

SOUTH AFRICAN

# LABOUR BULLETIN

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## SA: Land of the rising summits

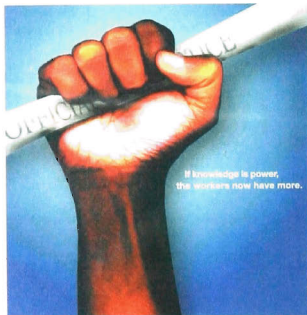




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In the previous *Labour Bulletin* we mentioned that a number of summits would be taking place in South Africa this year. Some, such as the sector summits, emerged out of deals struck during the 1998 Presidential Jobs Summit. Government has called for others such as the moral regeneration summit and the growth and investment summit planned for September 2002.

It is ironic that the previous National Party-led government held both a growth and a moral regeneration summit. Johan Heyns, the head of the Dutch Reform Church called for a moral regeneration summit after the Boipatong massacre. He became worried about the decline of morals in government after hearing various speakers, at the funerals, talking about corruption in government. Such a summit might be opportune as this government faces a number of moral dilemmas – go ahead with the R56bn arms deal (which remains shrouded in secrecy and speculation as to who else was enriched, besides the fall guys named) or fund anti-retrovirals for pregnant women and rape victims.

Some might well question whether government is holding summits because it is under pressure to show it is doing something? The reality is that, for whatever reason, government has recognised that various problems have to be addressed. The call for a growth summit was made out of a need to urgently address the crisis in the economy. This acknowledgement is a positive step in itself and is necessary if all parties are to seriously seek solutions. What remains to be seen is whether this summit will begin a process of proper social



dialogue, degenerate into a job summit type process with little results or merely act as a vehicle to legitimise government policy.

The idea of a social accord/compact will be a non-starter if parties do not have realistic expectations. At the same time, preconceived notions about what each party is able to deliver on will merely undermine what is possible. The process will require the capacity of the major economic actors to put on hold short-term gains for longer-term stability and growth. This is a tough call for all parties, not only for labour. A special report focuses on whether a growth summit can deliver.

Other articles focus on the new Unemployment Insurance Act which comes into effect from 1 April 2002 and the impact of the debt spiral amongst the employed. Readers might notice some new additions such as the reintroduction of 'com dot com' due to popular demand for some irreverence in this country.

*Renée Grawitzky*  
Editor

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# Kneepad naais NAI

## WILL AFRICA BE KNEECAPPED BY NEPAD?

The promotion of Africa's new recovery plan – Nepad – amongst normal citizens does not appear to be a priority for its drafter. Perhaps the constant name changes and rather poor choice of acronyms has played a role. The plan was first known as MAP and then the New Africa Initiative (NAI) appeared on the scene. This caused a few raised eyebrows as NAI in Afrikaans (naai) is slang for a sexual act which led to comments such as: 'who wants to naai who?' and 'who does SA want to naai?' Just when people started getting used to 'naai-ing', the plan became known as Nepad – the New Partnership for Africa's Development. Redeye was told that luckily Nepad (kneepad) is below the belt but is 'not what you put on your knee when you are begging'.

Nepad could face another name change if journalists are required to replace 'Africa' with 'this continent'. This suggestion emerged following discussions in the newsroom of one of South Africa's leading business newspapers, about the negative connotations of the word 'Africa'. If this is implemented, Nepad could be renamed the New Partnership for this Continent's Development (Nepicdl).

For those of you who are still unclear what Nepad means or is about can either go to their website – [www.nepad.org](http://www.nepad.org) or see p 88

## ARE ORGANISATIONS DUMBING DOWN?

Like the body obsession amongst Hollywood stars (and former comrades who hang out at the health and racquet) to be lean and mean, so too do SA's corporates want to change their body types to become lean and mean. However, this does not translate into 'lean, mean, fighting machine' if we are to believe some recent labour law publications that focus on how companies are 'dumbing down'. This is a new term – rather hard to justify to

shareholders and other stakeholders – which refers to cases where companies are kicking out those who can think. This of course raises the question if you have not been retrenched, whether you are dumb – the decision is yours (if you can make one, if not, call a consultant).

## DTI – THE CORPORATE?

Redeye was very pleased to find out that telephone 'connectability' is one of the benchmarks that the Department of Trade and Industry uses to judge its effectiveness in providing service to customers. Performance and benchmarking have become part and parcel of the department's new identity and rebranding as 'DTI – the corporate'. This has emerged following years of restructuring and intervention from various types of consultants (hopefully they do not specialise in dumbing down exercises!). Despite this, one hopes that corporate South Africa does not follow in DTI's footsteps, otherwise they would lose potential business as we strive to attract investment and increase exports. With all this re-engineering and adopting of a telephone etiquette protocol (which can be found on DTI's website) it seems as if the department is still unable to answer its telephones. Perhaps this task is too basic and low down the value-chain.

## SPORT'S BRAS A HIT ON MINES

Redeye previously reported that women miners working underground in the Free State were provided with sports bras to help them 'cover up'. Redeye has subsequently learned that one of these women has fallen pregnant. Now the company wants to give her 18 months maternity leave as they are not sure whether she will be up to the job.



# Tell no lies about Zimbabwe

Dear sir

The print and electronic media, both in South Africa and abroad has been consistently peddling lies about the pre and post election process in Zimbabwe. Having listened and read the local and international news, I also would have believed that cde Mugabe represented one of the worst despots in this century on the African continent.

Had I not been part of the South African Observer Mission to Zimbabwe, I would still peddle lies about Zimbabwe.

There has been a marked increase in acts of violence, murders, kidnapping in Zimbabwe since the 2001 parliamentary elections. Even though ZANU-PF has been the main culprit, the MDC and its allied formations, the Commercial Farmers in particular, have played their part. Ordinary farmworkers in Zimbabwe are at the mercy of farm owners. At one polling station outside of Morandera, farmworkers were transported by their employers to ensure they voted for the MDC.

Those who have had contact with Zimbabwean farmworkers will see that they have lost their dignity. I cannot but identify with this class of workers, who after 22 years of national liberation work in conditions of almost slavery. The International Confederation of Free Trade Unions (ICFTU) should not only lament about Zimbabwe from their posh offices in Brussels but should send a delegation to Zimbabwe to see with their own eyes what most of us experienced.

Nothing but balanced truth must be told about Zimbabwe. Unfortunately, the powerful media, whose race and class interests are being tested, fails to provide an objective analysis of the situation in Zimbabwe. Is it once again, an issue about Africans peddled to the unknowing public about the barbaric nature of Africans?

The South African Observer Mission in Zimbabwe was deployed in every province of

the country. We investigated allegations coming from the MDC and its allied formations.

For your information, most of the allegations about beatings, intimidation of farmers, kidnapping of MDC supporters were lies. In one instance, the MDC alleged that the ZANU-PF youth militia had kidnapped a group of MDC supporters and were held in one of their training camps. Following investigation this was found to be untrue.

At an MDC press conference on 11 March 2002, many allegations were made about the elections, including the fact that in 40% of the polling stations, MDC polling agents were chased away. We were there and none of our observers reported this to be the case.

We have a right to be critical of human rights abuses in any part of the world, without fear or favour. But, aren't we undermining the intellect of African people and in particular, Zimbabwean people, by attempting to define in our own narrow selfish interest, what is free and fair for them? Had Morgan or any of the independent candidates won the elections, would they be regarded as free and fair in the eyes of the international media? I wonder how you would have crafted your verdict on behalf of the Zimbabwean people.

I cannot subscribe to the lies in the media about how barbaric and uncivilised African people are as opposed to Europeans, who many want us to believe brought civilisation to Africa. Neither can I keep quiet when the media peddle lies about our African comrades. From an ideological class perspective, I am an African and attest that the elections in Zimbabwe were legitimate.

*Silumko Nondwangu*  
NUMSA general secretary

Letters to the editor can be sent by email to [salb@icon.co.za](mailto:salb@icon.co.za) or by fax to (011) 403-9873

## A case of de-naai-al

Dear Com

Been thinking seriously, like everyone else, what is it about HIV/AIDS that President Mbeki can't get right? Surely the man is intelligent, surely he knows that his interpretation is not worth an old Union flag against the medical brains of almost the entire planet? Surely he knows that most of those medical boffins and hospital staff who disagree with him are not in the pockets of the creeps in the pharmaceutical industry. Mostly they are hard working public servants like him but are alarmed at the numbers of patients they see who are dying?

So we ask ourselves, every single day. What makes him click his mouse with the crackpots?

Dear Com

Been thinking about the President and HIV/AIDS. There is only one explanation that makes any sense to me Com. Is the President in a state of acute denial? For some reason, he just refuses to see the same reality as millions of other people, and wishes the problem away. By stating, as he does all the time, that the link between HIV and AIDS is not proven, and that other factors like poverty are to blame, then the problem of AIDS no longer exists!

But what does this mean, isn't this just an intellectual exercise? Hey Com I wish it was! But how are people going to take

Another series of irreverent postcards from our intrepid correspondent... This time turning an acerbic eye on the HIV/AIDS fiasco.

---

the cool campaigns by Love Life and others seriously: if the Head of State says they have got it wrong? And what does it mean for major policies for the future of the country if the Head of State says people are exaggerating the impact of the virus?

His denial of a looming catastrophe could mean that the whole economic and social policy of government will not take into account what will be needed to care for the victims of HIV/AIDS and their dependants. It's no wonder I can't sleep at night. I wonder if the President can?

Dear Com

This denial thing has really got me. How can you justify spending on the arms deal when scrapping it could save millions of lives? How can you justify the top salaries of senior government aparatchiks, who tolerate the endemic corruption and cronyism that accompanies such deals and those associated with global privatisation?

The Man is in serious denial Com

*Been reading a bit of psychology. Do you know what goes with denial? I'll tell you blame. You blame others for the mess we are in. Blame the drug companies, blame the CIA, blame the liberals, blame the ultraleft counter-revolutionaries in Cosatu (whatever that means!). Why not blame the person in the moon too!*

*Then I ask myself. Why are we all trying to fathom out what it is that stops the guy from saying, 'Sorry Coms, got this wrong. Let's work together to sort it out'? Why?*

*It hit me like a bolt of lightning! You can't make any sense out of his position because it is not rational. We are all trying to work it out rationally. We read and re-read the speeches, and the papers. We listen for clues and nuances we may have missed. But it just doesn't make any sense.*

*Listen Com Thabo is in a jam, and rather than admit the truth, even in the face of criticism from Madiba, our President prefers to carry on courting the crackpots, and denying what is happening on the ground, and sadly, the numbers of people who are being put in the ground by their bereaved loved ones.*

*Makes me want to weep Com. Then I remember that old socialist slogan: 'Don't mourn. Organise!'*

*Dear Com*

*Talking about Madiba. Isn't this typical of the man. He goes into a briefing meeting with Thabo and a few other guys to 'clarify' the government's position on HIV/AIDS. Hey! If Madiba doesn't understand it, how can the masses!*

*After an hour or two the big man comes out, and says that the real trouble is that the little man doesn't know how to communicate the government's message. That he will now stay quiet (ish) on the issue while Essop and the*

*backroom boys including Comrade Peter Mokaba, get their act together. Some of us groan. We need Madiba to speak out. Who else in the ANC leadership does?*

*Dear Com*

*OK Com I agree, it looks a bit like a stitch up to save the face of the ANC. But Com, if there is one thing that separates Madiba from the others, is that he can admit mistakes when he gets things wrong, like he did on Bush's so-called anti-terrorism war. You can't write Madiba off just yet!*

*So here is the plan. Madiba is to stay quiet while Thabo (discreetly) distances himself from the views of the crackpots. Thabo then Zuma's off to the Commonwealth but under questioning from the press backs, can't resist blabbing on again about the unproven connection between HIV and AIDS.*

*Back home, the old timer's gloves come off. Madiba bits back by saying the President must have many other pressing concerns on his plate, and that the HIV/AIDS issue should now be left up to Baby Jake Zuma. That the key issue now is to roll out the drugs and relocate the ANC on to the side of the people.*

*Meanwhile, the Treatment Action Campaign (TAC), backed up by Cosatu, takes the government to the cleaners for a second time, and even loyalists like Sam the Man break ranks and decide to act like an elected government that values its electorate. Things are not looking too good for Thabo.*

*What's interesting is that the government doesn't go to court on the claims of Thabo's eccentric cyber-buddies, but on whether the courts can constitutionally tell government what it must try to deliver. Seems even the legal guys representing government know that Thabo's denial fixation wouldn't stand up in court, and instead built up a case which*

*has holes blown right through the middle of it by the likes of Sam. This denial thing is a costly business Com!*

*Dear Com*

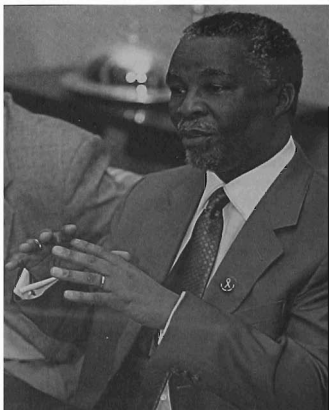
*Heard that at the recent Cosatu/ANC ten a side, another file was tabled for limited eyes only, repeating the claims of the crackpots. I hear the Cosatu coms were polite, but made it clear they were not impressed. When thousands of members are dying, and the cemeteries are filling up with precious comrades who should be helping to build a new society, it's hard to get excited about a bundle of ideas that would be the laughing stock of the world's scientific community, if they weren't so damn tragic.*

*Made me think Com. The ANC's electoral base is looking a bit shaky. Membership has sunk. Branches don't meet, and few union comrades give their organising muscle any more. The ANC might not lose an election, but it is in danger of becoming a party without any mass base. Maybe that's the plan! Stop all those irritating demands from below for proper services and jobs. All of a sudden the Freedom Charter starts to look like an ultra-left counter-revolutionary plot! I need a Panado Com!*

*Dear Com*

*Heard the rumour that when Minister Manto retires, she is going to join the circus as a trapeze artist. Never seen anyone walk a political tightrope and do policy somersaults like that! Hope the safety net is in place!*

*But what is really bugging those of us on the ground is this. Why are the*



*Cabinet and the coms in the ANC NEC staying so silent in the face of this shocking catastrophe?*

*Let me put it this way Com. Would you entrust the running of the country to any second hand Cabinet Minister or ANC NEC member who wasn't prepared to make a stand on this issue?*

*I have just realised something. The thing about denial and careerism is that they are very infectious, and I'm not sure they are curable. Maybe Thabo could give some thought to that for a change!*

*Hey Com! Have you noticed? The only ones in the unions who side with the Presidents office are those incurably ambitious few who want a place inside it, and they don't have any credibility whatsoever. What would we do without the trade union movement to keep us all sane? Viva Cosatu Viva!*

## What's up...in the news

### CABINET DELIBERATES ON SOCIAL SECURITY

A report on social security, currently before Cabinet, has proposed a phased-in basic income support system targeting initially the most vulnerable groups in society. This proposal forms part of wide-ranging recommendations made by a committee of inquiry set up to look into a comprehensive system for social security in South Africa. The idea to phase in a type of basic income support system would initially target children under the age of 18. This recommendation is in line with the committee's objective to first eradicate destitution and thereafter, to look at redistribution.

The committee of 16, comprising representation from various government departments and a number of independent experts, reviewed existing grants and benefits funded by contributions. Based on this review, the committee was then requested to consider the practical implementation of various options and whether they were viable or not.

The investigation has revealed that the current social security system is fragmented, heavily focused on a voluntary system of contributions and low levels of social solidarity. The committee's recommendations focus on moving social security away from voluntary means testing to a mandatory universal system. Key recommendations address the health system, retirement benefits, poverty and unemployment.

The thinking is to move the health system more towards a version of a national health insurance scheme, which will accommodate private health care as well. Recommendations on the retirement industry will deal with consumer protection. Discussion around poverty and unemployment focused on the rising levels of unemployment; declining

incomes and the increase in the number of low quality jobs. It was also noted that the social policy usefulness of the concept of a job was misleading as there were many in so-called employment but still living in poverty. Policy recommendations would also have to take account of a group of unemployed – older and less skilled workers – who were unlikely ever to find employment as opposed to younger more educated workers (see p 19).

### FEDUSA TO DEBATE SOCIAL SECURITY

Delegates at Fedusa's second national congress being held next month are expected to debate the future of a social security system in South Africa.

Fedusa general secretary Chez Milani says his federation with a membership of 530 000 does not support a universal income grant as proposed by Cosatu. He says the way it is currently being proposed is not practical but requires further investigation. The congress, he says, will deliberate on a national social security scheme. This is critical as the country faces rising poverty and unemployment.

In line with the congress theme of 'maximise employment-minimise poverty', delegates are also expected to debate on issues around restructuring, job creation and poverty relief. Milani says formulating positions on these issues is necessary in the build-up to the planned growth summit. Milani adds that the summit should explore viable options for raising the level of investment in the country. It is increasingly being acknowledged that the underlying failure to attract foreign direct investment is because 'local is not doing so'. Milani says if there is no domestic investment 'why should foreigners invest'.

He believes the Millennium Labour Council (MLC) could play a constructive role in the build-up to the growth summit. 'It could be a

good cleaning house for ideas for the summit,' he says. Labour has benefited from the MLC especially in relation to the negotiations on amendments to labour laws. However, at the same time this process had sidetracked the MLC. The MLC, he adds, should be linked into government possibly through President Thabo Mbeki's four working groups, as well as with Nedlac. 'This is to ensure there are not a whole lot of loose structures duplicating discussions,' he says.

The Fedusa congress will be held from 21 to 22 May 2002.

#### **CCMA APPOINTS NEW HEAD**

Edwin Molahlehi, the current mayor of the West Rand district, has been appointed to take over from Thandi Orelyn as the new director of the Commission for Conciliation Mediation and Arbitration (CCMA).

Molahlehi is confident that his many years of experience in conflict resolution will assist him in managing the complex dynamics at play within the CCMA. The government-funded body aimed at resolving disputes has in recent times had to deal with its own bitter internal disputes. These have brought to the fore claims of racism, mismanagement, sexual harassment and intimidation. Molahlehi is fully aware of the challenges he faces. He says, 'when I came in as mayor on the West Rand, the politics and dynamics were terrible. A lot has changed since then.'

He believes his experience on the West Rand has given him the opportunity of not only getting hands-on management experience but at the same time managing a situation fraught with problems and inter-personal conflicts. Prior to being elected as mayor for the West Rand district, Molahlehi chaired the public service co-ordinating bargaining council, the Employment Conditions Commission as well as the Security Officers Board. Those positions were not without their challenges and competing interests.

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*New CCMA head, Edwin Molahlehi*

conflict, the CCMA, he says, had to grapple with the high standards set in terms of labour legislation. He hopes to ensure the CCMA lives up to the intentions of the Labour Relations Act. He is conscious of the need to build relations between the CCMA's management and the staff association. Molahlehi believes that despite the problems that have hampered the CCMA, 'there has always been the commitment of the staff' to public service. This is an essential part of Molahlehi who has himself served for many years in the public service.

#### **WHERE TO FOR ALEXKOR?**

Alexkor, the state-owned diamond mine in the Northern Cape, which has been hampered by an uncertain future could receive a new lease on life when Cabinet endorses a proposal to sell a portion of the mine off to an equity partner.

Over the years the mine has suffered from mismanagement, a high turnover of management staff, labour instability, a lack of

resources to continue exploration and high levels of theft and corruption. When government announced its privatisation programme in December 1995, Alexkor was one of the state-owned enterprises earmarked for privatisation. Following discussions with various stakeholders it was agreed that a company would come in and manage the mine prior to it being sold off.

In 2000 government awarded Nabera the contract to manage the mine. However, NUM has indicated that during the duration of their contract, relations between mine management and labour reached an all-time low. It is unclear whether Nabera injected much needed capital for exploration into the mine or whether government facilitated the capital outlay.

The union has indicated that Nabera mined the 'white dunes' where diamonds were highly concentrated. Government and Nabera are currently involved in delicate discussions, as per the contract, to determine whether the company added any value to the mine. If following an investigation it is found that Nabera has added value, if at all, then they will have to be compensated.

After the contract with Nabera expired, Mintek was brought in to manage the mine for an interim period. Relations between the union and Mintek have been fraught with tension after management took a decision to retrench 280 workers. Discussions are currently underway to resolve this matter.

A number of workers were also retrenched during Nabera's contract. Some of these workers were granted shallow water concessions by Nabera. However, it is understood that many of these concessions are effectively now in the hands of some of the many crime syndicates operating in the area. It is believed that there are up to 60 crime syndicates operating in the Alexkor area and these could become the subject of investigation by government agencies.

This enterprise spokesperson Andile Nkulu says advisers had recently been appointed to assist government in the restructuring of the mine. In the interim it has been agreed that an equity stake of 25% would be sold off to a strategic equity partner.

However, Cabinet has agreed to increase this equity stake to 50% plus one. Pending finalisation of this, the board had been instructed to sort out the security problems. Nkulu says the board has been tasked with the responsibility of drafting a strategy to protect mine deposits.

### LESSONS FROM SPOORNET RESTRUCTURING

Government and labour have emerged from the lengthy negotiations on the restructuring of Spoornet claiming the process could serve as a model for future engagement.

Following the privatisation strike last year questions were raised as to whether labour would oppose all forms of state asset restructuring and whether engagement was possible.

Labour has hailed the Spoornet deal as an example of where engagement and deal making is possible.

Much has already been written about the deal struck between labour and the Department of Water Affairs and Forestry on an agreement to restructure and sell off large portions of the state's forests. This agreement provides a good example of what can be achieved through constructive engagement, Lael Bethlehem, chief director of forestry in the department says.

Bethlehem says the department took its relationship with labour seriously. As a result, a lot of time and effort was spent to ensure a deal. It was not easy for unions and workers to agree to restructuring, but they did so to make the forests viable in the long run. The turning point was, however, an acknowledgement by labour that government should not be in the business of selling timber, which represents a real commercial activity. However, if either party had adopted an ideological position, agreement would have been impossible.

Initially this appeared to be the route parties in the Spoornet restructuring process were going to follow. Labour opposed government's initial restructuring plan, which included the concessioning off of certain profitable lines. Sources close to the process

now argue that in hindsight government should have consulted all stakeholders including labour, the users of Spoornet and other interested parties to get a consensus view on the way forward. This could have meant that labour would have been able to influence the direction of policy prior to it being approved by Cabinet. It is now being acknowledged that a critical starting point for any restructuring plan is public debate on the process and why the sector or organisation needs to be reformed or restructured.

Labour has, however, put a large part of the blame on the consultants used by government to drive this process. Labour has argued that government cannot just bring in consultants and think their proposals are final. Labour believes government needs to learn from this process by seriously reviewing the type of consultants it brings into the processes. Labour has argued that government used transport specialists and this had a detrimental effect on the process.

Some would, however, argue that this is a simplistic assessment of the situation as consultants are employed to carry out government's mandate. The real issue is around balancing all stakeholder interests in a restructuring process. There should have been more active engagement prior to a final government position being adopted by Cabinet. Public enterprise spokesperson Andile Nkuhlu says there were transport specialists amongst the group of consultants appointed to advise government. Aside from this issue, 'the key lessons all parties can learn is that there can be room for government and labour to find each other,' Nkuhlu says.

The process was able to deliver a common vision with labour making a very positive contribution while government listened, he says.

Labour believes the consultants were instructed to develop a proposal, which fitted in with government's idea to privatise at all costs, despite the broader costs to society. The result was the drafting of a proposal, which labour argues, if implemented, would have been in direct conflict with government's transport policy, which is to shift freight from

road to rail. Observers have, however, questioned whether this is happening in practice because of existing inefficiencies in rail.

The agreement struck differs from the proposals initially approved by Cabinet in December 1999. One of labour's advisers, Karl von Holdt, says the agreement reached was not the result of traditional collective bargaining where both sides made trade offs. That is the approach government wanted to adopt when parties eventually got down to talking, he says. However, as the process unfolded it became clear that government's proposal had no financial, business or developmental rationale.

Nkuhlu says eventually parties sought a collaborative solution, which took into account broader development issues as well as the future viability of the operation. The agreement, he says, represented a delicate balance between commercial rationale and developmental and other issues. 'The status quo will not remain in place. Instead, there is an effective turnaround strategy for Spoornet.' The agreement represented a South African solution crafted by South Africans, Nkuhlu says.

Cosatu general secretary Zweinzima Vavi says 'we support the process of restructuring that is linked to specific policies and where it fits in with a broader industrial policy. You cannot restructure without knowing what you want to do with the entity.' The restructuring of Spoornet had to be linked to the need to build a viable public transport system, which in turn had to complement an industrial strategy to make the economy work.

Vavi believes this process has shown that mass mobilisation coupled with engagement can work.

'There can be no substitute for genuine engagement,' he says. The jury is still out as to whether this compromise deal will benefit broader society in the medium to long term. It is all very well for the profitable lines to subsidise the low density or unprofitable lines – but if the trend by companies to continue to shift freight from rail to road continues Spoornet could be forced to review its operation.



