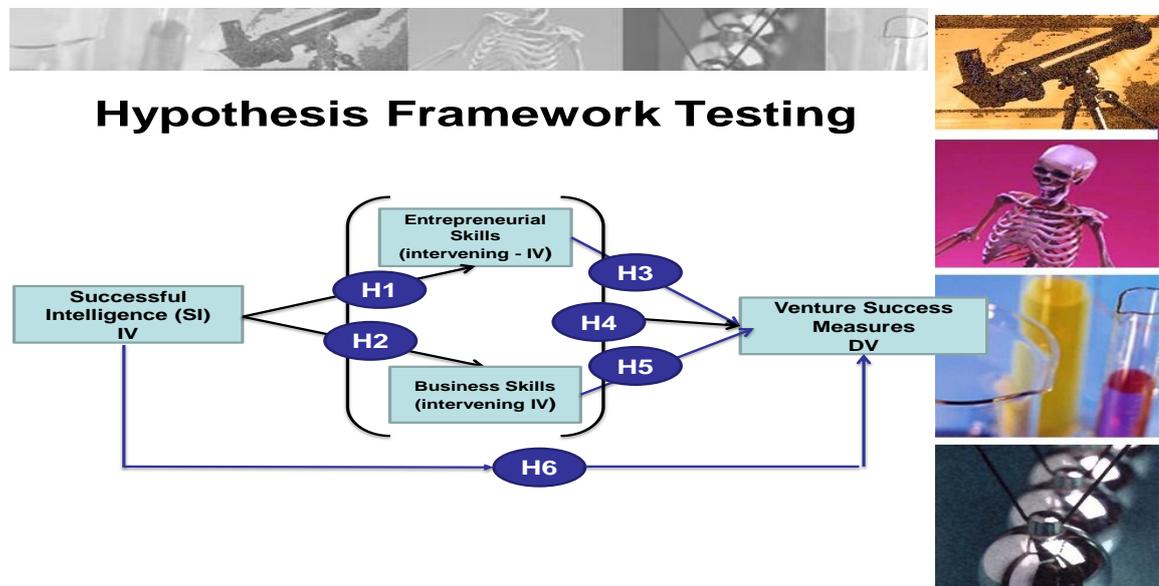
In the past, several researchers have focused on single-level theory testing, rather than on a multilevel theory testing approach. This could have resulted in a lack of universal ways of measuring venture success measures that are influenced by a special type of intelligence, business and entrepreneurship skills. Vogt (2011:3-7) illustrates the nature of the importance of multilevel theoretical models and analytical systems as an area that is gaining increased prominence in organisational literature. Perhaps this is what researchers need to start doing. Successful Intelligence received little attention from researchers in the field of entrepreneurship; instead they focused on emotional intelligence, cultural intelligence and social intelligence, but they might have failed to apply Successful Intelligence in the field of entrepreneurship. According to Baum et al. (2010:407), entrepreneurial intelligence did not receive much attention from researchers, because few of them considered intelligence to be improvable. Three questions are pertinent to this paper's argument: How does Successful Intelligence (SI) influence Venture Success Measures? Can Successful Intelligence (SI) be combined with entrepreneurship skills –

namely, entrepreneurial skills (ES) and business skills (general management) (BS) (gm) impacting on VSM? What kind of integrative framework model can be developed from testing the SI theory? A few limitations to the paper are worth mentioning: The quality and availability of multilevel data are the main limitations regarding the application of the multilevel theory testing model; the complexity of conducting a nested multilevel theory, testing research design, could be a limitation; as the quality of data depends on researcher interaction, this may pose a limitation with regard to this study; generalisation of the results on the tested sample audience; and, the timing of research when ventures were not performing so well over the past five years.

## LITERATURE REVIEW

The hypothesis to be tested is represented in a diagrammatic manner.

Figure 1: Hypothesis framework testing



## Hypotheses

- H1: SI has a link with entrepreneurial skills (ES).
- H2: SI has a link with business skills (general management) (BS) (gm).
- H3: ES has an impact on VSM.
- H4: ES and BS (gm) combined have an impact on VSM.
- H5: BS (gm) has an impact to VSM
- H6: SI has a link with VSM.

## Skills in Entrepreneurship

According to Chell (2013: 6-8), skills is an under-researched construct and the development of skills is a continuous process. In his review on entrepreneurial skills, Chell (2013: 8-11) states that (a) skills in entrepreneurship and innovation are likely to be specific to those activities and to aim to produce particular outcomes, and skills are not the same as ability; (b) skills produce proficiency in tasks whereas

ability is akin to more general traits; and (c) higher order skills enable the realisation of national goals. Sternberg (2006) reiterates that successful intelligence appears to provide a strong theoretical basis for augmented assessment of the skills needed for college success. Timmons (1994: 217-219), the expert in entrepreneurial processes, insists that entrepreneurial managers need a sound foundation in what are considered as traditional management skills. He furthermore states that entrepreneurs, who build substantial companies that grow, typically have a solid base of management skills and know-how stretching across a number of areas.

Mitchelmore & Rowley (2008: 106) advocate further work on the relationship between different entrepreneurial competencies – specifically, but not exclusively, to fuel understanding of the 1) relationship between entrepreneurial and managerial competences through different stages of business growth; 2) and the relationship between individual and organisational competencies.

Urban (2012: 157) investigated operations management skills to ascertain associations with Small Medium Micro Enterprise (SMME) sustainability. He further discovered that a crucial inter-relationship exists between operations management and other functional areas in SMMEs. (It is common knowledge that business growth requires sustainability.) In their entrepreneurial skills study on students, Chang & Rieple (2013: 236-237) found that confidence in certain skills declined significantly and that there should be different experiential stimulants at different stages of learning, with regular feedback and mentoring processes to check on students' progress.

As early as 1994 (two decades ago), Timmons (1994: 197), the expert on entrepreneurial processes, was amongst the first to say that intelligence and conceptual ability were great advantages for an entrepreneur. Then Timmons (2003:251) determined intelligence to be one of the core desirable entrepreneurial attributes and, furthermore, Timmons (2003: 69) stated that the dynamic and subtle complexities of the entrepreneurial task required their own special intelligence. Ten years later, Timmons and Spinelli (2003) argued that intelligence was a very valuable and an important asset for entrepreneurs, but by itself was woefully inadequate.

### **Successful Intelligence in Entrepreneurship**

Sternberg (1999, 2001, 2003, & 2004) firstly stated that the notion of Successful Intelligence went beyond mere psychological theory. During this period, Sternberg further iterated that psychologists now had ways to move beyond the conventional notions of intelligence and put successful intelligence into practice in other fields of study – this time in the field of entrepreneurship. Secondly, Sternberg (1999: 292-316) insisted that the conventional notions of intelligence were inadequate and incomplete. Thirdly, there is evidence from other researchers substantiating Sternberg's views. In 2005, Barons and Shane (2005: 64-65) noted that growing evidence suggested that social intelligence too constituted a key ingredient in entrepreneurial success and that, without it, entrepreneurs could experience major problems in obtaining financial and human resources to convert their dreams into reality.

Baum *et al.* (2010: 406-407) stated that, Successful Intelligence, comprised practical, analytical and creative intelligence and that, together with entrepreneurial self-efficacy, it enabled and motivated successful entrepreneurial behaviour. Fourthly, Gardner, another expert in intelligence psychology, holds the view that intelligence is not one-dimensional and Sternberg is of the opinion that the conventional notion of intelligence is inadequate. This study argues that early interest about the intelligence

phenomena in entrepreneurship was narrowly focused and perhaps not so much an entrepreneurial domain, but rather the domain of human science. During the period 1994 to 2003, Timmons, Barons and Shane, as well as Baum and Shane mentioned that it was a key requirement to entrepreneurial success, but it has never been taken any further. Baum and Shane further observed that entrepreneurial intelligence had not received much attention.

#### **OTHER SPECIAL TYPE OF INTELLIGENCE IN ENTREPRENEURSHIP**

A comparative study on determining interplay between different types of intelligence, Hamati (2011: 71) identify the relationship between successful intelligence (analytical, practical, and creative), emotional intelligence and success of new venture creation did not lead to any significant findings of predicting the performance and success of ventures, instead the results suggest a possible moderation effect of emotional intelligence on the relationship between analytical, practical and creative intelligence. In their study of emotional intelligence, Zampekatis *et al.* (2009) show that creativity is not directly associated with the viability of the business idea, creativity does, however, strengthen the creative opportunity search strategies and the use of opportunity identification strategies based on knowledge acquisition. Sternberg and Grigorenko (2006) insist that Intelligence cannot be understood outside its cultural context. We believe, therefore, that cultural views of intelligence help us understand intelligence in a broad, not narrow way.

#### **RELATIONSHIP OF THE CONSTRUCTS WITH VENTURE GROWTH**

Unger *et al.* (2009: 33) found that the overall scale of knowledge was significantly related to business growth. The three predictor variables namely deliberate practice; education; and cognitive ability showed significant relationships with both business growth and entrepreneurial knowledge. On the one hand Fatoki & Chindoga (2011: 165) state that there is an evident skills mismatch between the skills that graduate entrepreneurs develop in higher education and the skills they need in order to survive in the business world. In his theory, Sternberg (1999) states that practical intelligence involves tacit knowledge. The findings of Sami *et al.* (2009: 537) indicate that a relationship between knowledge and new venture growth does, in fact, exist. Baum *et al.* (2010: 406-407) are of the opinion that Successful Intelligence comprises practical, analytical and creative intelligence and that, together with entrepreneurial self-efficacy, it enables and motivates successful entrepreneurial behaviour.

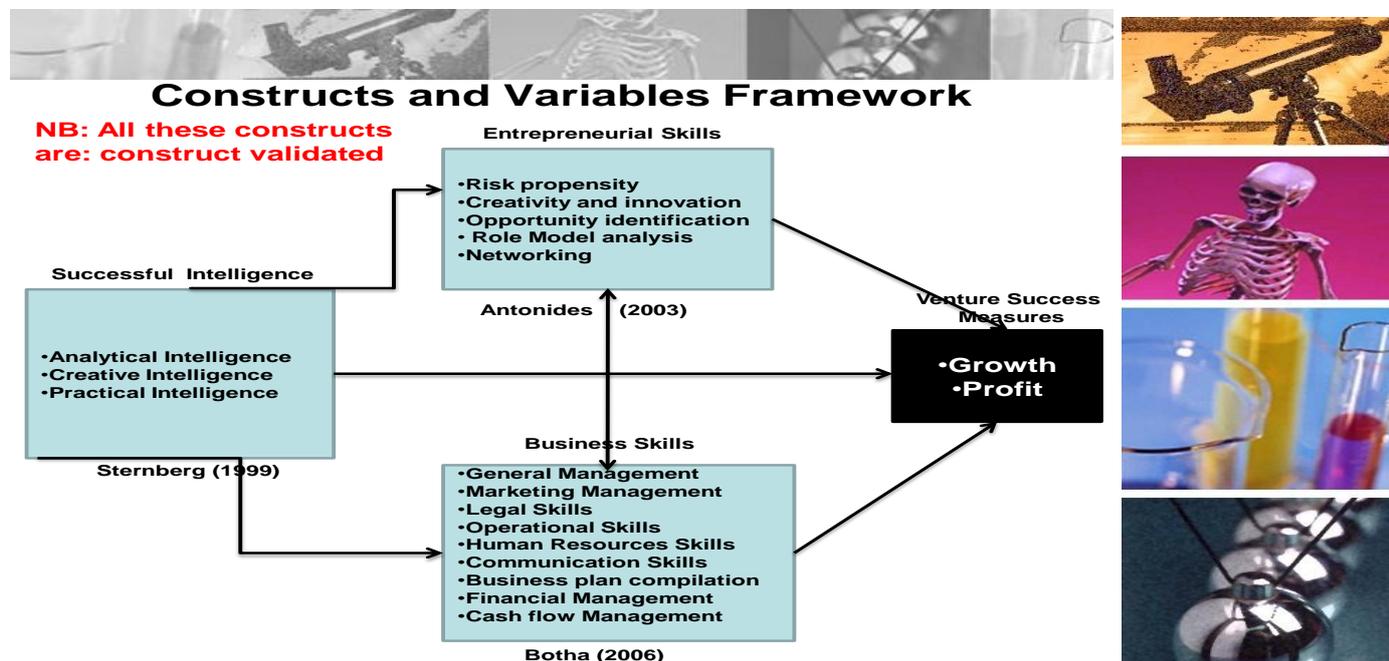
In their training entrepreneurial performance equation model, Van Vuuren & Botha (2006) insist that entrepreneurial skills and business skills form an ingredient of the training model and constitute an important developmental requirement. According to Nieman (1998: 8), the largest percentage of small businesses fail during the first two years, due to cash flow problems that arise because they could not manage growth. The success, growth and performance of any business are the product of a complex mix of variables that are both internal and external to the business (Barney 1991). Gomezelj *et al.* (2008: 1183-1184) state that successful entrepreneurs constantly develop their competence and acquire specific knowledge in order to survive and create new entrepreneurial opportunities in various industries. Baum *et al.* (2010) argue that the Successful Intelligence of high venture growth is linked to venture growth. Arguably, the SI and skills constructs that are presented in the aims of this study, are all related to entrepreneurial behaviour, successful intelligence and skills, and could have an impact on venture

success measures (growth). Fundamentally, venture success is based on having and utilising entrepreneurial and business skills. Baum *et al.* (2010) state that Practical Intelligence (PI) predicts new venture growth. According to Timmons (1994, 2003), entrepreneurial success is linked to venture growth – therefore we can conclude that intelligence is a contributor to entrepreneurial success.

**THE LINK BETWEEN THE CONSTRUCTS**

This diagram depicts the nature of the cross-level relationship to be investigated in this study. Klein and Kozlowski (2000:218-219) describe cross-level models as the relationship among variables at different levels of analysis.

Figure 2: Lining constructs to variables framework



They further emphasise that *cross-level moderator models* suggest that variables at two different levels of analysis interact to predict an outcome at the lower level of analysis. In this study, SI theory is a predictor variable that will be tested as to whether there is indeed a link with the intervening (mediating) variables, ES and BS (gm), and whether they have an impact on VSM (growth and profit). Chell (2013) is of the opinion that skills associated with the entrepreneurial process are primarily theoretical constructs and have been associated with the dominant entrepreneurship theory of opportunity recognition theory. The theory of successful intelligence appears to provide a strong theoretical basis for augmented assessment of the skills needed for college success (Sternberg, 2006).

**RESEARCH DESIGN AND APPROACH**

For the purpose of this paper we explore, via the literature review method, the relationships between the constructs. In going forward with the study, the researcher intends to use a mixed method

that will encompass a field survey and a qualitative method in two phases. Firstly, the survey will be conducted into the Small Medium Enterprise (SME)-targeted population with maximum variation of sectors containing sufficient and within-unit homogeneity. Secondly, clustering and hierarchical sample design will be used. These three constructs already have validity evidence. Qualitative research provides a rich descriptive foundation for theorising about the process mechanisms that undergird emergence outcomes. However, quantitative research is needed to advance theoretical precision, verification and extension. Kozlowski *et al.* (2013) insists that empirical research, designed to study these phenomena, can be conducted using either qualitative or quantitative methods.

Bliese (2000), Hoffman *et al.* (2000) and James & Williams (2000) recommend cross-level operator analysis (CLOP) or hierarchical linear modelling (HLM) to be applied in multilevel theory modelling. We will adapt the use of CLOP to test the predicted link of SI with other constructs and its impact on VSM (growth and profit). Considering the nested nature of the constructs to be applied in multiple theoretical modelling, the researcher will use a mixed method approach when testing the model. Analysis variation (ANOVA) will be utilised in order to determine the relationship between these constructs. The multilevel paradigm involves multilevel theory and statistical analysis, which specify the expected direct effects of variables on each other within any one level, and which also specify cross-level interaction effects between variables located at different levels (Lin & Fan, 1997).

Klein & Kozlowski (2000) hold that multilevel constructs, within a given realm or nomological network, may be combined in a variety of different ways to create models that differ in structure and focus. Jin *et al.* (2008: 1401) explain how hierarchical structure modelling and latent growth modelling are effective multilevel analysis techniques in the social sciences, due to their advantages in the integration of social system research. Kozlowski *et al.* (2013) state that the quantitative multilevel perspective on organisational science has actually advanced, but that it is researching only half of the organisational system.

#### **SUMMARY OF INSIGHTS: FINDINGS/RESULTS**

The results emerging from the study, in general terms, contribute to supporting the most common statements presented in the literature review. SI has a relationship with venture growth, as PI (a variable of SI) is a predictor of venture growth and successful intelligence of a high venture growth link to venture growth (Baum *et al.*, 2010). Intelligence is an important requirement for the success of an entrepreneur (Timmons, 1994), Barons (2005) and Baum *et al.* (2010). Sami and Unger indicated the existence of a relationship between knowledge and new venture growth. Van Vuuren & Botha (2006) insist that entrepreneurial skills and business skills form an ingredient of the training model and constitute an important developmental requirement. As indicated by Chell (2013), skills in entrepreneurship are associated with the dominant entrepreneurship theory of opportunity recognition theory – this time, in this study, the researcher will test successful intelligence nested with other entrepreneurial constructs via an empirical investigation.

The results presented show that the SI provides a strong theoretical basis for augmented assessment of the skills (Sternberg, 2006). Nieman et al. (2003: 19) highly successful entrepreneurs have sufficient knowledge and skill on the one hand SI use capitalizes on strength and correct weakness in order to adapt and success in an environment. Evidence contained in this study supports the notion that SI constitutes an important phenomenon to be researched in the field of entrepreneurship. We further add to support our argument that entrepreneurs require not merely an ordinary type of intelligence, but a special kind of intelligence that is not one-dimensional (Sternberg (1994-2004)). The advocacy of encouraging researchers to apply MLM is also supported, as Klein *et al.* (2000) insist that future research trends should promote a shift from Micro to Meso – the conceptualisation and conducting of multilevel research to reduce possible ecological fallacy.

### CONCLUSION AND RECOMMENDATIONS

All our hypotheses stated above is supported by literature – arguably in that there is a relationship with the predictor variable (SI), as well as with the other intervening variables (skills), and Sternberg (2006) strongly supports to say intelligence appears to provide a strong theoretical basis for augmented assessment of the skills needed for college success. We conclude that intelligence has moved beyond being one-dimensional and that it could enable successful entrepreneurial behaviour – a view that is supported by other researchers as well. Therefore, there is an association between SI and skills. Arguably, given the evidence from literature in this study, we can conclude that researchers agree that intelligence is an important phenomenon and that entrepreneurship researchers should study, improve upon and apply, as has been suggested.

If the researcher uses a multilevel research design approach in a cross-level relationship between the constructs argued here, very useful insights will be the possible outcome. In his micro to macro handbook, Vogt (2011) supports use of modelling phenomena that cut across multiple levels of analysis in research. This research will select the SI predictor that will be linked with entrepreneurship variables skills at two different levels of analysis to interact to predict an outcome at the lower level of analysis (Klein & Kozlowski (2000). Knowledge is linked to the growth of ventures and the knowledge base is constituted by ES and BS (gm) – recent reviews of skills by Chell (2013) support this. The fact that entrepreneurial PI interacts with venture growth goals to predict new venture growth is also supported. Beyond entrepreneurial graduate schooling there are other skills that entrepreneurs may require (Fatoki & Chindoga (2011). Arguably SI can be a stimulant of skills (as a predictor variable) similar to training (as part of a training model) Van Vuuren & Botha (2006) before certain skills declined significantly (Chang & Rieple, 2013). It can be recommended that the researcher proceeds to the next to practically test the hypothesis in the field in order to prove the findings empirically and develop and test the model.

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## MINING AND COMMUNITY SHARED VALUE (CSV) IN ZIMBABWE: TOWARDS WEALTH SHARING

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### ABSTRACT

In recent years, and following the continual exploitation of minerals, mining companies have been scrutinized as a major cause of social, environmental, and economic problems faced mainly by communities at the margins. In this regard, mining companies are widely perceived to be prospering at the expense of adjacent communities, who are the primary recipients of the externalities, mainly negative, from mining operations. Existing models fail to adequately ensure that mining firms internalize their externalities. The concept of shared value as postulated by Porter and Kramer in the January 2011 issue of Harvard Business Review as a way of fixing capitalism and bringing in a new wave of business innovation leaves a gap in wealth sharing between and resource owners. This paper broadly aimed at assessing the feasibility of community shared value model of wealth sharing in the context of the Zimbabwean mining industry with the central objective of helping business leaders advance their knowledge on the applicability and practice of this model. In order to satisfy the stated objectives, the study employed Meta ethnography, synthesizing qualitative studies whilst preserving their uniqueness, as the central methodology complimented by archival data and field research. This paper argues that if shared value projects are to be the primary way local people directly benefit from mine development, then the relationship between the value of those projects and the wealth taken from the location should be considered. In this respect, community beneficiation should be well defined and differentiated from company-oriented projects which form the premise of corporate shared value. Resource owners should participate in planning, implementing, monitoring and evaluation as well as dividends sharing of mining projects as advocated for by the Community Shared Value Model. It is also recommended that the adoption of the CSV Model will ensure a sustainable and harmonious coexistence between the predominantly capitalistic mining concerns and the resource owners and solve part of the current impasse to community development.

**Keywords:** Community shared value; wealth sharing; sustainable development; mining; community development

### INTRODUCTION

“The country is starving, civil servants are going on strike, hospitals have no medicine, agriculture has no chemicals and schools have no books. We cannot continue to be playing around like you guys are doing...Are our diamonds meant to benefit certain individuals or it is intended to benefit the nation?” (The late Edward Chindori-Chininga, Former Chair, Mines and Energy Committee to a government witness).

In recent years following continual exploitation and expropriation of minerals, mining companies have been scrutinized as a major cause of social, environmental, and economic problems (Ghoshal, 2005; Elkington, 2006; Picou & Rubach, 2006). Mining companies are widely perceived to be prospering at the expense of the broader community. This however does not mean that mining companies and government ignore their responsibility to give back and take care of the communities they are operating in. This truism

has led governments to come up with strategies that empower communities in decision making and beneficiation from the exploitation of resources within their communities and Zimbabwe is no exception to this.

In trying to create wealth sharing between mining companies and communities the Zimbabwean government introduced the Indigenization and Economic Empowerment Programme on the 25<sup>th</sup> March 2011 through publishing General Notice 114. This programme pursues broadening of economic base by involving the bulk indigenous Zimbabweans in the conventional economy (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). To achieve this Government has prearranged direct impartial participation by all relevant stakeholders and communities within which businesses are exploiting natural resources on commercial basis, through Community Share Ownership Schemes/Trusts. The programme's focal point is on establishment of Community Share Ownership Trusts Schemes (CSOTS) which hold shares in business that are not owned by indigenous communities wholly. The scheming of the schemes is that communities will profit from the extraction of natural resources within their areas. The expectation is that with the implementation of CSOTS initiative there will be dynamic transformation of socio-economic circumstances of the majority of rural communities however, issues of wealth sharing remains blurred and fractional. This paper therefore seeks to give a detailed examination of the elements of COTS, its structure, relevance and applicability as a tool for wealth sharing in the case of extractive industries of Zimbabwe.

Current and previous developmental and wealth sharing initiatives' failure in Zimbabwean remote rural communities has been attributed to "top-down" developmental approaches adopted during colonial period and after independence period. Models of benefits sharing are distanced from the needs of people. Scholars attribute this divergence in models and needs of the people to the exclusionary nature of administration and the adoption of philanthropy as a way of giving back to indigenous communities by mining companies (Hodge, 1992; Kramer & Porter, 2011). This describes why conventional wealth sharing models adopted in sub-Saharan Africa between mining companies and communities have failed to act as accurate vehicles for rural transformation (Spence & Schmidpeter, 2003; Warner & Sullivan, 2004).

Poorly designed top down developmental approaches has resulted in people not benefitting from the exploitation of minerals within their locale and consequently over rely on donor aids (Spence & Schmidpeter, 2003; Warner & Sullivan, 2004). In instances where donors withdraw from funding livelihood security, communities tend to overexploit natural resources at their disposal ultimately leading to stagnant rural economy characterized by adjunct poverty (Ghoshal, 2005; Elkington, 2006; Picou & Rubach, 2006). Of evidence are mismatches of needs and objectives between the donors and the recipients and hence results in lack of ownership from the community members of the projects ultimately leading to unsustainable development once donors withdraw. It is justifiable then to conclude that top-down developmental approaches adopted by donors and governments leads to rural stagnation. This study seeks to analyse how the CSOTS can act as a tool for rural transformation in Zimbabwe and recommend a new model for preventing escape of wealth through mining.

With reference to Section 14(b)(1) of SI 21/2010 community is defined as residents within a specific Rural District Council established in terms of the Rural District Councils Act [Chapter 29: 13] in which the business is being run. Consequently, this means that there can only be Community Share Ownership Trust within a geographic locale. This however disadvantages communities that doesn't have a strong mineral resource as well as inaccessible communities as experience have shown that business

tend to concentrate in accessible areas. This therefore presents a challenge to equitable access to resources and development. An analysis of the CSOTS proves that wealth sharing and development is locality defined. However for purposes of non-discriminatory and unbiased development of all Zimbabwean citizens this tool will perform best with some recommendations of this paper.

For development finance to work, financial institutions should not be far removed from the people they serve (Spence & Schmidpeter, 2003; Warner & Sullivan, 2004). They need to meet the demands of the people by providing development finances based on the need of the communities. In the same vein, the impact of having financial institutions that are far from the people is worsened by the fact that financial institutions which are foreign owned may decide not to lend to rural communities. The impact can be huge given that these financial institutions affect rural transformation in a big way, since they can loan to mining, farming, fishing and other projects which transform the rural areas (Ghoshal, 2005; Elkington, 2006; Picou & Rubach, 2006). Therefore, there is continual need for financial institutions to be flexible and aware to the plight of rural communities. This also applies to CSOTS, for it to be successful as a rural transformation tool; there is need for close consultation with the recipients, rural dwellers. It has to be locally generated and managed.

CSOTS as tool for rural transformation brings together leaders from companies, community and government to build a strong and engaged national community around wealth. The paper therefore will provide opportunities for thought leadership, interactive discussion, learning, and research on CSOTS as a promising approach for simultaneously sharing wealth, creating business value and addressing complex social problems. The main aim of the paper is to help policy makers and business leaders advance the knowledge and practice of community shared ownership trust and to increase and support the adoption of and engagement with shared ownership strategies by organizations around the Zimbabwean community.

Following the assertion of World Bank (1992) that recovery of African mining sector calls for paradigm shift from prioritizing political and economic control over natural resources to maximising long term sustainable development through wealth retaining, this paper seeks to recommend community shared value model for optimising wealth sharing between mining companies and communities in the Zimbabwean community. What we are proposing is a Community Shred Value model which facilitates and regulates wealth sharing between mining companies and local communities.

## **ASSESSING THE CURRENT TOOL FOR WEALTH SHARING IN ZIMBABWE CSOT**

The theoretical thinking behind the establishment of Community Share Ownership Trusts is development and adoption of a development model that ensure that any development in communities is sustainable and independent from donor dependency. The main thrust of Community Share Ownership Trust (CSOT) is to ensure that communities benefit from the exploitation of natural resources by companies operating in these communities (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). This is based on the fact that mineral resources are finite and in most cases companies leave ghost towns once they are done with the extraction of the resource. This has left the local communities with a burden due to the effects of environmental degradation, collapse of local economy leading to unemployment and deterioration of collapse of social infrastructure. Hence the abstract framework of the CSOT requires that communities develop or create secondary economies that will sustain the community post mineral

extraction. This will entail that communities invest in other industries apart from the one they are getting monies from for example, the community may use money from mining operating company and invest in Agriculture, Tourism, Manufacturing and other areas of their interests. This will be informed by the needs analysis concerning the affected community. This is aimed at ensuring that development is sustainable as local communities become less reliant on the mining activities for example. The Royal Bafokeng community in South Africa was being used as the model that CSOT should follow as part of transforming communities from donor depends towards the more sustainable community development in Zimbabwe (Ghoshal, 2005; Elkington, 2006; Picou & Rubach, 2006).

Clearly the concept of Zimbabwe CSOTs echo with best practices. The international Council on Mining and Metals Community Development toolkit suggests that mining firms must localize procurement and encourage small business and in so doing build the capacity of the communities to survive long after the mining cease (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). Such objectives include building and maintaining roads, dams, clinics, schools, dip tanks, and promoting self-help, empowerment and skills development projects. It is justifiable then to say that through Community Share Ownership Trust, communities are bound to regain confidence in them, become self-reliant and wean from the dependency on donor community for social, economic and infrastructure development and a general improvement in their livelihood.

The CSOTs are chaired by Chiefs and contain rural district council officials, key stakeholders within a community including, women, the youth, the disabled and other previously marginalized groups. Of the 59 community trusts already registered, more than 15 have been launched singularly or combined at a provincial level by the Head of State and Government President Robert Gabriel Mugabe. Some of the launches have taken place in Mashonaland West, Manicaland, Midlands, Masvingo, Matabeleland South and North as well as Mashonaland Central. Qualifying businesses in these provinces have disposed 10 percent shareholding to the community trusts and also donated seed capital to enable the trusts to undertake social development projects. Following the launch of community share ownership trusts, the Ministry of Youth Development, Indigenisation and Empowerment has been arranging capacity-building and training seminars for the trustees to train and develop their skills and knowledge in administration, investment, project development and implementation and corporate governance centred on management of trust institutions by the boards.

The key objective of the Community Share Ownership Schemes is to ensure that communities benefit from the exploitation of natural resources in their immediate environments (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). Through this vehicle, companies are obliged by law to avail at least 10 percent of shares out of the total value of the company to a community represented by a Trust. The Charter seeks to: promote ethical business conduct; promote equitable access to the wealth of the economy by indigenous Zimbabweans; enhance employee and management stakeholder ship in business; promote the use of local raw materials and value addition in economic activities; promote local research and development; promote technology transfer; utilize indigenous knowledge systems; nurture and develop a skills base for the economic empowerment of indigenous Zimbabweans; and provide a generic framework for the development of sector-specific

Community Share Ownership Trusts which is predicted to economically empower the indigenous majority in rural Zimbabwe however is not as legal entities as it should be. While the Act does not in itself

effectively outline the vehicles through which the majority indigenous Zimbabweans will acquire the mandated 51 percent equity, it does in section 21 empower the Minister responsible for indigenization, being the Minister of Youth Development, Indigenization and Empowerment, to make regulations which can facilitate the distribution of the 51 percent indigenous quota.

### Challenges

Wherever such a massive initiative like the indigenization and economic empowerment programme is implemented, the authorities should be aware of any potential challenges and hindrances that may derail progress. The key challenge facing the indigenization and economic empowerment programme is failure by financial institutions to embrace the programme and finance the requirements of local investors. Without a transformed banking and financial services sector, the plan to shift the levers of economic power in favour of indigenous people will remain a delusion. Thus, the whole nation should be rallied to demand that money generated locally should be primarily used for local development.

The second key challenge the nation faces with regards the indigenization and economic empowerment programme is to liquidity the gains made through major transactions like the Zimplats and Mimosa deals. While through some shrewd and tactical maneuvering Minister Kasukuwere has managed to elicit huge concessions from big companies in terms of majority share transfer, the majority of Zimbabweans are crying for immediate tangible benefits from those mega transactions (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). Therefore, there is need to rally national expertise and devise financial strategies that ensure the close to US\$4 billion worth of shares are converted to real cash that will be used to finance economic projects for the benefit of ordinary Zimbabweans.

The third key challenge is the misconception and lies spread by detractors that indigenization is meant to benefit the elites connected to the government. Facts on the ground with communities in Zvishavane benefiting from CSOTs have proved beyond doubt that the programme is broad-based and benefit ordinary Zimbabweans. Add to these achievements thousands of youths who have benefited from youth funds then the elitism allegation is dead and buried. After failing to convince Zimbabweans that indigenisation is an elitist project, critics have tried to argue that the CSOT programme is illegal and seed money availed by mining companies is a result of extortion. Thus, the entire communities of Zvishavane and thousands of youths, among others, have been reduced to criminals who illegally benefited from the empowerment programme. This argument reflects a failed understanding of the law and a desperate and futile attempt to rubbish the indigenisation programme to stifle people empowerment.

The other key and fundamental challenge that the nation faces is that people are failing to understand that the empowerment programme is not an event but a process. Empowerment is a whole package that includes awareness and opening up opportunities, training and financing. Thus, receipt of any one of these is a major form of empowerment. There is a wrong and mistaken belief that empowerment is only about receipt of money. The misconception that the indigenization and economic empowerment programme is only for the youth is another challenge preventing full and successful implementation of the program as a rural transformation tool (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). The programme benefit women, men, the youth, the disabled, war veterans, collaborators, ex-detainees, Christians and traditionalists etc. But, the bias towards the youth stems from the fact that each and every household is somehow connected to a youthful person who if responsible will benefit the entire

household when empowered. With youthfulness being a slippery phase of life, there is need to anchor peoples' lives on a firm foundation. Thus, economically empowering the youth will set them up for a future of prosperity.

All businesses that are companies are committed to good corporate governance, which incorporates the following elements: regular Board meetings, representation of shareholders' interests on the Board, appointment of appropriately qualified persons as members of the Board, the setting by the Board of policies and processes to govern its operations, the compliance by the Board with best business and other practices, and regular reporting by the Board to its shareholders; all businesses must encourage employee/management participation in decision-making through such expedients as employee share ownership schemes or trusts and/or management buy-ins (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011).

There is inadequate legal backing for CSOT as there is no legal requirement for mining companies to dispose shares to communities. In the absence of such, the CSOTs will only be established at the discretion of the Minister of Youth Development, Indigenization and Empowerment. Lack of implementation clarity has been highlighted. Some companies instead of selling shares, are said to have 'surrendered' thus creating confusion as to what government means when it pronounces that 'companies are complying (Sachikonye, 2009; Katsaura, 2010; Mtisi *et al.*, 2011). Lack of community involvement is another finding. The top down and paternalistic implementation has been critiqued. The selected board of the trusts complain of no sense of ownership of the Trust in the community as the minister has sweeping powers over the establishment and management of the community trusts. Additionally there is lack of community representation as structures of the trusts are dominated by adult males, further marginalizing women, youth and the disabled. These above mentioned challenges bring out the fact that COTS is crippled with more cons than pros therefore we are proposing a new model to augment COTS as a tool for wealth sharing between mining companies and indigenous communities.

### **Unpacking Shared Value**

Shared value as a concept focuses on the link between economic and societal progress in releasing power for potential global growth. According to Porter & Kramer (2011), shared value is neither corporate social responsibility, philanthropy nor sustainability but, a new way of attaining economic success by both the mining companies and communities. For the purposes of this study shared value calls for the communities near mining operations to the sharing of mining benefits. This means that mining companies work with the community to ensure extraction of minerals is a catalyst for sustainable economic empowerment that can lead to improved services in the local communities and beyond (Porter & Kramer, 2011; Perrini & Vurro, 2010; Schmidheiny, 1992).

The concept of community shared value resets the boundaries of capitalism (Porter & Kramer, 2011). Through efficient connection between companies' success with communal improvement, CSV creates many ways of addressing community needs, transparency, accountability and ownership which help companies in gaining trust from communities and government and expansion of markets. What we are proposing as a model for harmonizing mining and communities a mentioned earlier on is a Community Shared Value model which centres around six principles which are structure, strategy, system,

style, staff, staff and skills. These six principles are to be dependent on each other. The model deals with social exclusion at the crossroads of gender, ethnicity and class. The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and reinforce each other mutually (Ghoshal, 2005; Elkington, 2006; Picou & Rubach, 2006). So, the model can be used to help prevent wealth escape in the Zimbabwean mining industry in identifying what needs to be realigned to improve performance, or to maintain alignment and performance.

#### CONTEXTUALISING CSV IN THE ZIMBABWEAN COMMUNITY

**Strategy:** the plan devised to maintain and build competitive advantage over the competition. Here with the help of the model all active stakeholders indigenous communities included will agree on how to curb wealth escape which starts from problem analysis, objective analysis, planning matrix and plan of operations (Porter & Kramer, 2011; Perrini & Vurro, 2010; Schmidheiny, 1992). Within the strategy the monitoring and evaluation plan is to be come up with and agreed upon by all stakeholders.

**Structure:** it is the way the coalition is structured and who reports to whom (Spence & Schmidpeter, 2003; Warner & Sullivan, 2004). In this case of mining companies and indigenous communities, the mining companies are to be accountable to the communities and communities accountable to the mining companies and the government comes in as a facilitator of wealth sharing between these two major stakeholders.

**Systems:** the daily activities and procedures that staff members engage in to get the job done (Spence & Schmidpeter, 2003; Warner & Sullivan, 2004). With the CSOTS the mining companies decided what to do so as to get the job done, but we are proposing that community should have decision making powers as well on how minerals should be extracted from their land as this is associated with various impacts (see Msweli *et al.*, 2013; Mandudzo & Wushe, upcoming)

**Shared Value:** called "superordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic. Conflict is frequently exacerbated by stakeholder misperceptions (Spence & Schmidpeter, 2003; Warner & Sullivan, 2004; Chambers, 2006) therefore, with the interdependence of these six principle misconceptions and perceptions will be clarified leaving less room for suspicion and lack of trust.

**Style:** is the style of leadership adopted (Vurro *et al.*, 2009; Weisband, 2009). Considering that we propose that the formerly passive recipients (communities) are incorporated into decision making boards of mining companies there is the likelihood of a transparent style of management of extraction activities and wealth sharing.

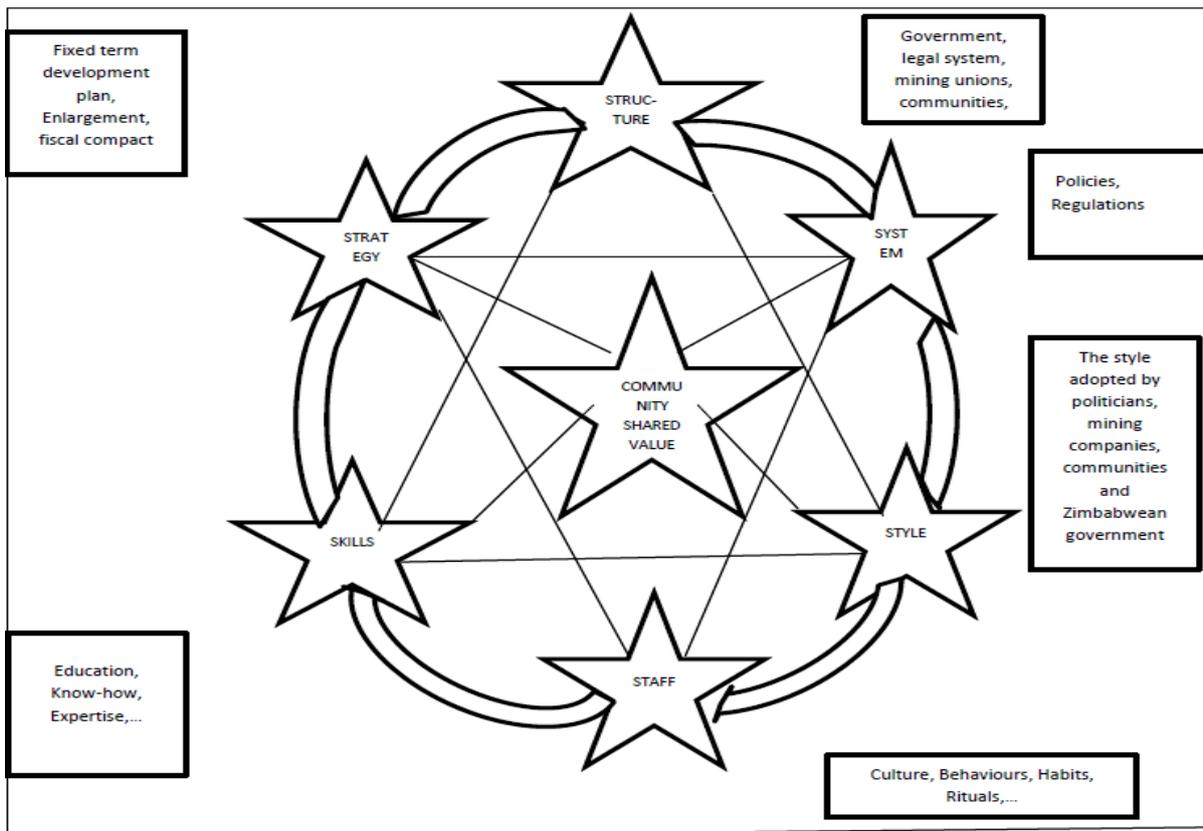
**Staff:** the employees and their general capabilities.

**Skills:** the actual skills and competencies of the employees working for the company.

With the model in place all necessary types of change will be made possible in the relationship between mining companies and communities. There is a clear way of restructuring, new processes, merging of companies and local communities, new systems, change of leadership, and so on. The model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration. The strategy is fed by national development plans which feed into local partnerships between mining companies and local communities. What we aspire for is formation of partnerships that are linked and guided by national development plans.

Once partnership and management of exploitation activities are linked with national developmental plans this means that the development benefits country wide communities and won't be geographic defined which was mentioned as one of weaknesses of CSOT. The CSV model to help analyse the current situation of wealth escape from communities by mining companies, a proposed future situation and to identify gaps and inconsistencies between the present and future (Ghoshal, 2005; Elkington, 2006; Picou & Rubach, 2006). It is then a question of adjusting and tuning the elements of the CSV model to ensure that Zimbabwean extractive industries work effectively and at the same time sharing wealth with the communities.

Figure 1: Community Shared Value in Zimbabwe



Source: adopted and modified from Spence & Schmidpeter, 2003; Warner & Sullivan, 2004.

Communities' needs are huge arguably; they are the greatest unmet needs in the global economy (Schmidheiny, 1992; Perrini & Vurro, 2010; Porter & Kramer, 2011). Businesses have spent decades learning how to explain and manufacture demand while missing the most important demand of all that is community needs majority of companies focus on the goodness of their products whilst ignoring the demands of the societies they are operating in. however with CSV it becomes a prerequisite to look and cater for community needs right from planning stages as the community is represented in decision making boards.

## CONCLUSIONS AND RECOMMENDATIONS

The indigenization and economic empowerment programme is a path-breaking policy that had potential of benefitting Zimbabweans in their multitudes. The government hoped to bring total social, political and economic emancipation to Zimbabweans. However the interaction of mining activities with local communities had drastically changed therefore requires new models of managing the interaction are required as well. Exploration of minerals progressively occurs in remote areas with little or no development and devoid of adequate service delivery. So the consequence is the potential for mining companies wielding much power in the local context leaving first communities with no power and hence becoming passive recipients (Vurro *et al.*, 2009; Weisband, 2009). However, with the implementation of the CSV model wealth sharing between communities and companies is facilitated. The inherent tensions between communities and extractive industry on governance of minerals, wealth sharing and other benefits have been acknowledged as being caused by the unclear relationship between mining companies and communities. Therefore we are proposing use of CSV model for adequate compensation and contribution to sustainable development.

Another recommendation is that the deepening of advocacy in the extractive sector governance through workshops and dissemination of information, policing the formation of CSOTs and building local level interests and further to examine international best practices on community development and natural resource governance. In order to influence policy and legal processes, the programme targets legislators and other decision makers such as local authorities to pass laws and policies that ensure community benefit from their natural resources. Our paper proposes a model that could help mining companies and the investment community to better understand wealth escape and wealth sharing, and therefore more inclusive stakeholder-oriented governance systems, could positively affect mining companies performance. Companies can refer to that to better assess, reframe and improve their wealth sharing policies, in terms of their efficiency and effectiveness, by considering the mechanisms that could lead to enhanced performance (Schmidheiny, 1992; Perrini & Vurro, 2010; Porter & Kramer, 2011). The mining community can draw on this model to increase their understanding of corporate initiatives and efforts, in order to better evaluate the real quality of management and the sustainability of the value creation processes developed by the companies they work with. Furthermore, our model could also assist a more balanced interaction between firms and the community. At the moment, this field suffers from a knowledge gap

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# THE ROLE OF NATURAL RESOURCES IN CONFLICTS ON THE AFRICAN CONTINENT: CASES OF DEMOCRATIC REPUBLIC OF CONGO AND NIGERIA

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## ABSTRACT

This paper is a sustained discussion of the part played by natural resources in sparking and fuelling conflicts on the African continent and the implications for conflict resolution, transformation, management and peace building in the future. After the introduction, the second part of the paper defines terms used in the discussion. The objective is to contextualize the terms to familiarize the reader. The main concepts to be defined are armed conflict, natural resources and post-conflict peace building. The task of establishing the part played by natural resources in initiating and prolonging conflicts on the African continent is in turn examined. An attempt to establish the nexus between natural resources and conflicts is used here to find the role played by natural resources in initiating and prolonging conflicts on the African continent. For the purposes of trying to balance the discussion, the politics and economics of natural resources and conflict is also highlighted in this paper. This is supported by having a discourse analysis of the natural and geographic characteristics of conflict natural resources. The discussion is then pivoted on two case studies that will help to amplify that natural resources have always initiated and prolonged conflicts on the African continent. The two case studies selected are that of the conflicts over natural resources in the Democratic Republic of Congo and historical and contemporary Nigeria. The two case studies are briefly described giving a historical background on how natural resources started and exacerbated conflicts in the two countries. The state of and/or the current nature of conflict over natural resources in the two cases is given a contemporary analysis. The stance adopted in the paper is that, motive and motivation for the starting, sustaining and prolonging conflicts on the African continent has always been stemmed from its natural resources. This paper also straddles the continuums of the role played by natural resources and lack of good governance/democracy as catalysts, initiators and drivers of conflicts on the African continent. Armed conflicts in Africa and civil wars are sparked by the motive to gain access, control and distribution of resources on and beneath the land/earth of the African continent. The discourse also gives recommendation on possible strategies and/or measures to be put in place to constructively resolve conflicts on the African continent.

**Keywords:** Natural resources; conflict; conflict resolution; transformation; peace-building; DRC; Nigeria

## INTRODUCTION

This paper forms a critical part of a sustained discussion of the role played by natural resources in sparking and fuelling conflicts on the African Continent and the implications for conflict resolution and peace building in the future. The task of establishing the part played by natural resources in initiating and prolonging conflicts on the African continent is in turn examined. For the purposes of trying to balance the discussion, the politics and economics of natural resources and conflict is also highlighted in this paper. This discussion also mainstream the contention of global development aid and foreign direct investment in Africa has failed to end conflicts over natural resources. This is supported by having a discourse analysis of the natural and geographic characteristics of conflict natural resources.

The discussion is then pivoted on two case studies that will help to amplify that natural resources have always initiated and prolonged conflicts on the African continent. The two case studies selected are

that of the conflicts over natural resources in the Democratic Republic of Congo and Nigeria. The two case studies are briefly described giving a historical background on how natural resources started and exacerbated conflicts in the two countries. The state of and/or the current nature of conflict over natural resources in the two cases is given a contemporary analysis. The stance adopted by the writer is that, motive and motivation for the starting, sustaining and prolonging conflicts on the African continent has always been stemmed from its natural resources. This paper also straddles the continuums of the role played by natural resources and lack of good governance/democracy as catalysts, initiators and drivers of conflicts on the African continent. Armed conflicts in Africa and civil wars are sparked by the motive to gain access, control and distribution of resources on and beneath the land/earth of the African continent. The discourse also gives recommendations on possible strategies and/or measures to be put in place to constructively resolve conflicts and effective development aid and or investment in the African continent.

### CONCEPTUAL FORMULATIONS

For the purposes of critically analysing the role played by natural resources and armed conflict, it is essential to delineate the parameters and the framework of the discussion through the defining of the main concepts of armed conflict, natural resources and peace building. The Organization for Economic Co-operation and Development (OECD), defined natural resources as “natural assets (raw materials) occurring in nature that can be used for economic production or consumption (ACCORD, 2009). In the sustainable livelihoods framework, natural resources are best described and termed as natural capital for a particular community. Natural resources can be renewable after exploitation and consumption and other natural resources cannot be renewed. Plants, wild animals, water grass, solar and wind energy can be replenished. Minerals, including the soil or land that the minerals are found on and beneath it cannot be regenerated once exploited. Examples of such non-renewable natural resources are oil, coal, copper, diamonds, natural gas, iron, gold, silver, platinum and other rocks.

An armed conflict, according to Uppsala Conflict Data Programme (UCDP2008 in ACCORD 2009), is contested incompatibility which concerns government and or territory where the use of armed force between two parties, of which at least one is the government of a state, resulting in at least twenty-five battle related deaths in a calendar year. Post-conflict peace-building interventions are actions aimed at stabilising peace in the aftermath of a conflict in to avoid a relapse into conflict (Boutros Boutros-Gali in Varisco, 2010). Peace building according to Schellhass & Seegers (2006) refers to efforts intended to avoid a relapse into conflict and this opposed to peacekeeping-activity to ensure compliance to the conflict agreement. The same authors also refer to peace making as the activity of bringing warring parties to an agreement. Various authors and literature may point out to different meanings of the terms and concepts defined beforehand; the mainstay of this paper is to critically analyses the role played by natural resources in initiating and prolonging conflicts on the African continent. It is therefore prudent to accept the definition of armed conflict from the UCDP as it focuses on the part played by non-renewable, exhaustible natural resources in causing, fuelling, prolonging, and exacerbating those conflicts. The understanding of peace-building is better described in “post-conflict peace-building” as first coined by the former UN Secretary General in 1992.

## ESTABLISHING THE NATURAL RESOURCES: CONFLICT NEXUS IN AFRICA

In creating the link to natural resources and conflict, the former as the cause of the latter, it is also important to consider other factors and actors in natural resources exploitation, extraction or harvesting and consumption. Africa is known as a continent that is steeped in armed conflict and instability, the causes of which are both diverse and endemic (Neethling, 2005). The perpetuations of conflicts in Africa over its natural resources can be blamed on African leadership and the sinister political and economic interests of the developed world. Schellhaas & Seegers (2006) lament that rich natural resources are taken away from the African continent at a fraction of their value. The vast seepage of the net value of African natural resources into Europe, the USA and Japan are a cause of concern to countries like the DRC where such resources are looted. The natural resources environment and/or natural capital in sustainable livelihoods framework has often played a key role in conflicts throughout the world-Africa is no exception (ACCORD, 2009). The same authors argued that it cannot go unmentioned that, the 19<sup>th</sup> century scramble for the continent saw immense bloodshed as European countries battled over Africa's natural resources. In many of the protracted conflicts in Africa, the control, access, and distribution of natural resources and land is a major underlying issue. The paradoxical "resource curse" has generated volumes of study on the links between abundance of natural resources, poor governance negative economic growth, war and human rights abuses (Amnesty International, 2006)

Poor governance on the part of political leadership in African is also to blame as the cause and driver of conflicts over natural resources on the African. It seems that with each new political coming into the fray, whether through toppling the other or via contested election, the motivation is to amass wealth for personal private gain. However, the mere presence of natural resources per se has therefore no clear consequences on armed conflicts and other elements or factors need to be added to the research in order to understand the puzzling nexus. If natural resources are lootable, distant and diffuse, their natural and geographic characteristics make them susceptible to start and prolong conflicts (Varisco, 2010).

The political, economic and social characteristics of a country have a lot to contribute on the causes and drivers of conflict over resources. The link between armed conflict is indeed reinforced when a government does not have a complete control over its natural resources, when the economy of a country is not diversified and when the degree of internal societal opposition in a state is high (Varisco, 2010). Tschirgi, Lundi & Mancini (2009) stressed differently that there is a strong statistical correlation between the incidence of poverty and conflict-distribution of poverty across ethnic, religious and social groups-requires special attention. The same authors agreed with the greed thesis and also found a correlation between dependence on natural resources and high risk of conflict. The explanation is that natural resource predation has been seen as providing rebels with motivation or opportunity to initiate and prolong conflicts. Private greed rather than social and political grievance has been posited as an important explanation for resource conflicts. The link between natural resources and conflicts is highlighted by Ballantine & Niztshske (2003) as providing combatants' incentives for self-enrichment or opportunities for insurgent mobilization created by access to natural and financial resources and natural resources were neither the primary nor sole cause of the separatist and non-separatist conflicts. The same authors continue to lament that nevertheless, extensive combat self-financing complicated and prolonged hostilities, in some cases creating serious stumbling blocks to conflict resolution strategies. In all cases of open armed conflicts, varying degrees with long standing socio-economic and political grievances, inter-

ethnic disputes, and security dilemmas brought about by weak and unaccountable systems of governance were the major initiators and drivers of armed conflicts (Ballantine & Nitzschke, 2003).

### **The Political and Economics of Natural Resources and Conflict**

Apart from trying to solve the puzzling nexus of the role played by natural resources in initiating and prolonging conflict, it is sensible to re-examine the socio-economic status of the citizens of a particular country that is plagued by armed conflicts. In this line of thinking, Tschirgi *et al.* (2009) pointed out that socio-economic structural factors create widely felt problems that may become bases for grievances and increase the chances that violent conflict will occur, even if they do not directly trigger the outbreak of the conflict. For example the conflict in Rwanda was not sparked by natural resources, but by the distribution of poverty and inequality between the Tutsis and the Hutus. DFID (2005) also adds the governance crisis, where poverty, underdevelopment and fragile state create fertile conditions for conflict and the emergence of new security threats, including international crime and terrorism. Conflicts are therefore avoided when there is improvement of governance and the rule of law and to reduce inequality and exclusion. Collier (2004) also noted that the dramatic change in the nature of globalisation since 1980 has been that developing countries have broken into the international market for manufacturers. Yet most the poorest countries-notably in Africa- have not participated in this process of export diversification. According to Mutisi & Maregere (2006), it is increasingly being recognized that conflict is generated when certain parts of the population, groups or communities feel excluded from the development process. This assertion goes a long way to prove that natural resources per se are not the causes and drivers of conflicts on the African continent. Negative socio-economic indicators and factors also initiate and prolong conflicts on the African continent than the role played by natural resources in sparking and fuelling conflicts. The same differences, the same grievances, and the same personalities, can generally be harmlessly contained in the context of a middle income country with a growing and diversified economy, yet may be explosive in the context of poverty, stagnation and valuable natural resources (Collier, 2004).

Low income, low growth, and dependence upon natural resources are high risk economic characteristics of a poor country that is ever steeped into conflict. Countries with these three high risk economic characteristics are by skill or luck may manage for many years to contain violence, only to see it explode (Collier, 2004) Arguably, the presence or absence of natural resources in a country seems to slightly be inter-related with the onset of an armed conflict. Countries like Norway and Botswana are peaceful states with abundance of natural resources, conversely the DRC and Sierra Leone are countries rich of natural resources which experienced armed conflict (Varisco, 2010). Countries without rich and diverse natural resources have also experienced armed conflict. With refinement and more research around the role played by natural resources in initiating and prolonging conflicts on the Africa continent, many analysts came to the view that state failure and state weaknesses are the sources of contemporary conflicts (Tschirgi *et al.*, 2009). ACCORD (2009) also lament that the vision for economic and political freedom in Africa has not yet be realized and conflict is a constant feature on the continent. Many conflicts are generally a result of the combined geographic, political, economic, and military factors which weaken governments and their economies (Amnesty International, 2006).

### **Conflict Natural Resources Characteristics**

Natural resources that rebels or separatist movements come into contact with are conveniently used to finance the armed conflicts on the African continent. Concluding that the natural resources in their natural and geographic setting and characteristics initiate and prolong conflicts in Africa might be missing the real target. Natural resources are characterized by their proneness to be looted, that is being extracted informally than through legal channels. If a natural resource is lootable it can be easily extracted from the ground or grabbed and sold in the market. Natural resources that can be easily looted are timber, alluvial diamonds and some drugs like coca or opium poppy (Varisco, 2010). The easy access of lootable natural resources makes them to be associated with armed conflicts but is not the source of armed conflicts. Wealth in "lootable" resources (high value goods which can be easily or sold) does not necessarily predict war and/or conflict.

According to Ballantine & Nitzschke (2003), stressed that, even though conflicts have been primarily politically and ideologically driven, access to lootable resources and obstruction of unlootable resources may have shifted the interests of rebels from ideological to more pecuniary goals, affecting their military strategies, choices of territorial expansion and their desire to generate revenue to finance the armed conflicts. The in which natural resources provides rents to rebels is also relevant to the duration of the conflict. Access to lootable natural resources appears to prolong non-separatist conflicts by disproportionately benefitting rebels and continue to finance the armed conflicts. Lootable natural resources are an incentive for the rebels to harden their positions and stance on continuing with the armed conflict by refusing any settlement proposals that are aimed at peace making. In the end the natural resources can render wartime exploitation so profitable that the combatants prefer prolonging the armed conflict than settle for peace making (Ballantine & Nitzshke, 2003). This cannot just be assumed to create a direct link for the role played by natural resources in initiating and prolonging conflicts on the African continent. Different natural resource richness affect different sorts of conflict and benefit rebel parties in distinct ways, depending among other issues, on the mode of exploitation and how the proceeds are managed by the state. Lootable natural resources, such as alluvial diamonds and gold are more likely to be linked to non-separatist armed conflicts. Ballantine & Nitzschke (2003) pointed out that lootable natural resources prolong conflicts by benefitting rebels and conflict dependant civilians, compromising battle discipline and by multiplying the number of peace spoilers. The same authors also justified that unlootable natural resources, such as oil, natural gas deep shaft minerals deposits tend to be associated with separatist conflicts, which are often caused by ethno-political grievances over inequitable resources revenue sharing and exclusionary government policies. Natural resources by themselves are not really the motivation to start and fuel conflicts but are caught in the cross-fire of existing and protracted civil wars. Chandler (2007) also established that of the world's poorest countries are engaged in an armed conflict- the poorer the country, the greater risk of violent conflict.

### **THE CASE AND "CURSE" OF NATURAL RESOURCES CONFLICT IN DEMOCRATIC REPUBLIC OF CONGO**

When considering the role played by natural resources in initiating and prolonging conflicts, there is nothing democratic about democracy in the Democratic Republic of Congo. The eastern Democratic Republic of the Congo (DRC) is always poised on the edge of a machete blade. Despite the achievement

of considerable peace-building successes throughout much of this central African state in recent years, the current activities of armed groups and the Congolese forces in North Kivu, South Kivu and Ituri, have the potential to further destabilize the eastern provinces and possibly even neighbouring countries (World Bank, 2012).

### **Overview of Natural Resources Conflict**

With a population of 57 549 000, the Democratic Republic of the Congo is the second largest country on the African continent and abundantly wealthy in natural resources, the DRC is an often cited example of the "resource curse" (Amnesty International, 2008). The vast country is home to 26% of the world's known diamonds and one third of the world's cassirite (tin) ore reserves, the DRC is also rich in cobalt, copper, coltan (used in making cell phones), oil, gas, silver, zinc , gold, manganese , timber, and uranium(Amnesty International, 2008). This wealth is not juxtaposed to the socio-economic status of the ordinary citizens of the DRC. Because of widespread institutionalized corruption, only a handful of the country's elite have profited from the extraction of the country's natural resources, while the rest of the population suffers from hunger and extreme poverty.

Regrettably, violent armed conflicts related to the extraction and exploitation of natural resources in the DRC has been a recurrent feature in Congolese history. One journalist described the DRC as "few regions on Earth contain as many treasures as this one—and a few are blood drenched" The DRC was severely exploited and underdeveloped during the Belgian colonial rule, the vast country had little infrastructure when it gained independence in 1960. Its political and economic instability were and are aggravated by civil and ethnic conflicts both inside the DRC and in neighbouring states. Protracted conflicts ensued in the 1990s and the country has never experienced any form of stability in all its spheres since then Since the 1990s the DRC has continued to be mired in intractable conflicts. The establishment of an elected government in 2006 following the implementation of a series of peace agreements, the country still faces challenges in consolidating peace throughout its territory.

The eastern regions of the DRC have consistently experienced high insecurity and repeated episodes of violence that indicates that the process of conflict transformation is impeded by deep structural issues in society. These issues must be addressed if peace in the country, and the Great Lakes region, is to be achieved. Bloody and brutal conflicts seem to be the order and natural phenomenon in the resources rich country. Since 1999, US\$8.73 billion have been spent to fund the United Nations' (UN) peacekeeping efforts in the DRC. The UN has maintained its presence through UN Stabilisation Mission in the DRC, whose mandate was renewed on 27 June 2012, placing emphasis on ensuring the protection of civilians (Agere, 2012). Nothing seems to really have materialized from the UN intervention in DRC. The International Conference on the Great Lakes Region (ICGLR) has taken a regional stance to finding a lasting solution to the DRC crisis, noting that the emergency in the DRC is not only a threat to the country, but also to the peace and security of the entire Great Lakes region.