# Can a growth summit deliver?

President Thabo Mbeki's call for a growth and investment summit later this year has been met with mixed reactions both in and outside government. The experience of the Presidential Jobs Summit in 1998 has left many rather sceptical of yet another summit and what it can achieve. 'No one has a comfortable feeling about the jobs summit' and 'if the growth summit replicates the jobs summit it is a road to nowhere, observers say.

Since the jobs summit little has been communicated to the public about the outcomes of the post-summit process, while the monitoring committee has not met since October 2001. These factors, coupled with a view from government that it ultimately became responsible for implementation of all agreements reached, have led to a belief that little was gained. A source close to the jobs summit process says: 'It evolved into protracted negotiations on detail and trade offs that constituted an event with no follow through and delivery.'

The idea of a growth and investment summit was raised in December 2001 during discussions within the joint presidential working groups of organised labour, black business, white business and agriculture. The parties agreed to work towards an investment summit, which would focus on promoting economic growth and investment.

Aside from the presidential working groups the Millennium Labour Council

(MLC), a bipartite structure set up by a group of leading businesspeople and labour leaders, had also resumed discussions on how to deal with the challenges facing the South African economy. When the MLC was set up in 2000, it committed itself to develop a shared vision on growth, investment and job creation. Since the negotiations around amendments to the labour laws, elements in government have been rather sceptical of the MLC process. The *Labour Bulletin* looks at the MLC and assesses its future role (see p 17).

The idea of a growth and investment summit became a reality during Mbeki's opening address in Parliament in February 2002. In his speech Mbeki linked such a summit to the idea of negotiating a social accord or compact. 'This will mean, among other things, achieving congruence in expectations and certainty in such matters as inflation, wage and salary demands, rates of investments, positioning of the country in the global arena, our role in Nepad, job creation and poverty alleviation.'

Now that the dust has settled all parties are beginning to examine what this will mean: how such a process will unfold, what are the objectives of such a process, who will drive it and what are the ultimate deliverables.

Preliminary discussions have taken place within the National Economic Development and Labour Council

(Nedlac), the alliance structures and within some government departments. These discussions were aimed at seeking clarity as to what such a process hopes to achieve and whether it was possible for the parties to enter into some form of social accord/compact. Despite opposition from the Department of Finance and other ministries and within the ANC, it appears as if the summit will still go ahead. There is no clarity at this stage, as to whether this summit will set the scene for a longer process leading to an accord/compact. There is a sense within government that labour and to a lesser degree business will be unable to deliver on a social accord.

Cosatu discussed this issue briefly during its executive committee meeting in February 2002. The federation indicated that it was prepared to engage. However, it remained unclear what government would bring to the table and whether discussions would focus on economic policy questions or not. Any broad agreement or proposed social accord would have to be measured against the need to address the crisis of poverty, unemployment and inequality, Cosatu said.

It is understood that the director-generals from the departments of trade and industry, labour, treasury and presidency are supposed to draft the terms of reference for the process.

### **Who will drive the process?**

The jury is still out as to who will drive the process directly. Nedlac - as the institution set up to engage in social dialogue on socioeconomic issues - would like to drive the process. However, it appears that government wants to take the lead and ensure it is in control of the process as ultimately, it believes it will have to implement agreements reached. A government source says: "The Presidential Jobs Summit taught government that neither business nor labour has the

capacity to deliver on a set of agreements and it was ultimately left to government to deliver. The question remains whether government itself has sufficient capacity to deliver. Producing a policy document is different from being able to implement it.

Government has the right to take the lead. What remains unclear is how government wishes to drive the process and whether a space will be created for proper dialogue and engagement. There is concern that government will use the opportunity to legitimise its own policies by tabling them to get buy-in and support without considering a broader range of issues. It is understood that those departments who do not want to open engagement on broad policy questions are supporting this approach.

This approach might not go down too well with those within business and labour who might see the proposed growth summit as an opportunity to forge a closer understanding on what interventions are needed to ensure growth. The members of the MLC might be visualising a very different process of consensus seeking and the development of a shared vision as they continue to explore the experiences of Ireland and Holland. One of the key drivers behind the MLC, Leslie Boyd, says the parties in Holland and Ireland acknowledged that there was a crisis of high unemployment and poor economic growth. Out of this emerged a process of social dialogue, which led to a consensus agreement. This led to high levels of growth and job creation in the medium to long term.

### **History of social accords in SA**

The call for a growth summit or a social compact is not new to South Africa. A growth summit was held during the previous regime while a call for a social accord/compact was made in the mid-1980s.

The idea of a traditional type of incomes accord has evolved over the years.

An analysis of international models of social compacts has revealed that a number were aimed at controlling inflation as in the case of Italy and Mexico. Under these circumstances the trade offs were rather predictable and related to prices, wages and exchange controls.

*The type of trade offs or series of agreements, which can be found in a number of examples around the world, include the following: wage moderation, increasing training opportunities, a restructuring of the tax scales to ease the burden on low and middle-income earners, increases in the social wage through raising social security benefits for low-income earners, increasing government expenditure on essential services and social infrastructure, government to subsidise retraining programmes, supporting SMMEs and inflation targeting.*

During their lifespan most of the social compacts contributed towards economic growth in their respective countries. But the results were very much dependent on the differing realities they faced. Most of these agreements spanned the period from the 1980s to the mid 1990s. The global realities were vastly different now to five years ago. Therefore, South Africa cannot just pick a model and adopt it. South Africa needs to develop its own solutions, as some of the trade offs agreed to in other countries might not be feasible here. For example, a call for wage moderation might be appropriate in a developed economy with a strong social security network. In a country like South Africa this might not be appropriate where unemployed households rely heavily on remittances from family members. This issue is explored in more depth in the labour force survey released

by Tafel last month (see p 39).

The advent of the bipartite MLC in 2000 has shifted the focus increasingly towards the merits of the Irish and Dutch models. However, it is questionable to what extent government believes this approach can work in South Africa, bearing in mind that Ireland's economic growth from the mid-1980s was not only a result of a social compact but the influx of huge amounts of foreign direct investment.

### Issues to be debated

If government plans to move ahead with the growth summit, there needs to be clarity from the outset as to its objectives. In addition, a source says 'People need to see that this will move the country forward.' Ultimately, if the summit is concerned about growth then it will have to focus on issues such as investment, poverty and unemployment.

As mentioned above, the dominant thinking is not to focus on a broad policy debate. The department of trade and industry sees the summit as an opportunity to table its revised industrial strategy document. It is understood the document is in its final drafting stages and takes into consideration some of the work done by the ANC's Economic Transformation Committee (ETC). As mentioned in the previous *Labour Bulletin*, the ETC has been developing what has been dubbed a 'new economic growth path' for the last 18 months.

However, if the summit is to address issues around poverty, government is going to have to consider a review of the existing social security net. A comprehensive report is currently before Cabinet. One of the issues central to this debate is Cosatu's call for a universal income grant. UCT economist Haroon Borat looks at whether such an intervention will significantly reduce

poverty (see p 19) while Cosatu responds to this. (see p 25)

All too often government or business questions whether labour has the capacity to engage or whether it can deliver on agreements reached. Recent developments within 'organised/disorganised' business raise some critical questions about its ability to engage and deliver on issues of national interest. René Grawitzky talks to various business organisations about the state of business. (see p 29)

Once business is able to engage, what then is it able to practically deliver on? There are strong indications that government wants some form of commitment around domestic investment. Government has finally realised that foreign direct investment would not flow into the country in the absence of local investor confidence and investment. Economist Stephen Gelb assesses the role of domestic investment in South Africa (see p 31)

Gelb says it would be extremely difficult to get business to commit to increasing domestic investment 'Even if organised business organisations were to agree, how could they ensure their members comply?' Based on his research, Gelb says, business is concerned about poverty and inequality in so much as how it could impact on changes in government policy.

Business needs certainty. However, even within that, it will prove difficult to compel companies to invest given the political balance of forces, he says. Ultimately, Gelb says, it is far easier to control labour than it is business.

A critical area that business can contribute towards is the increase in the number of learnerships which has a direct impact on raising skills levels and employment. Business has been granted a range of incentives and tax breaks to follow this route as proposed in the Skills Development Act. René Grawitzky looks

at whether business is committed to skills development. (see p 37)

Of overarching concern for business is social stability. It is within this area that labour believes it can cooperate with business and participate in joint campaigns to fight crime, the spread of HIV/AIDS and other similar socioeconomic issues. For some time labour has been talking about some form of agreement around productivity. This is an area in which all parties are concerned. However, more importantly is stability within the labour market. A critical question, of course, is whether labour will be required to endorse a number of government policies such as privatisation.

## Conclusion

One of the key challenges for growth is to get all parties to take a longer term view on their returns, including labour.

Finally, if the growth summit takes place, it will require on the one hand, enough national momentum and agreement around policies being adopted and on the other hand a strong government who will lead. This requires government to lead but to create the space for a minimum level of national consensus seeking. 'The single biggest problem that destroyed Gear was government's refusal to discuss it with the unions,' Gelb says. Herein lies the key challenge for the success of the growth summit. Despite a relatively new environment of social dialogue in South Africa, the parties in Ireland did not have to contend with vast differences in thinking. It is far easier for a society to achieve common direction when differences are not so wide. If government is serious about this process and the desire to put the country on a real growth path, now might be our last chance to achieve national coherence on policy - or is this just a naïve wish?

# Did the MLC go beyond itself?

Government was encouraged by the establishment of the MLC, which brought together a group of leading labour and business leaders at a time when people were getting over 'Gear fever' and debates around whether the labour market was flexible or not was dying down.

Leslie Boyd says the bipartite structure was an attempt by business and labour to debate the issues that have the most impact on job creation or the lack thereof and try and reach a common understanding or 'shared analysis of the problem and come up with solutions'.

All seemed to be going well until government tabled its proposed amendments to existing labour laws. Sacob head Kevin Wakeford says this created some form of 'speed wobble' within the MLC. The structure was not cut out to make deals and get involved in detailed negotiations on the sort it eventually found itself in. Boyd concurs and says the MLC was about getting consensus on the broad thrust of issues. It was supposed to be an idea-generating body, not a deal-making structure. However, business landed up being pushed into looking at the amendments. A business source says 'there was and still remains a feeling within business that representatives were outmanoeuvred by labour. Labour was represented by their leadership and by their most skilled negotiators who had a proper knowledge of the laws.' Labour

*President Thabo Mbeki attended the launch of the Millennium Labour Council (MLC) in July 2000 and was encouraged by the initiative. Nearly two years down the line elements in government (and business) are concerned about its role. What went wrong?*

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could do this easily, as the same team consistently represented it. The business people on the MLC are with few exceptions not the same as the business representatives in the National Economic Development and Labour Council (Nedlac).

Similar feelings have been expressed informally by one or two ministers. They are not too happy with the outcome of the MLC process around the amendments. A business source says the MLC process allowed labour three bites at the cherry: in the MLC labour first got as many concessions from business as possible, especially on those issues where it might not be able to get government support. Then labour engaged government in Nedlac for more concessions, even if this was in the face of business opposition. Finally, labour sits on all the ANC caucuses

in parliament, allowing labour undue influence in what should be a democratic process.

Boyd believes the amendment process was not a fair test of the potential of the MLC.

'To be judged on the amendments would be inappropriate.' However, there is a lesson to be learnt, he says. 'In a sense this is about leadership and about taking members along even in the case of having to make unpopular decisions.'

Elements in business who became critical of the MLC have indicated that if representatives had stuck to their original objective, the body could have and could still play a valuable role.

There are however, a number of issues, which need to be addressed. These include: resolving the current divisions within business (see p 29) so that a proper structure can appoint MLC representatives and a clarification of the role of the MLC in relation to official labour and business structures. The Netherlands bilateral body, which served as a role model for the MLC (The Labour Foundation), has representatives appointed by the relevant union and employer federations only

### **Where to now for the MLC?**

Boyd says there still seems to be consensus that the process should be developed. The parties met recently in Cape Town to review the situation and to agree on which issues need to be tackled as well as how to deal with issues differently to the amendment process.

It is understood that the type of issues



*Leslie Boyd, one of the founding members of the MLC.*

currently being addressed in discussions include HIV/AIDS, skills development and issues around investment. A source close to the process says that Mbeki's announcement about the growth summit came at an opportune time for the MLC. 'It creates the possibility of constructive engagement and gives bilateral social dialogue a sense of purpose.' He says labour and business need to take up the challenge. Although both parties realise that Nedlac should be the forum for negotiations, 'Nedlac can be supported in critical ways.' The MLC could play an important role together with the presidential working groups. These structures could contribute towards generating and clarifying issues so that when the parties move into the growth summit process they go in on an informed basis. 'There is no prospect of an institution such as the MLC doing the deal.'

# Is a universal income grant the answer?

One of the key challenges facing government is to develop a consistent and coherent strategy to significantly reduce poverty levels. These challenges have proven all the more acute given that high incidence of poverty overlap with high levels of unemployment. The economy has not been functioning effectively as a creator of jobs. Therefore, government cannot rely on the growth process alone to reduce national poverty levels. This has led to the growing importance of the state as a provider, in some form, to alleviate the potential consequences of poverty. At the centre of such an intervention lies the social security system. It has therefore, been argued that social transfers from the state to the people, must be viewed as a key ingredient in any national poverty alleviation strategy.

## Provision for social security

Operating under the ambit of the Growth, Employment and Redistribution strategy (Gear), one of government's objectives was to reduce the fiscal deficit. This approach has influenced expenditure outlays made in recent years. What this means is that any thinking around further provisions for poverty alleviation or job creation, has to begin by the realisation that government, through the National Treasury, views fiscal restraint as vital to any of its annual expenditure outlays for the different government departments.

*Cosatu, civil society and a variety of church groups have been mobilising for a universal income grant. Haroon Bhorat looks at whether such an intervention will significantly reduce or impact on poverty:*

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Keeping this in mind, it is useful to examine current and projected state expenditure on social services provision, as indicative of the state's general provisions for immediate or long-run interventions designed to reduce poverty or engender employment. Table 1 on p 20 illustrates these expenditure values for the different categories of social services. It is evident, firstly, that expenditure on social services currently captures about 48% of government's total expenditure. Future estimates make it clear that this share of social services will remain constant at this level for the next three financial years.

Within this high share of social service expenditure, the overwhelming proportion is allocated to education. Education accounts for close to half of total social service spending. As a percentage of both gross domestic product (GDP) and total fiscal expenditure, South Africa remains one of the highest spenders on education in the

world. Within the social services budget, this is followed by social security and welfare, which captures about 13% of total fiscal outlays in 2000. While social welfare is an important component of overall social spending, it remains well below the expenditure on education. What is noticeable however, is that, compared with previous budget years, where health expenditure was greater than welfare spending, government has reallocated funds away from health toward the social security and welfare vote.

### State grant schemes

Within the social welfare budget there are a series of different allocations made by the Department of Social Development to various forms of social assistance. Of the nine transfers made, the old age pension is far and away the largest. This transfer reaches close to 2 million individuals as well as accounting for 63% of the department's total transfer expenditure. The value of the grant however, is not the highest, which at R549 per month per pensioner, is below that of the war veteran's pension and the disability grant.

The second most important transfer scheme is the disability grant. This grant reaches about 630 000 individuals, and accounts for about 26% of the department's transfer expenditure. Hence, close to 90% of the transfer expenditure in South Africa is accounted for by two

schemes – the old age pension and the disability grant. While we have a well-developed and extensive scheme for two of the target groups in the society, for a significant number of indigent and needy communities the scheme is not adequate. A positive development, however, has been the increased importance of the maintenance grant and the child support grant. The latter, however, is set at an extremely low level.

### Transfers for poverty reduction

While transfers are allocated to individuals – for example the aged or disabled – the ultimate impact of the grant must be understood at the household level. These income grants are important as a social safety for households, rather than individuals, living in poverty. As such then, these schemes are implicitly part of the society's household social safety net. This is made clear when one looks for example, at the role of the old age pension in supporting the unemployed, through the access this grant provides to the jobless, within the household.

When looking at non-employment income in relation to the unemployed in a household – 63,4% of the unemployed live in homes where there is no individual recipient of an income transfer. This implies that 36,6% of the unemployed have access to at least one recipient of an income transfer. In rural areas, 41% of the unemployed are in homes with at least one income transfer recipient. It is clear that in rural areas the dependence on transfer income is greater. A significant proportion of the unemployed live in homes with no income transfer recipient. However, it is important to note that

**Table 1: Expenditure by Budget item, as % of total government expenditure**

Budget Item	2001/2	2002/3	2003/4	2004/5
Education	20,37	19,73	19,79	19,53
Health	11,66	11,35	11,51	11,66
Social security & welfare	12,53	13,48	13,10	13,12
Housing	2,44	2,59	2,65	2,58
Other social services	0,63	0,63	0,67	0,58
Total social services	47,64	47,78	47,72	47,48
Interest burden	17,47	15,67	15,29	14,98



the social safety net, as represented by old age pensions and disability grants, does perform a welfare function for some of the unemployed. In this sense there is an indirect welfare effect in the social safety net. Income transfers are not only supporting their direct recipients, but also the unemployed dependants of the recipient.

A number of the unemployed are benefiting from the existent social safety net. However, we need to determine whether this, in itself, is poverty alleviating and enhances living standards. The results show that for these households with unemployed individuals in them, the transfer is not sufficient to place them above the poverty line. For example, among the African unemployed with access to old age pensions or disability grants, 80% live below the poverty line. The regional dimension is telling: amongst the rural unemployed, with access to two or more grants, 84% live below the poverty line. Hence, while some of the unemployed have access to income transfers of a fellow household member, this is not sufficient to raise the unemployed above the poverty line.

Ultimately, transfers provided by the state are assisting not only the direct recipients, but other household members. It is evident that these transfers on their own are wholly insufficient to act as a significant lever for reducing household poverty levels. Emerging from this has been the idea that government needs to consider a national basic income grant scheme. Such a scheme would not only widen the current social welfare provision of the state, but would target the unemployed.

### **Basic income grant estimates**

An extremely useful starting point for the analysis of a universal income grant, is to try and determine, theoretically, what it

would cost the state to eradicate household poverty in the society. Research based on the 1995 October Household Survey, found that given a total number of dwellings in the society is about 9,5 million, of which about 3 million are poor households, the minimum financial commitment necessary to eradicate poverty at the household level is approximately R12,9bn per annum in 1995 prices. The state's total expenditure in 1995, at current prices was about R154,9bn, and thus the cost of eradicating household poverty in the society constitutes 8,29% of this expenditure.

While African households form about 70% of the total household population, they constitute 95% of poor homes in the society. As a result, R12,1bn of the total expenditure will be allocated to African headed households. The location results reveal the importance of rural household poverty in South Africa. To eradicate poverty amongst rural households, the state would need to commit to at least an additional R8,9bn per annum, constituting 5,8% of the state's total expenditure in 1995. Notwithstanding the expected predominance of rural household poverty, 30% of fiscal expenditure on poverty alleviation would still need to be allocated to urban households.

The data illustrates for example, that the state would need to spend approximately R15bn per annum more, to keep all individuals in the labour force out of poverty. This static figure constitutes 9,7% of total government spending in 1995. Government might also need to take into account poverty existing amongst the employed.

Workers in agriculture and community and social services account for 85% of all the poverty amongst employed individuals in the labour market. These two groups of workers would require a substantial public expenditure commitment aimed at

poverty reduction. This suggests that should public expenditure take the form of a labour market intervention, due consideration should be given to the fact that poverty exists not only amongst the unemployed, but also amongst sections of the employed. There would remain though, the real danger of disincentive effects on the labour supply decision of these two cohorts of workers, from this type of government support

With regard to farm and domestic workers, an interesting shift occurs when comparing data at an individual or household level. On an individual level domestic workers are seen to be poorer than farmworkers. However, taking into account household data, farmworkers come from poorer households than domestic workers. This difference could largely be accounted for by the fact that farmworkers are generally located in rural areas. The probability of multiple earners is also greater in domestic worker homes.

Another interesting facet of the individual and household differences is comparing the unemployed as individuals to the households they live in. As individuals, because the unemployed by definition earn no income, they are the poorest in the labour force. The poverty gap measure for households with unemployed is lower than that of domestics and farmworkers. It would appear then that farmworkers come from the poorest homes in the society, while the unemployed in fact live in homes that are generally better off than the other two categories.

The policy implications for government include the need to differentiate between household and individual poverty; labour



market vulnerability should not simply be expressed as a distinction between the employed and the unemployed, given that pockets of deep poverty do prevail amongst the employed and finally, should the state opt to target households with domestic and farmworkers, or the unemployed residing in them, a large proportion of poverty in the society will be captured. As such, a targeting of expenditure in this way involves a creative and effective way in which to give credence to both the individual and household dimensions of poverty

### **Income grant simulations**

A series of simulations were conducted to determine the poverty-reduction effects on poor households by introducing a

universal income grant. The total cost of the scheme is not possible as the data available is per household rather than individual. Instead the study determines the poverty reduction effects on households.

An important point to remember is that a large household does not imply higher income. For example, a ten member household will be earning on average about 1,8 times less than their counterparts with a smaller number of members. In terms of a national income grant, it means that a flat rate delivered to each household in the society will go disproportionately to larger dwellings, and by extension more will enter poorer households.

In addition to household size though, the initial household income levels are crucial predictors of the possible impact of a grant on the poverty status of the household. The data reveals that high levels of income inequality mean a significant number of dwellings are stacked up at the bottom-end of the distribution. More importantly, though, a look at the lowest income levels suggests that a monthly universal income grant of say R100 could conceivably increase household income quite substantially by approximately 20%.

The survey looked at the impact on poverty if the income grant was set at different levels. The grant was set at four different values - R50, R100, R200 and R300 per month. The grant values are arbitrary, except for the R100 value which is based on the original Basic Income Grant (BIG) proposal from Cosatu.

A R50 income grant to each individual in the society would result in a 3,72% change in poverty levels. A R100 grant would reduce poverty levels by 7,56% reduction. With the R200 and R300 grant, the poverty reduction effects reach into double-digits, with the R300 grant

resulting in a change of 16%.

There would be fairly insignificant poverty effects arising from either a small or quite large grant. Put differently, even with a R300 grant to each African household, almost a third would remain below the poverty line. It would appear that poverty levels are fairly inelastic with respect to income transfers. At low levels of household income, there would appear to be little immediate poverty reduction effect from a grant set at any of the four different levels.

The problem with the above figures, however, is that they measure the change in absolute poverty, as opposed to relative poverty. Therefore, the income grant effect is only derived in the figures if a household moves from below the poverty line to above it. This is problematic of course, given that the relative poverty status of a household would undoubtedly have changed through such a transfer. Hence, a household earning for example R5 000 per annum, with a R100 grant would be earning R6 200 annually. The household is still below the poverty line, but is clearly less poor than it was.

The final simulation is not a direct universal income grant intervention, but rather an estimation of the poverty reduction effects in the event the age for qualification of the state pension was reduced. This was conducted largely as a result of the fact that the older and less educated will most likely never obtain a job in their lifetime.

In contrast, young unemployed individuals with some form of education can be trained up and provided with some of the skills that companies may find useful. In contrasting these two groups, whilst they are both officially unemployed, they present very different employment probabilities.

If one dissects the unemployed in this way, the unemployed youth are a job

creation issue. However, the older unemployed are not a job creation problem, as these workers are likely never to find employment again. The latter, in being unemployable rather than unemployed, are a poverty alleviation issue. Therefore, it is this group of individuals that the income grant needs to focus on. In other words, the idea of a social safety net for the poor is most potent when focused on those workers who are so marginalised, that no form of labour market intervention will extricate them from indigence. It is when trying to use the income grant – a poverty alleviation tool – for a problem that is a labour market challenge (such as the unemployed youth) that the scheme begins to lose its appeal and indeed its effectiveness.

The reduction in the qualifying pensionable age from 60 to 40 (for women) and 65 to 45 (for men) was the poverty alleviation intervention effectively simulated.

The idea of running this simulation is to examine the potential poverty alleviation effects if a more reduced version of the universal income grant was instituted. A reduction in the pensionable age for African-headed dwellings, would result in a 7% drop in the poverty gap measure. In addition for female-headed households, the figures are 3,1% and 4,9% respectively, which in fact is the smallest poverty impact amongst all the household types provided. This would suggest that female-headed households in particular have a low representivity of adults over the age of 40 for men and 45 for women. Put differently, this means that the age profile of adults in female-headed households is not particularly favourable to an age-based income grant intervention such as the one tested here.

The results broadly suggest that a reduction in the pensionable age as

modelled here, would have a poverty-reduction impact similar to a R100 universal income grant intervention.

If the results are similar then the choice of scheme would depend on the relative administrative and operational costs. It would seem likely that the additional operational costs of reducing the pensionable age would be lower than the setting up of an entirely new grant scheme.