### **The Natural Resources Conflict Connection**

According to Amnesty International (2006), diamonds, the DRC's most valuable export, are one of the several resources which are traded illegally to fund rebellion and perpetuate conflict. Armed open warfare has generally decreased recently in the DRC, fighting between the national army and rebel groups

continues, particularly in eastern DRC's provinces of north and south Kivu, where rebels have taken control of diamond, gold, tin ore and coltan mine. The "resource curse"-thesis seems to hold water when it comes to the availability of natural resources in the DRC. Brazoska & Croll (2005) argued that the abundance of natural resources does not automatically lead to development and wealth, but rather can contribute to violence and societal breakdown. It is better to hasten to mention that DRC is a weak state despite the country being vast and endowed with vast valuable minerals, forests and even the land that is envied by extractive industries the world over. The same authors also stressed a point that poor countries have more difficulty out of the "conflict trap" and are likely to show state decay, which a major causes of poverty that ultimately create a conducive ground and conditions for conflicts on the African Continent. DRC has experienced over decades, illegally exploited mineral and diamonds being smuggled over its borders by local armed groups or foreign military forces and sold on international markets by criminal cartels in Europe (ACCORD, 2009).

**Table 1:** Civil wars linked to resource wealth, 1990-2002

Country	Duration	Resources
Afghanistan	1978-2001	Gems, opium
Angola	1975-2002	Oil, Diamonds
Angola (Cabinda)	1975-	Oil
Cambodia	1978-97	Timber, gems
Colombia	1984-	Oil, gold, coca
Congo, Rep	1997	Copper, coltan, diamonds, gold, cobalt
Congo, Dem, Rep	1996-97	Copper, coltan, diamonds, gold, cobalt
Congo, Dem, Rep	1998-	Copper, coltan, diamonds, gold, cobalt
Indonesia (Aceh)	1975-	Natural gas
Indonesia (West Papua)	1969-	Copper, gold
Liberia	1989-96	Timber, diamonds, iron, palm oil, cocoa, coffee, marijuana, rubber, gold
Morocco	1975-	Phosphates, oil
Papua New Guinea	1988-	Copper, gold
Peru	1980-1995	Coca
Sierra Leone	1991-2000	Diamonds
Burma	1949-	Timber, tin, gems, opium
Sudan	1983-	Oil

When there is an intricate and sophisticated arrangement for the trade in looted natural resources, syndicates, criminal cartels, global private and governmental actors can also contribute to the perpetuation of conflicts for economic purposes (ACCORD, 2009). Varisco (2003) highlighted the findings of Oxfam International, Amnesty International and Control Arms about small arms and light weapons stating that: Diamonds in Angola and Sierra Leone; oil in Sudan and Angola; copper in Papua Guinea, timber in Cambodia and Liberia; coltan, gold and other minerals in the DRC: these natural resources are exploited and traded by governments and local military commanders in exchange for military supplies and personal financial gain. In this context natural resources can be linked to the various conflicts that happened in the countries mentioned above. The tables below amplify and clearly shows that more conflict on the African continent have been associated with the exploitation and/or looting of natural resources.

The DRC has seen more conflicts related to its rich and diverse natural resources. The African

continent has experienced more than half of the rest of the world's conflicts that were associated and related to the presence of natural resources in a particular country. However, ACCORD (2009) added that more of conflicts on the African Continent have to do with "deprivation conflicts", which exist where there are inequalities in the access, control and distribution of the economic benefits of the natural resources as in the case of DRC's North and South Kivu.

**Table 2:** Armed conflicts in Africa and rest of world

Year	Africa	Rest of the World
1989	14	33
1990	17	32
1991	17	34
1992	15	40
1993	11	35
1994	13	29
1995	9	26
1996	14	22
1997	14	20
1998	15	22
1999	16	21
2000	15	19
2001	14	20

**Source:** Wallensteen & Sollenberg, 2000 in Ross, 2002.

It perhaps worthwhile to trace conflicts in the DRC to find out if natural resources on their own initiated and prolonged armed conflicts in the embattled country. The mineral (extractive) sector in the DRC has typically been dominated by state owned industrial mining enterprises, but sustained war, poor governance and neglect seem to be the main reasons for the initiation and prolonging of conflicts in the DRC. Consequently, government revenues from mining are substantially lower than they should be. The involvement of the military and armed groups in the mining sector in the east, however, has constrained the contribution of mining revenues to improving human security. The illegal and informal mining sector critically produces the highest volume of mineral commodities in the DRC. For example this sector was responsible for approximately 70% of the total diamond extraction (World Bank, 2012). Contemporary DRC, in eastern provinces of North and South Kivu, has become internationally notorious for atrocities, mass rapes and other faces of sexual violence against women and men, child soldiers, child labour and prostitution, abductions, extortions, illegal mining, exploitation and official corruption on an industrial scale. Government authority is all but non-existent. Too often, the law of the jungle rules, rules of the jungle and force is all there is (Tisdall, 2012).

### **Historical Background of Conflict over Natural Resources in DRC**

Since independence in 1960, the DRC has been torn apart by intrastate conflicts on five occasions- the first after independence, when two mineral rich provinces of the Congo-Katanga and South Kasai declared themselves sovereign (UCDP, 2008) Army General Mobutu seized power in 1965 and held on to power for almost 32 years amid extensive and endemic corruption, economic ruin, rebellions and intermittent wars. Mobutu amassed a great personal wealth but his poor governance was characterized with crushing political opposition and widespread human rights violations. The UCDP (2008) went to

chronicle that Mobutu was toppled by Laurent Kabila, after a protracted armed conflict from 1996 to 1997 with the support of Rwanda and Uganda. The motive of the two foreign countries aiding Kabila can be linked to natural resources, where the two countries' leaders were promised future war booty by Laurent Kabila.

However, Kabila did not stay that long to fulfil the promises he made to his backers, fighting started again in 1998 resulting in the assassination of Kabila in 1999. In 1998 armed conflict ensued between the Congolese army and President Kabila's foreign backers, when foreign backers troops refused to leave the DRC. Kabila backed by Namibia, Zimbabwe and Angola, accused the Rwandans and Ugandans of exploiting the DRC's natural resource wealth (UCDP, 2008). An all-out war between the various sectors of armed units in the DRC ensued. The Congo war, one of the biggest in the history of Africa, saw numerous actors involved in the exploitation of the country's vast and rich resources (ACCORD, 2009) According to Rossi 2004, a range of armies in the DRC by then systematically looted the country from the beginning of the current conflict in 1998, to the present; these included foreign forces (particularly those from Rwanda, Uganda and Zimbabwe) and the domestic militias (notably the factions of the Rassemblement congolais pour la democratie (RCD), the Mai Mai and the Mouvement de liberation congolais (MLC). Among the looted natural resources have been diamonds, gold, timber coltan and coffee.

After the withdrawal of Rwandan troops in 2009, the DRC was still steeped in continued conflict with newly formed rebel groups from National Congress for the Defense or the People (CNDP), lead by the Congolese Army general Laurent Nkunda, Democratic Forces for the Liberation of Rwanda (FDLR) to the current Armed Forces of the Democratic Republic of the Congo and M23. In recent years, non-state conflicts and one-sided violence have been frequent, especially in the eastern Kivu regions. The coming in and going out of different rebel groups from 1998 to the present day has pointed to the fact that the DRC is a weakened state and the country cannot control its vast resources for the economic benefits of its citizens. The dominant role that violent conflicts/contests over natural resources have played in the DRC, Angola, Sierra Leone lends some support to the econometric "greed model" of rebellion, according to statistical correlation between resource abundance and the risk of armed conflict is explained by rebel aspirations for self-enrichment or by the opportunity for rebellion that easy access to natural resources provides to would be insurgents (Varisco, 2003). While access to diamonds and other valuable natural resources did contribute to the feasibility of rebellion in both Sierra Leone and the DRC, the insurgencies and or armed conflicts were not undertaken simply to capture natural resources for personal gain. Natural resource extraction was also a means to finance conflicts driven by socio-economic and political grievances

#### **DIVIDED COUNTRY: THE CASE OF CONFLICT RESOURCES IN NIGERIA**

Nigeria is Africa's most populous country with a citizen count of over 130 million people. Nigeria is no different to any other African country that is endowed with a wide variety of natural resources. Escalating conflicts in Nigeria has always been pivoted around oil. According to Amnesty International (2006), longstanding religious and ethnic tensions, corruption in the government, civilian unrest in regard to multinational oil companies in regard to their operations within the country. Nigeria's population is made up of about 200 ethnic groups, 500 indigenous languages, and two major religions Islam

(concentrated in the North) and Christianity (concentrated in the South). Nigeria is the world's eighth largest producer of oil and the fifth largest supplier of oil to the United States of America. Oil comprises 95% of Nigeria's export revenue, 76 percent of its government revenues, and about a third of Nigeria's gross domestic product (GDP) (Amnesty International, 2006). Though Nigeria is one of the world's largest producers of oil, over half of the country's population lives below the poverty line. Nigeria is also ranked as one of the top ten most corrupt countries in the world.

### **Conflict Connection over Natural Resources in Nigeria**

There was a period up to 1999, when there were no general elections in Nigeria. The army generals were just giving each other time and opportunity to amass a great deal of personal wealth before that general is ousted by another army general. Even under civilian rule, Nigeria is still experiencing long standing ethnic and religious conflicts. The conflict related to the extraction and exploitation of oil in Nigeria exists between the large oil corporations, the (mostly poverty-stricken) people of Nigeria and the Nigerian government. Many citizens especially those who live in the oil rich delta area, habitually protest (both violently and non-violently against foreign oil companies and the Nigerian government to demonstrate their dissatisfaction with a lack of fair wealth distribution (Amnesty International, 2006) In Nigeria, according to Atta-Asamoah (2013), the abundant availability of oil, the level of skills required for its extraction, the cost of transportation and generally its low level to weight ratio has not been a panacea to the curse associated with oil in the Niger Delta. The same author also laments that the failure of the political elites to address the concerns of ethnic minorities in oil rich regions particularly the Ogoni and Ijaw people, contributed to the escalation of the issue from an ethnic minority grievance to a crisis. For almost a decade, Nigerian citizens have held several protests each year against the large oil companies which occupy their land. Most of the protests or conflicts have been violent, including car bombs, kidnapping, murders and vandalism. The protesters also target pipeline to siphon petroleum products resulting in deaths by burning.

### **Current Nature of Natural Resources Conflicts In Nigeria**

For the purposes of trying to establish a nexus and prove that natural resources particularly oil initiate and prolong conflicts in Nigeria and on the African continent, the following events will help to illustrate the point. Conflicts related to the natural resources oil were chronicled by Amnesty International (2006) hereunder: August to September 2004, deadly clashes of gangs in the oil city of Port Harcourt; February 2005, nine foreign workers are kidnapped during a attack on an oil facility; January 2006, militants in the Niger Delta attach pipelines and other oil facilities and kidnap foreign workers. The rebels demand more control over the region's oil wealth; May 2006, more than 150 people are killed in an explosion at a pipeline near Lagos; October 2006 Villagers take over and occupy three Shell oil platforms; and, November 2006 armed protesters overrun and shutdown an oil facility operated by Italian firm Agip. Going by the trend of the conflicts related to oil in Nigeria, one can easily conclude that the conflicts intensified into the decade starting 2010.

### **RECOMMENDATIONS FOR CONSTRUCTIVE CONFLICT RESOLUTION IN THE FUTURE**

There is a pressing need to address the twin imperatives of security and development by means

of integrated policies and programme through peace building in support of conflict prevention, management and post conflict reconstruction (Neethling, 2005). Development and or economic aid should be designed to specifically end aid, with much more emphasis on adding value to the raw material nature of natural resource wealth of Africa and technology transfer to the continent. There should be a major paradigm shift from channelling development aid towards peacekeeping, peace-making to a more pragmatic move for conflict prevention and peace building achieving long term developmental goals in Africa. The management of conflicts related to natural resources is always achieved through equitable distribution of the economic benefits of the natural resources to minimize or stopping the initiating and fuelling of resource conflicts. There is also the need for the radicalization of development, that is , the commitment to conflict resolution and the reconstruction of societies and the process should see a change in working towards a common goal a peaceful and prosperous future (Duffield, 2001). Conflict management approaches should increasingly take the environment and natural resources into account when attempting to prevent conflicts from erupting, negotiating and implementing durable peace agreements, deploying peace support operations, and establishing preventative and post-conflict mechanisms (ACCORD, 2003). Development aid and foreign direct investment in Africa should achieve pro-poor growth as opposed to just economic growth is also the answer to preventing conflicts in the long term, because development is largely understood as an economic process. Land grabbing should be avoided at all costs in Africa and development aid and investment should be aimed to unlock the wealth in land as a natural resource through sustainable land and agrarian reforms. Pro-poor reform policies must target activities of which most poor are involved in direct rather than on relying on leakages on other markets (Kimenyi, 2006).

As with regard to conflict over diamonds, the Kimberly Process will come in handy and should be applied to the letter. The Kimberly Process should also be extended to timber and other lootable natural resources to include gold and other valuable minerals. All natural resource exports should be certified of their legitimate source and rule out trade not only in blood diamonds but eliminate the trade in conflict natural resources in the future (Amnesty International, 2006). Policy responses need to focus on structural conflict prevention efforts by, among other issues, designing and supporting tools and strategies for more effective, equitable and accountable systems of resource management, complimented by longer-term strategies of economic diversification and poverty reduction (Ballantine & Croll, 2003). Ultimately, institutional legitimacy is the key to stability, when state institutions do not adequately protect citizens, guard against corruption, or provide access to justice, when markets do not provide job opportunities, or when communities have lost social cohesion, the likelihood of violent conflict increases (World Bank, 2011).

## CONCLUSION

Over the next decades, the exploitation of natural resources in Africa is likely to expand massively both in value and in volume. It is an unparalleled opportunity for low-income countries, but only if the mistakes from the history of resource extraction are heeded. Instead of accelerating the accumulation of public capital, revenues derived from natural resources in many countries have led to the curse of plunder. However, such outcomes are not inevitable. For example, Botswana is one resource-rich African country that has used its natural resources for a concerted effort to climb out of poverty. With good economic

governance, resource endowments Africa can lead to higher levels of productivity in the short and long run. On the flip side of the governance coin, countries need to build a critical mass of citizens who understand the opportunities posed by exploiting resources and the dangers of plunder. Africa citizens particularly in DRC and Nigeria have to be well-informed. If a government is experienced, clear and answerable in its handling of revenues from natural resources, it will be much more able to rely on the support and contribution of its citizens towards rapid national development.

This discussion has shown that natural resources are connected to the initiation and fuelling some of the African conflicts. The general observation is that from colonial exploitation to modern conflicts in Africa, Latin America, the Middle East, Southern East Asia and the former Soviet Union, many lands rich in natural resources have been devastated by war and poverty (Amnesty International, 2006). Armed struggles to access oil, natural gas, diamonds and minerals, cocaine, timber and even land, have a long history of causing worldwide humanitarian crises. The two country case studies have been used to amplify the role of natural resources in initiating and prolonging conflict on the African continent. In the DRC, resource wealth is a "resource curse" that has become synonymous with conflict and underdevelopment because of constant conflicts between powerful individuals and groups who enrich themselves at the expense the citizens and the state (ACCORD, 2009) In Nigeria, capitalism is reigning supreme as the juggernaut of modernity that crushes its path in search of profits. Internationally, there is a scramble for non-renewable resources, especially resources wealth in Africa. The industrialised world needs access to energy resources such as oil and gas, while the industrialising worlds need the same. The weakened state and heavy reliance on natural resources exports will continue to bedevil attempts to resolve and eliminated conflicts and poverty on the African continent.

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# NATURE-BASED TOURISM AND POVERTY REDUCTION IN RURAL AREAS OF SOUTH AFRICA: COALITION AMONG ACTORS

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## ABSTRACT

The conservation of the natural resources in rural areas provides a potential for poverty reduction through improving entrepreneurial and employment opportunities. Despite the benefit that conservation of natural resource generates, there is a growing concern regarding limited coalition among different actors including the government, private game reserves, tourism and parks agents, and communities in rural areas. This hinders the development of entrepreneurial and employment opportunities in the nature based tourism sector. The aim of the paper is to examine the extent of interaction among different actors in nature-based tourism and poverty reduction initiatives in rural areas of South Africa. The paper also seeks to demonstrate the significance of formal coalition among local actors as fundamental for poverty reduction. Therefore, it can be argued that conservation and management of natural resources could be sustainable when it generates benefits for the rural poor.

**Keywords:** Nature-based tourism; conservation; tourism management; poverty reduction; coalition; South Africa

## INTRODUCTION

Nature-based tourism, as a form of tourism, could be implemented to reduce poverty in the rural areas. The United Nation World Tourism Organization (UNWTO, 2011) promotes tourism as one the priority areas to make contribution to poverty reduction and coalitions building. Hill *et al.* (2006) also points out that tourism is globally acknowledged as a key economic sector that has the potential to promote poverty reduction within a particular locality. It is therefore important to enhance nature based tourism in rural areas to address the widespread poverty through employment creation and attraction of investments to ultimately improve quality of life.

One of the key concerns in nature based tourism is the issue of collaboration among different stakeholders, particularly the rural community. The assumption is that nature based tourism becomes sustainable in situation where stakeholders actively engage in the process. In this regard, Viljoen & Naicker (2000) argues that private sector investors should pursue tourism initiatives in cooperation with local communities. Similarly, Liu *et al.* (2011) indicted that the long-term sustainability of nature based tourism in and near protected areas is strongly dependent on its ability to improve the livelihood of local communities. According to Akyeampong (2011), the effectiveness of tourism as a tool for rural development requires the collaborative efforts of residents, communities, business firms and intermediary agencies, whether public or private. The aim of the paper is to examine the extent of interaction among different actors in nature based tourism and poverty reduction initiatives in rural areas of South Africa. The paper also seeks to demonstrate the significance of formal coalition among local actors as fundamental for poverty reduction.

## NATURE-BASED TOURISM

The concept of nature based tourism comprised of two sub-concepts such as tourism and nature. Firstly, the term tourism is defined in different ways by various individuals and institutions. The National Department of Tourism (NDT) defines tourism broadly as the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited (NDT, 2011). Similarly, the White Paper on the Development and Promotion of Tourism (RSA, 1996) defined tourism, more specifically as all type of travels for whatever purpose that results in one or more nights being spent away from home. These definitions underline the fact that tourism involves a movement from place to place for certain period of time.

Nature based tourism is more concerned with physical environment which includes a variety of natural living and non-living things. These protected natural assets resulted in a number of wildlife and nature conservation estates, which according to Ferreira (2006) are places of unique scenic beauty and provide spectacular settings for wildlife observation. Hill *et al.* (2006) argues that nature based tourism should focus on activities built on or around the attractions of the natural environment. It is evident that the landscapes and overall scenic beauty of an area may be a major attraction factor for tourists, especially if the natural character of the environment has been conserved (Keyser, 2009: 89). This implies the need to promote conservation of natural resources by different actors in order to increase the potential for tourism to create jobs and ultimately reduce poverty. For instance, Spenceley (2006) mentions that during 2000, nature-based tourism was estimated to generate an aggregate of \$US3.6 billion from African and non-African tourists and contributed nine per cent of total gross domestic product (GDP) for the SADC region in 1999. It is evident that apart from enhancing global biodiversity conservation, the nature-based tourism has the potential to provide alternative livelihood strategies for local people, which may reduce poverty in and around protected areas (Liu, Vogt, Luo, He, Frank & Liu, 2012). This is also shared by scholar who argue that in countries of the global South, nature based tourism initiatives can make a meaningful impact on the livelihoods of the poor, in particular the subsistence based rural poor (Hill *et al.*, 2006).

## COALITION AMONG DIFFERENT ACTORS

Collaboration of different actors including the government, private game reserves, tourism and parks agents, and communities in rural areas is a paramount step towards effective and sustainable nature based tourism. According to the Department of Provincial and Local Government (DPLG), it is clear that the private companies, including social enterprises and cooperatives, form the heart of the tourism economy and have a crucial role to play as partnerships with public and community role players who will ultimately stimulate robust and inclusive local economies (DPLG, 2006). In essence, collaboration entails the need to work together with community to boost entrepreneurial and employment opportunities in the rural areas.

Theoretically there are different types of approaches to enhance collaboration and partnership among different actors in nature based tourism. The approaches include: collaborative management; pro-poor tourism approach; responsible tourism approach; integrated conservation and development projects; and the public-private partnership approaches. These models describe the extent of interaction that is required from different actors in nature based tourism and poverty reduction initiatives in rural areas. The

approaches also highlight the significance of formal coalition among local actors as fundamental for poverty reduction. Therefore, it can be argued that conservation and management of natural resources could be sustainable when it generates benefits for the rural poor.

The first approach is a collaborative management approach. This approach is a complex concept that includes a variety of ideas. Namara (2006) asserts that collaborative management is itself a continuum, with many different models delivering different degrees of power sharing. The range of models could include: informal or semi-formal agreements between protected area authorities and other stakeholders regarding the use of specific resources. In some instances, this implies that the game reserve owners must look for various types of employment or profit share scheme in collaboration with the local community (Viljoen & Naicker, 2000). For instance, in North West Province, the Madikwe Game Reserve has created conditions for the local residents to develop their own lodges in the game reserve in partnership with professional operators and lodge developers from the private sector (Rogerson, 2006). Such co-management agreement, as stated in the Protected Area Act (2009) provide for the distribution of any income generated from the management of the protected area or any other form of benefit sharing between the parties.

The second approach is pro-poor tourism approach. This approach aims to contribute to the reduction of poverty by creating opportunities for poor people and communities to participate in their own emancipation process (De Beer & De Beer, 2011). The pro-poor tourism approach, as argued by Akyeampong (2011) ultimately targets at attaining not just macro-economic benefits but also objectives that contribute to poverty reduction or growth that specifically benefits poor people. In addition, it is mentioned that the agenda of pro-poor tourism focuses on how tourism affects the livelihoods of the poor and of how positive impacts can be enhanced through sets of interventions or initiatives (Rogerson, 2006). Therefore pro-poor tourism is an appropriate approach for tourism development and management because it enhances the coalition between tourism businesses and poverty reduction (Hill *et al.*, 2006).

The third approach to nature based tourism is the responsible tourism approach. According to the then Department of Environment and Tourism (DEAT), responsible tourism is about embracing, involving proactive participation and involvement of all stakeholders, be it the private sector, government, local communities, previously neglected, consumers, NGOs, the media, employees and others (RSA, 1996). The National Responsible Tourism Development Guidelines (2002) provides a framework to ensure that communities are involved in and benefit from tourism by working closely with local communities, small, medium and micro-enterprises (SMMEs) and emerging entrepreneurs to develop new products that provide complementary products for formal sector tourism enterprises. The framework also promotes the development of partnerships and joint ventures in which communities have a significant stake, and with appropriate capacity building, a substantial role in management.

The fourth approach is Integrated Conservation and Development Projects (ICDPs). It is an approach which suggests that providing alternative sources of income to local communities through new livelihood opportunities or direct payments will help to reduce poverty and improve environmental awareness and conservation attitudes, which may eventually change the unsustainable resource extraction behaviours (Liu *et al.*, 2012). The ICDPs approach is often applied in nature conservation taking place on communal land. Viljoen & Naicker (2000) contend that one of the direct benefits of nature-based tourism on communal land is the employment opportunity it creates for the community owning the land.

Since the ICDPs also seeks to promote nature conservation, the management authority of a national park, nature reserve and world heritage site may enter into a written agreement with a local community inside or adjacent to the park, reserve or heritage site to allow members of the community to use the biological resources in a sustainable manner (RSA, 2009).

The last approach to collaborative nature based tourism is Public-Private-Partnerships (PPPs). The PPP have high transaction costs, and power relations between various partners which influence their benefits and responsibilities associated with tourism development (Spenceley, 2006). In South Africa, the Tourism Enterprise Partnership (TEP) is a flagship for public-private partnership that has been facilitating job creation and enterprise development in the tourism industry for the past thirteen years (NDT, 2013). The importance of public-private-partnerships is evident in the remarks of the National Minister of Tourism who stated that “the successful implementation of this NTSS will require multilevel partnerships between the public and private sector, civil society and citizens” (NDT, 2011).

It is clear that the private companies, including social enterprises and cooperatives, form the heart of the tourism economy and have a crucial role to play as partnerships with public and community role players that will ultimately stimulate robust and inclusive local economies (DPLG, 2006). However, one of the key challenges for business, local government and educators is to develop knowledge amongst the historically disadvantaged communities regarding what tourism is, and how it can benefit local communities (DEAT, 2002).

The aforementioned exposition focused on the approaches to enhance collaboration of stakeholders in nature based tourism. It has been emphasised in the discussion that there are certain factors that can influence the effectiveness of coalition among different actors in nature based tourism. The following is a conceptual framework developed based on the analysis of different views on coalition among different actors in nature based tourism. Accordingly, the key principles for coalition among different actors in nature based tourism should emphasize on: co-management of natural resources; addressing the priority needs of the poor; active participation of community; sustainable utilisation of natural resources; and partnership based local initiatives.

## **INTERNATIONAL PERSPECTIVE**

Addressing the priority needs of the poor is an important aspect that should be promoted by different actors, particularly the government’s role in nature based tourism. Despite the call for pro-poor tourism benefits as stated in the Indian National Wildlife Action Plan which insists that ecotourism benefits must be shared with local communities, evidence shows that the direct economic opportunities available to local people from tourism are marginal in all the protected areas relative to the people living around them (Karanth & DeFries, 2010).

The authors recognise the rapid growing trend in nature-based tourism in India where the Indian government seems to dominate the nature based tourism sector. This is apparent in the observation made by Karanth & DeFries (2010) in the protected areas of Nagarhole and Mudumalai where tourists view wildlife from buses operated by the Indian Forest Department. The Indian case suggests that establishment of good policies is insufficient without effective implementation process regarding the roles by various stakeholders to address the needs of poor people in rural areas.

The experience from Bolivia in South America indicated the need for coalition among different

actors in nature based tourism. According to Cortez (2010), the Government of the State of Bolivia is promoting the development of sustainable tourism in Madidi National Park with an objective to democratize access to management, as well as to the economic and social benefits derived from nature based tourism.

Cortez (2010) also mentions that the new Political Constitution of the State of Bolivia mandates decentralization, territorial autonomy, and coordination between private, public, cooperative, and community in the tourism sector. Furthermore, tourism must be underpinned by inclusion, equity, synergy, reciprocity, and equilibrium, social, environmental and cultural responsibility. These values make it possible to reconcile individual and general interests with a view to reduce poverty. Therefore, Bolivian experience is based on the key principles of coalition among different actors in nature based tourism such as: Co-management of natural resources; addressing the priority needs of the poor; active participation of community; sustainable utilisation of natural resources; and partnership based local initiatives.

In Ghana, the government has promoted job creation for poor people in surrounding rural areas through nature based tourism. As observed by Akyeampong (2011), the reclassification of Kakum National Park (KNP) as a national park meant an immediate and radical change in the livelihoods of surrounding communities. In addition, it is stated that through a special arrangement between the Ghana Wildlife Division, the statutory body managing all of Ghana's national parks, some selected community members around the KNP have been trained as part-time guides (Akyeampong, 2011).

Training enables the local communities to effectively participate in nature based tourism. It is for this reason that Hill *et al.* (2006) emphasize that skills development is an essential prerequisite for the initiation of effective, community-based nature-based tourism projects. The Ghanaian government through its Medium Term Tourism Policy, 2005 have created conducive environment for tourism initiatives to survive. In Uganda, the mission statement of the Uganda Wildlife Authority (UWA) as laid out in Wildlife Policy is: 'to conserve and sustainably manage the wildlife and Protected Areas of Uganda in partnership with neighbouring communities and other stakeholders for the benefit of the people of Uganda and the global community'. In addition, the Uganda Wildlife Statute 1996 allows the UWA Executive Director to enter into collaborative arrangements with any person for the management of a protected area or part of it (Namara, 2006). This legislation is informed by the notion that long-term sustainability of nature-based tourism in and near protected areas is strongly dependent on its ability to improve the livelihood of local communities and to enhance local residents' attitudes and behaviours toward conservation (Liu *et al.*, 2012). As such, the Uganda Wildlife Policy, 1999 provides for collaborative management of resources by UWA and local communities, and stresses active promotion of collaborative management (Namara, 2006).

Many countries have demonstrated that Nature based tourism can contribute to poverty reduction in rural areas. It is apparent that setting up appropriate policies and its effective implementation play a significant role as long as all stakeholders are committed towards a common agenda. Additionally, the international experience also suggests the need for strong coalition among different actors in nature based tourism in order to enhance sustainable use of available natural resources. This is being demonstrated in an effort to integrate the social, economic and environmental aspects in collaborative management of nature based tourism.

## **SOUTH AFRICAN EXPERIENCE**

Post 1994 the government of South Africa has shifted towards a pro-poor policy stance with a focus on poverty reduction. The local government as a sphere of government closer to the people is mandated to promote social and economic development, which basically responds to poverty reduction; as a result the Local Economic Development (LED) approach has become one of the poverty reduction drivers in the local government of South Africa. According to Ruecker & Trah (cited in Rogerson & Rogerson, 2010), the core aim of LED in South Africa is to provide a competitive local business environment, encouraging and supporting networking and collaboration between businesses and public/private and community partnerships, facilitating workforce development and education, focusing inward investment to support cluster growth and supporting quality of life improvements. To a large extent, LED is seen to be a poverty reduction strategy at the local level. Rogerson (2006) observes that in several South African cities and in many rural areas, tourism is now targeted as an important element of LED programmes aimed at poverty reduction.

### **Policy and Legislative Framework**

There are different types of legal and policy frameworks adopted by the post-apartheid democratic South African government with regard to the need for coalition among different actors in nature based tourism. One of the key policies related to nature based tourism is the White Paper on the Development and Promotion of Tourism of 1996. This framework aims to promote active forms of community partnership, especially via joint ventures in which communally owned land forms the basis of equity for community partnerships with the private sector and state conservation agencies. In this regard, the policy framework further states that the private sector is in a position to promote the involvement of local communities in tourism ventures by, inter alia, establishing partnership tourism ventures with communities. According to the White Paper the government should encourage local communities and previously neglected groups to participate in the tourism industry through establishing partnership ventures with communities, out-sourcing, purchase of goods and services like poultry, herbs, vegetables and other agricultural supplies, entertainment, laundry services from communities.