If we have provisional evidence that the new, lower pensionable age results in a poverty-alleviating effect of the same quantum as an entirely new grant scheme, then surely in the interests of lower costs and making the scheme more attractive to sceptics in government, this option is preferable? Apart from the high probability of much lower administrative and other costs, the lower pensionable age may not suffer from the problem of a disincentive effect as large as the universal grant. One would be implicitly targeting those individuals that have a very low chance of ever finding employment in their lifetime.

## Conclusion

Detracting somewhat from pure cost considerations, this article intended to measure the potential poverty reduction effects from the introduction of a national income grant system.

The results indicate that according to the absolute poverty measure and depending on the value of the grant, household poverty would decline by between 4% and 16% nationally. When using the relative poverty measure, the figures are 4% and 23%. The simulation of the poverty effects when the pensionable age was reduced, reveals that the poverty effects are similar to the institution of a R100 universal grant.

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*This is an edited version of Bhorat's study.*

# Thinking BIG...

## *the proposed Basic Income Grant for South Africa*

Serious consideration of the desirability of the Grant originated in a proposal from labour at the 1998 Presidential Jobs Summit, which resolved to initiate an investigation into this issue. This resolution led to the establishment of the Committee of Enquiry into Comprehensive Social Security, the report of which is currently being considered by Cabinet

Parallel to these processes has been extensive mobilisation of civil society, led by the Coalition for a Basic Income Grant. The Coalition includes Cosatu, SACC, Access, TAC, Sangoco, Black Sash, and a host of other organisations. The next few months are likely to prove decisive as to whether this key intervention to address poverty in South Africa is carried through

### **The vicious cycle of poverty**

About 22 million people currently live in poverty with an average income of R144 per month. Poverty coincides with race, gender and the rural-urban divide (poor people are predominantly black, female and rural). South Africa also has amongst the most unequal distribution of income in the world. In 1996, according to Census data analysed by WEFA, the poorest 40% of our population got less than 3% of the national income, while the richest 10% enjoyed over 50%.

Together with its social effects, poverty causes economic stagnation and low productivity by:

*The idea of a Basic Income Grant (BIG) has become the focus of a major national debate. Neil Coleman and Fiona Tregenna argue that such an intervention will significantly reduce poverty levels.*

- reducing access to education and skills;
- worsening health,
- causing instability and insecurity in families and communities;
- increasing the time required for household chores, especially fetching wood and water; and
- making it harder for people to locate employment opportunities

### **Current social security system**

The current system of grants has three key weaknesses, which limits its effectiveness in breaking the poverty cycle.

- Failure to reach most of the poor*  
Research conducted for Cosatu on existing social grants revealed that over 13,8 million people in the poorest 40% of South Africa's households do not qualify for any social security transfers (Haarmann 1998)

The failure to reach all the poor also

emerges from disparities in the share of beneficiaries and the share of poor people by province. The richer more urban provinces have a substantially larger share of beneficiaries than the poorest more rural provinces, when compared against their relative levels of poverty.

- *The real decline in social grants*  
Relative to headline inflation, the old age pension and disability grants have dropped by almost 20% in recent years. While the recently announced increases are welcome, these do not compensate for the years of cuts, particularly given the current context of rapidly rising food prices, which hit the poor hardest.
- *Low take-up.*  
Low levels of take-up for most of the main grants is exacerbated by the use of means testing. This points to difficulties in administering them and effectively favour the more urbanised provinces that typically have more efficient delivery systems. The take-up rate for the Child Support Grant (CSG) has been low, particularly in the poorest provinces, although there has been some improvement recently.

## A Basic Income Grant (BIG)

Essentially the proposal is for a BIG of between R100 and R200 per month, to be paid to everyone in South Africa from cradle to grave. A BIG is universal, it is not a dole, and it is not means-tested. This makes it more administratively streamlined, and it limits opportunities for corruption and nepotism. It also avoids distortions and disincentives favouring particular groups.

### *Key motivations and advantages*

- BIG could contribute towards the elimination of poverty. Research done at UWC and the Applied Fiscal Research Centre at UCT indicates that a BIG of

just R100 per month would nearly triple the average monthly transfers to households. The poverty gap would be reduced, when compared to other proposals to reform social security. This includes measures to ensure full take-up of existing grants, or extension of the CSG to more children.

- A BIG would also have a broader economic impact in stimulating demand and employment, especially in rural areas.
- At the moment very poor and low-income earners act as a social security net for the extremely poor. Researchers have termed this a *poverty tax* on workers. A BIG would allow a larger portion of wages to be channelled to enhancing consumption and social investment - a form of 'wage subsidy'.
- Unemployment in South Africa is at crisis levels. Even where jobs are available, it is difficult for the extremely poor to access them. Research has shown that even nominal increases in earning levels increase the chances of finding employment. The economically liberating effect of BIG is supported by experiences internationally. For example, evaluation of the *bolsa escola*, or minimum income schemes in Brazil showed they reduced the dependency of Brazilian women and sharply increased their labour market participation. According to Guy Standing of the International Labour Organisation (ILO), reasons for this included that women had enough money to afford clothing and travel in search of work. Their children were also more likely to be attending school.
- A BIG would make it possible for poor households to undertake more 'high-risk' investments in small businesses.
- From a social investment point of view, a BIG would considerably enhance the nutritional and educational status of children.

- A BIG could promote reconciliation and social inclusivity. The TRC speaks about a broader reparations scheme to address the wounds left by apartheid. A BIG would be a tangible contribution to this, a kind of 'transformation levy' or 'solidarity levy'.
- The state also has constitutional obligations in dealing with absolute poverty. In the Grootboom case, the Constitutional Court found that, within the test of reasonableness, the state has to make the basic necessities of life available to all, including relief to those in desperate need. The provision of a BIG would advance this.
- A BIG would also assist in combating the HIV/AIDS pandemic, by assisting people living with AIDS and their families in meeting additional nutritional, medical, and palliative needs.
- In terms of administration, it is proposed that payment should be through public infrastructure such as the PostBank. This would keep costs down while also extending much needed infrastructure and services into areas where they are not currently available. The Smart Card system, which Home Affairs plans to introduce, would also lend itself to the smooth administration of the BIG. The capacity and efficiency of SARS has been clearly demonstrated, which would be crucial in administering the tax aspects.

#### ***BIG vs more limited interventions***

The central strength of a BIG is its universality – everyone qualifies for it, no matter what their income, employment status, age, or other factors. This brings important advantages including streamlining; low administration costs; low opportunities for corruption or nepotism; and inclusivity and social cohesiveness. Any grant targeted at a particular group,

such as a CSG extended to all children, would lose these advantages.

An extended CSG, while an important step forward, would leave a major gap in the social security system: poor adults between the ages of 18 and 60/65. It is estimated that over 800 000 adults living in households *without children in the bottom two income quintiles* – 95% of these would not be reached by any form of social assistance and would be left in destitution. The BIG would close the poverty gap by 61% for this group.

Comparing the effects of the BIG and a CSG – extended to children of 17 years inclusive but with the current means test – demonstrates the great superiority of the BIG. The BIG would close the poverty gap for the bottom two quintiles by an average of 82% compared with 59% for the extended CSG; the average per capita social assistance transfers for the bottom two quintiles would be R121 for the BIG as opposed to R75 for the extended CSG, and the BIG would reach 33 million people, more than four times the reach of the extended CSG.

In practice, where children in poor households are entitled to a CSG and adult members receive no social assistance, the CSG is shared amongst all household members. This means that the actual direct benefits to the targeted children are well below the amount of the CSG, whereas a BIG would relieve pressure on beneficiaries of both old age pensions and the CSG.

It is also important to note the lessons from the implementation of the CSG since its inception. Administrative difficulties, a lack of information about eligibility, and the effect of the means test in discouraging and restricting take-up have led to exclusion of many of the poorest children. Many of these problems would be likely to persist with respect to an extended CSG, and limit its effectiveness.

in reaching the most vulnerable.

### Funding of the BIG

The basic funding model of the BIG is to give it to everyone, rich and poor, and then to 'claw back' the bulk of the costs from income earners over a certain level. In other words, up to a certain threshold, people would retain the entire BIG. At higher income brackets, people would pay back more than the value of the grant in rising multiples, so that very high-income earners would effectively be subsidising several net recipients of the grant.

There would basically be four income brackets: in the first people would retain the full value of the BIG; in the second they would retain a portion thereof. The third bracket would be of net neutral impact; and a fourth bracket in which progressively higher net amounts would be recovered from taxpayers.

This funding model makes the BIG inherently self-targeting in that, although it is universal, it is the poor who actually benefit in real terms. It is also inherently biased towards large families, which tend to be poorer. Each person would receive a BIG whereas recuperation would be by income earner.

While the gross costs of providing a BIG are substantial, a large proportion would be recuperated. The cost, without leaving anyone worse off than before, would be around R23bn. This then is the cost of a 'tax-neutral' recuperation, before the progressive recuperation kicks in.

Of this cost, the amount to be recuperated through the progressive clawback is essentially a political decision, as is the structure/distribution of how this would be done. Initial estimates suggest that about R10bn could be recuperated through this mechanism through the progressive clawback. This progressive measure or 'solidarity levy' would be a demonstrable contribution to

reconciliation, reconstruction, and a more equitable development trajectory.

This means that the 'net net' cost of the BIG, to be financed through other sources, could be in the region of R10bn to R15bn.

Options for raising this include:

- increased corporate taxation;
- a modest rise in government spending;
- reprioritising government spending;
- restructuring the government employees pension fund.

Is this affordable? This year's tax cuts cost the state exactly in the range of the amount required to finance the BIG. The R15bn in tax cuts, while welcomed by many, will not benefit the majority of our population facing harsh poverty, since they are not part of the tax net.

Further, according to Idasa the reduction of the deficit from the 2,6% planned in the Medium Term Budget Policy Statement in November, to the 2,1% in this year's Budget, reduced the amount available for spending by R5,4bn. These two areas alone (the tax cuts and reduced Budget deficit in this year's Budget) clearly indicate that there is certainly fiscal space to afford a BIG, even without implementing other measures proposed by the Coalition to fund the Grant. Rather than its affordability, the question should be whether SA can afford *not* to introduce a BIG: what is the cost to our society of continuing to live with unacceptable levels of poverty?

The BIG is not a panacea to the myriad of problems facing South Africa. However, we do believe that it is a central pillar of a comprehensive social security system. In turn, this is one critical element of the package of measures needed to address poverty, unemployment, and inequality in the country.

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*Nell Coleman and Fiona Tregenna both work in Cosatu's parliamentary office and have been involved in the BIG campaign.*



# (Dis)organised business in disarray?

In the post-1994 period, white business structures continued to dominate institutions such as the National Economic Development and Labour Council (Nedlac) despite the presence of National African Chamber of Commerce (Nafcoc) and Fabcos

Nafcoc is represented separately from Business South Africa (BSA) while Fabcos is part of BSA. These organisations were seen as disorganised with limited capacity. Organisations such as Nafcoc were often depicted as being constantly embroiled in internal divisions as different individuals and personalities hijacked the organisation

By 1996, the Black Business Council (BBC) was set up as an umbrella body for various black organisations. Towards the late 1990s organisations such as the Afrikaanse Handelsinstituut (AHI) and SA Chamber of Commerce (Sacob) – both members of BSA – began courting Nafcoc. After Kevin Wakeford took over as head of Sacob merger talks with Nafcoc intensified

The proposed merger has not received unequivocal support from either within Nafcoc or Sacob (and within BSA). A section within Nafcoc led by Patrice Motsepe has challenged the merger while there are rumblings within BSA over the merger and Wakeford's intentions. In turn there have been subtle threats from Wakeford about withdrawing from BSA and requesting a separate seat in Nedlac.

*The ongoing dispute over the merger between Sacob and Nafcoc has muddied the waters as to whether white and black business will ever merge to form one umbrella business organisation. Reneé Grawitzky looks at the moves afoot to achieve this.*

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Business sources claim, however, that funding for Sacob could be threatened if the organisation disaffiliated from BSA as many of the key funders of BSA also fund Sacob. BSA is a similar body to the BBC. It is an umbrella body for different types of business organisations ranging from sector-specific structures such as Seifsa to Chamber of Commerce type operations such as Sacob

Wakeford believes there is a need to redefine the business landscape in the country. The Chamber movement could act as a real instrument for change, he says. Organisations such as Sacob – which represent small to medium size enterprises – have direct access to small towns where the change is really taking place. He believes the merger of black and white chamber of commerce structures on the ground will contribute to real economic growth. 'Cutting

deals with a few elite will not cascade down to small and medium size businesses,' Wakeford says.

The merger has, however, been viewed in some quarters as being a 'colonialist style' takeover of a weak black organisation. The Black Management Forum and Cosatu expressed concern over the merger while some questioned whether it would dilute the voice of black business. Initially government was not too concerned about the merger as it was thought to represent a move towards unity between black and white business. However, in recent weeks, government has actively intervened in order to resolve the ongoing acrimony that has developed. Resolving this issue is critical if government is to engage business on a national level in the proposed growth summit.

This merger does not reflect the only initiative aimed at bringing white and black business together. The events leading up to the formation of the Business Trust saw the informal coming together of the white and black captains of industry. This group has continued to meet informally.

Differing views exist as to whether it is necessary for business to form one united umbrella body. Boyd says he has never come across a country that has one business structure. There tends to be some strong organisations, he says. However, elements within BSA believe that the trend worldwide is towards the formation of one umbrella employer body. First Rand chief executive officer (CEO) Laurie Dippenaar (and president of the South African Foundation) says there is a desire from all parties to see some form of unity in business.

Dippenaar says there is a need for one overarching organisation, which will deal with matters of national interest. Government, he adds, needs a single

interface with business on issues of national interest while sector-specific issues could be dealt with by the sector organisations. A number of stumbling blocks, which have previously prevented unity, need to be sorted out, he says. These include capacity and funding problems within some business structures.

It is understood that government has requested Motsepe, who is getting increasingly involved in the BBC, to resolve existing problems in black business and thereafter, ensure an alignment of white and black business.

BSA has for some time been contemplating a merger with BBC. However, this has been hampered by attempts to resolve its own internal problems. Dippenaar says it is important that BSA is seen to be an effective body and members are now insisting on this. In the past a lack of resources, more involvement of senior business leaders and dynamic leadership have hampered BSA. The captains of industry have, in recent years, tended to attend meetings of the South Africa Foundation.

BSA has been grappling with whether to begin to build its own profile or not. This has caused some concern by those pushing for a merger with BBC. There is a view that black business would see this move as a deliberate attempt to create a stronger organisation in anticipation of a merger with the BBC.

## **Merger – is it possible?**

Some elements in white business believe the BBC is still finding its feet and is not ready to enter into a formal structured alliance with BSA. Despite such concerns, a time frame has been adopted to begin a process for merger talks between the two organisations. It is understood that a black business summit will be held in April and a joint black and white business summit will be held mid year.

# Can business deliver on domestic investment?

During the 1970s and 1980s, the long-term performance of domestic fixed investment in South Africa deteriorated significantly, contributing directly to the decline in economic growth over the period

During this period, it was taken as a given that uncertainty was a major determinant of investment performance. There is also little question that reduced investment opportunities and overall economic decline contributed to political change. In the late 1980s business groups inside and outside the country shifted to support the democratisation process, by then seeing the latter as the only way to revive growth prospects.

In the immediate aftermath of the 1994 elections, fixed investment picked up to some extent, compared with the immediately preceding years. But this improvement has not been sustained. Investment rates have remained low, well short of historical peaks and certainly far below the rate necessary to sustain gross domestic product (GDP) growth at levels that could begin to reduce the problems of poverty and unemployment.

Over and above the transition to democracy, there has also been extensive trade liberalisation, while fiscal policy has been resolutely orthodox, and increasingly successful in lowering the deficit. Domestic investment performance might therefore, have been expected to respond more vigorously to the fundamental shift

*The failure to attract foreign direct investment has put the spotlight on domestic investment. Economist Stephen Gelb investigates some of the underlying reasons for the failure of private sector investment to rise significantly since 1994.*

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in policy stance. The poor investment performance post-1994 has undoubtedly been influenced by episodes of macroeconomic instability, resulting from capital account shocks in 1996, and again in 1998 in the wake of the Asian crisis. However, the impact of these 'should' have been fluctuations around a higher underlying rate.

South African Reserve Bank data shows that the investment rate is just above 15% of GDP but remains well below the levels of the mid-1970s, when aggregate investment peaked at more than 30% of GDP. Much of the decline is as a result of the drop in public sector investment (general government and public corporations). Such investment declined from a total of nearly 18% of GDP in the mid-1970s and about 12.5% in the early 1980s to current levels of 5% and below

There was a 'blip' during 1998, as a result of the part-privatisation of the state telecommunications corporation, which carried specific investment obligations.

The contribution of private sector investment to total investment rose from an average of about 57% during the 1980s to about 69% during the 1990s. Although private investment rose following the 1994 election, the increase was not sustained. The private rate began to decline in early 1997 and in 1999 was at the same level as before the 1994 election, which was also its lowest level over the preceding 30 years. There has been a slight improvement since 1999, but private sector investment performance is still inferior to that of the late 1970s and late 1980s, both periods of slow recovery from recession. The private sector is investing a much lower share of GDP. Its investment rate is now in the region of 11% of GDP, compared with its peak level of 16,2% in the early 1980s.

The failure of the private sector to increase investment has been somewhat of a puzzle and a frustration for politicians and government policymakers. They have repeatedly argued that the private sector is overly concerned with 'perceptions', as distinct from the 'reality of sound macroeconomic fundamentals'. The media and/or implicitly racist attitudes (on the part of white business towards a black government) are seen as responsible for the perceptions 'gap'.

Leaving aside the political aspects of such claims, they do imply that problems of investor confidence and uncertainty remain relevant in South Africa. In addition, these problems go beyond macroeconomic instability to include issues of political risk.

### What firms say

A survey was conducted on behalf of the President's Office amongst 1 400 firms in South Africa between November 1999 and

February 2000 to investigate issues relating to low investment.

The survey was carried out before concerns emerged over government's policy towards stability in the Southern African region and HIV/AIDS. It should also be noted that the period November 1999 to February 2000 was a period of historically high levels for the widely-accepted BER and SACOB business confidence indices. At the time companies were asked to complete the survey, interest rates had been on a downward trend for about 12 months, and the economy was just emerging from the downturn, which had started in late 1996. The Y2K issue was possibly a factor affecting responses for some firms.

The survey found that:

- While most firms make capital investment expenditures on a regular basis, their average investment levels are very low. The vast majority of large firms (more than 50 workers) invest annually, as do most small firms (5-50 workers). But there is a significant proportion of the latter, which invest less frequently.
- 95% of small firms invest less than R1m per annum. Perhaps more surprising, and a cause for concern, is that 44% of large manufacturing firms, and 38% of large service firms, also invest less than R1m annually. Furthermore, approximately three-quarters of large firms invest less than R5m.
- More than half the companies that did invest used retained earnings as their most important source of investment finance, and for about another quarter of the firms, it was the second most important source. Loans from domestic banks are the next most important source of finance: about 30% of firms in three of the four sub-groups cited it as their most important source.
- The investment outlook over the next

two financial years was surprising. Small companies planned expenditures were set to increase more rapidly than those of large firms. But for both, the rate of expenditure increase was very low.

- The perceived obstacles to investment differed for small and large companies and between manufacturing and the service sector. Large manufacturing firms ranked 'interest rate level' as the largest obstacle followed by crime and social problems. Smaller companies ranked crime and social problems as the largest obstacle followed by 'interest rate level'. Both rated labour regulations as having only slightly less impact than the two most severe obstacles. Smaller firms also indicated that 'uncertainty over government's economic policy' and 'high corporate tax rates' were important factors for them. Large companies were less concerned about these but were concerned about 'inadequate tax incentives'. It is significant that neither 'lack of own funds' nor 'lack of access to borrowed funds' was seen as a major problem by either small or large firms. The *cost of funds* was rated much more severely than a lack of availability. Service companies reflected similar patterns to those of manufacturing.
- Companies' most recent capital expenditure was motivated primarily by their search for efficiency and productivity increases. This was followed by responses to aggregate demand, with entry into new markets or attempts to reduce labour utilisation as relatively minor factors.
- The survey looked at whether tax incentives would encourage an increase in investment. Results found that one third of all small firms indicated that *none* of the offered choices would be sufficient to induce higher capital investment. The lowering of company

tax rates from 30% to 25% was the next most preferred option.

- Expenditure on employee training is an important dimension of overall capital expenditure, especially given the skill shortages at the upper levels of the skills ladder. Data revealed that the average level of spending on training was low. Most large firms did undertake some expenditure but a substantial minority of small firms – approximately two-fifths – spent nothing.

## Factors determining investment

This section describes survey responses to questions investigating in more depth firm attitudes towards a range of factors identified as potential obstacles to investment.

### *Labour regulations*

The survey asked firms to assess the impact of changes to labour legislation especially in the area of dismissals, changing working time provisions, leave provisions, affirmative action and rights to collective action on both their decisions to hire new employees, and on their operating costs.

The impact of firing (dismissal) regulations both on decisions to hire employees and on operating costs was regarded by small and large firms as more serious than any other issue. Aside from this ranking, the average ratings for the other issues are located between 'moderate' and 'no impact'. This throws an interesting light on the interpretation of 'labour regulations' as an obstacle to investment. Initial ratings suggested a far more negative impact on investment than is the case for the direct impact on firm's current employment and profitability. The implication is that firms fear the possibility of future shifts on this issue, and it is this fear, which impacts on the investment decision.

### **Social issues**

As with the responses to the labour regulations issue, firms' perceptions of crime and social issues as an obstacle to investment are not immediately linked to the direct impact of these problems on the companies' operations. More rigorous statistical testing of the results indicate that only the large manufacturing firms' responses are strongly correlated with responses to the earlier question on investment obstacles. For the other firms, the identification of crime and social issues as an investment obstacle should be seen as a response to the broader socio-political environment, rather than to the specific impact on the firms' own activities. Corruption ranked low on the list of disincentives while on the impact of HIV/AIDS, the response was limited.

### **Interest and exchange rates**

Larger companies, both manufacturing and services, react more vigorously to changes in interest rates than do small firms. Rate increases force substantial minorities of the large firms, especially in manufacturing to cut back on expansion plans and on debt financing. Almost half of the small firms indicated that the rate increase had no effect on them, which is a surprising result. In terms of changes to the exchange rate, it appeared that it was only amongst the large manufacturing firms that a significant response was found. Within this group one has to unpack differences between exporters and non-exporters. For non-exporters, the exchange rate's impact on investment (machinery purchases) is more significant than the impact on current activity. Amongst large manufacturing exporters, there is an encouragingly vigorous response to the favourable movement of the currency.

### **Attitudes to government**

The issues addressed include policy consistency, 'business-friendliness' of

policy and the change in the quality of dealings with officials since 1994. (The responses should be interpreted taking account of the fact that the survey questionnaire came explicitly and clearly from the South African government. The survey could have been seen by many firms as an opportunity to 'send a message' to government.) Companies were more positive about effects on their ongoing operations and activities, as reflected in their interactions with government officials, than about government's impact upon the broader operating environment of the company. The majority of companies felt however, that government rarely, if ever took account of their concerns in policymaking, while a strong majority felt policy was unpredictable and inconsistent, without a clear framework.

### **Uncertainty and investor confidence**

There was a noticeable difference in responses between constraints to investment and the actual impact of these investment constraints on day-to-day operations, as distinct from their investment decisions.

Although the most significant constraints on investment were also seen as having a negative impact on ongoing operations, the costs imposed on the latter were perceived as fairly moderate, while the barriers to further investment and expansion were relatively severe. This disjuncture suggests that despite the historically high levels of published confidence indices at the time of the fieldwork, the survey still suggests that uncertainty and lack of investor confidence - linked to social and political issues, rather macroeconomic 'fundamentals' - are major barriers to investment in South Africa. This is over and above the direct effects of the cost of capital (via interest rates), profitability (via

labour costs) and market demand

How should the socio-political confidence factor be interpreted? A critical factor underpinning the connection between the present and the future is the stability of the broad institutional framework. Property rights are central to this along with the rule of law, and the predictability of policy and administration. Property rights are often taken to mean simply ownership rights of individuals and firms over their assets or their labour. Fragile or insecure property rights reflect weak contract enforcement leading to perceived or actual threats of loss of ownership of assets via expropriation.

But a broader interpretation of property rights, more appropriate to South African circumstances, is that it involves not just ownership of assets, but also adequate control over returns to assets. In other words, claims on the future distribution of income generated by assets. On this basis, property rights are inadequately protected if there is a possibility of economic policy shifts, which would result in far-reaching changes in the income distribution regime. Secure property rights have historically been one of the keys to economic growth. Entrepreneurs do not have an incentive to invest or innovate if they are uncertain about their claims on future returns from the operation of the assets they have purchased and installed.