The second strategy document adopted by government was the National Responsible Tourism Development Guidelines (NRTDG) of 2002. The Responsible Tourism Development Guidelines seek to ensure that communities are involved in and benefit from tourism by working closely with local communities, small, medium and micro-enterprises (SMMEs) and emerging entrepreneurs to develop new products that provide complementary products for formal sector tourism enterprises. The Guidelines also promote the development of partnerships and joint ventures in which communities have a significant stake, and with appropriate capacity building and substantial role in management. In essence, the framework encourages proactive participation and involvement by all stakeholders including the private sector, government at all levels, labour, local communities; their leaders and structures at all stages of the tourism life cycle. The third policy is the Protected Areas Amendment Act 15 of 2009. The objective of this Protected Area Act, 2009 is to provide for co-operative governance in the declaration and management of protected areas; and to promote participation of local communities in the management of protected areas, where appropriate. In addition, one of the purposes of the declaration of areas as protected areas is to create or augment destinations for nature-based tourism. Therefore the act emphasizes that when

preparing a management plan for a protected area, the management authority concerned must consult municipalities, other organs of state, local communities and other affected parties which have an interest in the area.

The fourth overall policy is the National Development Plan (NDP) 2030. According to the NDP rural economies will be activated through the stimulation of tourism investment. However, The NDP raises a concern with regard to the underutilization of the country's natural capital. It states that South Africa has the disadvantages of being far from wealthy consumers, but we have several comparative advantages including natural beauty, well managed national and other parks. These endowed resources have a potential for job creation. The NDP acknowledge that tourism industry is labour intensive, and therefore stimulates of growth of small business, and it can develop other spin-offs, such as foreign direct investment and craft industry. The fifth strategy document for nature based tourism is the National Tourism Sector Strategy (NTSS) of 2011. The NTSS states that tourism is integrated across all spheres of government, the local government sphere in particular also plays an important role in growing and developing the sector. According to the NTSS it is therefore important that the various stakeholders in the local governance of tourism incorporate the National Tourism Sector Strategy's targets into local Integrated Development Plans (IDPs) and economic development plans, and that support for local government programmes and capacity is ensured. To implement the strategy, efforts will be channelled towards working with all relevant stakeholders to increase job and entrepreneurial opportunities and encourage the meaningful participation of previously disadvantaged communities and individuals in tourism.

The last strategy document for nature based tourism is the Domestic Tourism Growth Strategy (DTGS) of 2012. The main objectives of the DTGS are to increase domestic tourism expenditure (revenue); to increase domestic tourism volume; to enhance measures and efforts aimed at addressing seasonality and equitable geographical spread; and to enhance the level of the culture of tourism/travel among South Africans. What remains central is that the successful implementation of the DTGS will depend on key success factors which include a strong partnerships and collaborative initiatives with all stakeholders including media, industry stakeholders and communities, and more collaboration for collection and sharing of information for statistical purposes. These legal frameworks and policies have stressed on the significance of coalition among stakeholders to promote sustainable nature based tourism so as to reduce poverty in rural areas. It is also apparent that the existence of good policy documents by itself is not adequate to achieve stated objectives. Therefore, there must be strong commitment from policy makers and implementers.

### **Successful Coalition among Stakeholders**

The Madikwe Game Reserve in North West province has demonstrated to have a formal coalition in its operations. This game reserve is operating as a three-way partnership between the provincial North West Parks Board, local communities and the private sector with the latter developing and managing a range of tourism developments such as lodges in the park (Rogerson, 2006). Furthermore, the Madikwe Game Reserve have a foundation called Tau Foundation, where government, the private sector and the community cooperate in poverty reduction and nature conservation, this is an excellent example of pro-poor tourism in action (De Beer & De Beer, 2011). Hence the Madikwe Game Reserve has created the

conditions for local residents to develop their own lodges in the game reserve in partnership with professional operators and lodge developers from the private sector. In addition, the experience of these developments in terms of local economic impact suggests that the levels of benefit retention from such community-owned lodges make a significant contribution to poverty reduction (Rogerson, 2006).

The Mehlosing Hiking and Adventure Trail in Matatiele in the KwaZulu Natal province has also developed a strong coalition in nature based tourism. In collaboration, the key stakeholders which include the local NGO called Environment and Development Agency (EDA) and a private consultancy firm called Environmental and Rural Solutions (ERS), identified the nature-based tourism potential of the area as a means for addressing poverty, by generating employment if not sustainable livelihoods and by improving the use of the natural resource base as well as skills levels (Hill *et al.*, 2006). This is based on the notion that nature based tourism provides a stimulus for community development and conservation of the environment (Viljoen & Naicker, 2000). The immediate beneficiaries of the Mehlosing initiative have been people in the four villages traversed by the trail who derived income through providing services such as catering, maintenance and cleaning of the guesthouses, as well as through selling craft and supplying fresh produce to guests. In addition, the Mehlosing initiative also received assistance from the KwaZulu Natal provincial tourism board in planning and marketing, as well as in training tour guides and small village-based businesses (Hill *et al.*, 2006).

In the Mpumalanga province, the CCAfrica, a safari lodge reserve operator and the African Foundation, a privately funded NGO both situated at the borders of the eastern flank of Kruger National Park, have carried out significant community up-liftment projects with rural communities (Luphisi, Mpakeni and Matsulu villages), who live adjacent to CCAfrica lodge reserves (Burns & Barrie, 2005). Hill *et al.* (2006) contend that skills development is routinely cited as an essential prerequisite for the initiation of effective, community-based nature-based tourism projects. Therefore, the CCAfrica and Africa foundation have provided skills development through a bursary scheme called Siya Kwamukela Hospitality Bursary Programme which provides planned and monitored practical training for local villagers selected through open competition. It is also mentioned that in 2001, 10 students were selected for this programme which gave them the opportunity for practical training at the lodges to help them enter the hospitality industry (Burns & Barrie, 2005). To include even the development of arrangements with local communities for contributions to local economic development (Rogerson, 2006), the CCAfrica supported the Masitakheni Community Project which primarily deals with art and crafts, hand-painted T-shirts, wooden crafts, soapstone carvings and other handicrafts (Burns & Barrie, 2005).

In Limpopo province, the Mavhulani camp which is located on land belonging to the community of Mutale Tribe was formed in coalition with the private owners, the community and the Mutale Bend civic organisation. In this case, the owners looked at various types of employment or profit-share scheme in collaboration with the local community (Viljoen & Naicker, 2000). Namara (2006) asserts that collaborative management is itself a continuum, with many different models delivering different degrees of power sharing which includes informal or semi-formal agreements between protected area authorities and other stakeholders regarding the use of specific resources. Some of the agreement between the stakeholders in the Mavhulani project was the employment of members of the community. The community also benefits from cultural tours to the Mutale Bend village arranged by Mavhulani owners.

### **Weak Coalition among Stakeholders**

A research study conducted in the Maleboho Nature Reserve in the Limpopo Province on the reserve's contribution to the local economies through job creation and entrepreneurial opportunities revealed that between 74% and 78% of the respondents in the four beneficiary villages of My Darling, Burchrecht, Setloking and Ga-Kgatla are of the opinion that the nature reserve does not contribute to their local economies in the named categories (Sebola, 2011). Such perceptions could be motivated by the alienation of the local communities from both the ecological concerns and empowerment through participation. Therefore, it is important to ensure the participation of the local communities in nature conservation activities. The lesser attention of nature conservation at provincial and local level may be attributed to the fact that from the beginning, the South African government seems to focus more on the development of National Parks than other nature conservation destinations. It has been argued that infrastructural development in provincial and communal reserves in the country remains underdeveloped, hence making it difficult for tourism to be pursued in such developments (Sebola, 2011). Such neglect attitude by the responsible authorities makes the purpose of nature conservation for economic development in South Africa's public natural resources management to be doubtful. The economic benefits from the national parks and nature reserves by members of the local communities have therefore been difficult to be achieved in the process (Sebola, 2011). In this regard, it can be argued that the national department of tourism should establish coalition with the local government to effectively develop job opportunities in the local communities.

It has become a general norm that when conservation and land reform goals are in conflict, as in the case of land claims in protected areas, conservation has generally emerged as the top priority. With this background in mind, Benjaminsen, Kepe & Bråthen (2008) present the case of the creation and expansion of the Namaqua National Park in Cape Town to highlight the contradictions between global interests in biodiversity conservation and local land needs. The establishment of Namaqua National Park affects several communities in the area, most of which lack employment opportunities. There are two settlements which are directly affected by the establishment and expansion of the Namaqua National Park – Soebatsfontein and Hondeklipbaai community; both communities are relatively poor, with limited options for gaining sustainable livelihoods. The Soebatsfontein community in particular, borders the Park directly and has a relatively conflictual relationship with the Park. There seems to have been little involvement of the surrounding communities when it comes to the planning and implementation of the Park. In Soebatsfontein, the community did not know about the plans to establish a national park in the area until they realized that SANParks were interested in buying the same property from a private owner. There was a view amongst the locals that the need for conservation was given more significance than the land needs of local communities, who seek to use the land for productive purposes like crop and livestock farming.

In Mpumalanga, there is a serious concern about the lack of cooperation of the people who are still residing within the Songimvelo Game Reserve. The then Mpumalanga Parks Board (2002) mention that at least 1,000 head of cattle which belongs to both residents and non-residents graze within the Reserve. This is generally considered as very negative factor in attracting any investment as well as marketing the Reserve to tourists. In trying to resolve this issue, a lease agreement has been reached between the Mpumalanga Parks Board and the Jozefsdal/Diepgezet community. However, the required

management and development plan has not yet been drawn for this lease agreement. The lack of the lease agreement on land use provides opportunity for uncontrolled land use practices like fields on steep slopes, overgrazing of certain slopes and certain settlements in highly visible areas along the main road detracting from the scenery are detrimental to the conservation status of the area and lessen its tourism potential. The positive cultural value of resident farmers and livestock are not considered to weigh up sufficiently against their negative impact on tourism. So far, all attempts at resolving the livestock and settlement issue have failed. There is no single easy solution to solve the problem if one wants to ensure a fair and equitable outcome to all (Mpumalanga Parks Board, 2002).

## CONCLUSION

From the experiences on nature based tourism initiatives demonstrated locally and internationally, it is evidence that the ecological resources have a potential for providing for tourism related economic opportunities, and ultimately reducing poverty to people adjacent to the conservation areas. Moreover, the people surrounding the conservation areas can also play a crucial role in nature conservation provided collaborative measures are put in place.

The Integrated Conservation and Development Projects Approach is one of the typical models for promoting collaborative conservation management which can benefit the people adjacent to conservation areas. Against this background, the local government is seen to be the key actor to facilitate collaboration among the different stakeholders in the tourism sector. Without the effective role of the local government, few nature based tourism initiatives will be directly linked to the objective of poverty reduction. Hence, some local governments, particular in rural areas, now seek to use tourism as a critical device for local economic development (Rogerson, 2007).

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## THE VALUE OF COMMUNAL LAND FOR SUSTAINABLE TOURISM DEVELOPMENT: A CASE OF VHEMBE DISTRICT

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### ABSTRACT

Communal lands in South Africa support the majority of the rural population. The multiple communal systems of the use of land and the natural resources play a significant role in the livelihood and household economies of rural dwellers. This is despite the labour reserve policies of the former government which concentrated indigenous communities into marginal lands, creating a heavy dependence on migrant and formal economy. The emergence of the value of natural resources has shown an increased appreciation of land-based livelihood activities and common pool resources. Research confirms that dependency on land and resources for livelihood is also an African phenomenon, although governments continue to resist transferring full resource management to the rural poor. It is estimated that the economic value of land-based livelihood on communal land in South Africa is US\$2 billion per annum, which is about 2.5% of GDP. These findings are in sharp contrast to stereotypes of communal lands as backward, unproductive and degraded. Rural enterprises which provide inputs to land-based livelihood can effectively promote local economic development. It is essential for all kinds of land reform to make provision for the private sector to be involved in partnership with the communities. In the Vhembe District Municipality there is evidence where such partnerships have proved to be beneficial to the local communities. The study reported in this paper was conducted in the Vhembe District Municipality of the Limpopo Province. The study used both quantitative and qualitative approaches and the survey method in the form of questionnaires was used to collect data from respondents. A face to face interview was conducted with landowners.

**Keywords:** Land restitution, sustainable tourism development; economic benefits; community tourism; Natural resource management

### INTRODUCTION: VALUE OF LAND

This paper indicates how communal land ownership affects development in rural areas of the Vhembe District Municipality of the Limpopo Province in South Africa. It further gives an exposition of land restitution in the study area. Communal lands in South Africa support the majority of the rural population. The multiple communal systems of the use of land and the natural resources play a significant role in the livelihood and household economies of rural dwellers. This is despite the labour reserve policies of the former government which concentrated indigenous communities into marginal lands, creating a heavy dependence on migrant and formal economy. The recent emergence of the value of natural resources has shown an increased appreciation of land-based livelihood activities and common pool resources (Shackleton, Shackleton & Cousins, 2000). Saruchera (2004) confirms that dependency on land and resources for livelihood is also an African phenomenon, although governments continue to resist transferring full resource management to the rural poor. Adams, Cousins & Manona (2000: 115) estimated that "the economic value of land-based livelihood on communal land in South Africa is US\$2 billion per annum, which is about 2.5% of GDP". These findings are in sharp contrast to stereotypes of communal lands as backward, unproductive and degraded. Rural enterprises which provide inputs to land-based livelihood can effectively promote local economic development.

When land-based livelihood is mentioned, many think of conventional agricultural activities, which have not been successful in the hands of the rural poor. Land and natural resources provide rural households with a wide range of non-monetary goods and services the value of which is difficult to calculate in monetary terms (Andrew, Shackleton & Ainslie, 2003: 1). Diversification of rural livelihood that includes non-agricultural and livestock activities, for example tourism and community-based wildlife management, needs to be taken into consideration. Access to this natural capital remains a crucial question to be answered by the land restitution processes. Shackleton *et al.*, (2000) emphasizes that tenure reform is a necessary condition for effective resource management. Lahiff, (2001) argues that tenure reform is the most neglected area of land reforms but has the potential to impact on more people than all land reform programmes combined.

Although the Communal Property Association Act 28 of 1996 make provision for a group of people to acquire and hold land in common with all the rights of full private ownership, most of the land in the former homelands still belong to the state. Kepe (2001: 3) has sighted the problem of land ownership as one of the reason for the collapse of agro-tourism Spatial Development Initiative (SDI) on the Eastern Cape's Wild Coast. It is essential for all kinds of land reform to make provision for the private sector to be involved in partnership with the communities. In the Vhembe District Municipality there is evidence where such partnerships have proved to be beneficial to the local communities. The Makuleke and Manavhela Community-Based Natural Resource Management project are the most successful projects in the district. Their success is due to the strong strategic partnership with private businesses. Tapela (2005: 60) has, nevertheless cautioned that strategic partnerships that have been introduced in the current land restitution programmes face the challenge of not succeeding if there is no proper monitoring mechanisms in place. In most instances, the responsibility of monitoring the success out of the partnership is handed to the municipalities, who often lack the resources to perform their role.

One of the examples of the unsuccessful community project is the Hereford Tobacco Irrigation Scheme in Sekhukhuni District in the Limpopo Province (Tapela, 2005: 63). Apart from the fact that tobacco is continuously becoming an unpopular product in South Africa, due to the discouragement of the consumption by the government, the project lacked marketing assistance. Another example of the struggling community project in a land restitution area is the Mavhungeni community poultry, dairy farm and vegetable garden. The project has 98 members as beneficiaries. According to the South African Broadcasting Corporation (SABC) (2006) broadcast, the community acquired the land through SLAG policy that promises some grant to the community that acquired land. This community had already acquired the land and had projects running although the grant applied had not been provided yet.

## **COMMUNITY PARTICIPATION IN NATURE-BASED TOURISM DEVELOPMENT PROJECTS IN VHEMBE DISTRICT**

The last two decades have witnessed a paradigm shift in natural resource management (NRM) away from state-centred control towards approaches in which local communities play a much more active role. These reforms aim to increase resource users participating in NRM decisions and benefits by restructuring the power relations between the state and communities through transfer of management authority to local communities (Campbell, Shackleton, Wollenberg & Edmunds, 2002: 1). These reforms have the assumptions that as the local communities gain access and rights to the land, they also gain

access to the benefits of economic activities that occur there, including tourism (Ashley & Wolmer, 2003: 9). There are a number of approaches that seek to link private sector tourism with local involvement. The most common approaches in South Africa include the Community-Based Natural Resource Management (CBNRM), Community Tenure and Leasing, Trans-border Natural Resource Management (TBNRM) Contractual National Parks, and Corporate Social Responsibility. These approaches try to encourage private sector activity in using natural resources to enhance benefits to the local communities. Sapsford (2004: 29) further listed the tourism partnerships that are available for the benefit of the communities. Such benefits include dividends from partnerships, employment opportunities, training opportunities, extension of infrastructure, access to markets and access to information. The following are the examples of how communities are utilizing their land restitution areas for tourism-related developments.

### **The Makuleke Tourism Initiatives**

The South African government has adopted the principle that it should not operate tourism businesses, but rather should provide an enabling environment that will stimulate private sector participation in the tourism industry. This trend is most evident in the recent policy shift of the South African national Parks (SANParks), where the private sector was invited to build and operate tourism facilities on the environmental protected land (Mahony & van Zyl, 2001: 4). The Makuleke tourism institute is one of the community based tourism initiatives that is supported by the Community-Public-Private Partnership (CPPP) programme. The South African government used this initiative as a pilot project to develop policy and procedural guidelines for implementation of similar community based projects throughout the country. It has been used as a case study to guide collaboration between in promoting conservation and tourism development in South Africa. Makuleke is located in the extreme northern portion of Kruger National Park (KNP) on the border between South Africa, Mozambique and Zimbabwe. The region is located between the Luvuvhu and Limpopo rivers, in an area of high conservation value. (See plate 1).

**Plate 1:** The southern boarder of the Makuleke contractual park.



Photograph taken in September 2010

The Makuleke tourism initiative arose as a consequence of the restitution process, in which the

Makuleke won back full ownership of their 24 000 ha of land in 1998 and was proclaimed as a Contractual Park in 1999. A condition of the restitution process was that the Makuleke community would continue to utilize their land for conservation purposes. To the Makuleke people, the area represents an extension of the community's natural resource base as well as a possible engine for socio-economic development. The park is no longer an isolated island and the community, as well, is not viewed as the labour reserve (Tapela & Omara-Ojungu, nd.: 13). They participate in all the activities that take place on their land. Table 1 shows the tourism related activities that are being pursued by the Makuleke community.

**Table1:** Tourism related activities at Makuleke

Tourism Related Activities at Makuleke

- Development of 6 high value game lodges as a joint venture.
- Development of a small rustic camp owned and managed by the Makuleke Community Property Association (CPA).
- Limited trophy hunting.
- Cultural tourism opportunities which include Thulamela and Crooks corner.
- Village based Bed and Breakfast.
- Animal breeding.

**Source:** Mahony & van Zyl, 2001: 27.

The activities that the community is engaged in are supposed to be in line with what has been agreed upon in the agreement with the government. The former Minister for Agriculture and Land Affairs Thoko Didiza, in her response to the question asked in the National Assembly about the success of land claims in KNP sighted the Makuleke land claim as the most successfully. The settlement of Makuleke land claim is based on a framework that seeks to balance the interest of restoring the land rights lost by the claimants and that of the State pertaining to conservation and biodiversity (Didiza, 2005a). The Makuleke community has an added benefit from land restitution in the sense that their piece of land has been declared *Ramsa* site (Silima, 2003; Convention on Wetlands, 2007).

### The Land Restitution and Sustainable Development at Madimbo Corridor

The conservation and tourism sector is globally promoted as one of the key mechanisms to catalyse rural local economic development. This is particularly relevant to South Africa where tourism is considered an important sector for Black Economic Empowerment (BEE) (Association for Rural Advancement, AFRA, 2004: 1). South Africa has enormous tourism potential, part of which arises from protected areas set aside for conservation purposes. Though significant achievements have been made in conservation, some ecological zones remain outside the system of protected areas. More land must be set aside for conservation; yet traditional conservation approaches meant land was subtracted from potential local use and conflict. Local communities are questioning how they, too, can benefit from such use of their ancestral lands (Fig, 2005: 2). Madimbo Corridor, a 45 000 hectare stretch of land on South Africa's northern border with Zimbabwe, is one of those areas that are faced with conflict of balancing conservation and development. The Matshakatini Nature Reserve that was proclaimed by the former Venda homeland government is located within the corridor. Its natural features include the Limpopo River, several hundred meters wide where it flows through the corridor. This river has many pools used by hippopotami and crocodiles, and there is a unique pan system on the floodplain. It also has a 51 kilometer stretch of virgin gallery forest including riparian, sand and old baobab (*Adansonia digitat*) trees (Poonan &

Mckenzie, 2005: 2). The corridor supports many endangered and rare plant species and forms a migration route between South Africa and Zimbabwe for elephants and buffalo. The area is also historically and culturally valuable because of archaeological evidence that was found which dates back to the Stone Age, including remnants of flint knives, arrowheads, slag, buildings and pottery (Poonan & Mckenzie, 2005: 1). The Makuleke community owns the eastern part of the corridor (6 360 hectares) which forms the northern extension of the KNP. The western part of the corridor is owned by the communities under the Mutele and the Tshikundamalema chieftainships. These communities experienced three removals, the first in the early 1930s, the second in 1969 and the last in 1982. The South African Defence Force (SADF) gained the land and relocated the communities to the former homeland of Venda and the farms bought for this purpose (Thema, 2004: 2).

The communities have now successfully claimed their land back and are facing a new challenge on how to utilize this precious resource for their survival. When land restitution takes place on environmentally conservation areas, communities tend to choose the land use that would benefit the majority of the inhabitants. This leads to the conflicts that may have serious impact on the environment especially when the activity desired such as residential development does not promote environmental conservation. The South African National Defence Force (SANDF) had indicated during the restitution debate that they would prefer the communities not to relocate to the claimed land so that the army could still use certain section of the land for training purposes. They provided a number of reasons for their retention of the Corridor, stating that it provided a unique environment for exercises, in particular as a location for tracking, survival instruction, water skills and specialized training for the Special Forces units and a number of regular Army and Air Force units (Thema, 2004: 8). Lack of lights during the night makes the area suitable for practicing night-time landing and take-off.

The Department of Defence Deputy Minister, Mluleki George argues, during the community stakeholder meeting, that the safety concerns of the communities, border control requirements and the necessity of ideal training and exercise ground for military operations, both inside and outside the country, made it virtually impossible to withdraw from the Madimbo Corridor (Sonjica, 2004: 2). This, according to Masikhwa and Mahwasane (members of Madimbo Corridor Community Property Association (MCCPA), (personal communication, April 27, 2006) is not acceptable at all. They also rejected several proposals including the opening of two corridors, one on the western and the other on the eastern side of the Military Area, to allow community access to the river, the controlled co-use of the land south of the foot-and-mouth diseases or veterinary fence, and the lease option.

The Limpopo Provincial Administration, who received another portion of the land (Greefswald), formerly utilized by the Defense Force in the west near Musina, planned to develop the whole Limpopo Valley as an ecotourism destination and as part of a system of trans-frontier national parks (Philip, 1998: 17). In 2000 the Madimbo Corridor stakeholders held a meeting which tentatively considered ecotourism as the most viable and sustainable land use option (Commission on the Restitution of Land Rights (2000). Thema (2004: 13) refers to the corridor as a missing piece of the puzzle which, if combined with the KNP, would raise the commercial value of Madimbo physically and in a management context. This could have an economic multiplier effect bringing in opportunities for more growth.

The communities would neither allow their land to be declared a conservation area nor a trans-frontier park as suggested, because this would not generate enough jobs for the claimants. They,

according to Masikhwa and Mahwasane, may rather have the combination of agriculture, including pastoral farming, mining and small scale tourism ventures. The community fear that tourism and conservation would result in themselves once again fenced off from their land and would prevent other land use options. The Minister of Land Affairs (Didiza), in her speech during the celebration of the settlement of the Gumbu/Mutele land claim at the Madimbo Corridor in 2004, urged the claimants to return to what they used to do in the past, which is to farm successfully on the land (Sonjica, 2004: 3).

There has already been controversy over the granting of a diamond prospecting permit in the area to Duo Corporate Developers. Concerns also prevail around the mining option, despite the company's assurances that mining will have minimal environmental impact. It is thought that mining may affect the water levels which will, in turn, affect the flora and fauna, and will also impact negatively on cross-boarder park plans. On the other hand, should a decision be taken not to mine, this will cause conflict among communities since the affected communities believe diamond mining to be quick route to wealth with significant employment opportunities (Poonan & Mckenzie, 2005: 3). The Chairperson of the Community Property Association (CPA) (Mahwasane), during the April 2006 interview, confirmed that the restitution of their land has been finalized, and the only outstanding matter is for the commission to accept their business plan on how to utilize the land. This had been confirmed by the South Africa Broadcasting Corporation (SABC) (2006a) which stated that that Land Commission is waiting for more submissions from the SANDF and the Madimbo community regarding the Madimbo Corridor's land use. Mahwasane always referred to the neighbouring Tshikondeni Coal Mine as the best community empowerment initiative as compared to the adjacent Makuya Nature Reserve, and would, therefore, not allow the same to happen with their community. This again implies that the community is still adamant that the restituted land shall not be used for conservation purposes. The SANDF is still using the 27 000ha corridor for training, airfield and camping purposes, even though the community owns it. The SANDF is continuing to negotiate a lease of about 13 000ha of land, but the community wants to use the land for farming and other projects (SABC, 2006a).

### **The Benefits of Land Restitution: The Case of Manavhela-Ben Lavin Nature Reserve**

By the end of 2005, the South African land restitution programme had compensated more than 870 000 people throughout the country and the payout had totalled one million hectares of restored ancestral land, but the black majority still owned only 16 % of the nation's agricultural land. The government hoped to boost this to 30% by 2014 (Wilson, 2006: 1). The Manavhela community is one of those communities that benefited from the Land Restitution Programme. This is a 700 household community that found themselves regaining custody of the 2 611 hectares of their ancestral land, the majority of which constituted the Ben Lavin Nature Reserve. The Manavhela community was removed from this land in the 1930s. The land was claimed by Ben Lavin, a farmer from the Cape, and was named after him. Lavin's widow donated the property as a game farm to the non-profit Wildlife and Environmental Society of South Africa (WESSA) in 1976 (Wilson, 2006: 2). As part of the restitution agreement in 2002, the Manavhela community agreed to maintain the property under the conservation principles. WESSA agreed to assist the community in the management of the reserve as a strategic partner. Manavhela-Ben Lavin Nature Reserve is ideally located along the N1 road at the southern base of the Soutpansberg Mountain Ranges. It is the "Ecotourist's Mecca" of the region that boosts itself with the reserve's diverse variety of

habitats containing over 230 bird and more than 50 mammal species. The Reserve is transversed by a network of game viewing roads that may be travelled on at any time of the day or night. There are eighteen kilometres of walking trails and the freedom to explore the entire reserve on foot or bike. The overnight hiking trail meanders through the different landscapes and habitats (Thesiger, Vaughan & Rattray, 2002: 2). Table 2 shows the tourism activities that are available in the reserve.

**Table 2:** Tourism activities at the Manavhela-Ben Lavin Nature Reserve.

Activities at Manavhela Ben-Lavin Nature Reserve
<ul style="list-style-type: none"> <li>• Eighteen kilometre hiking trail                             <ul style="list-style-type: none"> <li>• Mountain Bike Trail</li> <li>• Game viewing hides</li> </ul> </li> <li>• Forty kilometres of gravel roads for game viewing by car, day or night                             <ul style="list-style-type: none"> <li>• Swimming pool</li> </ul> </li> <li>• Organized Game viewing drives in open vehicles                             <ul style="list-style-type: none"> <li>• Organized birding safaris</li> </ul> </li> <li>• Environmental Education programmes</li> <li>• Conference and meeting facilities</li> </ul>

Source: Thesiger, Vaughan & Rattray, 2002: 3.

The Manavhela Ben-Lavin Nature Reserve has a wide range of accommodation to suit all needs from lodges, huts, luxury tents to camping. There is also a bush camp accommodation for larger groups. The land restitution programme enabled the Manavhela community to utilize part of the land for poultry farming. This is the enterprise which is wholly managed by the community, and Wilson (2006: 1) reports that the farm is able to produce 6 000 chickens at a time. When the former Minister for Agriculture and Land Affairs (Didiza) visited the Manavhela community in 2005, the community indicated that the projects on this newly reclaimed land have already improved the lives of the beneficiaries (Didiza, 2005: 3). The community has started to diversify the activities in their land through the introduction of an irrigation system. This will enable a number of beneficiaries to be actively involved with the activities of the community and benefit directly from the land restitution. The success of the Manavhela community projects is an indication that the current land reform disaster stories are not the whole picture (Wagerif, 2004: 9).

### Sustainable Development and the Levubu Land Claims

Levubu Tropical Valley is commonly known as the South Africa's Garden of Eden (Du Toit, 2004). In the 1930s commercial farmers were invited to settle in the valley and in 2001 approximately 250 farmers were farming there. During the 2002 surveys, their properties were conservatively estimated to be worth around R700 million because of the high level of crop output (Du Toit, 2004: 32). Levubu has the province's most beautiful and fertile sub-tropical farms (Soutpansberg Tourism and Marketing Association, 2006: 6). In this way, the area, if well marketed, could become one of the best agro-tourism destinations in South Africa. The Levubu area receives an average annual rainfall of 850 mm but the state-of-the-art irrigation system that pumps water from the Luvuvhu and Lutanandwa Rivers attributes to the high level of crop output. Water is also supplied by canals from the Albasini Dam. (See plate 2). This high-tech irrigation scheme would become an attraction on itself.

Plate 2: Water supplied canal from the Albasini Dam



Photo taken in September 2010

During the early 2000s, the agricultural production of the Levubu Valley earned R250 millions of foreign exchange every year. The area employs tens of thousands of workers, and about 50 000 people rely upon the sustainability of the valley (Du Toit, 2004: 34). Six communities lodged land claims against the 50 000 hectares of the productive farmland of the Levubu Tropical Valley, and the Land Claims Commission refers to it as the biggest land claim in the country. The claimants are the Ravele, Madzivhandila, Masakona, Matumba, Makaulule and Ratombo communities (Southern Africa Documentation and Cooperation Centre, SAOCC) (2003: 1). The Tshakhuma community is claiming 73 farms in the Levubu Valley but only eight have been purchased. The community still has a long wait ahead and the chief blames the delays on the Land Claims Commission. This community claims to have handed everything over to the commission; all the boundaries, all the information, all the maps and everything but nothing seems to happen (Nielsen, 2006: 2).

On the other hand the Ravele community lodged a claim to five farms constituting about 10 000 hectares and *Agri SA* negotiated with them on behalf of 23 owners. From the options given by the state these farmers prefer to remain on farms on negotiated leases (Nkuzi Development Association, 2004). Some of the farmers contested the claim and argued that the Venda people inhabited the summit ridge of the Soutpansberg mountain range away from the valley previously infested with malaria, tick-bite fever and sleeping sickness. They further indicate that the whites occupied the land in the 1930's when first-world technological know-how drained the swamps, sank boreholes and sprayed against malarial mosquitoes (Transvaal Agricultural Union, 2005: 1).

The insecurity, racial tension and lawlessness which have occurred since these claims were gazetted have created threatening hopes to the future of the valley. The land claimants demanded to visit the claimed land to identify graves of their ancestors to the Provincial Land Commissioner as a proof of the previous occupation of the land. In their letter to Didiza, the Minister for Land Affairs and Agriculture, the planned 'inspection in loco' was blocked by a group of farmers who regarded it as land invasion

(Ramovha, 2004). Ahrens (2005: 2) reported the event as an officially-sanctioned invasion of private property where a group of fifty blacks arrived at a farm with state officials in tow, ostensibly looking for ancestral graves. The Minister for Land Affairs and Agriculture, in her address during the launch of the Land Claim Commission's Annual Report in Limpopo, said that the landowners had long been a source of conflict in the country and had resulted in the current legislations to address the conflicts (Xingwane, 2006). These conflicts affect development in the area and critiques of the Land Restitution Programme argue that the whole process may result in the degradation of the once highly productive land in the country. The provincial land claims commissioner confirms this and indicates that the government is worried about the risk of losing the value of the land if it should simply be transferred to the claimants without providing them with the necessary expertise (SABC, 2006b). Xingwane, (2006) the former Minister for Land Affairs and Agriculture, confirms this when she says that the beneficiaries have limited financial resources and skills required to productive utilization of land resources, and therefore the settlement process must be made to be sustainable. She emphasizes that the 10-year implementation strategy should include the participation and training of beneficiaries. Some of the prominent farmers in the area have already neglected sections of their land and no improvements are being made. Haring, (2004:4) indicates that farmers repeatedly express their dissatisfaction over the slowness with which land claims are processed, and the fact that no chances to improve the farms are possible without the permission of the Commission. This results in some of the farmers neglecting parts of their farms. Plate 3 shows an abandoned farm house and the neglected land on one of the farms under claim.

**Plate 3:** An Abandoned Farm in Levubu.



Photo taken in September 2010

Nielsen (2006: 2) sights La Boheme, one of the first farms to be transferred in the Limpopo province, as an example of the failed land restitution programme. The farm house was new during the transfer process but has become a wreck and ruin seven years later. The land was extremely fertile and was bought for 4.5 million rand, and has now been valued at R920 000 in 2006. It was one of the most productive farms in the area and since its transfer it has not made a cent. Hundreds of thousands of rands of farm equipment have been vandalized, and stands completely useless. The government acknowledges

that there are sustainable development problems with regard to most of the claimed land. The government is forced to look for skilled partners to operate on a 50/50 basis with claimants. Such partnerships could include joint ventures, marketing and management agreements, training programmes, the provisions of consultancy, the transfer of technical know-how and other commercial agreements or business contracts. Land restitution programmes, if not well monitored, leads to disastrous conditions on the agricultural lands. Makhado Municipality in Vhembe District, which is the local authority that must look after the post settlement issues at the Levubu Tropical Valley, has no plan for dealing with land reform in the area. Their Integrated Development Plan (IDP) has no plan for dealing with land reform, nor even makes any mention of it. This despite the dramatic impact the settlement of land claims is likely to have on most developments planned within the IDP area (Wagerif, 2005: 24). It is for this reason that other land-use options must be considered to increase land productivity. Tourism has always been an option for consideration when crises like this takes place. In the Levubu Valley, tourism activities have long been considered to offset problems that are related to agricultural farming. Personal interview with Professor Bester, a farmer and a registered tourist guide of the Soutpansberg region, reveals that a number of guesthouses already exist although the occupancy rate has gone down in recent years.

#### **Land Restitution and Game Farming in the Soutpansberg Region**

South Africa has more game, and a wider variety of game species, than most countries. Despite periodic droughts game numbers have consistently increased. Game farming has become a viable industry with great economic potential, and the Limpopo Province is one of the main game areas in the country (Burger, 2006:84). The arid farming conditions in the northern part of the Limpopo Province make the area more suitable for game farming than crop cultivation. Game farming is often undertaken on a private commercial basis. Fig (2005: 13) states that safari hunting is a lucrative enterprise but steps should be taken to ensure that part of the revenue accrues to local communities. The Land Restitution Programme is the option that the government had taken to ensure participation of communities in game farming as a form of economic activity. The Tshivhula and Matshete communities successfully lodged their land claim against most of the game farms north of the Soutpansberg Mountains Range and had promised to continue with this type of economic activity (Plate 4 shows the part of the game farm under claim in the northern part of the Soutpansberg Mountain Ranges).

The land under claim includes the multi-billion rand De Beer's Venetia diamond mine. The Land Claims Commissioner has now declared the claim valid. Venetia produces around 50% of South Africa's diamonds by value (Diamond World News Service, 2006). The Tshivhula and Matshete communities who are claiming the same land want it for agriculture, tourism and mining. Mr Silas Sebola, in his SABC television interview on the 3<sup>rd</sup> of September 2006, indicated that the current operations at the mine should continue and the community together with the Commissioner shall find ways of getting involved in negotiations with the current land owners while the current operations continue (SABC, 2006c).

This is one of the land claims which Jo'blog (2006) describes as becoming the most contested in the province. It is possibly so because the area has high economic value due to its diamond mining and game farming activities, part of it had been proclaimed a World Heritage Site (Maphungubwe World Heritage Site), and therefore the current land owners cannot just let it go without a fight.

**Plate 4:** A game farm North of the Soutpansberg Mountain Ranges



Photograph taken in September 2006

De Beers Consolidated Mines have been given time to respond to the claim and have promised to continue its discussions with the Land Claims Commission and the claimants, while giving full co-operation to the process (PolishedPrices, 2006).

## **METHODOLOGY**

The research followed a multi-method approach that enabled data triangulation to take place. Both quantitative and qualitative approaches were used in this regard. This enabled the researcher 'to obtain valid and reliable data objectively' (Saunders, Lewis & Thornhill, 2000: 99). The study used the survey method which Vadum & Rankin (1998) describes as a method of systematically collecting data from people about their behaviours, attitudes and beliefs; and subjects for surveys are carefully selected to represent the group of people about whom the investigator intends to draw conclusions. Both questionnaires and semi-structured interviews were used. The population consists of land owners occupying the land under claim. These provided information concerning land uses and the productivity levels. They also assist in the identification of the parts of their land that cannot be utilized for agricultural activities due to unfavourable terrain or landscapes, which can alternatively be targeted for tourism purposes. Communities (leaders) that are claiming the land were also consulted. They provided their expectations and planned land uses of the newly acquired land. Tourism related businesses and tourism officers from Local Municipalities were consulted to assist in identifying tourist attractions in the study areas. Data analysis was based on tourism attractiveness index and description of tourism regions theories as explained by Smith (1995).

## **FINDINGS AND CONCLUSIONS**

More and more tourists are developing tendencies of visiting destinations that comply with the principles of sustainable tourism. Because of the special demands of specific forms of tourism, only counties with the flexibility to adapt to changing needs will continue to be successful (Van Schalkwyk,

2006). The above statement is very relevant to the tourism sector in the Limpopo Province. The greatest challenge is for the Government to speed up the land restitution processes, and allow the communities to execute their development plans that would directly benefit the households. Sustainable development is proportionally related to land ownership. When land ownership issues are not resolved, developmental activities slow down. The area under study is divided into three geographic regions, central, northern and southern. The central and northern regions are more attractive to tourists than the southern region (See table 3).

**Table 3: Major tourism attraction centres per local municipality**

Municipality	Physical Attractions	Cultural Attractions
Makhado	20	19
Musina	6	3
Mutale	6	2
Thulamela	8	1
Total	40	25

In this study, a questionnaire was administered to experts familiar with the aggregate tourist demand and taste, and with the general knowledge of the tourism region. The respondents were asked to assign weights to a series of attributes. The attributes selected in this study are natural factors, social factors, historical factors, shopping and recreational resources, and tourism infrastructure. The tourism region or study area is rated on a 0.00 to 1.00 scale. The value of 0.00 indicates that the region is least attractive to tourists, while the value of 1.00 portrays the region which is highly attractive. Makhado is the most attractive local municipality where the attributes are rated 8.75 and the weighting of 0.99, followed by Thulamela with the rating of 8.19 and the weight of 0.96. Mutale is the least tourism attractive local municipality. Its rating is 5.38 and weight is 0.86. The tourism attractiveness of the local municipalities in the study area is clearly depicted in figure 1.

Table 4 shows the aggregated tourism attributes and their weights at the District level. Each attribute was weighted and the total weight was 0.9 which shows that the district is highly attractive to tourists. The reason for the high attractiveness index is that the area has a diverse attributes, especially natural and historical sites that are well connected by tarred roads. The tourism attraction criteria are further grouped into major categories, that is, natural, social historical, shopping and recreational resources, and infrastructure (See table 5). In certain areas of the District especially the Northern and the Eastern parts where there are many nature reserves, infrastructure was developed for tourism purposes. Well paved roads, power line connections to tourism business, and the location of mobile communication masts are also used by local communities. The infrastructure investment for tourist usage also benefits local communities. Table 5 shows that tourists are mostly attracted by the nature and the beauty of the region. The panel agrees that the mountainous landscape and the evergreen vegetation along the perennial rivers of the central parts of the District encourages visitors to spend some time before proceeding to the renowned Kruger National Park.

Figure 1: Rating of tourism attractiveness per local municipality

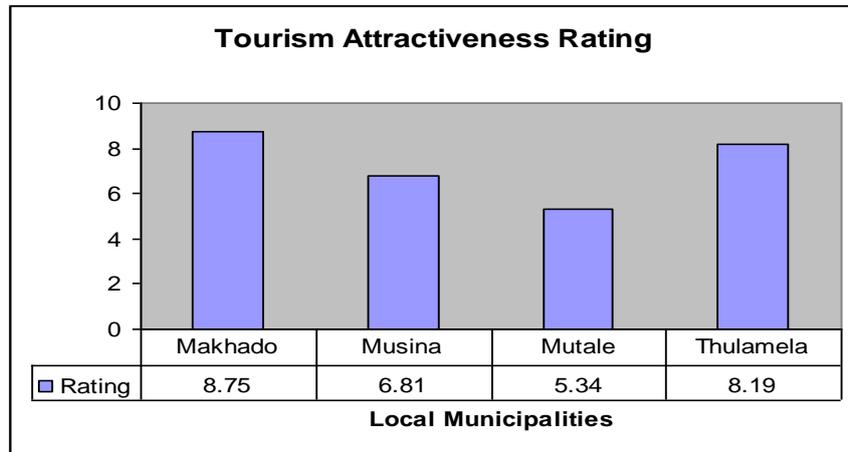


Table 4: Tourism attributes and their weights: Vhembe District Municipality

Attributes	Mean Rating	Weight
Climate	6.50	0.05
Natural beauty	9.25	0.07
Architecture	5.00	0.04
Festivals	8.25	0.07
Other cultural attract.	7.25	0.06
Ancient ruins	7.75	0.06
Religious shrines	5.00	0.04
Historical importance	8.25	0.07
Sports opportunities	7.50	0.06
Museums and gardens	5.50	0.04
Stores and shops	5.75	0.04
Relaxation opportunities	6.50	0.05
Adequate roads	8.00	0.06
Adequate utilities	8.25	0.07
Health services	8.75	0.07
Food & lodging	9.00	0.08
Total	116.5	0.93
Average	7.28	

Shopping and recreational resources are the least factors that influence tourism in the area. Thulamela is the only municipality that ranked high in this category. This is because of the Premier Football Club that uses the local stadium as their home ground, and the area receives a sizeable number of visitors even though the duration of their stay is minimal.

The Vhembe District Municipality encompasses the former homeland of Venda which was described as the mountainous country with lush vegetation and perennial rivers. This description still suits most of the land claim areas in the district. If tourism activities take place in those areas, the number of attractions will increase and if well marketed is likely to increase the number of tourists in the region as well.

**Table 5:** Attributes of tourism attractiveness

Attributes	Mean Rating	Weight
Natural Factors	8.2	0.068
Social Factors	6.9	0.058
Historical Sites	7.8	0.065
Shopping and Recreation	6.5	0.054
Tourism Infrastructure	8.5	0.071

## RECOMMENDATIONS

This study has proven that the land is an important asset for community development. It is recommended that the awareness of environmental conservation be highly considered in rural areas where the virgin vegetation is still visible. These areas remain the potential attraction centres for tourism. The success of tourism is the result of coordinated marketing by the industry members. The South African government promises to support the communities that are successfully claiming the land. The forms of support also involve financial grants as start-up for the projects the communities shall decide. The research revealed that a number of communities do not only need money, but the technical support as well. Some of the community projects collapsed due to lack of technical support.

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# TOWARDS A FRAMEWORK FOR SUSTAINABLE WATER CONSERVATION AND ACCOUNTABILITY IN LIMPOPO PROVINCE

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## ABSTRACT

South Africa is a semi-arid country, with limited water resources. Yet it is developing in terms of its economic activities. Water is central to the sustainable development of the South African economy. However, water is threatened by pollution, wastage and climate change – all resulting from anthropogenic activities. In an attempt to address the problem faced by water resources, the Department of Water Affairs (DWA) has developed measures such as National Water Resource Strategy (NWRS), Water Conservation and Demand Management (WCDM) among others. Although a number of frameworks were developed to address water conservation and climate change adaptation in the water sector, there is a need for a framework that integrates WCDM, Accountability and Climate Change Adaptation in the water sector, particularly in Limpopo Province. A sample of both local and district municipalities, from rural to urban areas will be targeted using a case study method. Questionnaires, interviews and focus groups will be used as sampling instruments for data collection. Based on the literature conducted thus far, there is no model available that integrates water conservation, accountability and climate change adaptation measures for sustainable development. As a result, this research will propose a framework for various municipalities (urban and rural) in the Limpopo Province. It is envisaged that the outcomes and recommendations for this research will make a contribution to the body of knowledge regarding water conservation, accountability and climate adaption; and thus contribute agenda for academic research and public sector policy making in the Limpopo Province and in South Africa in general.

**Keywords:** Water conservation; water accountability; climate adaptation; sustainable development; South Africa

## INTRODUCTION

South Africa is known to be a semi-arid country and this is attributed to the country's highly variable, spatiality and unpredictable rainfall. This is confirmed by the Department of Water Affairs (DWA) of South Africa which is the custodian of all water resources of the country. In addition, the effects of climate change pose a threat to the socio-economic development of the country. This view is supported by the South African National Climate Change Response Strategy (DEAT, 2004) which highlights health, water resources, land use, crop yield, forestry industry, terrestrial and marine biodiversity, as areas which are vulnerable to the effects of climate change. Water is a very strategic resource for socio-economic development of South Africa, yet it is a very limited resource. Hence it is important to manage this resource in an efficient and integrated manner. Water is central to the sustainable development of the South African economy. However SA water resources are threatened by pollution, wastage and the effects of climate change, all of which result from anthropogenic activities (DWA, 2013).

In an attempt to address the water resource challenges, the Department of Water Affairs (DWA) has developed Water Conservation and Demand Management (WCDM) strategies for each water user sector, namely, Agriculture, Municipal, Industry, Forestry and Environment. The purpose of these strategies

is to ensure that water is used in an efficient and sustainable manner through various innovative ways, while ensuring that there is accountability.

### **THE CLIMATE CHANGE CHALLENGE**

In the face of reduced rain-fall patterns, water shortages and increased population sizes, municipalities are faced with the challenge of making water available to communities. Climate change is forcing cities to adapt to changing weather patterns and water availability. In developed countries, there are cities that have developed such strategies, but in developing countries like South Africa, there are limited strides taken by municipalities to take those initiatives. The Limpopo Province is developing in its mining, tourism and agricultural sectors and this is largely attributed to its natural resources. Water is the underlying parameter in this scenario. Economic, social and environmental development depends on the availability of water. Major cities such as Polokwane have developed very rapidly in the past 10 years (DWA, 2013) as the water availability and demand study was undertaken. The pressure of water demands is attributed by a number of dynamics including (but not limited to): urbanisation, industrialisation, pollution, etc. These are all regarded as human induced activities. In addition, due to urbanisation, people tend to settle near major cities closer to work places. In Polokwane for instance, people tend to settle in places that are close to the city for travelling convenience, while others prefer to travel for long hours to and from the villages.

This presents a challenge to local municipalities because the initial infrastructure is no longer sufficient to carry the demands of the increased populations. Municipal water treatment plants were originally designed for service to a certain population size initially. But as the population increases and the city expands, there is no proportional increase in the municipal infrastructure to cater for the increased numbers. This puts pressure on the municipal water supply which is sourced from dams and boreholes from local or neighbouring districts or Water Management Areas. Most of the local water resources are over allocated. As a result the DWA promotes WCDM strategies for different water user sectors. These strategies need to be implemented in light of the necessary climate change adaptation and accountability strategies which promote sustainable development.

Very few cities and municipalities have developed adaptation strategies in response to climate change. An ideal situation would be for the city to be proactive rather than reactive to climate change threats. In the context of Limpopo Province however is not immune to prolonged droughts and floods. As a result, municipalities (district and local) do not seem to be having climate change adaptation and accountability strategies nor are implementing them where water resources are concerned. Hence there is a need to develop a framework for Water Conservation and Demand Management (WCDM), Climate Change Adaptation and Accountability strategies for water in municipalities in the Limpopo Province.

Despite the aforementioned challenges, there seems to be a lack of a framework that integrates water demand management and conservation, accountability and sustainable development at the municipal level in Limpopo Province. Hence this research is anchored on the following questions: Does water conservation and demand management measures respond to climate change adaptation in the Limpopo Province? Are climate change adaptation strategies for water integrated into Municipal operational activities? What possible framework could enhance water conservation, accountability and climate change adaptation measures for sustainable development?

## CLIMATE CHANGE AND WATER LINKAGE

In an attempt to address the problem faced by water resources, the Department of Water Affairs (DWA) has developed measures such as National Water Resource Strategy (NWRS), Water Conservation and Demand Management (WCDM) among others. Although a number of frameworks were developed to address water conservation and climate change adaptation in the water sector, there is a need for a framework that integrates WCDM, Accountability and Climate Change Adaptation in the water sector, particularly in Limpopo Province. South Africa is located at the southern tip of the African continent, it is bordered by Botswana, Mozambique, Namibia, Zimbabwe, and it completely surrounds Lesotho and almost completely surrounds Swaziland. South Africa is a developing country and it is perceived as the most developed country in the African. Although South Africa is developing in terms of its economic activities, it is faced with a number of environmental and social challenges (<http://www.theodora.com>). South Africa is regarded as a semi-arid country because of limited water resources. The total renewable water resources constitutes 50cu km (1990). Of this, a *total of* 12.5 cu km/yr fresh water is withdrawn domestic (31%), industrial (6%) and agricultural (63%) uses. South Africa also faces the threat of climate change due to the following factors (among others): Lack of important major rivers or lakes requires extensive water conservation and control measures; Growth in water usage outpacing supply; Pollution of rivers from agricultural runoff and urban discharge; Air pollution resulting in acid rain; Soil erosion; and Desertification.

In addition, South Africa is faced with the following challenges with regards to the Ecological Environment: Lack of important major rivers or lakes requires extensive water conservation and control measures; Growth in water usage outpacing supply; Pollution of rivers from agricultural runoff and urban discharge; Air pollution resulting in acid rain; Soil erosion; and, Desertification. In an attempt to address the problem with water resources, the Department of Water Affairs (DWA) has developed measures such as National Water Resource Strategy (NWRS), Water Conservation and Demand Management (WCDM) among others (<http://www.dwaf.gov.za>).

## THEORETICAL FRAMEWORK

### Water Conservation and Demand Management (WCDM)

Water Conservation involves the minimization of loss or waste, the care and protection of water resources as well as the efficient and effective use of water. Water Demand Management involves the adaptation and implementation of a strategy by a water institution or consumer to influence the water demand and usage of water in order to meet any of the following objectives: economic efficiency, social development, social equity, and environmental protection, sustainability of water supply and services and political acceptability. Therefore, WCDM Strategy is a fundamental step in promoting water use efficiency and is consistent with the National Water Act (Act 36 of 1998) which emphasizes effective management of our water resources. Water Conservation and Water Demand Management should not be seen as punitive or restrictive but as a responsible approach that will contribute to our prosperity (<http://www.dwa.gov.za>). The Minister of the DWA always promotes the WCWDM concept when addressing water shortages, before other cost intensive alternative such as water transfer and bulk water infrastructure development are considered.

There are opportunities to increase water use efficiency in all water use sectors. Most of the

sectors are expected to experience growth and use more water as our country develops (DWA, 2004). WCDM is a fundamental step in promoting water use efficiency and is consistent with the National Water Act (Act 36 of 1998) which emphasizes effective management of our water resources. Water Conservation and Water Demand Management should not be seen as punitive or restrictive but as a responsible approach that will contribute to our prosperity (<http://www.dwa.gov.za>).

### **Climate Change Adaptation Measures (CCAM)**

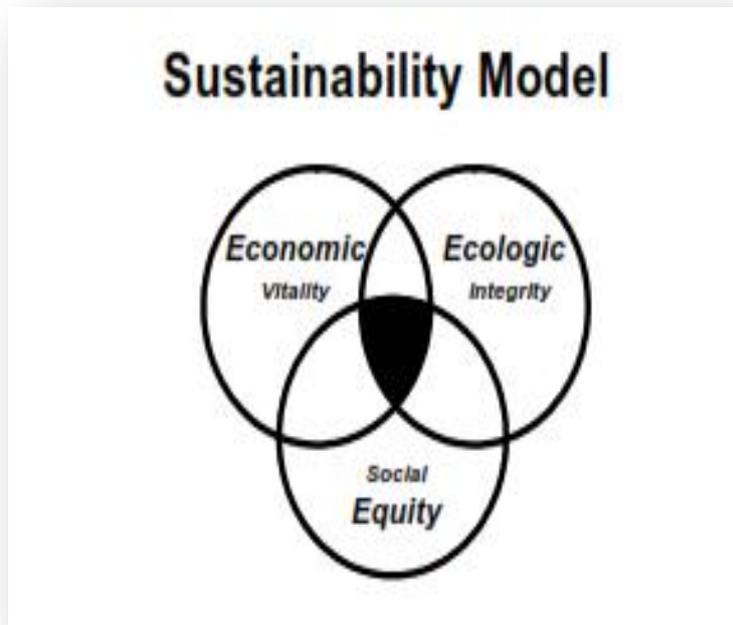
In the face of reduced rain-fall patterns, water shortages and increased population sizes, municipalities are faced with the challenge of making water available to communities. Climate change is forcing cities to adapt to changing weather patterns and water availability. In developed countries, there are cities that have developed such strategies, but in developing countries like South Africa, there are limited strides taken by municipalities to take those initiatives. Such adaptation challenges are further attributed to other external factors including the following: Political Buy-in; Economic challenges- funds allocated to climate change adaptation strategies; Social- lack of public awareness regarding water shortages and water conservation measures, as well as innovative initiatives and corporation towards the development of adaptation measures; Technology- lack of appropriate green technology or innovative ideas on how to develop such adaptation practices for climate change; Environment (ecological) – local environmental challenges extreme weather patterns (e.g. droughts and floods); and, Legal- frame work that enforces the municipalities to prioritise climate change adaptation measures and compliance from both municipalities and communities. Various cities in developing countries have developed frameworks that are geared for the development of climate change adaptation measures for potable water supply and waste water management, for example, the City of Cape Town (Mukheibir & Ziervogel, 2007).

### **Sustainable Development**

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and, the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs (WCED 1987).

Sustainable development is the centrepiece and key to water resource quantity and quality, as well as national security, economic health, and societal well-being (Flint 2012). The word *sustainability* implies the ability to support life, to comfort, and to nourish. For all of human history, the Earth has sustained human beings by providing food, water, air, and shelter. *Sustainable* also means continuing without lessening (Flint, *et al.*, 2002). *Development* means improving or bringing to a more advanced state, such as in our economy. Thus, *sustainable development* can mean working to improve human's productive power without damaging or undermining society or the environment—that is, progressive socio-economic betterment without growing beyond ecological carrying capacity: achieving human well-being without exceeding the Earth's twin capacities for natural resource regeneration and waste absorption (Flint, 2003). The conceptual model of sustainable development illustrates the relationship among economic, ecologic, and social issues of concern in decision-making. The black overlap of the three circles represents the nexus of connection among issues.

Figure 1: The conceptual model of sustainable development



Source: Flint, 2010.

### Sustainability Disclosure

The sustainability reporting guidelines are a framework for reporting on economic, environmental and social performance. They (a) outline reporting principles and content to help prepare organisation-level sustainability reports; (b) help organisations gain a balanced picture of their economic, environmental and social performance; (c) promote comparability of sustainability reports; (d) support benchmarking and assessment of sustainability performance; and (e) serve as a key tool in the overall process of stakeholders' engagement (Finch, 2005). Sometimes referred to as triple bottom line reporting, the term sustainability reporting is used throughout the GRI guidelines. The guidelines can be used simply as an informal reference document to assist organisations in developing a framework and indicators for measurement and reporting in an environmental fashion. Alternatively, the organisation may choose to adopt them and prepare their report 'in accordance' with the guidelines (Finch, 2005). The Public sector has a responsibility to disclose progress on their service delivery performance its stakeholders who are members of the public regarding service delivery. For some time there has been growing concern in the academic literature that the traditional financial disclosure framework by organisations is insufficient because: (a) it has failed to adapt to the changing nature of business; (b) that it no longer meets the changing needs of investors; and (c) that it fails to recognise a wide enough circle of users (ICAEW, 2004). In attempting to satisfy this deficiency in traditional reporting, several new alternate e sustainability reporting frameworks have been developed, but there is no universally accepted framework that allows universal comparison of sustainability performance. In the absence of legislative prescription, organisations have been adopting these new disclosure frameworks on a voluntary basis only to help them communicate with their stakeholders.

Based on the study conducted by Visser (2002), the results of the survey suggests that disclosure on sustainability issues by South African companies continues to improve, although on average, only 57% of the top companies are reporting on these issues. In annual financial reports, the issues most reported on are corporate governance, codes of conduct/ethics, employment equity and education and training, while black economic empowerment, fraud prevention and HIV/AIDS are the least reported. However, social, environmental, safety and health matters tend to be reported in more detail in the annual reports.

## **SOUTH AFRICAN WATER RESOURCES AND MUNICIPAL CHALLENGES**

Cities and other local authorities have a critical stake in the adaptation of water management to a changing climate. Virtually all the world's future population growth is predicted to take place in cities and their urban landscapes. The UN estimates a global increase from the 2.9 billion urban residents in the 1990s to a staggering 5.0 billion by 2030. By 2030, 1 in 4 persons will live in a city of 500,000 people, and 1 in 10 will live in a mega-city of 10 million or more (Pageler, 2009). Urban infrastructure is sized and engineered based on historic weather norms. In many cities, this existing infrastructure is under tremendous stress first, because of unprecedented urban population increases, and second, because systems are reaching the end of their 50-100 years' service lifespan (Pageler, 2009).

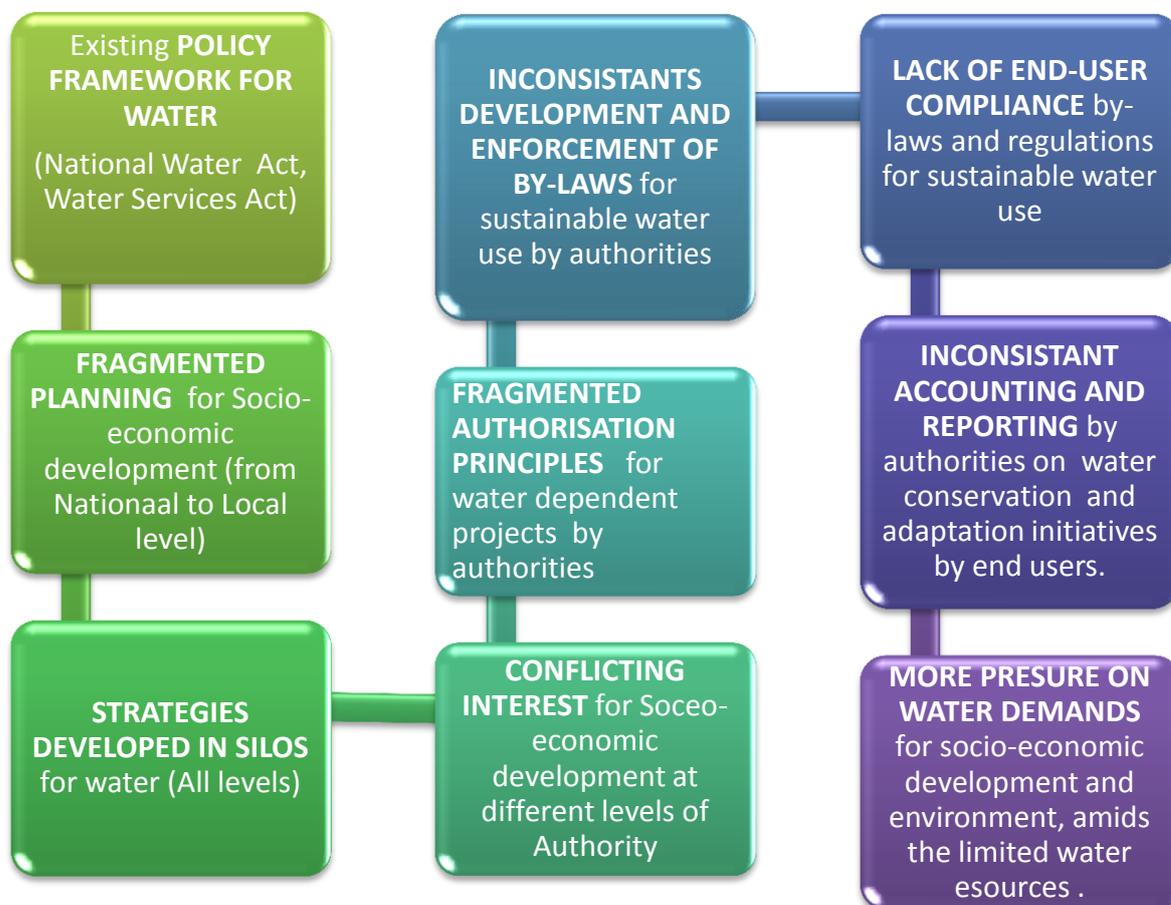
### **Climate Change and Water Sector Adaptation**

Implementing IWRM and sustainable land use management are of course essential. However, in most nations there is not a clear path for IWRM involvement and buy-in by city officials. Furthermore, the political will and authority for Sustainable land use measure may be divided among various authorities or levels of government and, at any level, is subject to competing economic demands (Pageler, 2009). Mayors are now beginning to address climate change adaptation, which directly involves city leaders in water sector measures. Integrating water and energy in crafting adaptation measures will be difficult at local level because these services are typically provided by different agencies with different political drivers. According to Pageler (2009), the adaptation agenda should promote an integrated approach to climate mitigation and adaptation. Although a number of frameworks were developed to address water conservation and climate change adaptation in the water sector, there is a need for a framework that integrates WCDM, Accountability and Climate Change Adaptation in the water sector, particularly in Limpopo Province, hence this research aims to offer a suggested framework.