The implication of this analysis is that South African firms are insecure over property rights. What underlies this insecurity? It goes beyond a simple reaction to statements by government leaders. Rather, firms do not feel they have sufficient control over the future returns to their activities. They identify high risks of losses through private criminal acts against firm assets, owners or employees. More importantly, they expect or fear far-reaching policy shifts - to the regimes

regulating taxes or input costs, for example - which could fundamentally affect the future distribution of returns.

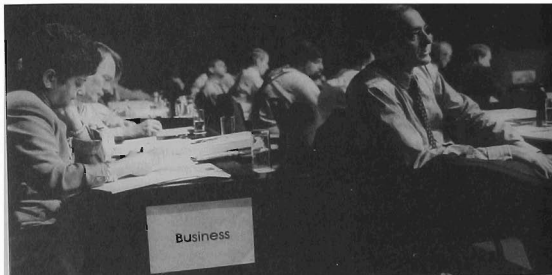
South African firms' fear of large expected future losses, whether from crime or from strongly redistributionist policy regimes, is linked to the high levels of economic polarisation in South African society. The relationship between insecure property rights and low investor confidence is not unique to South Africa, but is common in societies, which are highly distributionally polarised.

It is also not surprising in a society which has experienced a recent democratic transition, as South Africa has, that firms assess the probability of loss to be relatively large - 'bad news' is likely. This is not a consequence of attitudes per se to government, but rather a concern that government will be overwhelmed by 'popular' demands for redistribution and this will lead to a fundamental policy shift.

## Raising investment

What are the prospects for improved investment performance? The standard policy measures to raise investment rates will only make a significant difference if the underlying confidence issues are also addressed.

Polarisation means that improved distribution is a political imperative for government, at least in the medium to long term. This makes it more difficult for government to commit credibly to an economic policy framework which does not result in redistribution. In other words, firms are less likely to believe that 'the rules of the game' are settled for the long term if these rules do not credibly address inequality and polarisation in the society; and thereby increase security over property rights. If government actively addresses distributional issues, investors will be less anxious about this demand spilling over into far reaching



### *Is business willing and able?*

policy shifts and more certainty about claims on their future incomes

What features of a new framework to address distribution would make it credible?

- Reflect a social consensus* that has wide and explicit support across the society, including all social partners
- Shift towards the more equitable distribution of wealth and income earning assets.* The concern with current incomes provides incentives for groups to try to increase their income shares at the expense of other groups, and to try to build political support for a bigger share of transfers out of current income. By shifting the focus to income-earning *assets* – such as skills and ‘human capital’ (the most essential), housing, land and infrastructure – groups would by contrast face incentives to contribute to overall growth so as to acquire rising income streams into the future. A shift to a *future* growth perspective, rather than a current income perspective, would be a clear signal to firms that their own claim on the future returns on their assets was not threatened.
- Produce some degree of success*

*relatively quickly* This will require more far-reaching measures to achieve equity in asset distribution, as well as rapid improvements in policy implementation (‘service delivery’) in areas such as education, health, housing and household infrastructure, all of which are essential to enhancing human capital

- Maintain macroeconomic stability.* In an internationally open economy, premature or overly rapid relaxation of fiscal or monetary policy could lead to a macroeconomic shock and capital outflows which would greatly slow down efforts to improve distributional equity. But at the same time, too contractionary a stance will also hold back greater equity. The impact of macroeconomic shocks is greatly mitigated if distributional conflict is well managed a credible and effective framework for addressing distribution would therefore produce additional gross benefits

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*This is an edited version of a longer paper Gelb is director of The EDGE Institute – a non-profit economic research institute. The paper is available at [www.the-edge.org.za](http://www.the-edge.org.za) Tel (011) 339-1757.*



# Is business committed to skills development?

The Department of Labour announced recently that the skills levies collected by the SA Revenue Services and deposited into the accounts of 24 Sector Education and Training Authorities (Setas) was in the region of R3bn. This elicited some strong criticism as to whether Setas were delivering or not and whether business was committed to training.

The department's senior executive manager for skills development Adrienne Bird says, 'When people say that Setas are not disbursing money to companies, one has to look at how funds are being allocated and whether companies are claiming their money back.'

Bird believes that one of the factors contributing to the accumulation of monies in the Setas is the failure of companies to reclaim their grants. 'If companies do not see the value in claiming back their money they will not do so.' Often companies put forward their initial planning reports but fail to submit their final report grant which would allow them to claim back 50% of the money spent on training. Bird says Many Setas could be holding monies because companies have not claimed their second grant.

There are however, a number of other factors, which need to be considered.

- Setas were being set up at the same time that the levy system came into effect. This has inevitably led to a delay

*The failure of Setas to spend monies allocated to them raises some serious questions as to whether business is committed to skills development. René Grawitzky investigates this and outlines the various incentives available to business.*

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in the disbursement of monies from the Setas. Observers believe that parties should allow for some lead-time between the collection of levies and the disbursement for skills training.

- There are a number of Setas, which are delivering, but there are some which continue to be hampered by weak governance. This can lead to their inability to put in place good management practices. Some skills consultants believe that the work of certain Setas has been affected by union/employer conflict in respect of the overall operation of the Setas.
- Setas are public entities and should be run like proper businesses. However, in a number of cases weak governance has resulted in a failure to put in place the necessarily financial checks and balances. (There have been a number of cases where chief executive officers

(CEOs) of Setas have been suspended and charged with various counts of fraud and mismanagement.)

The success of skills development is not the sole domain of Setas, but requires support from employers

Early indications are that, for a variety of reasons, there is antagonism from employers towards the Skills Development Act. This may not be overt but it exists. There is a sense amongst some consultants that employers are not giving the legislation a chance, despite the fact that it could be viewed as slightly bureaucratic. The perceived lack of delivery amongst the Setas does not however, encourage employer buy-in. As one consultant said: 'time will tell whether the levy system will raise training above previous levels and encourage those who previously did not train to do so'

### Reclaiming grants

Bird explains that employers, in terms of the Act, need to submit three types of forms supplied by the Setas in order to claim back monies for different grants:

- *Workplace skills plan* - in order to claim back an initial 15% of the amount spent on training, an employer needs to submit a form to the relevant Seta outlining what skills are to be trained up and what courses will be embarked upon.

Bird emphasises that the forms are simple and do not require much work. Once companies have got their 15% they can go ahead and train. At the end of the year companies must submit a report on how many people have been trained (including a racial breakdown). For that they will get a further 50% of what they paid out in training. Bird believes that one of the apparent reasons for underexpenditure by Setas is that companies have presented their initial planning grant but have not

completed their year-end report grant.

- *Learnerships* - are only now getting up and running, as Setas had to first be accredited with the SA Qualifications Authority and thereafter, had to design new learnerships.

The designing of learnerships could only be achieved once Setas had completed their sector skills plans. This was necessary in order for Setas to understand their sectors and what skills are required. Each Seta now has a description of the skills profile in their sector. This can then inform the potential for learnership opportunities. Bird explains that 140 new learnership programmes have been developed ranging from basic entry level to post professional levels. Bird believes that people are more likely to succeed in self-employment if they have a combination of workplace training and education.

If employers agree to embark on learnership programmes they will be able to access a cash grant from their Seta as well as a tax incentive. Every time an employer signs up a learnership agreement they can claim R25 000 offset against taxable income. When the recognised phase of the learnership has been completed they can claim an additional R25 000 against taxable income.

- *Strategic grants* - Setas are eligible to provide additional grants to companies for developmental or special skills training, for example, in the area of HIV/AIDS and adult basic education and training. These special grants would also relate to learnerships

To find out more about the benefits of the Skills Development Act call the Department of Labour at (012) 309-4000.

# How high is unemployment?

In 1998 the Norwegian based Fafo, Institute for Applied Social Science, agreed in consultation with the Department of Labour to embark on a survey to update the country's labour market statistics

The survey was supposed to assist the department, who were keen at the time to find out how their new labour laws were impacting on the labour market. Today the scenario appears slightly different with the department adopting a rather hands-off approach to the survey. The aim of the survey was not to challenge existing statistics but rather to 'help fill some of the existing knowledge gaps'. At the time, Statistics SA had not yet started its own labour force survey.

## Survey findings

Aside from the politics around the collection of statistics, the key findings of the survey include the following:

- The labour force or economically active population (EAP) – those who already work or are available for work – is higher than initially estimated
- It is estimated that 11.2 million people are employed and they generally support about 4.3 people on their wages
- The informal sector has become a major contributor to employment with about 20% or 2.2 million of the EAP relying on this sector for work. The formal sector only accounts for 60% of

*A long awaited survey on labour market statistics has finally seen the light of day. The results, which could be contested in some quarters, have important policy implications nevertheless for interventions to reduce poverty and unemployment.*

employment

- The growth of the informal sector can to some extent be attributed to the growth of subsistence agriculture. Other informal sector activities relate to wholesale, retail trade (14%), construction (12%) and manufacturing (11%).
- This trend is very much in line with the decline in employment in manufacturing and an increase in the service sector.
- The increased size of the labour force can have a ripple effect on other figures with the result that unemployment figures too are higher than currently calculated. The survey estimates that unemployment ranges between 32% and 45%, depending on the definition used. This is compared to the 1999 October Household Survey (OHS) whose estimates range from 23% to 36%.

- Unemployment is as expected higher in urban areas when looking at those who are actively looking for work. The limited opportunities in the rural areas has meant that more people have given up looking for work. This is borne out by the fact that 65% of jobs are found in urban areas.
- It is generally accepted that the most vulnerable or marginalised workers such as women, rural people and Africans are most likely to give up actively looking for employment
- There is a direct relationship between employment and education. Unemployment is lower for those with higher education while highest amongst those with lower secondary or upper secondary education. This group makes up two-thirds of the country's unemployed
- 50% of those looking for work have never worked before while one-quarter of those currently unemployed lost their jobs through retrenchments or closures. Only 10% of those who were not working at the time of the survey had worked one or more months in the past year
- It is interesting to note that only 1% of current job seekers are taking training courses as a means to find work.
- Access to information about job opportunities is possibly the most important obstacle to finding work.
- More than 60% of the unemployed depend on remittances from household members who are employed for their survival while about 15% rely on pensions and 1% on unemployment insurance benefits.
- The distribution of income in households very much depends on the number of people employed. Where everyone is unemployed the average income is R1 013, but if one person is employed this figure is doubled. The average income for households with no

unemployed will average around R3 619, but one unemployed will reduce the average by 45% to R1 992.

- Sources for household income include wages, old age pension, remittances, child support and other government grants and self-employment.
- In the poorest households (where the average income is R286 a month), 49% rely on remittances from family members and private child maintenance to survive. In the second poorest households (income of R616), old age pensions account for more than 35% of income. In the third poorest households (income of R1 142), government pensions and other government grants account for more than 50% of their income.
- The granting of fringe benefits such as annual and sick leave seems to be well entrenched in the formal sector but is either sporadic or not granted in the informal sector. The most compliant sectors in terms of granting paid annual leave are the public sector, mining and the financial sector, while the worst are construction and retail.
- In terms of other fringe benefits, the majority of public sector workers get retirement benefits as compared to 40% in the private sector. A similar trend is evident for the provision of medical care and housing.
- Employees in construction, retail, hotels, transport, agriculture, mining and forestry work the longest hours. However, close to 50% of the workforce work between 31 and 45 hours a week. 12% work more than 55 hours and 25% work less than 45 hours.
- It is estimated that 34% of salaried employees are covered by collective agreements.
- Union density is relatively high in South Africa and especially so in the public sector, mining and manufacturing, but

low in the service sector.

- There is a direct correlation between union density and collective agreements. Close to 81% of union members are covered by collective agreements.
- More than 50% of workers believe that the responsibility for health and safety lies with employers. However, 48% who fear losing their jobs feel that it is government's responsibility to look after their interests in terms of job security. More than 70% believe it is government's responsibility to create jobs. Large numbers believe creating jobs is the Department of Labour's most important role.
- There is a high level of support for government to set wages especially amongst agricultural and domestic workers. The remainder believe wages should be set through collective bargaining.
- The majority of agricultural and domestic workers are not satisfied with their wages.
- The majority of workers would work harder if they were paid more while more than 70% indicated that if they had more freedom to decide on tasks they would work harder.
- The majority of workers would only go on strike after negotiations had failed.

## Policy implications

Whether unemployment is calculated using the strict or narrow definition of either this survey or the OHS figures, the picture remains unchanged. Unemployment is unusually high in South Africa. As government, labour and business begin to prepare for the growth summit, Liv Torres (one of the drafters of the report) says discussion should focus on how the unemployed survives and how people can be kept out of poverty. The survey reveals that government transfers

and grants help to move people out of poverty and it is remittances from family members who are employed that people can rely on to move out of extreme poverty. The latter has some implications for possible calls for wage moderation. The report says 'it is only through employment that people can move into a better life'.

These results have to be taken into account when considering the future of social security in the country and how to increase cash transfers to poor households.

What is interesting however, is the limited impact unemployment insurance has on the households surveyed.

Torres says a growth strategy cannot be separate from a programme to alleviate poverty. The same is true for developing an investment strategy. Fafo representatives argue Torres says government needs to consider policies that emphasise job creation. It is not only the business sector that can create jobs. The state, she says, needs to facilitate job creation and make it easier for small, micro and medium size enterprises to access the market. The survey showed clearly that the unemployed see government integrally involved in spearheading job creation initiatives.

Finally, the report does shed light on how the various labour laws are affecting the labour market. It is clear that these laws are not being implemented or even considered in the informal sector.

The report has come under some criticism from economists in terms of statistical design. During a presentation, UCT economist Haroon Bhorat questioned whether the unemployment rates had been captured properly. This relates to the importance of statistical methodology and design in household surveys. Other issues under scrutiny include the population estimates (which could impact on budget allocations), the timing of the survey and design of the questionnaire.

# Why still secrecy around directors' salaries?

**C**alls by the King Report on Corporate Governance for companies to reveal the salaries of directors goes unheeded. It remains an area still shrouded in secrecy

Some concerns have been raised around the King Report's recommendation in its second report for companies to 'provide full disclosure of director remuneration on an individual basis giving details of earnings, share options and all other benefits'. Concerns range from the fact that this would violate a director's individual right to privacy, it could put the director and his/her family at risk because they will become targets of kidnapers and better paying companies could poach senior staff of lower paying companies.

Another concern raised by Lot Ndlovu, the chief executive officer (CEO) of People's Bank, is that disclosing earnings of directors would demotivate millions of black people. 'There are not enough black people delighting in the fruits of the free enterprise system. These revelations are not likely to raise their confidence in the system'

## General trends

The lack of transparency around directors' fees was derived from a survey of 80 companies. Executive directors' earnings are up by 23% from 2000 from an average of R1 511 323 for 2000 to an average of R1 859 626 for 2001. This is almost three

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*Managers complain that workers continue to demand high wages. The Labour Research Service investigates what directors are being paid and looks at the continued failure of companies to disclose director's salaries.*

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times higher than the rate of inflation, more than 12 times higher than the rate of economic growth (GDP), and three times higher than the increase of low paid workers. The earnings of non-executive directors have increased even more from an average of R120 091 in 2000 to R162 008 in 2002 - an increase of 35%

In a context of an economic slowdown, retrenchments and rising inflation due to the depreciation of the domestic currency, the growth of directors' earnings reveal that they have managed to insulate themselves from these effects and secured their own personal interest.

Company performance, measured by net pre-tax profit has improved between 2000 and 2001 by 30%. Directors' increases therefore, compare well with this improvement. Many companies are registering better performances due to retrenchments, meaning that their wage

bill is declining. In distributive terms, workers are getting a smaller portion of the profits while managers, directors and shareholders increase their lot.

### Increases per sector

A survey of increases in food & beverages, retail and banking reveals that while the increase of executive directors' earnings in the retail sector is moderate (14%), company performance had decreased by 6% from the previous year. Non-executive directors' increases are much higher at 58%.

In banking and food & beverage the percentage increase for executive directors is less than the increase of pre-tax profits between 2000 and 2001. Non-executive directors, however, got a higher increase of 23% in both sectors. While directors got a higher increase than workers did in retail, it was 2% lower in banking and food & beverage.

When comparing the ratio of a minimum worker's wage to that of the executive director's earnings, a huge gap in income exists in all sectors. An executive director's income is 103 times that of a worker in retail, 63 times in banking and 53 times in food & beverages.

### Top and bottom earners

There is a definite unevenness among companies regarding directors' salaries. Some companies pay extremely high salaries - over R10m in the case of the CEO of Old Mutual, a life assurance company - while others are far below the average of R1,86m (less than R300,000 for Argent Industrial, an engineering and construction company).

The tables indicate that the highest earners are in financial and information technology while the

lowest earners are in construction and retail. This corresponds to the sectors with highest and lowest average minimum wages. Construction workers and workers in retail get an annual wage of R13,616 and R16,201 respectively while workers in the service sector get R22,436 annually.

### Relation to exchange rate

According to the Reserve Bank, the exchange rate was quite stable in the first half of last year compared to the 12% weighted average drop and an 18% drop against the US\$ in 2000 against the US\$ in 2000. The weighted average decline was only 0,2% for the first half of 2001 and the exchange rate with the US\$ declined by 6% over the same period.

In the fourth quarter, however, the rand depreciated sharply against the dollar and other major currencies (an annual 10%.

#### Companies paying the highest average per executive director for 2001

Company	Year	Average executive director earnings
Datatec	2000	3 250 000
	2001	10 250 000
Alexander Forbes	2000	4 000 000
	2001	6 000 000
Investec Group	2000	3 000 000
	2001	5 128 900
First Rand	2000	6 200 000
	2001	4 845 667

#### Companies paying the lowest average per executive director for 2001

	Year	Average executive director earnings
Wilson-Bayly Holmes	2000	235 000
	2001	257 000
The House of Busby	2000	249 500
	2001	321 167
Sage Group	2000	550 889
	2001	513 222
City Lodge	2000	490 600

depreciation against the US\$). This means that directors' earnings in South Africa will fall relative to earnings of directors in major economies but they are more than compensated by the whopping 85% increase the previous year

It is also important to note that the number of South African companies listing on the London Stock Exchange and elsewhere has grown in the past four years and directors now get paid in hard currencies. The effect of the depreciating rand on workers, who get paid in local currency, but still have to pay for the increases in imported goods will be grave.

### Rise in inequality

While the South African government and business leaders claim that much has been done since the democratic transition in 1994, the fact is that inequality and poverty has increased since then

The Gini index reflects that South Africa is among the countries with the highest levels of inequality in the world with a Gini index of 59,3. This is higher than Zimbabwe (Gini index of 56,8) and Nigeria (Gini index of 45); twice as high as the UK (Gini index of 32) and on par with Brazil (Gini index of 60). What this means is that 46% of total income goes to 10% of the population (highest earners) while 1,1% of total income goes to 10% of the population which are the lowest earners

The character of this inequality has been changing since the 1970s. Then, whites accounted for 71% of personal income and Africans 20%. By 1990 whites accounted for 51% and Africans 33%. It is important to remember that whites make up only 12% of the population while Africans make up 78% so that as long as more than 12% of income goes to whites and less than 78% goes to Africans the racial inequalities continue to grow. The

increase in inequality, according to the South African Survey, is due largely to the growth of unemployment, which has risen by 59% between 1995 and 2000.

But South Africa is not unique. According to World Bank president James Wolfensohn, 'half the world's population lives on less than \$2 a day; 80% of the global population has only 20% of global gross domestic product; and within each country there is a massive imbalance between the rich and poor'.

Robert Wade, a professor of political economy at the London School of Economics, also argues that global inequality has been increasing since the industrial revolution and has speeded up in the last two decades. Income of the world's poorest 10% dropped by a quarter and income of the world's richest increased by 8%.

The existing gap between directors' earnings and workers' wages coupled with the fact that directors' earnings are increasing faster than workers' wages only entrenches and deepens inequality in South Africa. The deepening inequality places a big question mark over the 'trickle down' theory that economic growth will lead to job creation and thereby reduce poverty and inequality

It is becoming increasingly clear that inequality is holding back growth. If South African workers were rewarded with increases comparable to their directors, consumption spending would go up and the economy would therefore be stimulated to meet the basic needs of people. This would reduce the growing levels of poverty - estimated to be growing by 2% a year.

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*This is an edited version of the report on directors' fees compiled by the Cape Town-based Labour Research Service. For a full report contact the LRS (021) 447-1677*



# Cosatu looks at the food security crisis

**F**ood price increases are devastating for the working class. The poorest households spend over 50% of their income on food (and 16% on maize alone). Since food makes up such a high share of spending for working people, rapid food price increases mean lower living standards.

The food price index rose 11,4% in the year to December 2001, compared to a rise in non food prices of 3,0%. (The prices of maize and other basic foods have risen even further since then. Altogether, the maize meal price to consumers has more than doubled in just over a year.) This occurs in a situation of growing malnutrition coupled with the rising numbers of people living with HIV/AIDS. Nutrition and maintaining a good diet is critical for those living with the disease (see p 72).

## **CPI and low income earners**

The price index for the low-income groups rises far more rapidly than the overall consumer price index (CPI). For households earning under about R2 500 a month, the CPI in the year to December 2001 rose by between 8% and 9%, compared to 6% for the very high-income group, and 6,5% for the overall CPI.

## **Causes of food price increases**

Policies to end the disproportionate rise in food prices and the food security problem must address a number of underlying

*South Africa is facing a crisis of rising food prices and food insecurity that is negatively affecting the poor and low-income earners who spend more than a third of their income on food. Eric Watkinson and Neva Makgetla outline Cosatu's demands in this regard.*

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causes. Low supply and the depreciation of the rand are not necessarily the causes of the rising maize price. Instead, defects in the relevant markets due primarily to speculative pricing and concentration of ownership could be a key factor. This situation is aggravated by inflexible tariffs and the failure to pass on VAT zero rating.

## *Maize prices*

Investigation of the maize price suggests that the main problem lies in unjustified import-parity pricing based in part on persistent official underestimates of crops.

Contrary to perceptions created in the press, there is no maize shortage in South Africa and there is no need to import this year. Despite the reasonable maize crop this year, speculative estimates appear to

have exaggerated regional maize needs and underestimated the overall harvest. These estimates of high demand relative to local production led to an increase in futures prices and were used to justify import-parity pricing

Speculation that the overall harvest would be low added to the price burden. In the 2000/2001 marketing year, crop estimates by the National Crop Estimate Committee rose by 10% from the start of the season to the end. The underestimation of maize harvests ultimately benefits producers and brokers relative to millers and consumers. For every 1% underestimation in the maize crop there is a 0,71% increase in the maize price.

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*The underestimation of maize harvests ultimately benefits producers and brokers relative to millers and consumers. For every 1% underestimation in the maize crop there is a 0,71% increase in the maize price.*

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#### **VAT and tariffs**

There appears to be inadequate flexibility in the maize tariff, aggravating price increases. The maize tariff is currently around R137 a tonne, or about 6% of the price

COSATU is also concerned that the benefit of VAT zero rating on basic foodstuffs is not being passed on to consumers. That means producers and retail chains are profiteering at the cost of the poor. This situation emerges from the fact that in most shops, brown bread, which is VAT exempt, costs the same as or more than white bread. It is not clear which part of the industry chain is

responsible for inflating brown bread prices.

#### **Structural factors**

High food prices are in part associated with lower investment in agriculture and stagnant production. They are also related to concentration of ownership in production and processing as well as formal retail, and inefficient retail in the townships and rural areas

Since the mid-'90s, there has been a substantial decline in agricultural investment. The decline in agricultural investment has been more severe than in the economy as a whole. The agricultural decline has been associated with growing differentiation within commercial farming.

The formal retail sector is also highly concentrated, with effective domination by three supermarket chains. This level of concentration in production and distribution gives rise to concern about price collusion and profiteering.

Concentration of ownership may also explain the high price increases in dairy, where smaller local producers have been displaced by a large foreign concern. This situation has been associated with substantial job losses in the dairy sector. According to the Survey of Total Earnings and Employment, a total of almost 7 000 manufacturing workers have lost dairy jobs since 1994.

Finally, retail prices in poor communities are comparatively high because of the dependence on poorly organised and resourced micro-traders with relatively high mark-ups over the big retail chains. Mark-ups in cafés and spaza shops are about twice as high as in the supermarkets

#### **Policy implications**

The negative trends in agriculture seem related to a strong ideological commitment to freeing up agricultural markets, except for support for land



reform and smallholders. In most industrialised countries, the government makes some effort to stabilise prices for staple foods, usually through a system of stockpiling. This type of policy responds to the need to manage the vagaries of the weather so that food inflation does not have a devastating impact on the poor.

The recently published *Strategic Plan for South African Agriculture* (2001) does not, however, point to this approach. Food security and employment creation are listed as its aims but no other mention is made. Instead, focus is given to ensuring that 'Market forces [are] to direct business activity and resource allocation'. It is interesting to note that the task team working on the strategy included business and government representatives, but no one from consumer organisations or labour.