### **Status Quo**

There are fragmented policies and strategies for water use in all spheres of Government. There is conflicting interest and un-coordinated efforts between different levels of authority during the approval development projects. There is insufficient monitoring and accountability for water usage by end-users. There seem to be inadequate regulation and enforcement of by-laws. Adaptation for climate change is not integrated into the regulatory and enforcement framework (see figure 2).

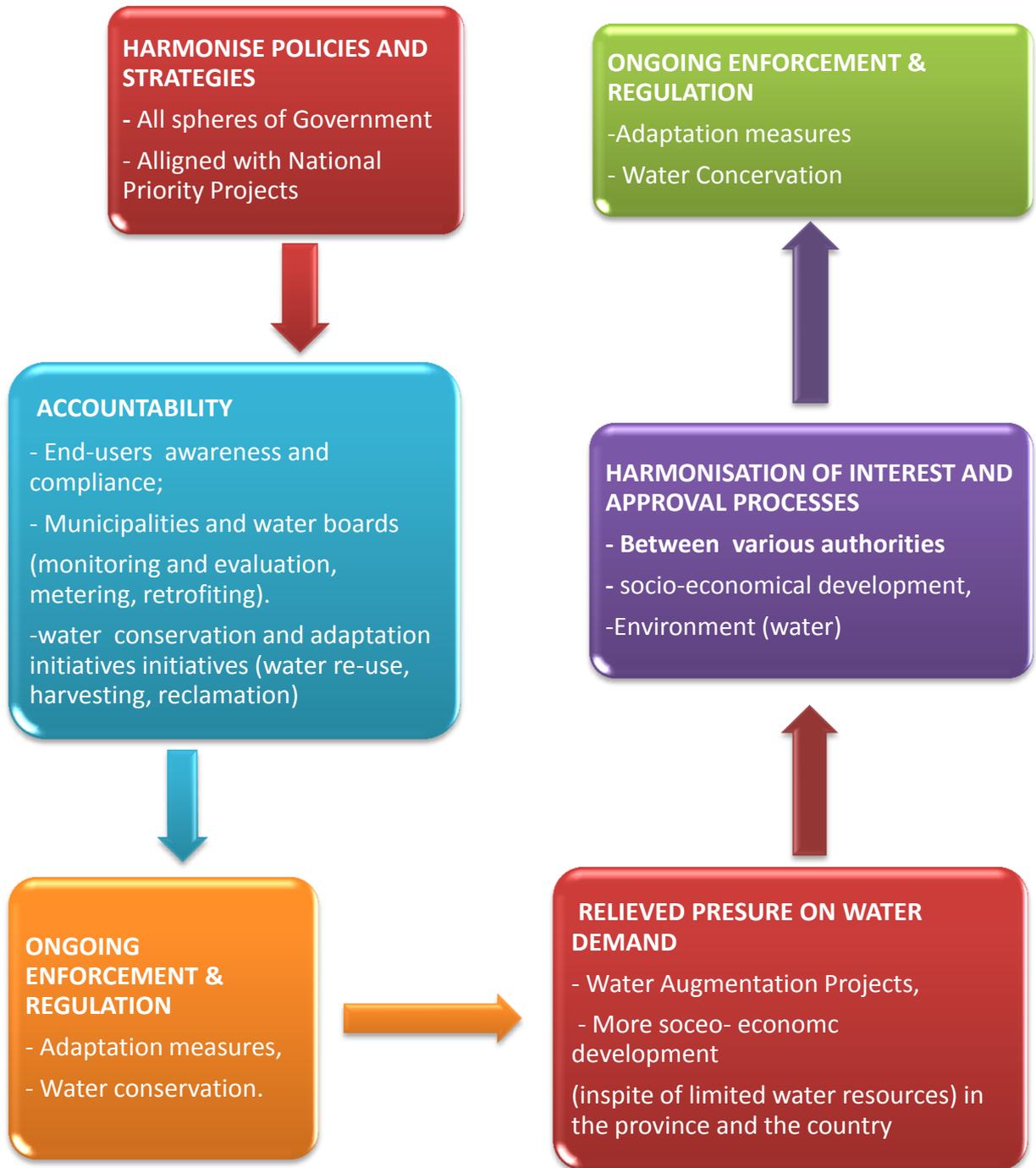
Figure 2: Water conservation, adaptation and accountability status quo framework



### Suggested Solutions

Policies and strategies for water conservation and adaptation for climate change need to be integrated and harmonized between all spheres of Government. Co-ordination and harmonization of interests between different Government institutions for the approval of sustainable projects. Accountability regarding end-user compliance and water service authorities regarding sustainable water use. Consistent regulation and enforcement is desirable to promote sustainable water use and management.

Figure 3: Suggested Water Conservation, Accountability and Climate Change Adaptation Framework



**CONCLUSION**

This paper highlights the challenges resulting from limited water resourced in South Africa, particularly in Limpopo. It also highlights the socio-economic activities that increase water demands in the province. Anthropogenic activities that drive socio-economic development exert pressure to the limited water resources. Lack of regulation, law enforcement and accountability may lead to the extended

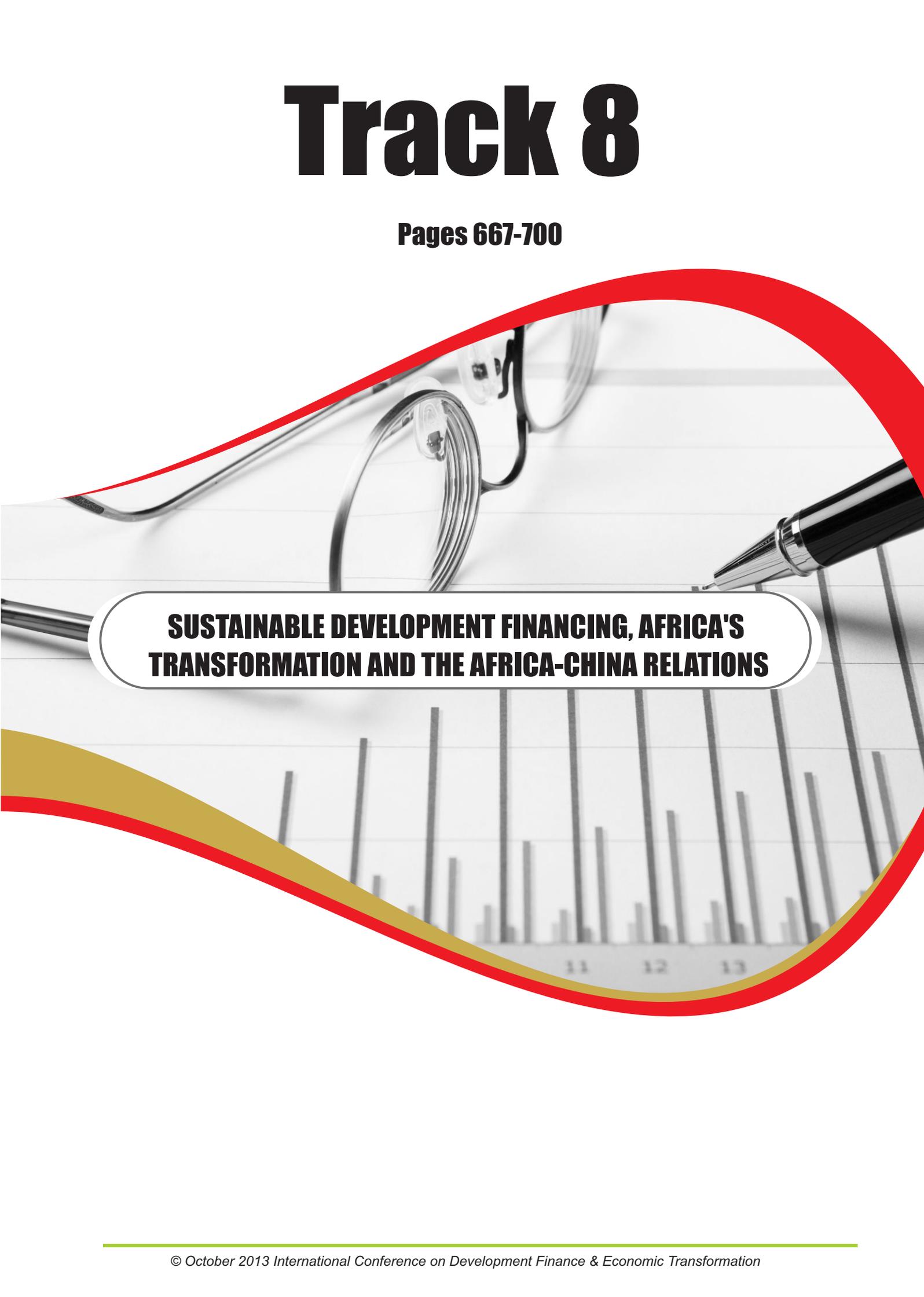
negative impact of the remaining water resources. In order to ensure sustainable water conservation and adaptation initiatives, it is necessary for authorities to harmonise their approval methods for future development projects that depend on limited resources.

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# Track 8

Pages 667-700



**SUSTAINABLE DEVELOPMENT FINANCING, AFRICA'S  
TRANSFORMATION AND THE AFRICA-CHINA RELATIONS**

## AFRICA-CHINA RELATIONS FOR DEVELOPMENT FINANCE AND ECONOMIC TRANSFORMATION: PROBLEMS AND PROSPECTS

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### ABSTRACT

One of the greatest concern today and indeed a major worry in the capitals of major Western countries is the growing influence of China in Africa. But this is only expected. As Africa's former colonial powers and subsequent dominant players in the political economy of post-colonial Africa, the West has not only been the traditional and dominant sources of fund for development in the continent, but has also provided policy reform prescriptions (mainly through World Bank and IMF) for most African countries. However, this situation is fast changing. Events at the international political economy, especially the Euro zone debt crises, among others, have all combined to make international politics and the management of global economy increasingly more complex, as China (in collaboration with the BRICS network), strive to out-do these traditional hegemony in Africa including EU, the US and Japan. The gravity of this concern in the western world was vividly expressed by the immediate past US Secretary of State, Hillary Clinton, in August, 2012 during her trip to Africa, when she characterized China's activities in the continent as "a new colonialism". There is no gain-saying the fact that China in the past decade or so has shown keen interest in and indeed been attracted to Africa. A proof of this is clearly demonstrated by President Xi Jinping, who made Africa the spotlight of his first state visit overseas, immediately after his emergence as the new Chinese leader. During this high-profile visit, President Xi signed deals worth billions of US dollars in economic assistance to three African countries including Tanzania, South Africa and DRC. This is in continuation of the current trend in China's heavy investment in and development assistance to Africa, which became obvious since the last decade. For instance, China's trade ties with Africa jumped from just USD 9 billion in 2000 to USD 200 billion in 2012. This has made Beijing, the continent's largest trading partner, a leading contender as a major source of Africa's development finance and economic transformation. Several issues and questions come to the fore from this current trend in China-Africa relations. In the first place, why has China become 'suddenly' interested in Africa? Secondly, is it possible for China to replace the West as Africa's major source of development funding and policy prescriptions? Furthermore, where should Africa pitch its tent in the current scramble for its resources between China and the West and why? Again, does Africa have the necessary wherewithal, especially the political strength and economic muzzle to deal with China? These and related issues and questions shall be the focus of this essay. The paper shall contend that African leaders and business elite must be circumspect in their dealings with China in order to avoid the pitfalls Africa has been having in her relations with the West. China is a big and continental country. If Africa will take anything home in its current dealings with this global power and up-coming and fastest industrializing giant, it must act collectively and concertedly. This is because, though China and Africa have many common historical experiences such as foreign domination and exploitation and belong to the same South-South global region, China like the West, especially the USA, is a very large country and very much focused, and shall not hesitate do anything possible, including using orthodox and unorthodox means to advance and achieve its national and international interests and objectives.

**Keywords:** China-Africa relations; development finance; economic transformation

## INTRODUCTION

In comparison with the West, China is no doubt a late starter in Africa. As Africa's former colonial powers and subsequent dominant players in post-colonial Africa, the West not only has a longer and more intimate contact with Africa, but has always had its way in its relations with the continent. Consequently, the Western powers have not only been the traditional and dominant sources of development finance to Africa, but have always provided policy reform prescriptions mainly via the World Bank and IMF. However, this situation is fast changing. Africa's foreign assistance from non-Western governments has increased sharply over the past decade, both in absolute terms and as a share of international development finance (Woods, 2008; Severino & Ray, 2010; Dreher, Nunnenkamp & Thiele, 2011; Walz & Ramachandran, 2011; Strange, Parks, Tierney, Fuchs, Dreher & Ramachandran, 2013); while it has dropped substantially from traditional donors (Organization for Economic Cooperation and Development (OECD), 20013). China's development finance constitutes over 60 percent of the former. Indeed, China is today not only challenging Western hegemon but is fast becoming an alternative source of development assistance to the continent. If the current trend continues (see Table 2), one can safely state that China shall certainly overtake the West as the main source of development finance to and transformation in Africa.

The above scenario raises some issues and questions. First, why has China become 'suddenly' interested in Africa? Secondly, what are the implications of China becoming an alternative source or a replacement of the West as Africa's major source of development finance and perhaps policy prescription? Again, where should Africa pitch its tent in the current scramble for its raw materials and other natural resources between China and the West and why? Furthermore, how does Africa muster the necessary wherewithal, in terms of political will and economic muzzle to enable it deal with China, so as to make the best out its dealings with the People's Republic? These and related issues shall be the major preoccupation of this paper. The paper contends that Africa's political and business leaders must be circumspect and act concertedly if Africa is to avoid falling into the same pitfall it has been into in its dealings with the West, and take something home in her dealings with China. Though it is true that China and Africa have certain historical experiences in common, such as Western colonization and exploitation, and belong to the same South-South regional configuration, it is equally true that China, like the US, is a large and continental country driven primarily by its national and international interests and goals. It would therefore not hesitate to employ any means possible, including orthodox and unorthodox ones, to achieve those goals.

## CHINA'S DEVELOPMENT FINANCE TO AFRICA

In its foreign relations, China has administered development assistance for over sixty years (Kobayashi, 2008; Brautigam, 2008, 2009, 2010; Dreher & Fuchs, 2012). Egypt was the first African country to receive development assistance from China in 1956 (Strange, et al. 2013). The People's Republic of China (PRC), ab initio, concentrated its development aid efforts towards exporting its revolutionary model to Africa (Brautigam, 1998), and in supporting socialist-oriented governments and leaders such in Egypt, Mali, Ghana and Angola. This ideological strategy was later modified to include advancing political goals such as undermining diplomatic inroads into Africa by Taiwan and counteracting Western and Soviet influences in the continent. This early phase of China's development finance which could be termed the

Maoist era was later expanded to embody economic modernization policy of Deng Xiaoping's era. The period started in 1978 during which China for pragmatic reasons strove for economic co-operation with the West. As a result, its interests and activities in Africa greatly waned, especially with the growing economic crises and political instability in many African countries (Taylor, 1998). This era which also coincided with the "Cold War" period ended with the demise of the Soviet Union, when China's profile in Africa changed dramatically in what Konings (2007) described as "the era of neo-liberal globalization". However, it is necessary to note here that during the "Cold War" era, China's development finance to Africa was guided by the "Eight Principles of Economic and Technical Assistance" enunciated by Prime Minister Zhou Enlai in 1964. These principles included, among other things, mutual benefit, respect for sovereignty and assisting aid recipient nations become self-reliance. By 1973, China was advancing development fund to 30 African countries, more than the USSR except the eight strategic Soviet allies (Strange *et al.*, 2013).

China's re-engagement with Africa and its development finance to the continent in the current neo-liberal globalization period is undoubtedly one of the most significant developments in the continent. Whereas there were insignificant demonstration and evidences of China's presence in Africa about a decade ago, there are today several hundreds of major Chinese businesses, diplomatic and cultural activities in the continent, in addition to tens of thousands of Chinese labourers, retailers and tourists, including prostitutes. In the same vein, a vast body of literature on them is equally emerging and fast growing (Chibundu, 2000; Jaffe & Lewis, 2002; Allen, 2005; Taylor, 2005, 2006; Sautuan, 2005, 2006; Holslag, 2006; Kaplinsky, MacCormick & Morvis, 2006; Tull, 2006; De Lorenzo, 2007; Konings, 2007; Lumumba-Kasongo, 2007; Alli, 2008; Okafor, 2008; Brautigam, 2008; Alden & Ana, 2009; Brautigam, 2009; Brautigam, 2010; Christensen, 2010; Brautigam, 2011a, 2011b; Barger, Brautigam & Baumgartner, 2011; Dreher & Fuchs, 2012; Hallinan, 2012; Quartey, 2012; Mwase & Yang, 2012; Anshan, 2013; Nnadozie, 2013; Strange *et al.*, 2013).

As an undisputed major player in world affairs and a member of the United Nations' Security Council, China is one the five powerful countries that decide issues of major importance in the world body. With a population of about 1.3 billion inhabitants, China hosts the largest population in the world, which is more than that of the entire Africa. It has nuclear weapons and has experienced one of the most successful revolutions in the world. Its stock of Foreign Direct Investment (FDI) is the third largest in the world, after those of the USA and UK (Adhikari & Yangzheng, 2002). With the biggest development institution in the world – the Chinese Development Bank – China has been very successful in its economic reforms since 1978, when Xiaoping launched his economic modernization programme. A former captive of the European colonizing powers, China is fundamentally a state per excellence – a continental, strong and ambitious state like the United States – with an expansionist tendency and behaviour. Driven by its "socialist market economy" or "market socialism" ideology which encompasses some elements of pragmatism, free market and state control (dirigisme), China has gradually emerged as a new industrial giant with an amazing economic growth of more than nine percent a year since 1978. As a result, China is a very large potential market for Africa's largely untapped raw materials. In this regard, and as McMormick (2006, citing Lennon, 2005) observed, between 1998 and 2003, China's share of increased global demand was "96 percent for nickel, 100 percent for copper and 96 percent for aluminium" (cited in Lumumber-Kasongo, 2007: 10). From the foregoing, it is obvious that China's renewed interest in and development finance to Africa is essentially driven by its rapidly expanding economic and industrial complex, with its

insatiable appetite for energy resources and raw materials (Jaffe & Lewis, 2002; Hurse, 2006), though its earlier Maoist policy era of ideological and strategic consideration has not been jettisoned. China sees in Africa not only a strategic partner in the realization of its national and international goals of stabilizing her resource security, but also an ally which needs to be strongly cultivated and strengthened to counter perceived Western global hegemony, particularly in the UN and other multilateral organizations and agencies, in addition to the curtailment of Taiwan's diplomatic and political space in the continent (Konings, 2007). To achieve these objectives, China founded the Forum on China-Africa Cooperation (FOCAC) in October, 2000 which currently provides the institutional framework for a strategic Sino-Africa partnership, particularly in economic and development finance. Since then, Chinese development finance to and investments in Africa has gradually increased.

Pledges of assistance have doubled at each FOCAC summit which holds every three-year: in 2006, US\$5 billion was pledged; in 2009 US\$10 billion; and in 2012 US\$20 billion. At present, Chinese development finance would appear to be relatively evenly spread across the continent, covering almost every country and region, including South Sudan (which got its independence in 2011). Expectedly, only those states – Burkina Faso, Swaziland, the Gambia, and Sao Tome and Principe – that do not maintain diplomatic relations with China are left out. Between 2000 and 2011, ten African countries individually received at least 3 percent of all Chinese finance projects to Africa. Of these countries, only two (Ghana and Liberia) are in West Africa, while the rest are either in Eastern or Southern Africa. Over the same period, Zimbabwe received the largest number of projects (104), followed by Ghana (64), Liberia (59), Kenya (58), Sudan (55), and Ethiopia (54). The lowest number went to Libya (2), South Sudan (4), Chad (6), Benin, Cape Verde and Somalia (7 each) (Strange *et al.*, 2013).

In fact, the closeness of China's economic ties with Africa that have made Beijing the continent's largest trading partner, and the importance which the Chinese leadership attaches to those ties is demonstrated by the recently inaugurated Chinese President, Xi Jinping, who made Africa the port of his first state visit overseas after assuming office. During the high-profile tour in March 2013, Xi signed economic deals worth billions of dollars in different types of aid for three African countries of South Africa, Tanzania and DRC. This is not a happenstance. Rather, it is a continuation of a tradition of economic and commercial tie and friendship between China and Africa before President Xi came to power (see Table 1). In fact, Chinese current investments in Africa span across many sectors and are not limited to official and state-owned companies. Numerous private Chinese firms have also invested heavily across the continent. For instance, Hauwei, a major Chinese international telecom services provider, has more than US\$1.5 billion worth of investments in Africa and has about 4000 employees in the continent (USA Africa Dialogue Series, 2013).

Indeed, China's trade figures with Africa has grown rapidly in the past decade, having moved from just US\$9 billion in 2000 to US\$200 billion in 2012, and the trend has not changed. Starting from 2006, when the surge in China's development finance began, 62 percent of the value of Chinese investment was official, though it fell to just over 21 percent in 2011. On average, the value of official and unofficial Chinese projects in Africa have fluctuated between \$40m to \$100m and \$200m to \$650m respectively, in the 2006-2011 period. According to AidData, there are "1 422 official projects [in] 50 African countries over the 2000-2011 period that have at least reached commitment stage, totaling 75.4bn." (cited in Minto, 2013: 2). Learning from their experience with the Japanese when Japan advanced loans to China itself for

shipments of coal and oil to Japan, the Chinese government made extensive use of the resource-credit swap model. Under the system, loans and credits are repaid in local raw materials and primary products such as cotton in Egypt, cattle in Mali, copper in Zambia, and oil in Sudan, Angola, Nigeria and Ghana, among others. This model is becoming increasingly important as China's appetite for Africa's resources expands, and as aid, trade and investments are intertwined. Indeed, from all indications, and as Table 2 clearly demonstrates, one can infer that if the current trend continues, China in the next decade, would certainly, not only double its lead as Africa's biggest commercial partner, but would also challenge the traditional hegemony in the continent (Nnadozie, 2007), and surpass the West as the biggest financier of development activities in Africa.

In April 2011, Chinese State Council published a "White Paper on China's Foreign Aid" which officially classified some Chinese on-going financial flows as "foreign aid" (Strange *et al.*, 2013). Earlier in 1995 aid reform, China's traditional aid instruments, grants and interest-free loans were complemented by multiple new financing mechanisms. But in spite of all these reforms and official guidelines provided by successive Chinese governments, the original principles enunciated by Zhou Enlai in 1964 have continued to serve as the strategic and ideological foundations of China's development finance system. As China's global aid portfolio and other development finance projects expand, the agencies saddled with the responsibility of administering them have continued to claim that these principles guide their actions and activities; while Chinese scholars often cite the 'Eight Principles of Foreign Assistance' "as the foundational building blocks of the rapidly evolving 'foreign aid thought' in Beijing" (Huang, 2007; Chang & Li, 2011, cited in Strange *et al.*, 2013: 4). Indeed, China's contemporary development finance is very complex, though not well laid out and therefore not easily comprehensible (Huang, 2011). This is partly because unlike many countries such as Britain and Australia, China does not have one independent agency that administers her foreign aid. Rather an intricate network of bureaucratic structure made up of ministries and agencies all combine to make up China's development finance apparatus. Consequently, scholars are hardly agreed on the roles played by the bodies involved in China's foreign aid system.

For instance, while some scholars consider the Ministry of Commerce (MOFCOM) as being "in charge of implementing ... aid policy" (Grimm, *et al.* 2011: 7), or "[taking] the lead on China's official assistance policy" (Mwase & Yang, 2012: 11), other scholars disagree. Hong (2008), for instance, insists that MOFCOM is neither in charge of formulating, nor implementing Chinese aid policy, but is rather a "designated central processing unit" for aid statistics (cited in Strange, *et al.* 2013: 4). Nonetheless, scholars and analysts are agreed on a number of key areas of responsibility for the organs managing Chinese development finance (Strange, *et al.* 2013). First, the State Council, headed by the Premier, plays a leading role in determining the shape of Beijing's overseas aid and investment strategy. It determines China's annual development finance budget, reviews all cash grants above US\$1.5 million and aid projects worth over US\$12.5 million. The Council also sets government strategy and policy vis-à-vis 'politically sensitive' recipients, among other duties (Brautigam, 2009; Christensen, 2010; Mwase & Yang, 2012). Second, MOFCOM manages most foreign grants and interest-free loans. It also liaises with China Exim Bank on concessional loans (Lancaster, 2007; Chaturvedi, 2008; Brautigam, 2009). Most of these duties are executed by MOFCOM's Department of foreign Aid. Third, China Exim Bank and China Development Bank (CDB) provide concessional and non-concessional loans and export credits. Fourth, the Ministry of Finance (MOF) manages debt relief matters and contributions to multilateral institutions. Fifth, the Ministry of

Foreign Affairs (MOFA) reviews project proposals from recipient countries and coordinates with MOFCOM to set annual aid levels and work plans. It also organizes FOCAC summits (Lancaster, 2007; Christensen, 2010). Though MOFCOM, MOFA and MOF are the primary players, Chinese development finance entails a multi-tiered system that includes the involvement of 23 government ministries and commissions, in addition to local, provincial and regional ministries of commerce (Huang, 2007). While Huang (2007) feels that China's "foreign assistance management system" has eventually taken shape with the expansion of China's foreign aid activities; Hu & Huang (2012) maintain that China's current development finance management system is inadequate and therefore incapable of meeting the demands of China's overseas aid as a growing provider of international development assistance. They have therefore suggested that an agency be established under the State Council to take charge of China's development finance network. In the final analysis, the deficiencies in China's development finance architecture are not only the likely explanation why China's current foreign aid finance is not easily understood, but may also likely account for why there is at present no comprehensive Chinese aid statistics.

Indeed, a major problem in the study and analysis of China's development finance activities is the dearth of reliable and comprehensive data on them. Unlike the traditional aid regime which is organized around the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), the Chinese authorities do not easily and frequently release detailed information on their foreign aid activities. A number of reasons have been advanced by scholars to explain why the Chinese authorities are economical with their overseas aid data (Minto, 2013; Strange *et al.*, 2013). These reasons range from attempt to avoid undue pressure from some recipient countries that may feel less favoured by China in the disbursement of its development finance to avoiding being criticised at home for spending money abroad when there are serious poverty and other economic problems at home. Most importantly perhaps is the fact that China may not like to capitulate to the Western (OECD-DAC) format whose global aid reporting system it strongly argued against and opposed in Bosan, South Korea, during the 2011 High Level Forum on Aid Effectiveness. Though Strange *et al.* (2013: 14) have strongly argued "for a common vocabulary and categorization scheme for Chinese development finance", Brautigam (2009, 2010, 2011a, 2011b) has equally demonstrated that several types of China's overseas assistance do not fit neatly into the traditional OECD-DAC categorization formula.

## PROBLEMS AND PROSPECTS OF CHINA'S DEVELOPMENT FINANCE

China's development assistance to Africa has come under intense scrutiny in the past decade. On the one hand, Africa's reaction, especially by political and business leaders, can be characterized as ambivalence. On the other hand and expectedly, Western analysts and international finance institutions, such as the World Bank and IMF, perceive Chinese development aid to Africa mainly from the negative perspective. Accordingly, they have consistently accused China of expanding its presence in Africa essentially for self-serving reasons – having access to natural resources, subsidizing China's firms and exports, securing and expanding political alliances and pursuing global politico-economic hegemonic goals. Naim (2007: 95), for instance, asserts that "rogue" donors such as China "could n't care less about the long-term well-being of the population" of its recipient countries. And the former US Secretary of State, Hilary Clinton, during her Africa's foreign trip in August 2012, described China's activities in Africa as a "new colonialism" (Hallinan, 2012: 2), a sentiment many Africans may not likely share. According to her, "We saw

that during colonial times it was easy to come in, take out natural resources, pay off leaders and leave” (Quartey, 2012: 1). Chinese officials counter insisting that “China’s investment in Africa is based on respecting the will of Africa, listening to the voice of Africa and caring about the concerns of Africa, thus earning the trust of most African countries” (People’s Daily Online, 2012, cited in Strange *et al.*, 2013: 6).

On their part, African governments, bureaucrats and entrepreneurs are divided on the issue of the impact of China’s development assistance on the governance, economic, social and environmental conditions of the continent. While a section of African leaders and analysts view China’s development finance positively, others think otherwise. Echoing the view of the former, Lumumber-Kasongo (2007: 9), citing Allen (2005), stated that “Governing and business elite within Africa see new opportunities in China: trade and investment opportunities, ways to bolster regime stability, and strategic significant partnership”. Some African leaders, especially those of them facing regime legitimacy, including despotic and sit-tight ones among them, are particularly excited to see an alternative approach to economic management different from Western strictly-monitored austerity policies and programmes. To them, China appears “an alternative to the ‘painful’ neo-liberal economic and political reforms espoused by the West and typified by the ‘Washington Consensus’ of the IMF and World Bank. They were quick to embrace the various tenets of the development paradigm propagated by China [as contained in] the ‘Beijing Consensus’: non-interference in state sovereignty, freedom from western hegemony, and an absence of any conditions on aid-giving (with the exception of the One-China principle). [Indeed], China appears to be offering Africa something new, namely a straightforward business relationship between equals based on mutual interest and non-interference in the internal affairs of its allies” (Sautman, 2006, cited in Konings, 2007: 17).

Furthermore, not only is China offering Africa alternative sources of development finance on better terms and with ‘no strings’ attached, but the volume of the assistance also appears to be more than the one coming from the West. For instance, when in 2005 negotiations for loans between Angola and the IMF broke down due to the latter’s insistence on excessive monitoring guidelines, Angola quickly turned to China which easily offered her loans and credits worth \$5 billion and without the IMF conditionalities (Kurlantzick, 2006; Lombard, 2006). Again, in 2007 the volume of aid to Africa from China more than tripled that from the World Bank with \$8.1 billion as against \$2.3 billion (De Lorenzo, 2007). A 2009 World Bank report estimated that Chinese financial commitments to Africa’s infrastructural projects rose from less than \$1billion per year in 2001 – 2003 to around \$1.5 billion per year in 2004 – 2005, reaching at least \$7 billion in 2006. The estimate for total Chinese investments for 2010 – 2012 now stands at \$101billion (Quartey, 2012).

Recently, South African President, Jacob Zuma, eulogized Africa’s relationship with China, even though he is disturbed about the “current trade pattern” which is unsustainable, as it is not helping Africa build up its industrial base (Hallinan, 2012: 2). Indeed, the former President of Senegal, Abdoulaye Wade, has had to rebuke Western donors in 2008 for criticizing the Chinese development aid and investment programmes in Africa. As he explained:

“Chinese approach to our needs is simply better than the slow and sometimes patronizing post-colonial approach of European investors, donor organizations and non-governmental organizations....With direct aid, credit lines and reasonable contracts, China has helped African nations build infrastructure projects in record time – bridges, roads, schools, hospitals, dams, legislative buildings, stadiums and airports. ... I have found out that a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we deal with

Chinese authorities. I am a firm believer in good governance and the rule of law. But when bureaucracy and senseless red tape impede our ability to act – and when poverty persists while international functionaries drag their feet – African leaders have an obligation to opt for swifter solutions” (Wade, 2008, cited in Strange *et al.*, 2013: 6).

However, there are other African leaders and analysts who have a different view of China's activities in and development finance to the continent. For instance, Kwesi Nduom, Ghana's former Minister of Public Sector Reform, is disturbed that some African governments may use Chinese money in the wrong way to avoid pressure from the West for good governance. Similarly, Zambia President, Micheal Sata, had even gone further to characterize Chinese investors as “infesters”, and had threatened to deport any Chinese employer who maltreats Zambian employees (Swann & McQuillen, 2006; Conway-Smith, 2013). Indeed, China has often been accused of using its strategy of ‘no strings’ and non-interference as a cover-up to prop up and maintain corrupt and unpopular African leaders with bad human rights records (Traub, 2006; Naim, 2007; Pehnelt, 2007). The non-interference principle is traceable to the 1955 Bandung Conference which is further clarified in the Beijing's “Eight Principles”. According to the PRC's White Paper, “China never uses foreign aid as a means to interfere in recipient countries' internal affairs or seek political privileges for itself”; and Beijing's Declaration during the FOCAC's inauguration stresses that the “politicization of human rights and the imposition of human rights conditionalities on economic assistance should be vigorously opposed” (Strange *et al.*, 2013: 7).

Western analysts and Human Rights groups insist that the above approach by China is a convenient way of turning blind eyes to undemocratic and corrupt African leaders and regimes in order to do business with them. They charge that corrupt African leaders can simply turn to China to make a deal, if Western donors refuse or withhold aid due to democratic or human rights abuses (Kurlantzick, 2006; Human Rights Watch, 2007). Examples often cited in this regard include Angola's President Jose Eduardo dos Santos, who has been in power for over 33 years; Zimbabwe's Robert Mugabe, who has been in office for over 34 years, and has again ‘won’ another 5-year term in August, 2013; Joseph Kabila of DRC, who has stayed for 12 years; and the current Sudanese leader who has been in power for over 28 years. However, other analysts and scholars such as Berger, Brautigam & Baumgartner (2011) strongly disagree. They maintain that there is little or no evidence to believe that China, more than the West, would prefer to deal with corrupt and unpopular regimes more than democratic ones in Africa. They further criticize the characterization of China as a ‘rogue donor’, or as always propping up unpopular regimes and undermining West's ability to use conditionalities to enhance good governance and human rights (Dreher & Fuch, 2012).

In July 2010, the Chinese ambassador to South Africa, Xian Xuejun, lambasted Western leaders and media who “make irresponsible remarks on China-Africa relations”. “After all”, as Quartey (2012: 1-2) rightly added, “when it comes to colonialism and neocolonialism alike, the West's record has hardly been spotless. We need only to be reminded of the cozy relationship between the United States and the ruinous Congolese dictator, Mobutu Sese Seko, one of Africa's many dictators to have been propped up [and maintained for decades] by Washington”. Again, a recently released British MP's Report which revealed a secret arms trade deal worth over £12.3billion between Britain and “repressive nations” (Sengupta, 2013), further exposes West's hypocrisy on the use of conditionalities to punish so-called ‘pariah’ states or countries on the “aisles of evil”, in order to enhance good governance and human rights. But there are still

other serious problems usually associated with China's development finance to Africa. This concerns the nonchalant attitude usually exhibited by Chinese firms and factories operating in the continent to issues of labour laws and environmental standards. Several serious violations of international labour laws and environmental standards, especially in the oil, mining, timber and logging sectors have been uncovered in Chinese led-investments in Africa, such as the DRC, Angola, Zambia, Gabon, Ghana, Sierra Leone and Nigeria (Lungu & Mulinga, 2005; Kotschwar *et al.*, 2011; Nnadozie, 2013). Trade unions and labour leaders, as well as Human Rights groups are the most vocal and vociferous opponents against Chinese lackadaisical attitude towards industrial laws and safety standards, including the dumping of sub-standard drugs and other dangerous products on desperate and vulnerable poor African consumers (Nnadozie, 2013).

Related to the above is the flooding of African markets and shops with cheap and often inferior manufactured Chinese products. This has undercut both African manufacturers and retailers and led to forced closure of local industries and catastrophic increased in joblessness. For instance, the negative effects of massive Chinese textile exports on local African textile industry has resulted in what is generally referred to as the "textile tsunami", in which both the national and international African markets have greatly been undermined (Alden, 2005; Tull, 2006). In South Africa, about 67,000 jobs have been lost in the textile industry alone, with similar or more numbers lost in Nigeria and other African countries (Konings, 2007; Okafor, 2008). Consequently and as Haugen & Carling (2005) pointed out, the influx of Chinese trading shops (baihuo) and China-towns has been met with a mixture of both excitement and resentment reflecting their ambivalent impact on the economies of African states, including Cape Verde, Namibia and Zambia, where serious resentment has been recorded about increasing Chinese presence (Konings, 2007).

Another disturbing area to Africanists and analysts is the contribution of China's development finance to the economic transformation of the continent. Issues raised in this regard range from China's tendency to finance ostentatious projects and programmes such as regional and cultural centres, government buildings, stadiums, etc. that have limited and transient economic benefits (Lum *et al.*, 2009; Will, 2012); financing the construction of beautiful new hospitals without equipping them or providing for the personnel to man them, thus undermining their impact and long-term sustainability (Yin, 2012); and the quality of Chinese construction works such as roads, dams, etc., where cracks appear only months after their glamorous opening ceremonies. But those who oppose this view maintain that China provides demand-driven assistance and delivers tangible results – passable roads, modern continental and legislative buildings and ministries, including new technologies and know-how – in relatively short period (Zafar, 2007; Wade, 2008; Moyo, 2009; Guloba *et al.*, 2010). Still other scholars who canvass this view point out that China finances and invests in areas that complement Western aid agencies, or indeed, where traditional financiers shy away from. Moss & Rose (2006), for instance, have observed that China targets sectors such as physical infrastructure which is more capital intensive, and where there is high demand but shun by Western financial donors in favour of education and health.

There is also the issue of Chinese penchant of engaging their own nationals instead of local employees for Chinese-sponsored projects. Going by the high rate of unemployment in almost every African country, it is almost certain that this practice would breed resentment and ill-will between China and its host countries in the continent. It is often said that not everything that glitters is gold. This adage

seems to be playing out in the China's principle of 'no string' attached to its development assistance. This is because China's current development finance policy promotes the use of Chinese contract labour, making it increasingly obvious that Chinese loans, credits and other development funding come with some conditionalities. For instance, a loan from China Exim bank often requires the recipients to select Chinese companies as contractors, which thereafter import Chinese workers (including prisoners, as has been alleged) for the work, in addition to sourcing, at least, 50 percent of the equipments, materials, technology and other needed services from China (Konings, 2007). As the Chinese population expands in Africa and given its close neighbourhood nature and relative wealth, social tension and conflicts may occur, as has been experienced in parts of South-East Asia. Social misgivings and cultural misunderstandings and even racism of the type complained of by some African students in Chinese universities could raise tensions based on anti-Chinese feelings, some of which may spill into protests and violence, as already witnessed in some African countries, including Zambia and Lesotho.

No doubt, Africa needs aid and trade directed at creating infrastructure and jobs. Selling raw materials though bring money but not permanent jobs. More importantly, the trade cannot be on a 'freelance' basis, as Western advocates of 'free trade' insist. As the Carnegie Endowment and the European Commission found out, 'free trade' ends up destroying small-scale agriculture which is the predominant economic activity in Africa, such as it did to farmers in Mexico. And since 50 percent of Africa's GNP is in agriculture, the impact would be catastrophic, as small farmer would be driven off their land, worsening the already unemployment situation thereby forcing the unemployed to migrate to the already overcrowded urban areas, where social amenities are already overstretched (Hallinan, 2012; Nnadozie, 2013). African leaders, as a group, can and should hand-twist China to fulfill their demand made in the Beijing's Fifth Ministerial summit of the FOCAC in July 2012, about the need to process Africa's minerals in the continent in order to advance local technology (Kolver, 2012). This would also help to reverse the current situation in which Africa remains the supplier of raw materials to China and the consumer of its finished products.

Related to the problems of China's development finance to Africa is the current 'land rush' by China and other Western investors to acquire land in Africa for agricultural production on industrial scale. Industrial farming brings with it many negative consequences, such as the depletion of the soil and degradation of the environment from pesticide and fertilizer. The situation is even worse when such lands are forcefully taken away from the local population, such as the on-going "villagization programm" in the Gambella region of Ethiopia, under the sponsorship of the World Bank and the British Department of International Development (DfiD) (Peebles, 2013). There is undoubtedly abundant arable land in Africa. With climatic change and population explosion, food, as 'Der Spiegel' stated, 'is the new oil'. In this regard, it has been suggested that China and other foreign investors opt for 'contract farming' model in which "investors supply the capital and technology to small farmers, who keep ownership of their land and are guaranteed a set of prices for their products. This would not only elevate the efficiency of agriculture, but would also provide employment for local people" (Hallinan, 2012: 2). By adopting this model, China would lead the way and demonstrate its committed friendship with Africa. The continent cannot compete with hugely subsidized industries in China, nor can it build up an agricultural base when its framers are driven off their fertile land and cannot match the subsidized prices of China and Western corn or wheat. Africa, therefore, needs to protect its industries and farmers – much as the US and Japan did in their early

industrialization stage and as South Korea, etc., is currently doing.

## CONCLUSION

A wide range of policy debates and hypotheses on China's development finance to Africa have emerged all geared towards understanding the nature, extent, causes and consequences of Chinese activities and investments in the continent, including the degree to which they are complementary or contradictory to those of the Western donors. It is however not easy to situate the current Chinese development assistance within a particular ideological framework. For sure, neither China's socialist market economy or market socialism, nor Maoist orthodox socialist ideology can be said to frame the current China's development finance. Indeed, there is a strong belief within the Chinese leadership and Communist Party that China's real or imagined world power should not be hamstrung by the limitations of its professed ideology (Lumumber-Kasongo, 2007). Consequently, pragmatism, developmentalism and neo-mercantilism encompassed and synchronized within a state-controlled economy and state capitalism have all combined to drive China's current development finance to Africa.

Be that as it may, China can and should be made to help strengthen and transform the economies of African states. For African nations desperate for aid and resource infrastructure, the desire to interact and make deals with a rising super power is attractive and indeed irresistible, especially as those interactions come with huge sums of money and infrastructural development. China portrays Africa more positively as a partner in "mutually beneficial cooperation" and "common prosperity", rather than a "doomed continent" requiring aid, as the West is wont to (Quartey, 2012). Due to the fact that relations between China and Africa is not exercised within a neo-colonial framework (Nnadozie, 2004), there is a strong possibility that the interaction, if properly managed and applied, could produce positive results which would lead to Africa's development and transformation. In this regard, it must be emphasized that African countries do not stand a chance of gaining much in their interactions with China if they negotiate individually. Therefore, no matter the difficulties involved, African countries must put aside their differences and deal with China as one entity and with one voice, either from its regional organizations or as a continental body. How our leaders manage and apply the current China-Africa relations shall not only determine Africa's ability to revamp and rejuvenate itself and begin to transform the lives and living conditions of our peoples, but would also decide how Africa can begin to redeem its battered image and prestige among the comity of nations and be recognized by other world players and impact positively on international political economy.

Mention should also be made here of the role China is currently playing (though regrettably with South Africa) in BRICS – Brazil-Russia-India-China-South Africa – a politico-economic networking that has been described as a "new Sub-Imperialism" block formation (Bond, 2012), in sabotaging Africa's economic transformation in particular, and those of the South-South in general. If China's claim as the leader of the South-South, or its professed championship of Africa' interests is to be taken seriously, it must desist from the temptation of colluding with any country or group of countries, or indeed, in luring any African country or group of them to undermine Africa's development, or those of the South-South (Nnadozie, 2013). However, the last meeting of the heads of States of BRICS in March 2013 in Durban, South Africa did not show any positive change on the part of China in this regard. In the final analysis, South Africa's imperialist tendencies in Africa (Shivji, 2005), and Nigeria's inability to provide the needed leadership in the continent

(Nnadozie, 2007) may prove the greatest impediment in deploying China's development finance to transform the lives and living conditions of its peoples. China's development assistance to Africa and its activities in the continent will for a long time remain a mixed bag and subject of debate. Ultimately, the reputation of China in Africa will depend on whether or not it toes a line different from Africa's relations with the West and translates into practice what it professes as the friend and champion of Africa's interests and leader of the South-South by directing its development finance to areas most needed to reduce the current high level of poverty, unemployment and environmental degradation in the continent.

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**Table 1: List of Chinese megadeals\*, 2000 - 2011 (in Millions US Dollars)**

Recipient	Year	Project	Flow	Value
Ghana	2010	\$6b Concessionary Loan	Loan	5485
Nigeria	2006	Infrastructure in Exchange for Preferred Oil Right Bidding	Vague	5383
Mauritania	2006	\$3b Loan for Oil Exploration, Sewage system, Iron mine, road	Loan	4037
Ghana	2009	\$3 b USD Loan from China Development Bank for Oil Project, Road project, others	Loan	3000
Equatoria Guinea	2006	\$2b Oil-backed Loan	Loan	2692
Ethiopia	2009	Concessional Exim Bank Loan for Dam Construction	Loan	2249
South Africa	2011	Financial Cooperation Agreement	Loan	2072
Africa (Regional)	2000	\$1b of African debt cancelled; may not be bilateral	Debt Forgiveness	1697
Angola	2004	Phase 1of National Rehabilitation Project	Loan	1507
Madagascar	2008	Construction of Hydroelectric Plant	Loan	1421
Sudan	2007	Construction of Railway	Loan	1377
Angola	2009	Agric. Development	Loan	1200
Zimbabwe	2004	ZESA Secures Funding for Lake Kariba Power Plant	Loan	1010
Zambia	2010	Chinese Firm to build Kafue Gorge Power Plant	Loan	930
Sudan	2003	Construction of Merowe Hydroelectric Dam	Loan	836
Mauritius	2009	East-West Corridor, Ring Road, Bus Way, and Harbour Bridge	Loan	782
Cameroon	2009	Loan for Water Distribution Project	Loan	775
Mozambique	2009	Builds Agric. Research Centre/Agric. Station	In-kind Grant	700
Cameroon	2003	Memve'ele Dam	Loan	674
Nigeria	2006	Light Rail Network	Loan	673

Source: Strange *et al.*, 2013: 32

\*Note: Megadeal is a very large project with project value of US\$ 1 Billion

**Table 2: Ten largest recipients of Official Development Finance to African (ODA and OOF\*), 2000-2011 (in Millions of US Dollars)**

China	United States	DAC**
Ghana (\$11.4b)	1. Egypt (\$7.6b)	1. Nigeria (\$28.8b)
Nigeria (\$8.4b)	2. Ethiopia (\$6.9b)	2. DRC (\$21.9b)
Sudan (\$5.4b)	3. Sudan (\$6.8b)	3. Tanzania (\$10.6b)
Ethiopia (\$5.4b)	4. DRC (\$5.8b)	4. Mozambique (\$17.9b)
Mauritania (\$4.6b)	5. Kenya (\$5.5b)	5. Egypt (\$16.5b)
Angola (\$4.2b)	6. Nigeria (\$4.2b)	6. Ethiopia (\$16.5b)
Zimbabwe (\$3.8b)	7. South Africa (\$3.6b)	7. Kenya (\$14.6b)
Equatorial Guinea (\$3.8b)	8. Uganda (\$3.5b)	8. Sudan (\$14.0b)
Cameroon (\$3.0b)	9. Tanzania (\$3.4b)	9. Morocco (\$12.6b)
South Africa (\$2.3b)	10. Mozambique (\$3b)	10. Uganda (\$12.0b)

Source: Culled from Strange *et al.*, 2013: 34.

Note: ODA and OOF\* mean Official Development Assistance and Other Official Flows respectively.

DAC\*\* now consists of the EU and 24 member states of the OECD, when Iceland became a member in March 2013 (Strange *et al.*, 2013).

# THE CHINA-SOUTH AFRICA RELATIONSHIP: AN ECONOMIC AND POLITICAL ASSESSMENT OF BENEFITS AND COSTS

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## ABSTRACT

China's massive growth has left her in need of new energy and raw materials sources to fuel her fast developing economy. Consequently, China has turned to the African region to meet such critical needs. To this end, China's emerging economy appears to be associated with an increasing strengthening of its political and economic relations with sub-Saharan African countries, particularly with South Africa. At the same time, South Africa is also enjoying improved relations, be it economic, political and social with China. This paper has three tasks: first, it will examine the impact of the China-South Africa political and economic relations on the socio-economic fabric of South Africa. Secondly, this project will ascertain the opportunities and challenges presented by China's relations with South Africa. Finally, this paper will investigate whether this relationship is mutually beneficial or one-sided. A combination of the realism, the Heckscher-Ohlin theory, and notions from the Liberalist approach to International Political Economy theories will be used in explaining the China-South Africa relationship. The study will mainly take the form of a qualitative study and will mainly entail the examination, analysis and interpretation of documentary secondary data published in a variety of financial journals, non-profit organisations such as the Trade Law Centre for Southern Africa (TRALAC) and the South African Institute of International Affairs (SAIIA), government departments, reports and articles in the media as well as research conducted by other students.

**Keywords:** Realism; international political economy; developing/emerging economies; China; South Africa

## INTRODUCTION

China's massive growth has left her in need of new energy and raw materials sources to fuel her fast developing economy. To meet this need, China has thus turned to the African continent. China's current need for resources and trade could present a real opportunity for Africa's development and its integration into the world economy. However, a critical question arises as to whether African countries like South Africa have been able to exploit this new trading opportunity to their full potential and thus mutually benefiting from their relations with China. As such China's rapid and increasing diplomatic and economic relationship with South Africa has received increasing attention in recent years. As the impact of this relationship becomes more visible, there is a need for increasing empirical research on this politico-economic relationship which presents both opportunities and challenges for the South African economy that seems to be showing deepening relations with China. China's expansive engagement in Africa is "driven by a desperate need to find oil and raw materials to feed its resource-guzzling, and the world's fastest growing economy" (Ghirmai, 2012: 149). With an expanding manufacturing base, rising incomes, purchasing power and a large population of more than 1.3 billion people, China's need for natural resources is constantly increasing (Botha, 2006). This economic reality suggests an increased demand for energy and new markets. In her search for resources and opportunities for export markets, China has turned to Africa, which boasts an array of natural resources, including oil and gas, metal ores and cotton which China is in constant need of.

While the Chinese economy is in need of natural resources as input to its manufacturing industry, many African countries including South Africa are highly dependent on imports for manufactured products and further require capital investments and infrastructure to develop their economies. In this respect there are various economic complementarities between China and African countries including South Africa (Botha, 2006). Using the Heckscher-Ohlin (H-O) theory, this chapter will explore the economic opportunities as well as obstacles faced by South Africa in its economic relationship with China.

### **THE HECKSCHER- OHLIN (H-O) THEORY AND ITS APPLICATION**

The Heckscher- Ohlin Theory (H-O) of international Economics was first conceived by two Swedish economists, Eli Heckscher (1919) and Bertil Ohlin. Heckscher's initial model was developed by his student, Ohlin; hence the theory is known as the Heckscher Ohlin (HO) theory. The Heckscher-Ohlin model can be applied to explain the pattern of trade between countries. This theory is founded on the idea that relative factor (resource) abundance and intensity drive trade patterns between countries (Rongotis, 2009). It suggests that different factor endowments between trade partners constitute the main reason for countries to trade (Pugel & Lindert, 2000). According to this theory, a country which has capital at a relatively cheaper price and has expensive labour is said to be a capital rich country. This country will, therefore, export capital intensive products. In contrast, a country which has cheap labour and costly capital is said to be a labour rich country. The labour rich country will, therefore, export labour intensive products, and import capital intensive product (Pugel & Lindert, 2000).

According to the theory, trade arises due to the differences in the relative prices of different goods in different countries. Simply put, the difference in product price is mainly caused by the difference in factor prices (costs). Factor prices also differ because of the differences in country endowments (capital and labour). Therefore, trade occurs because different countries have different factor endowments. Thus, each country exports the good for which it has in abundance, due to its factor endowment, which is a comparative advantage. This suggests that a country will export goods which use relatively a greater proportion of its abundant and cheap factor (Pugel & Lindert, 2000). On the other hand, the same country will import goods whose production requires the intensive use of the country's relatively scarce and more expensive factor (Rongotis, 2009). Thus, in the context of the China-South Africa relations, the South African economy is endowed with a lot of natural resources and very little skilled labour. South Africa's wealth in natural resources and endowment in non-fuel minerals complements the attractiveness of this opportunity where South Africa appears as a prize as it rests on one of the "world's richest mineral beds" (Alden & Alves, 2009:4). Among other minerals, "South Africa is a leading producer of platinum (80% of total production and 90% of world reserves) and manganese (holds over  $\frac{3}{4}$  of worlds reserve base) and second world gold mine producer (overtaken by Australia in 2007)" (Alden & Alves, 2009:4). Furthermore, South Africa is a large coal producer and is now considered one of the leading countries in technology in the field of converting coal to synfuels; this suggests new opportunities for China which is rich in coal. On the other hand, China has an enormous amount of labour, but very little natural resources. As a result, because South Africa has abundance in natural resources it will export these resources to China; on the other hand, China has an enormous amount of labour and will therefore, export finished products into South Africa.

## **BACKGROUND TO CHINA – SOUTH AFRICA TRADE RELATIONS**

Since the formal establishment of China–South Africa relations in 1998 and the creation of the Binational Commission in 2001, trade and investment between China and South Africa has seen a significant growth. A range of political interactions including diplomatic visits have facilitated increased interdependence and collaboration between South Africa and China. Increased economic relations between the two countries have acted as a foundation for increased bilateral ties on a political level. In addition, as suggested by the Heckscher–Ohlin theory, trade provides an opportunity for both states to reap individual benefits. According to the theory, trade occurs because different countries have different factor endowments. In other words, each country exports the goods for which it has in abundance, due to its factor endowment, a comparative advantage. Trade can be seen as the cornerstone in the foundation of the China–South Africa relationship (Xiong, 2012).

Before 1994, South Africa's manufacturing industries, including the clothing and textiles industry, were highly insulated from global markets and international competition (Bennett, 2003). The industry was highly privileged and protected, safeguarded by the protectionist structure of government policies, tariffs, quotas and quantitative restrictions (Biyase & Bonga-Bonga, 2009). A number of factors have been attributed to the high protectionist structure afforded to the industry from the 1960s up to the late 1980 and these include the policies of National Party government aimed at developing the manufacturing industry at home (Bennett, 2003). The industry was further insulated from international competition by Apartheid South Africa's varying levels of international isolation. These were sanctions sprung from the international bodies' aversion to Apartheid in the effort to coerce South Africa to democratise.

During this time, the local clothing and textile industry, like many other local industries put in more effort and focused on import substitution and placed their focus almost completely on the domestic market. This led to the country's industries getting very little international exposure and the industry's failure to become internationally competitive (Woolfrey, 2009). Moreover, the sector was getting support from the state-owned Industrial Development Corporation (IDC) through the provision of incentives and investments.

The 1970s marked a period where production in South Africa was almost entirely determined by domestic demand. During this time, clothing products were mainly produced and marketed in South Africa whilst exporting comprised 6% of the total production (Biyase & Bonga-Bonga, 2009). However, during the 1970–1990 period South Africa began to realise and accept that import control and tariff protection measures were not effective measures in the country's efforts to achieve economic growth (Netshandama, 2001). From the South African government's view point, the country was in need of some sort of economic policy that would encourage international exposure, while at the same time tackling issues of effective production and profitability in the manufacturing sector (Woolfrey, 2009). However, the key question remained: how could the industry be opened without threatening and negatively impacting the domestic market and employment? This question would remain a reality for the democratic government that had to usher the industry towards international trade.

As suggested by the Heckscher–Ohlin theory, a country will export goods which use relatively a greater proportion of its abundant and cheap factor. In this regard China has an enormous amount of labour, but very little natural resources. Thus South Africa's imports from the PRC consist mostly of "portable electro mechanic products, automatic data processing machines, telephones for cellular

networks, parts and accessories of machines, tricycles, transmission equipment, knitted and crocheted clothing, accessories, non-knitted and non-crocheted clothing and accessories, footwear, furniture, beddings, iron and steel products, organic chemicals, automobiles, and plastic products among a range of other products” (Foreign Market Access Report, 2010: 6).

In contrast, the South African economy is endowed with a lot of natural resources and very little skilled labour. Thus South Africa mostly exports minerals and basic commodities such as “chromium ores and concentrates, manganese ores and concentrates, copper ores and concentrates, copper waste and scrap, shorn wool, aluminium, petroleum oils, wool, iron ore, steel ore and stainless steel to China” (Foreign Market Access Report, 2010: 8). According to SARS figures, South Africa’s exports to China came to about R29 billion in 2007, this increased to about R35.2-billion in 2008 and increasing again to about R47.7-billion in 2009. This amount saw an increase when the numbers reached R59.3 billion in 2010. In 2011 this number escalated to about R90.2 billion. However, this number decreased to 77.8 billion in 2012 (SARS, 2012). Due to its rich natural resources the Heckscher-Ohlin theory predicts that South Africa will continue to exports its natural resources to China and the rest of the world as it holds a comparative advantage for natural resources.

#### **POST-APARTHEID LIBERALISATION**

South Africa’s democratic dispensation in 1994 signalled an end of international isolation for the country, thus presenting a huge paradigm shift which saw the country being reinstated into the international world. This event then facilitated the country’s re-establishment of its yester trading relations and an opportunity to harvest new markets in the international arena. This was an extremely necessary victory after a long period of isolation and trade embargo against the country. In 1995, South Africa became a member of the World Trade Organisation (WTO) and was thus bound by the WTO’s agreements including agreement on clothing and textiles.

In 1999, South Africa became signatory to the Trade, Development and Cooperation Agreement (TDCA) with the European Union (EU). This trade policy together with the World Trade Organisation Treaty entailed the opening up of South Africa’s domestic market for foreign imports. Furthermore, being signatory to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) meant the South African economy would now be incorporated into the global trade regime (Cuts TDP Project, 2006).

Perhaps, being influenced by different theories of comparative advantage, the belief was that increased competition would result in increased productivity, better quality and increased service standards for the country to be able to compete with international standards. However, these theoretical assumptions were not supported by practical, direct measures or state policy mechanisms. Regardless of the opening up of the sector certain structural problems remained these included lack of training, skills, education, out-dated machinery and technology in the clothing and textiles sector (Netshandama, 2001: 42). These problems demanded urgent attention from the South African government.

South Africa’s signatory to the WTO Agreement on Textiles and Clothing (ATC) necessitated that the country’s clothing and textile industry undergo a degree of modification in order to acclimatise to the new international markets within which it sought to participate. In the DTI’s submission to Parliament it is said: “The South African government has always been clear in its policies that the country cannot afford to artificially sustain uncompetitive industries through import substitution or protectionist measures. Based

on this, the government has committed itself to support this sector through a range of initiatives with the understanding that, in its current form, the industry was neither competitive nor sustainable and needed to change" (DTI, 2005). As envisaged the industry grew, however, its rapid growth and development led to its demise. The low barriers invited entrepreneurs in, and the low set-up cost and the domestic market demand also played a part in the growth of the industry. The growth of the clothing and textile industry was a speedy one; however manufacturers failed to build up links with retailers thus leading to the industry's weakness.

The situation was worsened by a huge inflow of clothing imports from other countries that exceeded South Africa's exports. Imports of Chinese clothing increased by 335% between 2002 and 2004 in US dollar value whilst China's share of imports increased from 54% in 2002 to 74% in 2004 (Mthente, 2008). According to SARS, one of the most dramatic import increases could be seen between 2002 and 2005 where Units from China escalated from 85 million in 2001 to 123 million in 2002 (increase by 45 %); to 215 million in 2003 (increase by 75%); to 335 million in 2004 (56 %) (SARS Customs figures quoted in Clothing Trade Council of South Africa 2005). In mid-2006 China's market share in South Africa reached a level of just under 75% by volume, China's share is even higher, accounting for 85% of all imports of clothing. Over the same period, imports of textiles from China grew by 144% in US dollar value terms (Vlok, 2006).