### Proposals and way forward

Cosatu has recommended the following, in line with proposals made in the

Reconstruction and Development Programme (RDP) around food security

- Government should develop a clearer vision for the role of agriculture and the food industry in the economy. That means defining its expected contribution in terms of food security, employment, investment and output. For this purpose, Cosatu has called for a tripartite Food Security and Jobs Summit by the end of 2002 which would look at how the Agricultural Debt Management Account is used. There is now R1,2bn in the Account that was collected from indebted white farmers, many of whom have liquidated. A proposed Food Security Bill should be drafted which will administer the disbursement of monies to approved food security projects.
- Nedlac constituencies should agree on ways to support food security at the household levels. This could be

achieved in the following ways:

- By expanding school feeding schemes, and extending nutrition schemes to other vulnerable groups, such as the homeless and people with HIV, either through direct provision of food or food-stamp programmes.
- Ensuring strong measures are taken to ensure the benefits of VAT zero rating are passed to consumers
- The implementation of more effective welfare grants, including a Basic Income Grant and the full extension of the child support grant, without a means test. As part of this, we need to accelerate improvements in administrative systems, in particular around the provision of ID books and the child support grant. In addition, state social grants (especially the old age pension) must increase relative to cost of living for the poor, not the overall CPI.
- There must be an urgent investigation into pricing practices in maize, milling, dairy and meat production and food retailing. This investigation should explore the impact of the market structure and any evidence of collusion; the crop estimates committee and the futures market; and how to control the impact on actual prices, as well as ways to reduce input and transport costs.
- Nedlac constituencies should support consumer co-ops, especially in poor communities
- The Department of Agriculture should set up a unit to monitor agricultural prices throughout the production and distribution chain. The unit could alert government and the public to actual and potential increases in consumer prices for staple foods. Monitoring must include the futures market and ensure regular reporting to Parliament and Cabinet.
- The Nedlac constituencies should investigate a new procedure for setting

agricultural tariffs that will be more responsive to short-term changes in local production and regional demand. The system should ensure a six-month review, with public hearings, on the tariff system for staples, especially maize. The tariff system should then aim to protect stable local production while guarding against excessive increases in the prices of staple foods.

- Statistics South Africa should release electronic data for the prices of each product in the CPI basket from 1997 onwards. In addition, it should publish a 'people's CPI' weighted by population, not consumption
- In the longer run, South Africa must support more regional and domestic maize production in order to reduce the foreign-exchange risk. This could be achieved by developing vigorous and effective programmes to support maize production in neighbouring countries. The government must also look at establishing programmes to ensure more stable and increased maize production in South Africa, especially by smallholders. This would require the development of appropriate crop strains and production technologies. A critical need is to define how government can accelerate land reform and support subsistence farmers, who cannot afford to participate in the government's current smallholder schemes.
- Nedlac should also initiate an investigation into food safety and food quality monitoring systems and report on progress with staple food fortification initiatives

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*This is a summary of Cosatu's position paper presented to Nedlac in February 2002. The paper was drafted by Eric Watkinson, a researcher at Naledi and Neva Makgetla, Cosatu's policy coordinator*

# Defend, advance and consolidate the alliance

The recent public acrimony in the tripartite alliance is a result of the ongoing battle around a macroeconomic strategy for the country. Cosatu's privatisation strike, supported by the South African Communist Party (SACP) must therefore, be seen as the latest battle in an ongoing and protracted struggle over the issue of the growth, employment and redistribution strategy (Gear).

However, a key feature of the alliance, especially since the unbanning of the African National Congress (ANC) and the SACP, has been vigorous debate that reaches a climax just before the various national congresses of the alliance partners. In the run up to congresses (as in the case of the upcoming ANC national congress), the functioning of the alliance usually comes under close scrutiny. This rather than being a weakness, has been the key pillar of strength of the alliance.

## Challenges for the alliance

During an address by ANC national executive committee (NEC) member Joel Nethitshizhe to Cosatu's central executive committee (CEC) on 23 February 2000 he highlighted a number of factors leading to tension in the alliance. These related to the fact that the ANC has a responsibility not only to the employed but unemployed workers. The interest of the employed must therefore, be navigated creatively so that it does not exclude the unemployed. Other tensions related to how detours or

*There has been a flurry of articles in the various media on whether the alliance should end or not. Shiraz Ebrahim evaluates these and argues that the alliance will remain at the centre of South Africa's political reality, at least for the foreseeable future.*

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compromises were understood, the failure to communicate effectively and Cosatu's articulation of its support for socialism. Cosatu's attitude in this regard could be interpreted as implying that the ANC government is not socialist, and therefore the enemy.

These issues underscore the ANC's awkwardness with Cosatu's position on Gear and state asset restructuring. The ANC views Cosatu's position as one of narrow self interest where it seeks to fight for interest of its own members at the expense of the broader working class. In addition, it views certain tendencies in Cosatu as adventurist that could lead to the common ruin of the country.

On the other hand, Adam Habib and Rupert Taylor (1999), Ibrahim Harary (2001) have argued consistently for the break of the alliance. They argue that the

tripartite alliance 'was not an effective mechanism to enable Cosatu to influence ANC and government policies'. (Habib and Taylor 1999:113) They argue that the adoption of Gear reflects Cosatu's inability to influence ANC policy. As a consequence, Cosatu should combine forces with other groupings in civil society and form a new labour-based party in opposition to the ANC. However Habib, Taylor and Harvey discard as almost non-events the influence Cosatu has had over determining an industrial relations system that favours and protects workers.

Aside from influencing labour market policy, Cosatu provided input to policies on public health in particular primary health care, land, abortion and many more. The deliberate downplaying of these issues by the writers indicates their inability to understand the relationship between the three alliance partners and their relation to government.

### **Tactical compromise or paradigm shift**

The adoption of Gear, these writers argue, reflects that the ANC is on a road of no return down the neoliberal path. The recent issue of privatisation/restructuring would probably be proof to them of this view. Harvey argues this point in a recent *Labour Bulletin* 25 (5) article. He argues that 'What determines the policies of the ANC is not information from thorough research on the effects of privatisation worldwide but the demands of the representatives of global capitalism.' Without asking what the alternatives are or the implications, Harvey suggests that we should ignore the dominant social forces in the world today. Restructuring/privatisation might have certain negative consequences for our country and there might be other alternatives. However, to use this as an argument that the ANC is pursuing a neoliberal agenda is ludicrous.

The ANC and government seem to argue that the international climate does not provide many options in relation to policy matters. Inherent in this argument is the concept of a tactical or even a strategic compromise to safeguard our fledgling democracy. Similarly, it argues that Gear was such a compromise that had to be made in order to stabilise the economy and avoid a meltdown.

Though these views could be contested, the question the left must ask is: How do we ensure that these 'tactical compromises' do not become paradigm shifts? The view of Harvey and others suggests that the battle has already been lost. This view is indicative of the simplistic understanding of the ANC and the nature of the alliance.

### **A labour-based mass party: An infantile wish**

The arguments by left and right commentators are based on the view that the consolidation of democracy in South Africa is dependent on a strong opposition. The ANC is seen as a dominant party and that such dominance could undermine the consolidation of democracy as a result of arrogance and total disregard for the constitution. In addition, it is argued that the opposition to the right of the ANC is weak and is no challenge for the organisation. Therefore, Cosatu is the only credible alternative.

These arguments tend to define democracy in extremely narrow terms. Democracy and its consolidation are based on more than simply an opposition. O'Donnell and Schmitter argue that a principle of democratic consolidation implies that a party that wins a majority vote in an election will not use its power to permanently exclude others. The manner in which the ANC has used its two-thirds majority is instructive on this point.

Those who propose that Cosatu should form a broad labour party seem to ignore the difficulties of contesting the ANC in an election. Various academics point to the fact that even the 'forces to the right of the ANC', who are powerful because of their control over key elements in the economy, find it difficult to compete with the ANC. How much more so would the left. Ultimately, such an attempt would only lead to the marginalisation of the left in general and Cosatu in particular.

The ANC is not the party of world capitalists. On the contrary, it seeks to grapple with the issues of the day in a real way instead of holding on to some historical dogma. Some might not always agree with the tactical and strategic positions and posturing of the government or the ANC. However, this in no way should lead to a conclusion that the organisation has sold out its revolutionary character in favour of a neoliberal agenda.

Southall argues for a more corporatist type of engagement between Cosatu and the ANC. He argues that the tripartite alliance represents a 'strategic compromise' between competing tendencies within the liberation camp (2001: 35).

Cosatu's former general secretary Sam Shilowa, in *Labour Bulletin* 21 (2), disagrees and argues that the alliance is based on a transformative platform that aims to democratise the country. In this regard it is not formed on the basis of compromise but rather on the basis of commonality. This constitutes a fundamental difference to a compromise-based alliance, which is as a result of some form of stalemate. In such an alliance parties come together and negotiate for their particular interest. On the other hand, in an alliance based on shared values, ideals, and vision, the parties voluntarily and deliberately choose to

cooperate with each other.

Corporatist arrangements in a society the size of ours in the present international context might be appropriate especially for labour, but such arrangements should be based on securing the national interest of the country.

## Restructuring/privatisation

One of the key challenges confronting the alliance at this stage is how to manage the differences around the restructuring of state assets. Aside from differences over definitions, is the claim by Cosatu that the ANC in its election manifesto as well as its Reconstruction and Development Programme (RDP) document made no reference to privatisation (Makgetla 2001: 17).

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*One of the key challenges confronting the alliance at this stage is how to manage the differences around the restructuring of state assets.*

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Inherent in this assertion by Makgetla is an accusation that the ANC has sold out to private capital. If the definition of privatisation as implied by Makgetla and Cosatu is correct, one might lean towards such an accusation. However the ANC policy documents 'Ready to Govern', 'The RDP', and the 'Mafikeng Conference Resolution' does indeed give government the option to decide, on the balance of evidence, on the role of the state and private capital in the economy. The 50th conference resolution states 'The restructuring of state assets is an integral part of the transformation of the economy' (online). As a matter of fact the manifesto argues that the public sector is the preferred deliverer of services, but in

no way suggests that it is and will be the only deliverer of services.

### **In or out? – That is not the question**

The alliance continues to be a very significant feature of the political reality despite many wish-fulfilling predictions about its 'imminent demise'. Harvey argues in the *Labour Bulletin* 25 (5) that Cosatu should break from the ANC-led tripartite alliance and form an independent workers' party. This argument is not new and can be traced back to the mid-1980s during the height of the workerist-populist debate. Similar arguments are now emerging from some of the present day ultra-leftists. Harvey argues that the differences over privatisation are so sharp that 'the end of the Cosatu-ANC alliance is imminent'.

Harvey says Cosatu can only expect to gain insignificant 'concessions' from the ANC on privatisation as it is tied to the International Monetary Fund (IMF) and World Bank. Harvey seems to ignore one fundamental aspect of the tripartite alliance – the alliance partners benefit to a greater or lesser degree by their participation in the alliance.

The concept of such an alliance is based on the principle that the breaking up of the alliance can and will only lead to the collective weakening of each individual component. Harvey thus fails to take note of the fact that Cosatu benefits from the alliance as it assists in legitimising the federation as a revolutionary trade union movement. The ANC and SACP on the other hand benefit from Cosatu in that it provides them with an anchor in the base of the organised working class.

In the aftermath of the privatisation strike, each component has continued to insist on their commitment to the alliance. All three have located this alliance in the context of a protracted and ongoing

struggle for national democratic transformation. Perhaps, most significantly has been an important shift in attitude within Cosatu, where the continuation of the alliance has always been the subject of some debate. Over the years, worker delegates have argued that the debate is not about whether we have an alliance, but how that alliance should be built and how it should function.

The ANC too in its recent 'briefing notes' document to the NEC called for the alliance to be built. Cosatu at a recent political school for its CEC resolved that: 'The alliance represent an historic progressive block bringing together the national liberation movement which leads the NDR – the ANC, the vanguard party of the working class, the SACP and the revolutionary trade union – Cosatu. We recommit ourselves to building the political centre that drives the transformation project in South Africa.' The SACP on the other hand 'affirms the importance of our alliance' in a recent Politburo discussion document. These comments by the alliance partners imply not only the continuation of the alliance but the need for it to continue.

There are arguments for the alliance to take a new form. Such form should not, however, undermine the content of the alliance. It must be noted that some of the elements that lead to rising tensions are more often than not from administrative blunders in convening alliance meetings and/or internal platforms which could lead to constructive debate. Aside from this, the concept of consultation needs to be understood by all. What constitutes consultation? What issues should form the basis of consultation? How do we resolve differences without undermining the organisational integrity of the three organisations?

These are some of the issues, relating to the operational functioning of the alliance



that need to be sorted out. Central to this is not just the agreement on a way forward but it's implementation. This is one element that is missing every time.

As the leader in the alliance, the ANC has a responsibility to provide a leadership role, which will unite rather than divide members. Such leadership must not be exercised as divine intervention but as part of a collective that seeks to honestly find solutions. The leadership role of the ANC is not questioned, but this does not mean that the other parties are junior or subservient to the ANC. Its decisions, as leader in the alliance, are not automatically binding on the other two components. Nor should it be the case that certain policies are not open for discussion.

## Conclusion

The debate unleashed by the anti-privatisation strike is not necessarily a bad thing. It is clear that there are very serious differences between the alliance partners. Whilst the debate is vigorous, and it should be, it does not reflect a desire on behalf of the parties to split.

At the heart of the debate is the issue of strategies and tactics in pursuance of a common objective. The tripartite alliance must concede that the terrain on which the alliance operates is not the same as during the pre-1994 period. The character of all three elements of the alliance has also changed and will continue to change. It is during this period that political leadership, devoid of personal preferences, must triumph. This is especially so in the face of opportunistic attempts by forces on the left and right of the alliance to break it up.

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# What is the character of the ANC?

Is its 'broad church' character one that predisposes the organisation to resolve questions by discussion and agreement and give and take, or does the 'broad church' concept also entail decision-making processes that amount to unilateral decrees?

There seems to be an assumption especially since the resolution of the apartheid conflict through negotiations that this method is and has always been the preferred ANC approach for dealing with conflicts within and outside the organisation

Certainly there have been many phases of ANC history that have reflected a desire to talk, to negotiate to meet and discuss, to call for the holding of national conventions for resolving differences. It may also be true that this was a method preferred over armed struggle and that armed struggle was embarked on reluctantly after all avenues for peaceful action had been closed in the late 1950s. But even this may need to be qualified. Nelson Mandela and Walter Sisulu were already discussing the possibility of armed struggle, around 1953. When Walter Sisulu visited China he agreed to Mandela's request to investigate the possibility of future support in the event of armed struggle. The Chinese response was not what had been hoped. Mandela reports: 'Walter came back with encouragement but no guns'

It would be a mistake to see the ANC

*Raymond Suttner looks at the inherent cultural features of the African National Congress (ANC) and whether it is in its nature to negotiate within the organisation and with other parties?*

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(or all sections of the ANC) as inevitably committed to negotiations over other ways of resolving problems. Whether or not that route has been chosen over alternative ways of dealing with problems has depended on a range of factors. These have included who at any particular moment have been seen as allies and as antagonists/opponents/enemies and what weaponry (used metaphorically or literally) has been deployed on each side. And the same parties may have been transformed from allies into enemies or antagonists at various times or oscillated between a variety of categories at the same time. This is true of its relationship with the South African Communist Party (SACP) and Cosatu and also the New Nationalist Party (NNP) and the Inkhatha Freedom Party (IFP).

That conditionality can be seen from the earliest moments of the organisation's history. In a sense, the ANC was formed after the defeat of the military option – the

early tribal resistance to conquest The time of the spear was over

This came to pass - the country perished But the struggle was not over, it had only shifted from a physical to an intellectual plane Education was the new weapon, the intellectual the new warrior A correspondent of the *Isigidimi*, commenting on the African's suffering under the white man's rule, suggested that the spear was not the solution 'No,' he said, 'we have tried and failed The only solution is learning and knowledge I mean that kind of knowledge that will make us realise that each one lives for all.'<sup>12</sup>

It was now the time of the people with learning, for them to provide leadership in the new conditions after Union And the phase of political activity that opened up in 1912 was one where the ANC faced a consolidating white national entity, which had been handed power by the British On the other hand, the newly formed organisation also engaged the British It sent numerous deputations and petitioned the former colonial power to intervene Some writers have depicted the early ANC's appeals to Britain as rank naïveté But the Australian historian, Peter Lamb, has argued that a closer reading of many of these statements reveals an element of irony in the appeals to Empire and British morality 'Tactically, it may also be that the appeal to Britain should be read as an attempt to pit one force - the departing colonial power against those who were perceived as the real enemy, the local settlers, in effect the practice of 'divide and rule' in reverse.

This early experience provides elements towards understanding how the ANC has related or the range of relationships it has tended to have with organisations outside of its immediate ranks In the conditions immediately after its founding, there was no way that the ANC could take on the Union government

militarily Admittedly, its leadership was also predisposed towards constitutionalism ' It had to assemble forces that were respected and effective in the conditions of the time This explains the attempt to build an organisation comprising both the newly emerging professional elite, as well as a house of chiefs The latter was modelled on the House of Lords

As the struggle unfolded, this form of interaction with the local colonial bloc and Britain proved increasingly unsuccessful But petitioning and attempts at negotiating were not the only form of engagement over this period One of the most significant was the women's anti-pass protests in Bloemfontein in 1913<sup>15</sup>

Although it was not a systematic part of Congress activity, sporadic mass action was a repeated feature over the early years Also, there were times, as in the presidency of Josiah Gumede in the late 1920s, when the politics of deputations and petitioning came under challenge

The main strategy of the time, however, was to protest and petition the authorities for redress of African grievances, in some ways akin to modern negotiations, though the relationship reflected a grossly unequal balance of power.

In the 1940s there emerged a substantial critique of this approach, in particular from the ANC Youth League, whose programme of action became the programme of the organisation as a whole.

The ANC leaders, Walter Sisulu then secretary-general and himself a key Youth League figure, and president-general Dr JS Moroka wrote a letter to the prime minister, as a prelude to embarking on the 1952 Defiance campaign The letter, which was in effect an ultimatum, is, nevertheless, an interesting illustration of the simultaneous continuities and discontinuities in ANC discourse and approaches While about to embark on the

first significant and direct challenge to the regime, the letter referred to the constant efforts to engage the government. However, unless the government repealed specified laws, before the end of February, the Congress would embark on its Defiance campaign.<sup>6</sup>

## Engaging allies and opponents

All that is part of a long history of escalating resistance. The regime is no more although the legacy of apartheid is still with us. The alliance that was consolidated in the decades after 1950 is still around, but with periodic eruptions of extreme tension or hostility. Is it outrageous to ask whether the components of the tripartite alliance today relate to one another simultaneously as allies and opponents or even enemies?

A short time back this question need not have been asked. It was clear that in the period of illegality the partners, initially Sactu before being supplanted by Cosatu, the ANC and the SACP related to one another as partners and comrades-in-arms. Thus, the late ANC President Oliver Tambo said at the SACP's 60th anniversary: 'We hail the SACP in the name of [the] contingents of our army of liberation which together with the SACP comprise a fighting alliance that represents the power of the South African revolution in the making.

'... We applaud your achievements, for the SACP has not only survived, but is today stronger, and increasingly makes more significant contributions to the liberation struggle of our people.

'The ANC speaks here today not so much as a guest invited to address a foreign organisation. Rather we speak of and to our own. For it is a matter of record that for much of its history, the SACP has been an integral part of the struggle of the African people against oppression and exploitation in South Africa...

'... Your heroes are ours. Your victories, those of all the oppressed.'<sup>7</sup>

If there were differences between the parties these related mainly to the long term. In the immediate context of their focus, overthrowing the regime, there appeared to be few differences. In addition, there was a great deal of overlap at leadership level between the ANC and SACP. All three components of the alliance spoke a similar language, in speeches peppered with Marxist terminology and anti-imperialism, and often anti-capitalism and pro-socialist orientations. The foreign policy inclinations also converged. The ANC, for example, issued a statement supporting the Soviet/Warsaw pact intervention in Czechoslovakia in 1968.

But all of this changed with the collapse of the former socialist states and the unbanning of organisations in South Africa in 1990. Previously membership of the Communist Party had been an advantage in the liberation movement, comprising what were described as 'the most advanced cadres'. This was no longer the case in a period where the 'government-in-waiting' had to engage with capital. Nearly half of the national leadership of the SACP allowed their membership to lapse.

Those who left made no critique of the Party, nor of Marxism or Communist practices. Paradoxically while the SACP engaged in considerable introspection and in the process dropped certain formulations like 'democratic centralism', many of these remain part of ANC doctrine. That is one reason why one hears the wry statement (from SACP members) 'the SACP abandoned Stalinism but retained Marxism while the ANC abandoned Marxism but retained Stalinism.'

Additionally, one still finds the use of Marxist methodology or terminology in ANC circles or as the predominant mode of expression in ANC pronouncements,

including that of President Thabo Mbeki

But from 1990 and especially after 1994, there was not only a divergence of opinions on the part of ANC, SACP and Cosatu but a tendency for positions to be developed unilaterally by the ANC or the government, often speaking on behalf of the ANC (without the policy necessarily passing through ANC structures). This was most obviously the case with Gear

Whereas tripartite alliance meetings had been fairly common in the pre-1994 period, it became more and more difficult after 1994 for Cosatu and the SACP to secure meetings with the ANC. There were many occasions when meetings were cancelled by the ANC at the last minute.

What has emerged in the post-1994 period is that the parties relate to one another with little pretence of equality. This inequality may always have been the case, but now it is no longer a secret understanding, but there for all to see. The ANC relates to its alliance partners more as government than as a partner organisation. It is not clear that the ANC as a party has a relative independence in its relations with Cosatu and the SACP from the ANC as government.

It may be that instead of relating to one another as partners, Cosatu and the SACP relate to the ANC/government as interest groups or petitioners, closer to be sure than organisations like the Treatment Action Campaign, but nevertheless having to appeal for consideration increasingly in a similar way to these other organisations.

Finally, there is an element of opposition in the relationship. Cosatu's macroeconomic positions and to a lesser extent that of the SACP stands increasingly in an oppositional relationship to that of the ANC. This is not to suggest that there is a rejection of the overall vision, but there are substantial areas where constructive interaction no longer takes place and the resultant policy is sufficiently

unacceptable for Cosatu (and to a lesser extent the SACP) to relate to government (and ANC insofar as the organisation follows government) in an oppositional form.

Perhaps all of this is less a revelation of a new reality but a failure, especially on the part of the SACP, to recognise that its much-vaunted influence on the ANC was less substantial than many believed. It may well have been that the price of the SACP's close alliance to the ANC during the exile period, presupposed the dependence and essentially subordinate status of the Party.

In spite of all that has been said, all parties to the alliance claim to want and need the alliance to continue. But what does one mean when one says that each partner needs the alliance or wants it to continue at this stage? In fact, no section of the alliance is monolithic. While the ANC is often described as a 'broad church' both the SACP and Cosatu also bear elements of this character. One of the features of the 'broad church' concept in politics is that there is often a tendency to phrase policy positions in generalised terms, sufficiently wide for distinct tendencies to give divergent interpretations. One finds this within the ANC, though current centralising tendencies aim at minimising its effect.

But within the SACP it is perhaps more publicly evident. While the organisation unites behind a programme for socialism, many of its senior members are government ministers, in the forefront of recent attacks on Cosatu. Geraldine Fraser-Moleketi, deputy chair of the Party and Minister of Public Services has taken to lecturing the unions and advising them to read Lenin on the dangers of 'infantile leftism'. Although not as confrontationalist, Jeff Radebe, Minister of Public Enterprises, also a member of the Party Central Committee was the main target in last

year's anti-privatisation strikes and engaged in public attacks on Cosatu

Within Cosatu the commitment to the alliance is not universal. Every year sees resolutions, which call (unsuccessfully) for withdrawal from the alliance. Some unions, like the South African Municipal Workers Union (Samwu) have in their leadership people not very warmly disposed to the ANC or to concepts like 'national democratic struggle'. While the federation is committed to the alliance and many members are active in the ANC, there are nevertheless undercurrents, which have for some time been in favour of breaking the link

A factor that militates against splits is the continued and considerable overlap in membership between the organisations, especially the ANC and SACP; at every level of their organisations. To speak of a schism in the relationship is thus to speak of a split between components that overlap

Even this does not mean that each component supports the relationship without qualification. Clearly, a point may be reached where one or more than one component of the alliance believes that what they gain no longer outweighs the disadvantages. Such a decision would very likely lead one component to decide that membership of one organisation precludes membership of the other. Although it is hard to visualise this happening immediately, there is already repeated reference in the ANC to dual loyalties on the part of SACP leaders who are also in the national leadership of the ANC.

Finally, if there have been tensions in the alliance over the last year, and especially between Cosatu and the ANC, the fault cannot be placed exclusively at the door of the ANC. Some of the statements of general secretary, Zwelinzima Vavi and president, Willie Madisha suggest an ANC 'shift to the right' as an accomplished fact, instead of

tendencies that are open to contestation. They have also sometimes given the impression of a dogmatic approach to privatisation, precluding negotiations. This is incompatible with working towards agreed positions. There needs to be a willingness to engage and debate differences on all sides, if the alliance is to survive in a meaningful way. All parties need to be prepared to end the mudslinging and labelling and try to build a new framework, owned by all parties to the relationship.

## Endnotes

- 1 See *Long Walk To Freedom: The Autobiography of Nelson Mandela (1993)* Macdonald Purnell Randburg
- 2 'Deculturation - The African Writer's Response', *Africa Today*, 15 (4) Significantly, but beyond the scope of consideration in this article, the *Isigidimi* article goes on to advocate the necessity of such education for women as well as men
- 3 Peter Limb (2002) 'The ambiguities of British Empire: Loyalty and Identities in the politics and journalism of early ANC leaders', Paper to the British World Conference, University of Cape Town, 9-11 January (unpublished)
- 4 See Jack and Ray Simons (1983) 'Class and colour in South Africa, 1850-1950', *International Defence and Aid Fund* London
- 5 See Julia Wells (1991) 'We Have Done With Pleading: The Women's anti-pass campaign. Rat an Press Johannesburg, and (1993) 'We now demand' *The history of women's resistance to pass laws in South Africa* Witwatersrand University Press Johannesburg
- 6 In *From Protest to Challenge: A Documentary History of African Politics in South Africa 1882-1961* ed Thomas Karis and Gwendolen M Carter Vol 2 by Thomas Karis at 476-7
- 7 *Address on the occasion of the 60th Anniversary of the SACP, 30 July 1981, in Preparing for Power: Ollie Tambo Speaks* Compiled by Adelaide Tambo Heinemann Educational Books London 1987 at 201-202

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# Better benefits beat blue card blues

**T**he Unemployment Insurance Fund (the 'Fund') provides some relief to workers who suddenly find themselves unemployed. The Fund also provides benefits to workers (who have paid UIF contributions whilst employed) who become ill, pregnant or adopt children under two years and to the dependants of workers who have passed away.

As from 1 April 2002, the Fund falls under the new Unemployment Insurance Act, 63 of 2001. This new Act replaces the Unemployment Insurance Act, 30 of 1966. In general, the new Act improves the benefits available to unemployed people.

- The scope of employees covered by unemployment insurance has widened.
- Domestic and seasonal workers, who previously were not eligible for unemployment benefits, will be able to apply for unemployment benefits (as from 1 April 2003).
- Gender discrimination has been removed by separating maternity and unemployment benefits (previously if a pregnant worker received maternity benefits from the Fund, this would reduce her entitlement to unemployment benefits).
- There is a graduated/progressive benefit scheme providing for higher percentage payments to low income workers and lower percentage

*The new Unemployment Insurance Act comes into effect from April 2002. Dawn Norton looks at what this will mean for the unemployed.*

payments to higher income workers (a range of between 60% of income replacement for low income employees and 30% for high income employees is likely to take effect).

- Stricter enforcement and compliance measures have been introduced to compel employers to make UIF payments and to correctly disclose information about their employees' wages.

## The old Act

Under the old Act unemployment benefits were only available to contributors earning below a specified amount (this amount was R97 188 per annum). Benefits were calculated at 45% of the contributor's normal weekly earnings based on the last weekly wage. An employee must have been employed for 13 weeks during the last year before the employee qualified for benefits. An employee was entitled to one week's

benefits for every six weeks of employment as a contributor to the Fund. The maximum benefit an employee could receive was 26 weeks in any period of 52 weeks.

## The new Act

Coverage of workers will be extended to employees earning above the current UIF annual income threshold of R97 188 (or R8 099 per month). Furthermore, coverage (as from April 2003) will extend to domestic workers and seasonal workers previously excluded. The definition of 'domestic worker' includes a gardener, a person employed by a household as a driver, and a person who takes care of any person in that home. A 'seasonal worker' is a person employed for a total of at least three months over a 12-month period with the same employer and whose work is interrupted by reason of a seasonal variation in the availability of work.

The Act does not, however, apply to employees who are employed for less than 24 hours a month with a particular employer, employees who receive remuneration under Learnership Agreements (in terms of the Skills Act), employees in the national and provincial spheres of government or persons who are not South African citizens.

Instead of the current scheme of 45% income replacement, the Act makes provision for a graduated benefit scheme. Benefits will be based on income replacement ranging from 60% for lower income earners to 30% for the middle and high-income earners.

A contributor's entitlement to benefits accrues at a rate of one day's benefit for every completed six days of employment. Benefits are accumulated up to and limited to 3.4 weeks in a four-year period. A contributor is eligible only for the amount he or she accrues (to a maximum of 3.4 weeks in a four-year period). For example,

if a person has worked for two years in a four-year period then he or she is entitled to 17 weeks of benefits. Previously, there was no cap on the entitlement to benefits that an employee could accrue although an employee could only claim a maximum of 26 week's benefits in any one year.

Maternity and unemployment benefits are separated so that employees who go on maternity leave may do so without having to deplete their unemployment benefits. The contributor may claim benefits for the maximum duration of 3.4 weeks after being continuously employed for four years and if a contributor has already drawn benefits except for maternity benefits in the preceding four years, the number of days for which the contributor is eligible to claim is reduced accordingly.

The amount of a contributor's entitlement to benefits may be calculated in one of two ways:

- Contributors who earn less than a particular amount (referred to in the Act as the 'benefit transition income level' and currently set at R8 099 per month) are entitled to a percentage of their previous pay
- Contributors who earn more than a particular amount (currently set at R8 099) are entitled to a flat benefit. Employees will only receive the monthly benefits set out in the chart if they have worked for at least six months. Lower

## Scale of benefits\*

Monthly income	% of benefits	Monthly amount
R500	55%	R279
R1 000	53%	R527
R1 500	50%	R754
R2 000	48%	R965
R3 000	45%	R1 355
R8 099	38%	R3 077
R10 000	30%	R3 077

\* figures rounded off to the nearest 10



earning workers receive a higher percentage of benefits than higher earning workers. Employees earning at the threshold level or above receive a flat rate of R3 077 regardless of the extent to which their earnings exceed the threshold level.

A contributor is not entitled to benefits for any period that the contributor received a monthly pension from the state, received a benefit for a temporary disability preventing them from working from the compensation fund established under the Compensation for Occupational Injuries and Diseases Act (COIDA) or received a benefit from an employment fund or scheme established by a bargaining or statutory council. A contributor is also not entitled to benefits if he or she fails to comply with the Act or any law relating to unemployment or is suspended from receiving benefits by making a false statement, submitting a fraudulent application and failing to inform a claims officer about resuming work.

The new Act retains the five statutory benefits for reasons of unemployment, maternity, illness, adoption, and dependants on deceased contributors.

### **Unemployment benefits**

An unemployed contributor is entitled to unemployment benefits for any period of unemployment lasting more than 11 days if the reason for unemployment is that the contract of employment or the fixed term contract came to an end, the employee was dismissed, or the employer went insolvent.

The contributor must fill out the prescribed form and register as a work seeker with the labour centre established under the Skills Development Act. The application for unemployment benefits must be made within six months of the termination of the contract of employment. If the claims officer approves the application, the contributor must report to the employment office to

confirm that he/she has been unemployed for the period in respect to which the unemployment benefit has been claimed and to confirm that he/she is capable and available for work. The Fund makes payments retrospectively from the date of unemployment, usually on a monthly basis.

An unemployed contributor is not entitled to benefits if he/she fails to report at the times and dates stipulated by the claims officer or the contributor refuses, without good reason, to undergo training and vocational counselling for employment under any scheme approved by the director-general.

It is worth pointing out that employees frequently do not apply for unemployment benefits because they fear this may imply that either they have accepted their dismissal or have waived their right to claim reinstatement. This is not correct. Applying for benefits does not compromise a challenge to the fairness or lawfulness of a dismissal.

### **Illness benefits**

A contributor is entitled to illness benefits if the period of illness is more than 14 days. The contributor is paid the difference between any sick leave pay which the contributor has received from the employer or by way of any other law or collective agreement and the maximum benefit payable as if the contributor was receiving unemployment benefits. An application must be made within six months of the commencement of the period of illness. If the contributor cannot lodge the application personally, the claims officer may authorise any other person to lodge the application on behalf of the applicant. The contributor may not receive benefits for any period during which the contributor was entitled to unemployment benefits or adoption benefits or who without good reason

refuses or fails to undergo medical treatment or to carry out the instructions of a medical practitioner, chiropractor or homeopath

### **Maternity benefits**

A contributor who is pregnant is entitled to maternity benefits. The maximum period of maternity benefits is 17,32 weeks (four months). A contributor must be paid the difference between any maternity benefits paid to the contributor by the employer or by way of any other law or collective agreement and the maximum benefit payable as if the contributor was receiving a benefit for unemployment reasons. The contributor who has a miscarriage during the third trimester ie during the last three months of pregnancy or bears a stillborn child is entitled to a maximum maternity benefit of six weeks after the miscarriage or stillbirth. Application for maternity benefits must be made at least eight weeks before childbirth. The commissioner may on good cause show and accept an application after a period of eight weeks or extend the period of submission of the application up to a period of six months after the date of childbirth.

### **Adoption benefits**

One contributor, (ie not both new parents) is entitled to the adoption benefits in respect of each child and only if the child has been adopted in terms of the Child Care Act, the period that the contributor was not working was spent caring for the child, the child is below the age of two and the application is made in accordance with prescribed requirements.

The entitlement commences on the date that a Court grants an order for adoption. The contributor is paid the difference if any, between an adoption benefit paid to that contributor in terms of any other law, collective agreement or

contract of employment and the maximum benefit payable as if the contributor was unemployed.<sup>1</sup> The application must be made within six months after the date of the order for adoption unless good cause is shown.

### **Dependant's benefits**

The surviving spouse or life partner of a deceased contributor is entitled to dependant's benefits. The application must be made within six months of the death of the contributor. A dependant child of a deceased is entitled to the dependant's benefit if there is no surviving spouse or life partner or if the application by the surviving spouse or life partner is not made within six months of the death of the contributor. A benefit payable to the dependant is the equivalent of an unemployment benefit that would have been payable to the deceased if the contributor had been alive.

### **Appeals**

A person who is entitled to benefits may appeal to the Appeals Committee of the Unemployment Insurance Board if that person is aggrieved by a decision of the commissioner to suspend the person's rights to benefits or relating to the payment or non-payment of benefits.

An appeal must be lodged within 90 days of the decision appealed against. If a person is dissatisfied with the decision of the Appeal Committee that person may refer a dispute to the Commission for Conciliation, Mediation and arbitration (CCMA) for arbitration within 30 days of receiving notice of the decision.

### **End notes**

*1 Interestingly there is no maximum stipulation of time, such as there is with respect to maternity benefits of 17.32 weeks*

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# The bleached skeleton of a vibrant horse

Section 197 of the Labour Relations Act (LRA) was widely believed to protect employees whenever a business was transferred to a new employer by ensuring their employment contracts were automatically transferred to that new employer. It was hoped that this case would ease the devastating effects of outsourcing on workers and unions by bringing this practice within the automatic transfer provisions of the section. This decision, however, effectively removes outsourcing from the application of section 197 of the LRA by drastically curtailing the protection it offers in all commercial transfers of businesses.

## The facts of the case

After negotiations with Nehawu deadlocked, the University of Cape Town (UCT) decided to outsource what it termed its 'non-core' activities. This involved the dismissal of around 200 workers, many of whom were later re-employed by the service providers who concluded contracts with UCT. The union had launched an earlier urgent application asking that the Labour Court find that the outsourcing amounted to a transfer of a part of UCT's business, trade or undertaking. This would have ensured that the transfer of employees to the new employers (service providers) and the termination notices could not have been

*The Labour Appeal Court's (LAC) recent decision in **Nehawu v University of Cape Town and others** comes as a major blow to the labour movement. **Andrew Burrow** looks at how this decision effects the interpretation of section 197 of the LRA.*

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enforceable. The Labour Court dismissed the application. Hence the proceedings before the LAC.

## The majority decision

Van Dijkhorst AJA wrote for the majority of the court (Comrie AJA concurred). The majority decision is a sustained technical interpretation of section 197 of the LRA. The court found that key to understanding the section lay in grasping the extent to which it changed the common law position. It had always been the case that an employer could not transfer an employee's contract of employment to another employer without the employee's consent. The section confirms this rule. It creates an exception in one case only – namely where a business, trade or undertaking, or part of one, is

Column contributed by **Cheadle, Thompson and Haysom**

transferred from one employer to another as a *going concern* (what we will call 'the exception')

Van Dijkhorst AJA found, however, that because the section is silent on the issue of the consent or agreement of the old and new employers, it did not intend to change the common law position, namely that they would have to agree that the employment contracts entered into between the old employer and the employees would be transferred to the new employer. In the absence of explicit agreement on this issue, the employment contracts would be terminated and there would be nothing to transfer to the new employer

Even if we accept that the court's approach is the correct one, one still has to decide how to use this tool of interpretation. The answer to this question depends to a large extent on what one believes the focus of section 197 is in the first place. If the focus of the section is merely to make the transfer of employment contracts in the abstract easier, then business would seem to be the main beneficiary of the section, as the old employer is saved the considerable burden of retrenchment payments. If, however, the section, and its change to common law employee rights, is interpreted from the point of view of those employees, which seems reasonable, then the focus of the section is clearly individual employees

The court, however, without any investigation of what the intention of the legislature might actually have been, arrived at the conclusion that the exception referred to above 'evidences an intention on the part of the legislature that transfers of businesses as going concerns be facilitated'. The court's next task was to interpret the important term 'going concern'. While the majority adopted what would seem a generous interpretation of the phrase, the way in which it then used it ensured that while large chunks of

businesses could be transferred from one employer to another, if the labour force was not explicitly included in the transfer, it would not qualify as a going concern. The court said: 'To say that there can be a sale of a business as a going concern without all or most of the employees going over is to equate a bleached skeleton with a vibrant horse'.

This approach would generally seem to augur well for labour, especially when one reads a little later in the judgment that 'When used in section 197(1) the phrase "going concern" must necessarily include the employees and where the seller and purchaser negotiate and agree on a sale as a going concern of a business or part thereof, the necessary implication is that they agree that the employees or a material part thereof are part and parcel of the transaction.' The court, however, immediately undermined this position by holding that the old and new employers could agree between themselves what parts of the business would be transferred: 'Purchasers and sellers of businesses as going concerns are at liberty to define what is included in that concept.' It is this voluntarist element that will ensure that outsourcing and, indeed, any commercial transfer of a business in future will be possible without the statutory protection section 197 was supposed to provide.

This approach also seems artificial, while many businesses would certainly be described by both seller and purchaser as 'going concerns' when transferred, to rely exclusively on what the two parties call the transaction might often ignore the substance of what is taking place. While the judge felt obliged to state that a court would not hesitate to call what was obviously a going concern transfer just that if the employers concerned tried to construct a sham, he did not consider the manner in which outsourcing actually

occurs in practice in this country

The following scenario is only too common. A security department is outsourced. After the outsourcing, the same work is performed on the same premises. Often, it is even the same workers who perform the work. The only differences between this scenario and a section 197 transfer, of course, are that the workers' terms and conditions have been substantially downgraded, their continuity of service has been broken and their job security is now in the hands of often-shady 'labour brokers'.

It is hard to imagine why such an example would not satisfy anyone's definition of going concern, but it clearly does not satisfy the court's, as the labour component of the business has not explicitly been included in the transfer. What was intended, and what has in fact occurred bear no resemblance to each other. But what was actually intended? We have referred above to a loosely stated 'common understanding' of what the legislature meant section 197 to achieve, as well as to what the court thought was intended. Is there any evidence to support either view?

### What did Parliament intend?

What did the legislature intend to change and what is the relevance of that intention anyway? To start with the second question, it has been an abiding, if somewhat contentious, presumption of our law that the intention of the legislature is a governing factor of interpretation.

Although there is some support for the view that this device should only be resorted to when the plain meaning of the words of the statute is not clear, it appears to be generally accepted that acts should generally be interpreted so as to give effect to what Parliament intended. However, there is a further consideration when dealing with an act like the LRA. To a large extent, as is apparent from the

Explanatory Memorandum<sup>1</sup> which accompanied the bill, the LRA is what we would call a remedial statute. This means that it was drafted specifically to cure certain deficiencies in our common law, and its interpretation is affected accordingly. As a well known writer says: 'Where a statute is remedial of a mischief or grievance it ought to be construed liberally, so as to afford the utmost relief which the fair meaning of its language will allow.'<sup>2</sup>

We come now to the first question: what deficiencies might the LRA have been intended to cure? We do not need to guess about this aspect: the LAC had previously, in the *Foodgro* case, found it 'quite apparent' that the provisions of section 197 'are primarily aimed at the further protection of employees'.<sup>3</sup> We can gather from this that the problem the legislature wanted to remedy was the loss of benefits and job security suffered by workers after a transfer or who were retrenched outright. These considerations were not taken into account by the majority.

### Conclusion

While there is little to challenge about the court's technical interpretation of section 197, the sense one gets after reading the judgment, is that the judges have missed the mark. While the decision is open to challenge, and has in fact been referred to the Constitutional Court, it is clear the intention of the legislature has not been given effect to and it now seems incumbent on Parliament to rectify the situation once more.

### Endnotes

<sup>1</sup> *Government Gazette*, 10 February 1995

<sup>2</sup> *EA Kellauay (1995) Principles of legal interpretation* p 105

<sup>3</sup> *At 2525 C-D*

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# Workers face rising debt spiral

The post-1994 period saw rapid growth in the supply of financial products to markets previously ignored by the major financial institutions and insurance companies. Organised workers, one of the recipients of this initiative, were bombarded with a myriad of insurance policies and micro-loan facilities.

Coincidentally, there was a resurgence of violence on the mines, especially, on the platinum mines where new unions began to spring up in opposition to the National Union of Mineworkers. Some of these so-called unions were formed by individuals who had been operating as insurance brokers and had links to certain microlending institutions. In one case the union initially operated out of the offices of the insurance broker. In view of recent developments in other workplaces, it is highly probable that the violence was sparked by shopstewards being aligned to or promoting financial products of competing financial institutions.

## **Glorified insurance brokers**

This trend has grown and is evident in a number of sectors where shopstewards are becoming glorified insurance brokers on behalf of insurance companies and microlenders. This has potentially negative consequences for stability both within unions and on the shopfloor. There are indications that the high turnover of shopstewards in some sectors is directly linked to the new unofficial role they are

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*Reneé Grawitzky talks to former trade unionist Gavin Hartford about how government has moved to reduce debt amongst public servants – which has the potential to destabilise shopfloor relations.*

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playing as informal stock brokers (earning extra money). This trend was mentioned in Cosatu's organisational review report discussed in 2001.

Over the years, organised workers have become the cash-cows of major insurance companies and microlenders. In turn, workers are facing an increasing debt spiral as they attempt to meet their monthly payments for insurance policies and loans. Often workers are forced to take out loans to pay for the monthly instalments to cover their insurance policies. Research in both mining and the public sector found that workers often have no take-home pay after all deductions are made for insurance policies and loans. Rising debt amongst organised workers has the potential of undermining collective bargaining as workers do not see the benefit of wage increases which are utilised to service the debt.

## Public service

The debt crisis amongst public servants forced government to take a decision in 2000 to regulate the type of deductions which could be made from its payroll. This move was in response to the extraordinary high levels of debt that was being accumulated amongst government employees. A survey found that half a million public servants earned 1,6 loans per head and 900 000 public servants had 4,6 insurance policies. This figure includes the duplication of products.

Government's payroll, which covers more than one million workers, is worth in the region of R76bn a year. By 2000 the value of loans taken out by public servants was about R5,6bn and insurance and other policies in the region of R26bn. (It is understood that Old Mutual accounted for 78% of the value of insurance policies sold to public servants.)

Government realised that to remove people out of a spiral of debt they had to regulate the type and amount of deductions made from their payroll. Government had allowed a situation to continue where employees could access loans and insurance policies by signing a stop-order facility which allowed various payments to be deducted from their pay.

In terms of the regulation of the payroll, government has treated the insurance industry differently from microlenders. Insurance providers could continue to have their premiums deducted while microlenders were effectively kicked off the system. The question remains who is driving who - there are clear examples where workers have taken out loans to pay for insurance premiums.

Hartford was contracted by government to run their education and information campaign - *Mongu Mali* - to inform employees of the changes and educate them about debt consolidation and rationalising. He says in terms of the changes to govern-

ment's payroll there will now be a cap on the amount of deductions made for non-statutory provisions. He adds government has also set specific interest rates which microlenders can charge for loans. The rates ranging between 21% and 27% still appear high as there is no risk for the microlenders as they are assured their payments because it comes directly off the payroll.

## Weaken union structures

Based on his involvement in the campaign in the public sector, Hartford believes that the rising debt crisis amongst organised workers has the potential to affect both employers and unions. He says the debt crisis can weaken union structures, affect productivity on the shopfloor and heighten industrial relations instability.

An increasing number of shopstewards are becoming informal brokers selling financial products. This, he says, has implications for unions especially as members are driven into higher costs for financial products. A further problem is the impact on shopsteward structures in companies where competition to become a shopsteward is intensified as there is now an incentive to be a shopsteward. This, he says, can cause divisions within unions. The ability of workers to take independent action could be limited if they are deeply in debt.

Hartford says the experience in the public sector showed that workers did not see the benefit of their real wage increases because a large portion of increases went simply to service and pay off loans and insurance policies. In effect, increases only affected the pace of debt. Rising debt amongst workers can also lead to increased absenteeism which ultimately impacts on productivity, Hartford says.

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*In the next edition we will explore what options unions and employers have in trying to manage debt more effectively.*

# HIV/AIDS and corporate responsibility?

The scale and impact of AIDS in Southern Africa and particularly South Africa has raised fundamental questions regarding relations between industrialised economies and developing economies. Recent press commentary, for example, has used titles like, 'Evil triumphs in a sick society' (*Guardian*), 'At the mercy of drug giants' (*Guardian*) and 'West waging drug war against Africa' (*East African*). While an article by John Le Carre (author of the recent novel, *Constant Gardener*) launches a thinly veiled attack on pharmaceutical companies in *A lot of very greedy people*.

These titles capture a sense of global outrage at the role of pharmaceutical companies in not alleviating suffering and death from AIDS in South Africa by providing low cost medication. From a business perspective, the AIDS crisis in South Africa raises fundamental and important questions that are critical to changing views on corporate responsibility.

Although debate has continued to examine corporate goals of profitability and the maximised shareholder wealth, perhaps no other global event has placed the issues so centrally as the African AIDS crisis. The stark contrast between what are viewed as the concerns of protecting intellectual property rights and the devastation of a continent has inflated global debate on the responsibility of corporations. This will not disappear and

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*John Betton explores whether HIV/AIDS is redefining global corporate responsibility in a paper presented at the recent IRASA conference in Cape Town.*

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may very well fundamentally alter the social context of corporate operations.

## AIDS and South Africa

'We have a noble task ahead of us - reconstruction of our country. We cannot afford to allow the AIDS epidemic to ruin the realisation of our dreams.' Chris Hanl 1991 (cited in Van der Vliet 2001).

When annual antenatal HIV surveys began in state clinics in South Africa in 1990, the incidence of HIV in the population was estimated at 1%. By 1999, the prevalence had risen to 22.4% and 4.2 million South Africans (19.9% of the adult population) were estimated to be affected according to the 2000 UNAIDS Report (Van der Vliet 2001). Van der Vliet (2001) estimated in 2001 that there were more people living with HIV/AIDS in South Africa than in any other country of the world.

## AIDS and development

The publication of the *UNAIDS Report* in June 2000 made the point that HIV would



help undermine development in countries badly affected by the virus. Education has always been considered an essential building block in a country's development. According to UNAIDS, HIV related illness is taking its toll on education in a number of ways:

Firstly, it is eroding the supply of teachers and thus increasing class sizes, which is likely to dent the quality of education. Secondly, it eats into family budgets, reducing the money available for school fees and increasing the pressure on children to drop out of school and marry or enter the workforce. Thirdly, it is adding to the pool of children who are growing up without the support of parents, which may affect their ability to stay in school.

A study commissioned by the South African government and reported by the BBC (Barrow 2001) showed that in KwaZulu-Natal Province alone at least one in five teachers was infected with HIV. Countrywide, a quarter of all undergraduates are HIV positive. AIDS was expected to be the leading cause of death among teachers. The report commented that although the impact on the education system was obvious, there are wider implications regarding the future level of skills and education in South Africa if anything up to a quarter of its students and teachers are infected with HIV.