The industry continued to be confronted by steep competition locally and internationally. As a result local industry could not compete with Chinese imports. This saw manufacturers struggling to meet Bargaining councils rates and terms. These new developments in the industry propelled scores of manufacturers to retreat to home-based operations to cut down on operating costs (Barnes *et al.*, 2004). When the country was reinstated in the global economy it aimed to attain rapid growth and development of the industry, this meant South Africa needed to play by international rules of standards and of competition. In the unfortunate turn of events, this reality came accompanied by fierce competition both locally and internationally thereby creating an insurmountable hurdle for South Africa's infantile industry.

In addition, the period spanning from the 1990s to the beginning of the 2000s, marked a period when the country's currency (South African Rand, ZAR) had the lowest buying power amid many international calamities like the Zimbabwean farm repossession programme and the September 11 terrorist attacks. This period saw the ZAR dive to its historical all time low thus greatly diminishing its buying power internationally. According to Vlok (2006), this economic phenomenon dealt a major blow to the stability of the clothing and textile industry and its competitiveness. For the early part of the decade to follow the ZAR remained considerably weak although local industry still managed to compete with imports. In the aftermath, the resultant defects in the local industry were glaring. In the attempt to salvage the situation, in 2002 the South African government gazetted the Duty Credit Certificate Scheme. This scheme was designed to promote and incentivise exports from local industry.

Along with South Africa's move towards export led growth, trade liberalisation and the globalisation of trade had come a danger of an abundant flow of cheap, lower quality import goods into the country, subsequently bruising local clothing and textile industry. Wolmarans (2011) asserts that the opening up of the South African economy to foreign competition negatively impacted the competitiveness of many of the companies in the industry. In the case of the export incentive scheme as mentioned above, the growth and development of the country's clothing and textile industry had to be export-based to

counteract the import-export disequilibrium.

An investigation by Mthente (2008) has shown that the South African governments move towards liberalisation of markets was well intended. The policy was intended to allow the South African economy to grow in order to alleviate poverty and create employment. For the clothing and textiles sector the growing strength and expansion of industry would accommodate other strategic government goals including, broad-based black empowerment and the decentralisation of investment economic activities from the so-called four economic hubs of South Africa which are Johannesburg, Pretoria, Cape Town, Bloemfontein and Durban. Due to the industry's labour intensive nature, the policy was intended to ensure that economic growth is achieved even in areas that previously lacked development and industrialisation. This reality is owed to the country's legacy of uneven and spatial development. Lack of industry development and adaptation to compete has led to company closures thus loss of employment, which has subjected these remote areas to abject poverty and pernicious living conditions. Mthente (2008: 4) continues to explore the two-way relationship between trade policy and poverty in this manner: "trade policy influences trade, which consequentially affects poverty through its implications for the economic activities; thus affecting goods and services prices; and finally influences government spending and tax, which has a greater effect on the poor people in the country."

The lifting of trade quotas on the 1<sup>st</sup> of January 2005 by the WTO promoted the influx of imported goods into South Africa (Raamdaas, 2007). This meant cheaper low cost clothing for the consumer but, on the other hand, pain and suffering as millions and millions of workers continued to lose their jobs (Paton and Bissekier, 2005). According to Cuts TDP Project (2006:5) "the rapid liberalisation of the South African clothing industry meant that the industry was ill-prepared for the resultant speedy rise in clothing imports, especially those from China: from 11 million units in 1995 to 335 million units in 2004". The changes in markets and policies has had a major impact on the clothing and textile industry as it allowed for a flood of cheap Chinese textile and clothing into the country (Le Roux, 2007).

#### **CHINA'S COMPARATIVE ADVANTAGE**

In its engagement with China through trade, South Africa has achieved somewhat a considerable degree of success as predicted by the new trade policy. However, the South African government failed to consider factors such as their trading partner's comparative advantage in the clothing and textile industry. Chinese imports are having a negative impact on employment throughout the globe and South Africa too has not been exempted (Woolfrey, 2009). The Hecksher-Ohlin theory suggests that comparative advantage is the main reason for maximum gain in international trade. According to the theory the greater the differences in the factors of comparative advantage between states, the greater the gains from trade (Rongotis, 2009). As a result of this comparative advantage, Chinese imports are negatively impacting the South African clothing and textile industry largely because of their low production cost. The suggestion made here is that the Chinese have a competitive advantage in the production of manufactured goods. In other words, China produces these goods at a much lower cost in their homeland than their trading partners (Biyase & Bonga-Bonga, 2009).

According to Barnes (2005), South Africa's competitiveness is hindered by the countries relatively high cost of labour as compared to China and numerous other Asian countries like Bangladesh and Pakistan. A key factor among South Africa's short falls is the country's high labour costs and government

red tape. China and its Asian counterparts have extremely low wage rates, a huge pool of labour due to high populations, excessive work hours, compulsory overtime and child labour. As a result of the industry's labour-intensive nature, there is an increased need for human resources in the manufacturing firms. This gives China a competitive edge above its trading partners. In other words, more workers produce more goods at global volumes, therefore, their costs become relatively low as the goal is to sell them quickly, as a result inventory must be cleared to make way for further high volume production. In the case of South Africa, the labour intensiveness of the sector suggests increased costs, decreased flexibility and will further reduce the ability of firms to compete effectively, predominantly when competing in standard commodity markets (Fakude, 2000).

In 2006, the average manufacturing wages in China, for instance, were approximately 14,200 yuan (US\$2,077 at current rates of exchange) per annum. In Malaysia they were approximately 21,360 Ringgit (US\$5,900) per annum, while in South Africa they were approximately R78 000 (US\$8,664) per annum (Woolfrey, 2009). This meant that local manufacturers therefore had labour costs almost 50% higher than their Malaysian counterparts, and almost 300% higher than their Chinese counterparts. According to Morris and Barnes (2008: 33-34) South African labour costs around \$1.75/hour, which is approximately double the costs of labour in China (which vary between \$0.55 and just over \$1) and four to five times higher than in Bangladesh, Cambodia, Pakistan, Vietnam and Sri Lanka.

In labour intensive industries such as clothing and textiles which utilise significant amounts of labour, these comparatively high wages make it almost impossible for local manufacturers to compete with foreign producers in terms of price. Furthermore, due to South Africa's political history the country has very solid, powerful and influential trade unions. As a result, wages in South Africa are often much higher than in other developing countries. In addition, South Africa has relatively rigid labour legislation. On the contrary, China benefits from "export incentives; state-subsidised infrastructure; production by state-owned enterprises; and possible input subsidization" in the Chinese textile industry (Cuts TDP Project, 2006: 3). In addition, South African employers bear more costs when it comes to social costs such as overtime, sick pay and pension contributions than some of their international competitors (Woolfrey, 2009).

Furthermore, according to the World Trade Organisation (WTO, 2005) the Chinese currency was undervalued at about 40% against the US dollar. This meant that China could get away with exporting their clothing products at a very low price. In addition, approximately 50% of the textile industry in China is owned by the government and mainly subsidised by the national, provincial and local governments (Vlok, 2006). Furthermore, China's exporters receive rebates of up to 13% on their exports.

#### **OPPORTUNITIES FOR SOUTH AFRICA**

China has made proposition of vast export opportunities and the potential to absorb a higher proportion of value-added exports from South Africa as a result of increased trade between the two countries. China has remained a strategic partner for South Africa in the global economy as she presented unique opportunities for South Africa including investments, joint ventures and technological transfers (PMG, 2010). Furthermore, due to its rapid growth and market presence in the international markets, China presented an opportunity for leverage synergies where South Africa could operate in third party markets (PMG, 2010). For a resource rich developing country such as South Africa that is endowed with abundant

natural resources, the Heckscher-Ohlin model implies specialisation in the production and export of primary goods on which it has a comparative advantage to capital-abundant developed countries like China. The theory predicts, South Africa's mining sector should be booming as there is a great demand from the PRC. The South African mining industry is home to the world's largest reserves of "chromium, gold, manganese, platinum and vanadium" (Leon, 2013: 3). According to the Heckscher-Ohlin theory, the demand for minerals from highly industrialised countries like China is expected to be a major driver for domestic mining expansion in South Africa that would result in increased demand for unskilled-labour in mines. This increased demand for labour would increase the price of minerals and result in increased wages and increased employment opportunities for unskilled labour. The theory suggests that the flourishing of the mining sector in the country should be able to improve the distribution of income, and restructure income inequality. The theory further predicts that the boom in the mining industry should create employment opportunities that would cater for workers that have lost their jobs in the clothing and textile sector thus the alleviation of poverty.

The mining sector in South Africa accounts for nearly 8.8% of the country's gross domestic product (GDP) (Leon, 2013). The sector employs over a million people directly and indirectly. However, contrary to the Heckscher- Ohlin contentions, the South African mining industry today faces many challenges. According to Statistics South Africa (2012), the industry's output saw a decline of 7.7% between January and October 2012. Between the period marked September and October 2012 the industry's output had decreased by 7.9%. Statistics South Africa's Quarterly Labour Force Survey for the third quarter of 2012 (from July to September) revealed a loss of 8 000 jobs overall in the mining industry. According to Statistics South Africa, the mining sector has experienced "a year-on-year decline in mining production over the past 5 years" (Leon, 2013: 1). A report conducted by Stats SA suggests that mining production in the country decreased by 4.5 per cent year-on-year in November 2012. This decline in production has mainly been attributed to the strikes in the mining sector where employees are demanding wage increases and improved living conditions. The National Treasury estimates that, strikes in South Africa's mining industry reduced "exports by R12.5 billion and cut GDP by 0.5 percentage points in 2012" (Leon, 2013:1). Furthermore, the National treasury estimates loss of production to about R10.1 billion due to strikes and stoppages in the platinum and gold mining sectors alone in 2012.

In terms of investment opportunities South Africa is the only African country that has significant investment in China (Burke *et al.*, 2008). The country has had its corporations successfully penetrate the often challenging Chinese market. Numerous South African corporations have often been termed 'industry shapers' in the Chinese economy (Davies, 2008). "After entering the market in 1994, SAB Miller had climbed up to be the largest brewer by volume in China in 2007 and is said to be South Africa's single largest investor. In addition, Naspers has proved to be a leading media player in China's most insulated sector for foreign firms; and Sasol could soon become the single largest investor in China if it goes ahead with two coal-to-liquid projects in the country" (Davies, 2008: 21). According to Burke *et al.* (2008) South African companies like Freeplay, Beijing Axis Consultancy, Kumba Resources, Anglo Gold Ashanti, Anglo Coal, Anglo American, Goldfields Old Mutual, Standard Bank and First National Bank are among the companies that have been successful in China. South Africa's private sector has been the only sector in Africa to successfully take on the Chinese market and this suggests that this comparative political advantage should be exploited even further to ensure South Africa's benefit. This is largely due to South

African company's ability to function in environments with poor infrastructure. Furthermore, China still has unexploited opportunities for South African products in the Chinese market, with the exception of natural resources these opportunities have not yet been explored (Burke *et al.*, 2008).

As part of the opportunities, the trade relationship between the two countries is said to have brought in affordable manufactured imports, investments, skills and technology transfer into South Africa. Chinese telecommunications companies such as Huawei and ZTE have expanded into South Africa and other African countries such as Algeria, Ethiopia, Ghana, and Nigeria. The telecommunication companies have established training centres, the centres are expected to produce and train locals that can operate the technologies and even develop new ones and thus investment and technology transfer (Mtuvungai, 2010). In addition, numerous whole sale and retailers have been able to source import goods from China and this has helped making goods cheaper in the South Africa market. This has been the case since many of the African countries including South Africa have become a major destination for Chinese manufactured products. These cheaper Chinese products provide an alternative for South Africa's low income consumer. This means consumers who previously could not afford locally manufactured products and those from European markets have been able to access cheaper Chinese products which are easily available in the country. In addition, local businesses have aligned with the Chinese counter parts to secure the tricks of the trade and how the Chinese organise their business activities. This has been evident in the small Chinese shops which are collaborating with locals in their business ventures. If used strategically, this knowledge can enhance business activities and socio-economic development in South Africa.

#### **CHALLENGES FOR SOUTH AFRICA'S ECONOMY**

A number of challenging issues have arisen in the course of the growth of trade between South Africa and China over the years. Some of these challenges will be captured in the paragraphs below. Some of the challenges to be explored include; trade deficit, impact on the local industrial growth but special attention will be paid to the South African clothing and textile industry to show the impact of Chinese imported clothing on the industry. The H-O theory predicts that because China has a competitive advantage in labour it will export finished products to South Africa. For manufacturing sectors like Clothing and textiles the theory predicts a negative impact. According to H-O theory the South African manufacturing sectors might find it hard to compete with Chinese products that enter the country.

#### **Overview of the South African Clothing and Textile Sector**

The South African clothing and textile industry has a long history and is mainly concentrated in provinces like the KwaZulu-Natal, Western Cape, the Free State and Gauteng specifically in the cities of Cape Town, Durban, Newcastle and Johannesburg as well as certain rural areas. In South Africa the Industry has remained an essential source of income upon which many local households depend for survival. The industry has played a key role in sustaining and even liberating considerable scores of township and rural families from abject poverty. In 2004, the clothing and textiles manufacturing industry retained its character of being the "most labour-intensive industry, it also accounted for 1.8% of overall employment in South Africa" (Mthente, 2008: 3). As a highly industrial sector, the sector contributes significantly to the South African economy. According to the Textile Federation of South Africa (Texfed), the

clothing and textile sector is South Africa's "sixth largest employer in the manufacturing sector and eleventh largest exporter of manufactured goods" (Mthente, 2008: 5). In addition, the clothing and textile industry has remained one of the largest sectors in terms of value added products in manufacturing, and is therefore considered very important for the country's economy. The industry is said to have provided employment for an estimated 300 000 South Africans in the year 2002 (Mthente, 2008). In addition, it is suggested that in 2002, the sector accounted for an estimated 1.2 percent to the gross domestic product (GDP) for South Africa (Mthente, 2008). The sector's domestic sales in the year 2002 were R13.4 billion and it exported R4.5 billion. In a period of just two years (2002-2004) the domestic sales had rocketed to R18.4 billion, nonetheless, the exports plummeting to R3.1 billion (Mthente, 2008: 5) In 2005, there were an estimated "2 000 functioning companies in South Africa, an astounding 80% of these were clothing and textile industries" (Barnes, 2005: 6).

The industry, therefore, remains a critical component in the country's strategy to alleviate poverty by creating decent work opportunities. This is the case primarily because even in the midst of capitalisation, this one industry uniquely continues to require human resources in large scales particularly in production that focus on economies of scale. In addition, the sector remains a significant contributor in job creation by virtue of its ability to absorb unskilled labourers and provide entry-level jobs to disadvantaged minority groups in the country (Barnes, 2005). This unique trait about the sector allows for skills development to a level where the country's skill deficit is substantively reduced.

#### **Impact of Chinese Imports on the South African Clothing and Textile Industry.**

The clothing and textile industry is one of the industries that have been hardest hit by the influx of Chinese imports into the country. The clothing and textile industry is considered to be one of the most significant sectors in many developing countries in the world. This is mainly due to the labour intensiveness of the sector and its ability to absorb semi- skilled and non-skilled individuals in poverty stricken communities. South Africa's clothing and textiles industry has been characterised by a very rich history and has remained one of the most important sources of employment for disadvantaged individuals, most of whom are women for whom very few other opportunities exist. South Africa like many other developing countries faces high unemployment and illiteracy rates and a large number of people have lost their jobs as a result of cheap Chinese clothing that are continuing to flood into the country. In South Africa, in particular, these industries have played a critical role in providing livelihood in many families by providing a source of income.

As South Africa aims to improve the value-added and technology levels of its exports, China poses a major challenge, mainly because of competition it subjects the South African clothing and textiles sector to. In a more specific level, low-cost Chinese imports have negatively affected some South African local manufacturing firms. In 2011, 5% of the manufacturing workforce lost their jobs as a result of retrenchment and factory closures (Biacuana, 2012). This trend could have a devastating effect on South Africa's manufacturing and other labour intensive sectors. If measures are not put in place, South Africa's prospects of promoting local industrial growth and job creation will remain on paper instead of translating into reality.

## Balance of Trade

A trade balance is the difference between the country's imports and its export over a period of time. A country's trade balance is favourable when its exports are greater than its imports. When imports exceed exports, a country has a trade deficit; when exports exceed imports, a country has a trade surplus. The trade balance contributes to the country's balance of payments. For an extended period of time, imports from China have exceeded South Africa's exports to China. South Africa has thus been experiencing a trade deficit in trade relation with China. This relation is illustrated by table 1 below.

**Table 1: South Africa- China Bilateral trade**

Year	Imports	Exports	Trade Balance
1998	4 330 713 563	917 868 407	-3 412 845 156
1999	5 003 530 599	1 461 593 299	-3 541 937 300
2001	9 085 955 441	3 927 482 636	-5 158 472 805
2002	14 260 568 766	4 720 349 448	-9 540 219 318
2003	16 598 906 482	6 686 393 701	-9 912 512 781
2004	22 992 847 428	6 773 559 355	-16 219 288 073
2005	31 484 302 882	8 762 647 510	-22 721 655 372
2006	46 723 529 003	14 370 082 791	-32 353 446 212
2007	60 264 271 984	29 303 383 133	-30 960 888 851
2008	82 411 244 161	35 243 991 079	-47 167 253 082
2009	707 787 315 521	47 721 941 549	-703 006 537 972
2010	84 023 908 129	59 326 222 821	-24 697 685 308
2011	103 173 967 457	90 210 035 927	-1 296 393 153
2012	110 731 499 046	77 831 057 374	-25 900 441 672

Source: South African Revenue Services, 2012

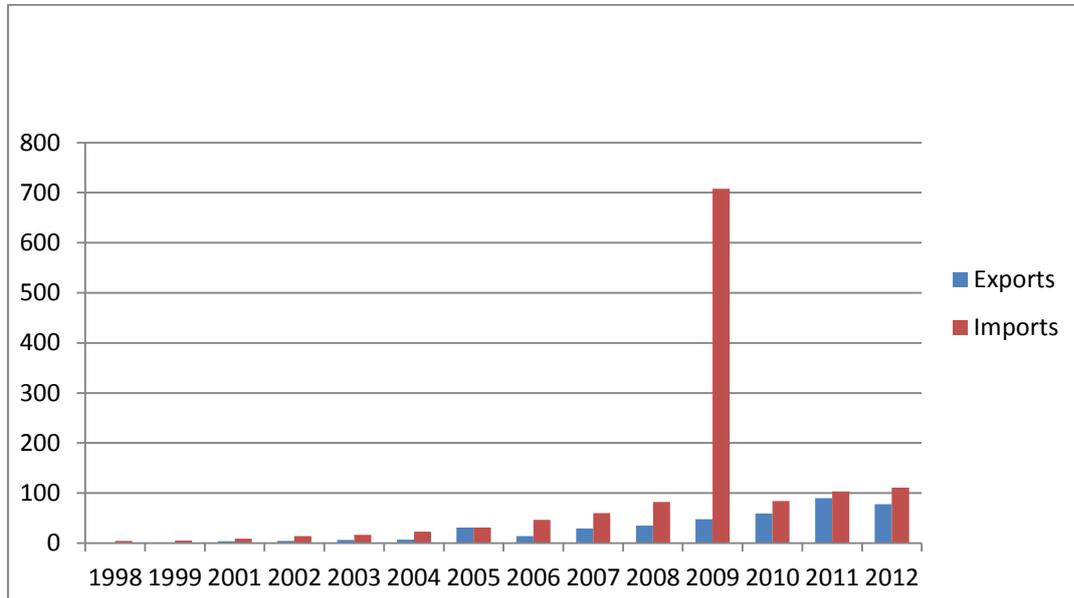
Table 1 shows the trade balance has favoured China since 1999. In 1999, the trade deficit stood at R3, 5 billion rand. This has mainly been attributed to the countries bilateral trade profile where South Africa is the primary exporter of natural resources and China exports finished products into South Africa. In 2003, China had a deficit of about 9.9 billion with South Africa (South African Revenue Services, 2012). Table 1 shows that as of the year 2010 to 2012, the trade surplus in China's favour increased from R 24.6 billion to R25, 9 billion; however, this amount decreased to R1.2 billion in the year 2011. The decrease has mainly been attributed to government support to the economy through trade agreements for protection of industries in the country.

The trade deficit between South Africa and China can largely be attributed to the trade profile between the two countries. Graph 1 shows, South African exports are increasing at a faster pace than imports from China. Bilateral trade is clearly dominated by commodity exports from South Africa and value-added imports from China. Whilst China's manufacturing base continues to show increased growth, South Africa's seems to be declining as a result of the influx of Chinese products into the country (Botha, 2006). The contemporary composition of trade between the two partners is, therefore, tilted in China's favour and continues to show signs of being unsustainable in the long-term. South Africa's trade deficit with China seems to be growing considerably as trade progresses.

The increasing trade deficit that China runs with South Africa has, moreover, developed into a controversial issue in the relationship between the two countries. According to the DTI "As China's exports to South Africa increase in value terms auto-mobiles and consumer electronics for example the trade

deficit will continue to widen further attracting criticism from the South African government and labour unions” (Davies, 2008).

**Figure 1:** South Africa’s Bilateral Trade statistics with China



Source: South African Revenue Services, 2012

Beijing's outward economic strategy, which is mainly geared towards meeting China's growing domestic demands for commodities, tends to confine South Africa's role in the relationship to that of a primary exporter of raw materials. This is evident as South Africa remains the main supplier of natural resources products or lightly processed primary products, whereas its imports comprise mainly manufactured product. South Africa's failure to add value to its exports to China constitutes a fundamentally ineffective strategy, as in the long-term raw material stockpiles are depleted without creating a sustainable economy (Xiong, 2012).

**Loss of Employment in the Industry**

During the period 1974- 2004, the global textile industry was governed by the World Trade Organisation through The Multi-Fibre Arrangement (MFA) which regulated the quantity that developing countries could export to developed countries. The MFA was introduced in 1974 as a short-term measure intended to protect and control local industry from imports. The termination of the Multi-Fibre Agreement on 1 January 2005 gave rise to further problems for the manufacturing industry in general and specifically the clothing and Textiles industry. This was in terms of the manufacturing sectors domestic and international competitiveness. The result has been job losses for employees across the entire manufacturing industry. Although the accurate figures are difficult to calculate, estimates of Job losses in the clothing and textiles range from 23 000 to 85 000 (Barnes, 2005). The actual number of job losses in the clothing and textiles industry has been contested by differing stakeholders in the industry. Although numbers are debated, statistics of Bargaining Council employment by province give some indication to the losses (Mthente, 2008). An estimated 69 000 job losses were recorded between 2003 and 2009 (Biacuana, 2012). In 2011, Job losses in the industry showed a significant slowdown as the union

database recorded 48% less job losses than in 2010 and 55% lower than in 2009 (SABC, 2012). This slowdown has been attributed to improved government support in the industry. According to Kriel (2012), employment in the clothing, textile and leather sectors decreased by 1.4% in 2011. The majority of these job losses occurred in rural areas, where wages are lowest and unemployment is already extremely high. This has further reduced the possibility of these retrenched workers finding alternative employment in the future (Vlok, 2006). In the event of the recent economic meltdown, inflation and instable currency, no industry has been hardest it like the clothing and textile industry.

### **Other Challenges**

Increasingly, Africans are contributing and playing an important role in the imbalance of trade between China and South Africa. This is mainly attributed to the high unemployment rates of and poverty in South Africa and Africa in general, that provide a market for the cheap Chinese imports into South Africa. The high levels of poverty in the country have enabled the establishment of more Chinese shops and enabled such shops to buy cheaply directly from Chinese wholesalers by lowering the capital requirements of Chinese-manufactured goods. As a result there has been rapid growth of the street economy, as it is becoming more commercial and international in character (Woolfrey, 2009). This has resulted in a situation where you find stall after stall of informal traders selling cheap Chinese goods and offering special prices if you buy two or more of the same item, and, on the other hand, you have the local producers charging a much higher price for similar products. In a country surrounded by townships and other poverty stricken areas it would be difficult to convince one to pay a higher price for an item that would last them longer.

In addition, lack of skills and out-dated technology are some of the challenges hindering the growth of the South African clothing and textile industry. The Chinese government has invested heavily in capital for its clothing and textile industry. The country has not only invested in capital but has also invested in equipment and technology. Today China's factories are ranked among the world's best in terms of technology and processes. The Chinese government identified the opportunities that could be presented by their clothing and textiles for boosting exports. China finds herself in a situation where investments in the industry have led to increased demand for Chinese products thus allowing for further investment (Woolfrey, 2009). South Africa's clothing and textile industry, on the other hand, stands at another type of crossroad, confronted by a declining demand, many local firms are unable to make the investments that are needed for them to become competitive. The local industry's ability to grow and maintain market share, even in the local market, is therefore weakened, and the demand for their goods continues to decline (Woolfrey, 2009).

### **TRADE AGREEMENTS BETWEEN SA AND CHINA TO ADDRESS CHALLENGES**

South Africa and China have continuously made commitments to cooperate with each other to create favourable conditions for growth in relations between the two countries and to balance trade. The two governments have repeatedly committed themselves to promote trade and to correct the imbalances in the current trade relationship. This has been seen in the formation of FOCAC, PGD, South Africa -China Economic & Trade Cooperation Forum and Joint Economic and Trade Committee (JETC) which where all established to tackle the challenges in the relationship between China and South Africa. In addition,

“China has pledged to further open up its market to Africa, by increasing the number of export items to China eligible for zero-tariff treatment, from 190 to over 440” (Burke *et al.*, 2008). However, this will only apply to the least developed countries (LDCs) in Africa that currently have diplomatic relations with China (Burke *et al.*, 2008).

### **SA-China Partnership for Growth and Development (PGD)**

In 2006, the South African President together with the Chinese president held discussions that focused on the overall trade imbalance which is consistently and significantly in China's favour. The two states agreed to a more equitable, 'win-win' relationship to tackle the trade imbalance (Molepolle, 2011). Thus, the formation of the South Africa–China Partnership for Growth and Development (PGD) which began in 2007. The PGD was intended to build up an economic relationship and to ensure balance of trade and increase investment flows between the two countries in a sustainable manner. The PGD includes a number of measures designed to ensure a long-term balance in South Africa-China trade (Molepolle, 2011). The PGD's key objective was mainly to modify the structure of trade. This would be achieved “by increasing the value of South Africa's exports to China, focussing on mineral beneficiation and the export of manufactured and processed agricultural products, and establishing a balanced bilateral investment flow” (Molepolle, 2011: 11). One of the outcomes of the PGD, was a Memorandum of understanding that was drafted by the South African government which featured amongst other aspects “market access, mineral beneficiation as well as infrastructure facilitation and development” (Molepolle, 2011: 8).

As envisaged the South African government's work on the PGD has been anchored around market access for South Africa's value added export to China, mineral beneficiation as well as infrastructure facilitation and development. However, according to the DTI, the PGD process has not yielded positive results since 2007. The South African government has made little progress with China on the PGD under each of the pillars; market access for value added products is the only pillar to show some results (Molepolle, 2011: 8).

### **SA-China Economic & Trade Cooperation Forum**

As part of the initiatives to balance trade, the South Africa-China Economic and Trade Cooperation Forum was held in Pretoria, March 2010. The Chinese Government invited 23 companies to take part in the contract signing ceremony. According to the DTI (2005) “Procurement contracts between companies from both countries amounted to US\$311 million (or R2.3 billion) were signed”. The main products involved in these contracts consisted of primary products and raw materials with the exception of wine.

### **Bilateral Mechanism for Trade and Investment Cooperation**

One of the important committees that were established is the Joint Economic and Trade Committee, a sectorial Committee of the SA-China Bi-National Commission (BNC) that was established in 2002. South Africa and China cooperate comprehensively and frequently on trade and investment issues through the (JETC). China and South Africa have discussed the following areas of cooperation under the JETC:

- “Advancing the Partnership for Growth and Development (PGD);
- Encouraging South African and Chinese enterprises to cooperate and explore mutually beneficial commercial opportunities;
- Identifying joint projects that may be supported by financing arrangements including Concessional loans, preferential export buyer’s credit and the China-Africa Development Fund,
- Cooperation in human resources development to support South Africa,
- Coordination in support of NEPAD and FOCAC” (Molepolle, 2011: 4).

## CONCLUSION

This paper attempted to explore the economic relations between South Africa and China. It argued that trade flows between South Africa and China can be explained by adopting a Heckscher-Ohlin trade model. The paper has shown that trade between the two states has expanded significantly over the last number of years. However, it is evident that South Africa has not derived maximum benefit from this development of trade with the PRC. The trade benefits are tilted towards China; South Africa’s trade deficit is worsening as South African imports are growing significantly faster than exports. South Africa’s trade profile with China displays that Beijing’s interest in the country is not limited to resources, but it also regards South Africa as a potential market for its manufactured and industrial goods. This imbalance is largely attributed to the nature of the trade relationship, as South Africa mainly exports raw materials to China; while on the other hand, China’s imports are made up of manufactured goods including clothing and textiles. As a result, a number of labour-intensive sectors have been experiencing rapid surges in imports from China (Vlok, 2006).

It is thus evident that the inflow of Chinese manufactured products is not ideal for a country like South Africa that is aiming to diversify its exports, increase its industrial base and create jobs at the same time. The sectors that have been hard hit by the Chinese wave are the most labour intensive including clothing and textiles, footwear, construction and manufacturing. The clothing and textile industry was singled out and explored in-depth because of the significant role it plays in the country.

The paper has also shown that the influx of Chinese goods into the country has had a positive impact on South Africa’s low income consumer who can make do with the cheap Chinese goods as an alternative to locally made products which are sold at a higher rate. However, while the cheaper Chinese products may be benefiting South Africa’s low incomes consumer, this benefit is at the expense of the countries clothing and textile industry. The availability of affordable products may have benefits in the short term; however, in the long term it has negative consequences for South Africa’s manufacturing industries as it might lead to over dependence on Chinese products.

In conclusion, this paper explored some of the programmes that South Africa and China have developed in an attempt to tackle the challenges that the two countries face. It was shown that FOCAC, PGD, South Africa -China Economic & Trade Cooperation Forum and Joint Economic and Trade Committee (JETC) were all established to alleviate the negative impact of China–South Africa trading relations. However, very few of the intended outcomes of the programmes have materialised.

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