According to an UNICEF report (Harvey 2001), the problem is that in a number of countries, including South Africa, public spending is being shifted away from education in line with microeconomic policies necessary to remain in line with the forces of globalisation. The result is 'less funding to hire and train teachers to replace those who have died'.

Projections by the International Labour Organisation in 2000 estimated that the size of the labour force in some African countries could be up to 35% smaller by the year 2020 than it would have been

without HIV/AIDS. It concluded 'Africa today is losing its prime labour force to HIV/AIDS'. The report pointed out that many infected were experienced and skilled workers. The loss of these workers, together with the entry into the labour market of orphaned children who have to support themselves is likely to lower both the average age of many workers and their average level of skills and experience.'

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*The impact of HIV/AIDS becomes all the more catastrophic when viewed in the context of the growing disparity of income and wealth.*

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The impact of HIV/AIDS becomes all the more catastrophic when viewed in the context of the growing disparity of income and wealth. Many indicators of social health reported by the United Nations Development Agency in 1999 estimated that African countries were *uorse* off economically than ten years previously and that purchasing power had dropped by 20% during this period.

In South Africa, the major alliance partners who were to form the new government were slow to react to the HIV/AIDS emergency. Van der Vliet (2001) reports that COSATU did not develop an AIDS programme until 1991 and that since then the political and labour climate in the context of AIDS has been 'patchy and sporadic'. AIDS in the context of the South African labour movement competed as a political priority with issues such as housing, unemployment, poverty and violence.

The crisis of HIV/AIDS and its economic implications brought to the forefront debate over the costs of addressing this crisis - particularly the costs of retroviral drugs, the patents to

which were held by western pharmaceutical companies.

## Intellectual property

There are several drugs that specifically target HIV at different points in the life cycle. Using them in combination has proven much more effective than prescribing them one at a time. In Europe and the US, combination therapy has resulted in a huge drop in AIDS deaths and in some people the drugs have reduced the virus to undetectable levels (AIDS Drugs Factfile 2000) The cost of these anti-retroviral drugs in combination therapy is estimated to be around \$1 000 per month and clearly is not affordable by either the majority of South Africans or the government

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*We have seen the devastating mortality from AIDS in South Africa, and the mobilisation of huge resources by western pharmaceutical companies to prevent the spread of generic drug imports.*

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The pharmaceutical companies producing these drugs lobbied hard during the Uruguay round of the World Trade Organization (WTO) They wanted tougher rules protecting intellectual property that provided patent protection for a minimum of 20 years under the Trade Related Intellectual Property Rights Agreement (TRIPS) Although the agreement provided loopholes where countries could cite a national emergency or use compulsory license, the US government supported the major pharmaceutical companies in their bid to close these options.

In March 2001, a lawsuit brought by more than 40 pharmaceutical companies came

before the Pretoria High Court. The lawsuit sought to invalidate the South African Medicines and Related Substances Control Amendment Act of 1997 that would have permitted the South African government to import or produce cheap, generic versions of patented drugs. The outcry to this lawsuit was enormous and global in nature. The non-governmental organisation (NGO) Oxfam and Medecins sans Frontiere came out in support of the government.

Larry Elliott (2001) of the *Guardian Weekly* began an article titled 'Evil triumphs in a disease-ridden world' with the following paragraph: 'Let me tell you a story about life, death and profit. It involves some of the poorest countries in the world and some of the richest companies. It goes to the heart of how the modern world is to be run and whether the institutions set up to police the global economy are up to the job!'

The legal battle between leading drug companies and South Africa's proposed legislation that would have allowed the import of generic AIDS drugs, raised some fundamental questions about the role of corporations. The extent of public outcry over the pharmaceutical companies' lawsuit against the South African government to prevent the import of generics, lead to the companies involved unconditionally dropping the case a month later.

## Conclusion

The global nature of the debate on the AIDS crisis in Africa raises some fundamental questions of corporate moral responsibility and the role played by international institutions in negotiating trade rules that advantaged wealthy countries' protection of intellectual property to the disadvantage of poorer countries. We have seen on the one hand, the devastating mortality from AIDS in South Africa, and on the other hand, the mobilisation of huge resources by western

pharmaceutical companies to prevent the spread of generic drug imports

Article 27.1 of the WTO Agreement on TRIPS provides patent protection for at least 20 years. Although there were provisions for exclusion on health grounds, it was also clear that the political power of pharmaceutical companies pressed poorer countries to maintain patent protection. However, the global attention to the crisis in South Africa not only resulted in the withdrawal of the pharmaceutical companies' law suit but also produced a new declaration on TRIPS at the DOHA WTO meeting in November 2001. Article 4 stated 'We agree that the TRIPS Agreement does not and should not prevent members from taking measures to protect public health. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the agreement can and should be interpreted and implemented in a manner supportive of WTO members' right to promote access to medicines for all'.

However, for South Africa, the AIDS crisis leaves enormous structural questions for the labour force, for the development of human resources and for teaching and education. A report in the *Journal of the American Medical Association* (Stevenson 2000) notes that according to projections by USAID, South Africa will be experiencing a negative population growth by 2003. The same report noted that AIDS is the number one cause of death in Africa, with life expectancies expected to drop to 30 in Southern Africa by 2010. Further reductions in population are predicted due to high infection rates among 15 to 19 year-old females and the consequent impact on fertility. By 2010, Africa is estimated to have 40 million orphans. The ILO Study (2000) leading to its new code of practice estimated that the size of the labour force in some African countries could be up to 35% smaller in

2020 than it otherwise would have been in the absence of AIDS.

The issue of AIDS in South Africa has raised enormous questions for the 21st Century. It raises questions about corporate moral responsibility, globalisation, intellectual property agreements and the development of African economies and labour forces in a global economy. These questions can only be answered globally by a community that is willing to recognise that corporate profitability is no longer tenable in a global world where both economics and humanity are interdependent.

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*This is an edited version of the paper Betton presented at the Industrial Relations Association of South Africa (IRASA) conference in Cape Town held from 6 to 8 March 2002. Betton is from the University of Wisconsin-La Crosse in the US.*

# Is it safe for people to talk out about HIV/AIDS?

**M**arkland has worked as an engineer for De Beers for the last ten years. Shortly after starting with De Beers he discovered that he was HIV positive. It was only last year that he informed his manager of his status after the stress of the job began to affect his health. Six months later, he applied for the AIDS coordinator job. Markland believes that the broader environment is not safe enough for people to come out and talk about their HIV status. He feels that, because of his position, he is relatively safe to talk about his status in the organisation. However, he might not feel as comfortable otherwise.

He says that based on the national statistics there were bound to be other people in his organisation who were HIV positive, but the challenge was how to get them to disclose their status.

'Disclosure is not automatic and depends largely on the needs of the individual. A person newly diagnosed with HIV has many fears around disclosure and the perceived or possible consequences thereof. I suppose the bottom line is that we do not want to be treated any differently but at the same time need the same support as any other person with a life threatening disease. This is a dilemma for most individuals who can be torn between wanting to tell everyone, and at the same time tell no one at all. There are many debates around who and when to tell, but at the end of the day it is up to the

*The debate around HIV/AIDS has at times focused on why more influential people have not spoken out about their status. René Grawitzky talks to Keith Markland, De Beers' HIV/AIDS coordinator about this issue.*

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individual and what they are ready and comfortable with. Having said that disclosure can be empowering. Being empowered by HIV/AIDS means learning the power of freedom, acceptance, honesty and the value of time - but it is not an easy road and there are no quick fixes - it is a process that takes time and determination,' he says.

'I personally think limited disclosure is necessary for two reasons. Firstly, to your doctor in order to get the correct medical assistance for the condition, and secondly, to your sexual partner to reduce the risk of infecting them and re-infecting yourself.'

He believes that people will only talk out if they need help in some way. Markland only revealed his status when it was affecting him and he needed help from his manager. He also believes that people need to be assured that they will

not be discriminated against or treated differently from any other person who has a terminable disease 'Perhaps if people are educated sufficiently and understand the disease, that might change their views,' he says

His experience as the AIDS coordinator in De Beers has so far taught him that the disease is more real for people when they come into contact with someone who has the disease. He has addressed more than 4 000 people in the organisation to date. He believes AIDS education should be compulsory for all levels of employees. One of the key issues he wants to address is to dispel perceptions that HIV/AIDS is a black disease.

In terms of treatment, Markland formed part of the trials for Naviapine six years ago and is still taking it together with a number of other drugs. He says in the last six months the cost of drugs has come down considerably. He used to pay R4 500 a month but is now paying R1 500 a month. He anticipates this downward trend to continue. Aside from drugs, he believes that good nutrition is at the heart of controlling the disease and ensuring an extended life. Markland says nutrition together with proper support and infrastructure could extend life (without drugs) for an extra three to four years. He acknowledges that poverty does play a role as it feeds into the environment in which HIV can thrive. However, 'poverty was here long before HIV/AIDS and will still be a factor when the disease has been dealt with'.

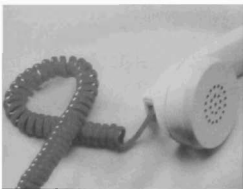
Turning to the situation in De Beers, he believes that whatever the company is doing to combat the spread of the disease it is not about getting credit but about saving lives. Most companies in the mining industry are doing very much the same types of interventions. The difference is some are talking more than others. The prevalence rate on the South African

operations varies from 1,4% to 17%, which is much lower than in the rest of the mining industry. The rate on the Botswana operations, Debswana was close to 30% but has dropped down to 22% (according to provisional figures).

Measuring the effectiveness of the company's intervention is determined by the number of people going for voluntary counselling and testing (VCT) and the results of anonymous zero-prevalence testing. He believes that the number of people going for VCT has increased. This is largely due to a massive awareness programme coupled with having peer educators on the mines. 'The only thing we can do is get people to a point where they are able to assess their own risk and begin to manage their risk,' Markland says. He believes it is not sustainable to adopt a campaign saying abstain, condomise and be faithful. 'This has a certain moral high ground which I do not think people will buy into indefinitely. They have to manage their own risk.'

## AIDS Helpline

For basic information, counselling and referral contact the multilingual tollfree AIDS helpline at 0800-0123-22



The *Labour Bulletin* is interested in employee experiences of HIV/AIDS in the workplace. Contributions can be sent to [salb@icon.co.za](mailto:salb@icon.co.za) or fax (011) 403-9873

# Is NUM coming of age?

**N**UM has come a long way since its inception nearly 20 years ago when former general secretary Cynl Ramaphosa and others used to drive around from one mine to another recruiting members while at the same time dodging the security police.

In many ways the terrain in which the union operates has changed dramatically and in other ways not. It still has to deal with issues around racism in the workplace and the constant threat of job losses. More importantly, however, the union has had to confront (more than other unions) the impact of the spread of HIV/AIDS. The mining industry, as a result of the migrant labour system and single sex hostels, was the first industry in South Africa confronted with HIV/AIDS in the early to mid-1980s. The disease was relatively unknown then in South Africa but the rates of infection on the mines was already high.

## Single sex hostels

Mantashe says during the union's 2000 congress, delegates acknowledged that the spread of HIV had reached pandemic proportions and constituted one of the major challenges facing the country. The industry, he says, is particularly vulnerable to the disease because of the continuation of single sex hostels. Industry sources say however, that attempts to introduce family accommodation has not received overwhelming support. Mantashe stresses

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*NUM general secretary Gwede Mantashe talks to the Labour Bulletin about the union's upcoming central committee meeting.*

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the need for miners to enter into partnerships with employers to deal with the disease. Last year the union embarked on a major campaign to ensure that shaft stewards were educated to become HIV/AIDS peer educators.

The Chamber of Mines agreement relating to HIV/AIDS, he says, is a very positive move for the industry. The agreement, he says, will ensure an integrated approach in dealing with the disease. Ultimately, the challenge, he says, is to work on changing the existing culture so that people can talk out about their status and more importantly, ensure a change in behaviour.

'This is a war and we have to come together to fight this war,' Mantashe says. In this spirit Mantashe talks about the formation of partnerships with employers, other unions, communities and government. The Department of Health, he says, is doing very good work on the ground. However, the department does not seem that open to talk about all their initiatives. The union, he says, has to talk about supporting voluntary counselling

and testing (VCT) programmes and the wellness programmes linked to them. He is not opposed to prevalence testing as long as confidentiality is maintained.

Besides the spread of HIV/AIDS, a range of other health and safety issues will be discussed at the central committee. Mantashe says the union is going to deal decisively with problems experienced around vanadium and asbestos pollution. The increase in seismic events, especially on the West Rand is also of concern.

The union will also focus on other transformation issues such as employment equity. This, he says, is a problematic area with limited progress being made.

Throughout its history, the union has

had to deal with the threat of rival unions. Mantashe indicates that an increasing number of small unions were springing up on the mines. Of increasing concern to the union is the rising tension developing between shopstewards in certain regions. These tensions have emerged following attempts by a number of catering companies to bribe shopstewards in order to secure catering contracts in the hostels. This has led to growing tensions within the ranks of the shopstewards and has led to divisions in some areas, Mantashe says.

The union's central committee meeting will be held from 25 to 27 April 2002 in Bloemfontein.

**Chamber of Mines and National Union of Mineworkers on HIV/AIDS (extract from 2001 wage agreement)**

**HIV/AIDS partnership structures**

- Company/Mine level HIV/AIDS partnership structures should be established within three months of signing this agreement, where they have not already been established
- The purpose of the HIV/AIDS partnership structures will be the development of relevant HIV/AIDS programmes within clear and defined budgets that will seek, *inter alia* to
  - Create awareness, which is preventative in content, with particular emphasis on the ABC (Abstinence, Be Faithful and Condomise) of HIV/AIDS prevention
  - Effect behavioural change, that may include programmes to encourage employees to voluntarily declare their HIV status without fear of victimisation
  - Oversee the development of and early participation in Wellness Programmes for employees suffering from HIV/AIDS that will, *inter alia*, include
    - (a) relevant counselling and education,
    - (b) medical care,
    - (c) regular medical assessment and appraisal,
    - (d) access to relevant medication in respect of diseases associated with HIV/AIDS,
    - (e) access to nutritious food, and
    - (f) access to hygienic living conditions
  - Contribute to the raising of awareness and the necessary behavioural change by ensuring that testing programmes comply with the principle of confidential, informed, voluntary counselling and testing (CIVCT), and encouraging employees to participate in such CIVCT programmes by linking them to appropriate Wellness Programmes
  - Funding will be provided specifically for HIV/AIDS programmes that are to be undertaken by the HIV/AIDS partnership structures, and the information on such funding will be made available to the partnership structures
  - The joint HIV/AIDS partnership structures should interact with Housing Forums regarding housing matters, and the Mines will within the parameters of affordability and employee preferences make their best endeavours to accelerate programmes of making family accommodation available, including the conversion of hostels and utilisation of empty houses
  - The Mines and Union further agree the following issues relevant to a comprehensive and effective strategy in the Gold Mining Industry to positively impact on the lives and circumstances of HIV/AIDS sufferers
    - Making available effective treatment and medication for HIV infected pregnant employees, including anti-retroviral therapy (ART) as may be medically justified
    - Recommending to the Mining Industry HIV/AIDS Committee that an annual Mining HIV/AIDS Summit be convened, to discuss effective HIV/AIDS strategies and to learn from successes and failures in the industry and elsewhere

# Erosion of union solidarity

Many academics (Adler and Webster) have pointed to the decline in the power and militancy of unions post-1994.

Baskin (2000 43-44) observes that 'during the 1970s and 1980s working people built their union into a powerful fighting force'. On many occasions they transcended the boundaries of their workplaces to organise around political issues. Their role in the struggle against apartheid and class oppression demonstrated militancy and the power unions used to enjoy. Workers experienced growing strength and confidence in their unions despite dismissals and other forms of intimidations that employers used against them.

For instance, in the 1980s the Commercial, Catering and Allied Workers' Union (Ccaawusa), the forerunner of Saccawu, struggled for wages and better conditions at Southern Sun Hotels and OK Bazaars respectively, and forced management to yield to workers' demands. Workers attributed the victory of their struggle to the growth of their powerful union and, most importantly, solidarity that existed among them.

Ccaawusa's successful victories during the 1980s, despite its internal problems, showed the importance of solidarity amongst workers. Some writers argue that solidarity is constructed and expressed through a process of mutual association. Black workers under the apartheid regime perceived the

*In the post-1994 period solidarity among workers in many workplaces was seriously undermined. Nathaniel Ndala looks at the factors leading to the erosion of solidarity in a Saccawu branch in the retail sector on the East Rand.*

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government and white people generally as symbols of oppression. They saw themselves oppressed as workers but most importantly, because they were black. This sense of common identity brought them together irrespective of their differences in terms of their job categories. Solidarity was therefore, easily forged under the apartheid regime.

In the 1990s things began to change and the power and militancy of unions began to diminish. This decline and subsequent erosion of union solidarity can be attributed to a number of factors including: a loss of skills and significant leadership to government, corporates and other sectors; poor servicing of members and the growing gap between leadership and rank and file members.

## **Case study of Saccawu branch**

A study of a local Saccawu branch on the



East Rand during the period 1988 to 2000 reveals however, that Adler and Webster's transition theory (2000) underestimated factors of labour market flexibility. This development proved to be equally significant in accounting for the erosion of solidarity in the union post-1994.

The local branch used as a case study here proved that the introduction of casual workers and subcontractors undermined solidarity that the union had spent years building up. Uncritical and blind acceptance of labour market flexibility by Saccawu, as a form of efficiency and cost minimisation, might lead to the end of the union in many workplaces. This, however, should not be construed, as saying that other factors should be underestimated.

### **Breakdown in trust**

When the store (part of this case study) was opened in 1988, Saccawu's national organisers were actively involved in the formation of the union in the store. Even after the union was established national organisers continued to support the union in the store. They frequently visited the shopstewards and the workers and served as a link between the union in the store and the national leadership.

Workers in the local branch were always kept abreast about the activities and the direction of the national leadership through monthly meetings held with their organisers. This important link between the store and the national organisers stopped immediately after the 'micro-loans disaster'. (see p 66)

The organisers encouraged workers to borrow loans against their provident funds only to find that they were taking personal loans from Perm Bank. When the deductions appeared on workers' pay-slips organisers stopped visiting the store. Workers and the shopstewards tried unsuccessfully, on many occasions, to try

to get organisers to come and explain this problem. Their disappearance led to ties with the branch being cut while serious mistrust grew towards the union and their shopstewards who assisted the organisers in convincing the workers to borrow against their provident funds.

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*The local branch used as a case study here proved that the introduction of casual workers and subcontractors undermined solidarity that the union had spent years building up.*

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The leadership and the union were discredited by this incident. Workers blamed their shopstewards for misleading and misinforming them. The shopstewards on the other hand pointed fingers at their organisers who did not properly explain things to them.

As a result, many workers resigned from the union, as they felt betrayed by their own union. 'We don't want the union because it sold us. Some of the workers went home with nothing after the deduction,' said one interviewee. In many instances during the interviews, respondents referred to the organisers as 'that union'. The union was not them but the organisers. Phrases such as 'the union' and 'that union' were often used during the interviews. The workers saw the organisers as one union and them as another one.

### **Workers and leadership**

The division between rank and file members and leaders became evident when the store began to look at recruiting casual workers. The union in the store did not even know about the resolution to organise casual workers, which was taken

at the union's annual congress in July 1999

Union leadership claimed in interviews that the process to recruit casuals had begun but the union in the store did not know about this. The union in the store said no one had informed them about the official position regarding casual workers. This reinforces the view of the growing gap between the union in the store and Saccawu national office. Furthermore workers in the store did not know about the rolling mass action call by Cosatu in October 1999. The lack of interaction can create a scenario where two separate unions begin to emerge but share the same name.

### Impact of outsourcing

In the OK Bazaars store where the case study was done, a decision was taken to subcontract out their shelf packers to Executive Merchandising Service (EMS) and Dedicated Merchandising Service (DMS)

The two companies were introduced into the store in 1996. A rival union - Eccawusa - began recruiting members amongst the new contract companies. These workers did not only perceive the union as their legal voice against employers' prerogative power, but most importantly, as a shield against Hyperama staff who regarded them as 'enemies'. As one of the workers recalled, 'we were like enemies.

All the jobs that we used to do were now given to them'. On the other side, while workers of DMS and EMS companies belonged to Eccawusa, Hyperama employers still found their home in Saccawu

Workers in the same workplace were employed by three different employers and split between two unions. This makes solidarity among workers extremely difficult and impossible. The tension that

existed between these workers shifted what class theory saw as an inherent conflict that exists between employers and employees. Workers in this store identified themselves with their respective companies. They did not see themselves as members of the same class, but as employees of their companies.

When Shoprite took over from OK in 1997, it did not hesitate to undermine the solidarity in the union by employing more casual workers. Full-time workers who resigned or were retrenched were gradually replaced with casual workers. Numerous subcontract companies replaced the two subcontract companies in the store. This made it even more difficult for the union to organise effectively in the store.

This form of work impacted negatively on the union, which was once regarded as the legitimate voice of workers against unfair labour practices by employers.

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*This is an edited version of an MA thesis submitted to the faculty of Arts at the University of Witwatersrand*

### Correction notice

In editing the article 'Labour Internationalism at a turning point' (SA Labour Bulletin 26 (1)), the editor inadvertently added a sentence that incorrectly imputed racial motives to the Australian trade union delegation in the debate on the 'war against terrorism'. The Labour Bulletin apologises for this.

# A view from the glass tower...

*Corporate governance: where to now? my fair and equitable one?*

Given the state of business in South Africa, one might well be tempted to ask 'what corporate governance?' The issue of corporate governance in South Africa started off with a desire to follow the Sullivan Code in the late '70s. The publication of two King reports, the first published in 1994 and the second in 2001, has taken the debate further. It would appear that the revised King Report - 'King 2' - attempts to focus on non-financial matters that take into account the needs of all stakeholders. King forces one to question the effectiveness of companies in view of the following proposals:

- The board of a company should be represented by a majority of non-executive directors with enough independent non-executive directors. The latter being a new breed of animal who does not represent major shareholders; is not a former employee, executive, professional advisor, significant customer nor supplier and does not have a significant contractual, business or other relationship with the company. Such a person should be nominated onto a board through a nominations committee (Who should such a person be and who would or could nominate this person, without compromising the independence and, more pertinently, what would his/her

*The business community has recently been wracked by major scandals. This article explores the state of SA companies and their failure to consider corporate governance issues.*

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role be? Could it be to check up on the chief executive officer (CEO) when the position of CEO and chairman are combined as in certain large companies in South Africa? Admittedly this is not normally a combination associated with good corporate governance.)

- Executive director contracts should be for three years and reasons should be given if extended. Would this mean a constant game of 'ring a rosies' of directors and at what price would their severance payouts be? Or is it an attempt to reduce cronyism? As presumably the CEO would only have a limited number of cronies to appoint to these positions.
- Corporations are to ensure that directors are competent enough to perform their duties, by providing adequate training, induction and update. This is a very noble statement. But one question: whether the directors understand their roles and responsibilities at the best of times, as certain directors may be thought to have got their jobs through 'the old boy

network'. The thought that people who are heading up companies have no adequate training is a scary thought. It is also somewhat ironic given that directors tend to shy away from any union participation/involvement on the board due to a perceived lack of training on the part of unionists.

Also, when does one consider employment equity candidates for the board and what training is available to them to take up their positions in a meaningful way? By the same token if the directors are untrained, then their arguments about employment equity (EE) candidates not being ready for the position on the board are farcical.

King pays a large amount of attention to director remuneration with special mention of the following:

- A remuneration committee should be established, chaired by the chairman or the senior independent non-executive director.
- The remuneration should be fair, have a strong element of performance-related pay and be disclosed on an individual basis. Remuneration includes severance packages. This begs the question, how does one measure performance at this level, especially in a case like Regal where to paraphrase commission head John Myburgh, the CEO was a megalomaniac with a supine board? Is performance only questioned when the bank/company goes under? However, it will be interesting to see how many boards will implement this and how the bosses will feel being made to perform to standard as they have insisted on doing for employees lower down the ladder. Perhaps the financials and share price will start to reflect this 'new' standard for directors.

King suggests that cronyism will be prevented through transparency/disclosure and a majority of non-executive directors on

the remuneration committee. One wonders whether this would be enough in instances where incompetent executive directors were appointed originally due to cronyism.

King's focus forms part of the triple bottom-line report that includes economic, environmental and social aspects. Obviously, legislative reporting would fall into this area. In addition, the companies should also give their response to HIV/AIDS, black economic empowerment, health, safety and the environmental, human capital development and organisational integrity. The latter is an interesting concept. What does it mean for an organisation to have organisational integrity and how would one know?

It is suggested that a way of measuring organisational integrity would be through a code. The code would include issues such as a senior individual to oversee compliance; communication and training and whistle blowing. In the present old-boy network system within which business tends to operate, the last suggestion is laughable. How does one act as whistleblower and still find work? Also, what would be the union's role in whistle blowing? The answer would in all likelihood depend on the relationship with management. And it would be most unfortunate for a union to have a good relationship with the management of a company which has no integrity.

King's focus on non-financial matters must surely be viewed in light of the upcoming World Summit. Will it cause companies to wake up and at least think about these issues? If the King Report is not clear enough, then the clarion call sounded by the demise of Regal and Enron should be enough for shareholders, directors, employees and even unions to act ethically and ensure good governance.

A view from the glass tower provides employees, on an anonymous basis, to talk about their experiences in corporate South Africa.

# Corporate social and environmental responsibility

In South Africa different forms of corporate social responsibility (CSR) have been evident for many years. The nature and content given to these programmes were fundamentally shaped by apartheid. However, since the transition in the 1990s, and South Africa's re-integration into a global economy, new dynamics have come to the fore.

Under apartheid, the role of the South African corporate sector was always considered as controversial. Questions revolved around the extent to which industry benefited from the apartheid regime, or even played an active role in the establishment and reproduction of the system.

## The emergence of corporate social responsibility

Corporate social responsibility was raised formally for the first time in the 1970s but gained momentum during the sanctions campaign against apartheid. Corporates responded by setting up voluntary initiatives. A prominent effort by especially US multinationals was the introduction of a code of conduct that became known as the Sullivan Principles. Only a minority of multinational corporations reluctantly embraced the Sullivan Code, essentially to head off disinvestment pressure from abroad. Some writers argue that the Sullivan Principles can be seen as a 'turning point' in 'vocabulary' corporate social responsibility in South Africa.

*South Africa has had a tradition of corporate philanthropy since the early 1970s. David Fig recently presented preliminary research at a SWOP workshop on the shifts taking place in this area.*

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The 1976 Soweto uprisings led to the establishment of the Urban Foundation as a private sector initiative to address critical urban development issues in volatile townships nationwide. The late Harry Oppenheimer of Anglo American Corporation and Anton Rupert of Rembrandt led the initiative. From the 1970s to the mid-1980s more companies followed suit by setting up charitable trusts, partly to accommodate expanded community investment, but also for tax purposes. Tertiary education institutions were the main beneficiaries of these funds.

Whilst using the Sullivan Code to pressurise companies to recognise trade unions in the 1970s, the labour movement in apartheid South Africa was generally negative, and sometimes even hostile, towards corporate social investment programmes.

In the period leading up to the political negotiations, various economic think tanks

debated the future of the economy. There was general uncertainty as to what policy direction the new government would take. It is in this context that a trend towards expanded corporate social responsibility and investment programmes emerged. Following the elections in 1994, the new government embarked on a programme of legislative reform. This was met with growing opposition from business, especially in the area of labour market reform. Whilst using the language of the Reconstruction and Development Programme (RDP) to describe their responsibility programmes, on a broader level business aggressively started to lobby for an alternative developmental path to the RDP. By 1996 the RDP was sidelined in favour of the Growth, Employment and Redistribution strategy (Gear) and big business had established its hegemony in the realm of macroeconomic, industrial, and labour market policy.

As time went on government turned directly to business to help compensate for its diminishing capacity in numerous fields. This led to government appeals to business to help bankroll the fight against crime, inner city development, tourism promotion, and its hosting of the World Summit on Sustainable Development scheduled for September 2002.

### **Corporate environmental responsibility**

While corporate social responsibility programmes were very much a product of the 1970s, corporate environmental responsibility only became prominent in the late 1990s. Corporate support to the environment traditionally took the form of support to nature conservation initiatives. The oldest environmental non-governmental organisation (NGOs) were organisations comprising concerned middle class whites.

Corporations' strategy to compensate

for their tarnished public images has been to provide grants to environmental projects, particularly in the sphere of conservation. Eskom, perhaps the country's heaviest polluter, supports projects with the Endangered Wildlife Trust helping birds to avoid being damaged by electricity pylons. Sappi, whose pulp mill at Ngodwana in Mpumalanga is a large-scale polluter, sponsors a project, which uses snout beetles to control alien plants in the river systems of KwaZulu-Natal.

Oppositional environmentalism began to emerge in the 1980s and took the form of issue-based campaigns such as opposition to the apartheid state's nuclear programme, where the organisation Koeberg Alert emerged; another campaign was set up to Save St Lucia, a wetland of international significance, from the threat of titanium mining. Organisations with broader aims, such as the Soweto-based National Environment Action Campaign and Earthlife Africa were founded in the 1990s.

This new wave of civil society organisations began to challenge the corporate culture of conservation agencies at national and provincial levels, arguing for the inclusion of rural communities as beneficiaries of conservation and nature tourism. These NGOs were not confined to conservation interventions, but also challenged industrial environmental malpractices in significant ways. Earthlife Africa took on numerous campaigns, including opposing the building of hazardous waste sites close to urban communities, the leakage of mercury waste into the environment at the Thor Chemicals factory in KwaZulu-Natal, and, together with Koeberg Alert, challenged the expansion of the nuclear industry. Other policy and advocacy groups took on environmental aspects of the mining, waste management, petro-chemical, energy

and genetic modification industries

Corporate funding for environmental initiatives has itself undergone changes. The concerns of the new wave have in some senses been mainstreamed. Traditional white membership organisations such as the Wildlife Society have taken up issues of sustainable development and community management of natural resources.

Corporates are thus more easily able to brand their support to specific environmental projects. The business sector is highly conscious of the state's limited ability to regulate. This allows corporate lobbyists to push for the recognition by the state for less formal regulation and more coregulation and voluntary initiatives. This has been evident in the negotiations around the National Environmental Management Act (NEMA, 107 of 1998). Some of the business lobbies have taken advantage of the state's more amenable stance. Whilst the BCSD-SA (formerly the IED) promotes more sustainable approaches amongst its members, in representing their interests to government, it generally opts for legislation that is gradualist and avoids fundamental change. Its membership has not backed strenuous anti-pollution standards partly because it will compromise the very corporations, which are the country's greatest offenders in terms of air pollution.

### **Implications of social and environmental pressures**

Along with its political transition, South Africa has undergone economic liberalisation. Its corporations have become global players and as such have to take global standards, codes, and customer preferences into account. South Africa's adherence to multilateral environmental agreements, and the hosting of the Rio+10 summit add extra pressures to

demonstrate greater conformity with international norms. Innovative industrial associations are arguing strongly for the merits of the triple bottom line. Consumers and NGOs are increasingly exercising their watchdog roles, while investors increase their demands for more ethical and socially responsible corporate practices. All these factors will be shown to play a part in shifting corporate behaviour.

### **Corporate social investment as a South African concept**

South Africa's peculiar history impacted on the way in which corporate social and environmental responsibility is understood. Industry representatives, who interpret the word 'responsibility' as an obligation imposed on companies with reference to past misdeeds, frequently reject the term 'corporate social responsibility' or CSR. In this sense, they often argue, the 'responsibility' of companies is to abide by laws and pay taxes. A much-preferred term is 'corporate social investment' (CSI). The history of apartheid has resulted in some companies embracing broader developmental objectives by means of social investment initiatives.

Following the 1994 elections, companies' CSI strategies changed to adapt to the new political imperatives. Corporate social responsibility projects became known as RDP-projects. This did not imply that the RDP, as a developmental programme, was supported universally by the business community. Although community-based projects were still being funded, a new emphasis on governmental alignment developed. This included a general shift towards a more strategic kind of CSI, whereby CSI funds were seen as seed funding for initiatives that would be self-sustaining once they were up and running. The incentive for this was to

decrease dependence amongst beneficiaries, including government, on corporate funding. A further emerging trend has been for companies to focus their funding on fields related to their core business. So, for instance, pharmaceutical companies have commonly specialised in CSI initiatives related to health. There has also been a greater emphasis on collective social investment initiatives, as epitomised by the National Business Initiative.

The emerging international discourse surrounding CSR has been invigorated and informed by that of sustainable development. CSR calls for a company to respond not only to its shareholders, but also other stakeholders (employees, customers, affected communities and public) on issues such as human rights, employee welfare, and climate change. Most significantly, whereas CSI or philanthropy has to do with how a certain amount of profits are spent on worthy causes, CSR is primarily about how those profits are made in the first place.

South African companies have the reputation of resisting outside interference in determining core business activity or corporate governance, seeing these elements as their own prerogative. It is apparent that this emphasis on 'add-on' strategic philanthropy might constrain South African companies' ability to respond to international demands for the incorporation of sustainability into core strategy.

On the other hand, South African companies' experiences with CSI might have benefited them in terms of a more sophisticated understanding of social development issues, as opposed to, say European companies, for whom social issues are a fairly new agenda.

### **Sustainable development**

The concept of sustainable development was raised in 1987, when the World

Commission on Environment and Development (WCED), also known as the Brundtland Commission, published its report *Our Common Future*.

The WCED attempted to reconcile the concepts of environmental protection and economic development. The context was one of northern environmentalists arguing for minimising consumption, to cut back on natural resource use. In the South, the developing countries argued that reducing consumption was not the answer – instead overcoming poverty meant extending people's ability to consume. The Brundtland Commission tried to reconcile environmental protection with the economic development of the South. The concept of 'sustainable development' was seen as a bridge, since it permitted the notion of consumption within certain limits.

Simultaneously, the concept began to enter the debate around global governance as reflected in the deliberations at the UN Conference on Environment and Development, which took place in Rio de Janeiro in June 1992. The follow-up conference to Rio is entitled the World Summit on Sustainable Development (WSSD).

The concept began to be adopted for use by numerous international institutions. In South Africa the concept was given formal status within the 1996 Constitution. However, the concept remains imprecise and problematic. In the early 1990s it was often used interchangeably with the notion of 'sustainable growth' and implies continuous expansion of the gross domestic product (GDP), whereas sustainable development questions GDP as an adequate instrument for measuring development.

More recently the concept is being used as a synonym for poverty eradication. In the preparations for the WSSD in Johannesburg, some organisers have distanced themselves



from an understanding that the summit will deal with the environment. The participation of environmental organisations has been minimised. They are being seen as one sector amongst many others including education, women, youth, religious groups, and so on. This shift in the discourse is being endorsed by the business sector, which is being expected to bankroll the event.

### Company expenditure

Research on actual spending is sketchy, since many firms prefer not to make figures available. A survey conducted in the early 1990s shows that the vast majority of CSI spending was directed at education programmes.

More recently, in 1998 the Centre for Development and Enterprise (CDE) conducted two surveys to ascertain levels of corporate social spending. The first survey of large and prominent corporations achieved a response rate of 34% (75 corporations). A second survey conducted randomly drew 545 corporations of all sizes.

The survey of large corporations found that about R580m was spent on corporate social responsibility programmes annually. The survey of smaller firms did not isolate sport sponsorships from CSI initiatives, and tended to be less reliable. However, the researchers found that smaller firms spend proportionally more on local welfare and benevolent agencies.

Based on a very rough generalisation (that includes sport sponsorships), the CDE researchers estimate the annual contribution of the corporate sector to CSI programmes at between R4bn and R5bn annually. This accounts for roughly 0,26% of turnover of large corporations, and 0,15% of turnover of small and medium enterprises.

Education still seems to be the main beneficiary of social spending. However,

spending priorities are changing and being redirected towards the areas of HIV/AIDS, as well as crime.

### Conclusion

Historically speaking, the involvement of the corporate sector did play a role in the political transition and the demise of apartheid, motivated primarily by enlightened self interest. Importantly, however, this history has played a significant role in informing the way South African companies engage with CSR issues. However, it is apparent that such general statements are very problematic. For instance, while some companies may have contributed to the political transition or urban development, other companies, or even those same companies in different instances, may have contributed to the mistreatment of labour or the environment.

Research has found that there are, indeed, increased expectations of business in South Africa. Interestingly, these emerge as a result of a complex interplay between local South African dynamics and the international discourse. There are also important pressures coming from government, especially related to BEE. Often, corporate voluntary initiatives are designed to pre-empt government regulations.

However, there are significant questions about whether these expectations and business initiatives result in actual improvements in performance. Our research has indicated the large gap between declarations and practice of large-scale corporations to ecologically sustainable development, for example.

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*TbIs is an edited version of the full report report entitled 'The political economy of corporate social and environmental responsibility' presented by Fig at a recent SWOP workshop.*



# Nedlac's role in the World Summit on Sustainable Development

**T**he National Economic Development and Labour Council (Nedlac) has identified the forthcoming World Summit on Sustainable Development (WSSD) as crucial to South Africa, both in terms of hosting the summit, and the content of issues that will be up for discussion.

The coordination of constituencies' input into the process is being effected through a joint task team on WSSD comprised of delegates from both the Development as well as the Trade and Industry Chambers. From this technical and operational level through to the highest decision-making and policy level of Nedlac - the Executive Council - there is agreement that Nedlac needs to make a significant contribution to ensuring that the conference is a success. The summit takes place from 26 August to 4 September 2002.

## Content discussions

The Nedlac WSSD task team has considered the government Non-Paper on the Global Deal for further implementation of Agenda 21 towards sustainable development. The paper was approved by all the stakeholders at a meeting on 27 February 2002.

Government also tabled the chairman's text to the task team. This text will form the basis of discussions at Prepcom III, (preparatory meetings in the run-up to the summit) and is still under consideration.

Emphasis has been laid on sectoral partnerships. This issue was also emphasised by Zehra Aydin-Sipos, the major groups coordinator of the UN, who was in South Africa recently. Partnerships are seen as important in the implementation of targets. Developing targets with clear timeframes will help to make the Johannesburg summit different from the Rio Earth Summit which took place ten years ago, where specific targets were not agreed upon.

Government has initiated the drafting of a paper on Civil Society and Industry in Sustainable Development. It was agreed that the drafting should include the task team members. The paper seeks to clarify the implementation roles of both civil society and industry in sustainable development. This is not apparent at present, as the sectors are currently more of a monitoring than an implementation structure. The paper is still in inception stage.

## Logistical preparations

The Nedlac task team has also considered logistical preparations for the summit. It was addressed by Jowasco (the Johannesburg World Summit Company which has been established especially to run the summit) on the approved budget, procurement policy and the volunteer scheme. Jowasco has agreed to consider the Proudly South African campaign, initiated by Nedlac, in its procurement policy and



confirmed that empowerment was one of the considerations in choosing service providers. Nedlac is currently considering developing scenarios for interaction among the non-governmental organisations (NGOs) at the three summit venues and those scenarios will be tested against the transport plan. The interactions could add value to the formulation of sectoral partnerships among the three structures. Constituencies raised concern on the volunteer scheme and proposed that it be a national process and not only benefit people from the Gauteng province.

Zehra Ajdin-Sipos also addressed the Nedlac delegation on the UN accreditation system and funding for PrepComs, as well as discussing preparations for the summit with the major groups.

### Civil society representation

At the start of the process, there were concerns expressed that civil society was not fully represented in the structures that had been set up to coordinate civil society participation. Through the South African Council of Churches and the Nedlac Community Constituency, the problem regarding the leadership and representation of the civil society process has been successfully resolved.

A Broad Political Forum, representative of major groups and taking into account national dynamics, was established. There are seven major stakeholders in the process, namely, women, youth, civics, communities of faith, labour, NGOs and the disabled. A management committee has been set up constituting one person from each major group with the primary responsibility of interfacing with the Civil Society Secretariat on a daily basis and designing a process to deal with broad content and substance issues regarding the summit.

Meanwhile, ongoing tensions within the

civil society secretariat came to a head recently with the announcement that the CEO Jacqui Brown was to be suspended. The South African NGO Coalition (Sangoco) head Zakes Mlatshwayo is currently acting CEO for the secretariat.

Labour, in the form of Cosatu, has begun to play a leading role within the secretariat. Organised labour is of the view that the summit should emerge with a clear programme of action, based on agreement amongst the main stakeholders, for what some are calling a Global Deal.

### Nedlac-specific input

Nedlac was also encouraged to do something for the summit as an organisation in addition to constituency organisational programmes. It is currently preparing a research paper that links targets and action plans set out in Nepal, the secretary general's report and the Non-Paper on the Global Deal for the further implementation of Agenda 21 in sustainable development. The paper is intended to assist the Department of Environmental Affairs and Tourism in the development of implementation processes and programmes for sustainable development.

### Preparation for PrepCom III

Government hosted a workshop at the beginning of March 2002 with the objective of exchanging information and preparing for PrepCom III, which was held in New York at the end of March.

On 15 March, the Nedlac constituencies met with Johannes Pronk, the UN secretary general's Special Envoy for the WSSD. He is touring the world discussing the preparations for the summit with heads of state and relevant ministers to get a sense of the position that the various countries will be taking on important issues.

## *The New Partnership for Africa's Development (Nepad)*

**T**he New Partnership for Africa's Development (Nepad) is an attempt by African leaders to address on a collective basis Africa's lack of development. Representatives of five African countries drafted it, but President Mbeki has been its most active promoter.

Nepad was previously known as the New Africa Initiative (NAI), which was itself a merger of two earlier initiatives, the Millennium Africa Recovery Plan (MAP) and the Omega Plan. The MAP originated from the invitation to attend the G8 meeting in Okinawa Japan in July 2000 to presidents Mbeki, Obasanjo (Nigeria) and Bouteflika (Algeria). These three were invited to meet with G8 leaders to discuss development issues because, at the time, they were chairpersons of the NAM, the G77 and the OAU respectively. The Prime Minister of Thailand was invited along with the African leaders. This encounter led to a request from the OAU to the three African leaders to draft a plan for African development. This process began in earnest following the UN's Millennium Summit in September 2000. A steering committee of representatives of all three countries was established to formulate the plan, by then known as the MAP, and already somewhat in the public eye. The January 2001 meeting of the World Economic Forum in Davos included a session on Africa in which President Mbeki, President Obasanjo and other African presidents participated, and the

*International leaders have come out in support of Nepad.*

*However, many on the African continent remain ignorant of its contents. The Labour Bulletin talks to Stephen Gelb, who was a member of the South African government's team in the initial drafting of Nepad.*

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broad intent and outline of the approach were presented. Many South African businesspeople were in the audience – this was their (and the South Africa's public's) first exposure to the process.

In the meantime, Senegal's president, Abdoulaye Wade, had presented his own draft plan for Africa's development – the Omega Plan – to the Francophone Summit held in Cameroon in January 2001. Subsequent to this, Senegal was invited to join the MAP steering committee, as was Egypt, another of Africa's major economies. The governments of both countries did in fact participate in all subsequent meetings of the MAP process, though Senegal continued to elaborate its OMEGA plan as well. Ongoing discussions about the merger of the two processes continued until July, when a single document, temporarily entitled A New

Africa Initiative, was presented to the OAU Summit in Lusaka. The name of the plan was subsequently changed to Nepad in October 2001, when the 15 member Heads of State Implementing Committee met for the first time.

### Who produced Nepad?

The document itself was drafted by a team with representatives of all five countries on the Steering Committee. It was a government process, in that the members of the Steering Committee were all government officials, but much of the actual work was done by a 'technical committee', which included several individuals from three of the countries who were academics and researchers, not government officials. In drafting the July 2001 document, as well as the several dozen background papers and supportive documents produced by that point and since, the Steering and Technical Committees consulted very widely both inside and outside Africa. However, the focus of these consultations was staff of other governments and of 'official' multilateral organisations. The latter include the UN Economic Commission for Africa, the African

Development Bank, the OAU, the UNDP, UNCTAD, FAO, WHO, the WHO's African Regional office, the African Connection, as well as the World Bank, IMF, OECD and so on. All of these organisations, and others, continue to be involved.

The consultation process did not extend to civil society organisations within African countries, even the five countries of the Steering Committee. This can be partly explained by the pressures of time, and the difficulties of identifying and involving

representative organisations. However, this explanation is not entirely adequate – there could and should have been more public discussion. But there are two important points to stress at this stage:

Firstly, the Nepad *process* remains quite embryonic – the 60-page base document itself is very broad, laying out a general approach to Africa's development. There remains a vast amount of 'detail' still to be elaborated – programmes, projects and institutional processes – and there is a growing amount of 'space' for input into, and influence in, the process, from all quarters – trade unions, community-based and human rights organisations, business and farmer associations, women and students.

Secondly, as I argue elsewhere, it is essential for the success of Nepad in its own terms that civil society organisations be involved in the process of implementation. Their involvement is important in the area of monitoring and assessment, which is at the core of Nepad. Participating governments should be required to demonstrate that they have consulted widely within their own countries while, in addition, to direct contact

### The structure of the Nepad strategy

#### A. Preconditions for development

1. Peace, security, democracy and political governance
2. Economic and corporate governance, with a focus on public finance management
3. Regional cooperation and integration

#### B. Priority sectors

1. Infrastructure
2. Information and communications technology
3. Human development, with a focus on health and education and skills development
4. Agriculture
5. Promoting diversification of production and exports, with a focus on market access for African exports to industrialised countries

#### C. Mobilising resources

1. Increasing savings and capital inflows via further debt relief, increased ODA flows and private capital, as well as better management of public revenue and expenditure.

between Nepad agencies and relevant organisations in participating countries.

### **What is Nepad about?**

Nepad is an attempt to embody, in a coherent framework, the need for collective action by African states. Underlying their argument is the view that without collective action, weak states will be unable to address the development challenges. Nepad is based on a three-pronged strategy (see box on p 89).

The improvement of governance included under 'Preconditions for Development' will lead to the strengthening of the weak states in Africa, while regional cooperation and integration will create the opportunity for increased trade and investment as well as improve international competitiveness through the pooling of African resources.

The 'Priority sectors' will prevent the further marginalisation of Africa and lay the basis for sustainable development in the long term, while action in these first two areas will not be possible without 'Mobilising resources' from the rest of the world. In the first instance, there is a need for further debt relief and increased aid flows, but in the longer term, private investment should increase as perceptions of risk are lowered.

South Africa insisted, during the process, that the primary focus of Nepad should be on addressing the governance issues despite attempts to reduce the prominence of the latter in the overall plan. Progress in meeting the 'priority sectors', in particular health, education and infrastructure will depend on improvements in governance and on regional collaboration. The selection of priority sectors was clearly a contested terrain as these reflect the differing priorities of the countries.

Governance improvements will lead to an increase in resource flows. This is at the

heart of the plan - to obtain resources from the industrialised world - Africa will have to improve its performance on governance. These issues should be at the centre of any progressive agenda for the continent - reducing corruption, increasing transparency and accountability in the collection and use of public resources in the arena of economic governance; and resolving violent conflict and enhancing democracy and human rights in the political governance arena.

Greater access to industrialised countries' markets for African exports will also provide additional resources for investment in domestic programmes. As success is achieved in improving governance and in the priority sectors (most particularly, infrastructure, including IT, and human development, especially health), risk premia and the costs of doing business in Africa should fall, so that domestic private savings and capital inflows are expected to rise over the longer term.

The implicit idea behind Nepad is the formation of a 'club' of African heads of state who can collectively undertake to improve governance amongst themselves by engaging in both joint and individual actions. Even though the North contributed 'political momentum' towards its elaboration, Nepad rests on the leadership of African heads of state. Within this context, South Africa's leadership is essential. Despite capacity constraints, South Africa appears to be the one country in the Nepad leadership whose primary concern has been the Nepad process itself and ensuring it succeeds.

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*Gelb is director of The EDGE Institute - a non-profit economic research institute. His analysis of Nepad, 'SA's role and importance in Africa', can be obtained at [www.the-edge.org.za](http://www.the-edge.org.za) Tel: (011) 339-1757*

# *ILO launches World Commission on Globalisation*

**T**he International Labour Organisation (ILO) has launched an 18-month project to investigate the social aspects of globalisation

A high level commission headed up by the Finnish President Tardier Ilalogen and Tanzanian President Benjamin Kappa will spearhead the project. The commission will be tasked with the responsibility of investigating amongst other issues, the impact of globalisation on employment, decent work, poverty reduction, economic growth and development. This could lead to a focus on trade, liberalisation of capital markets and the role of multinational corporations.

At the launch of this project, ILO director-general Juan Somavia said the aim 'was to use the process of globalisation as a resource to reduce poverty and unemployment to foster growth and sustainable development'. Somavia went on to say that the commission was an 'unprecedented effort to promote international dialogue on ideas to make globalisation more inclusive'. 'Globalisation,' he said, 'had been an instrument for progress for some but for others it had exacerbated inequalities and insecurity'.

Under the new leadership of Somavia, the ILO has attempted to reclaim ground lost during the early to mid-1990s as globalisation (and the prominence of the World Trade Organization) gained momentum. He initiated closer working ties with the World Bank which has led to

*Cosatu general secretary  
Zwelenzima Vavi will form part  
of a high-level international  
team, which is set to look at the  
social consequences of  
globalisation. Liv Torres and  
Reneé Grawitzky report on  
this development.*

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a number of collaborative efforts (together with the International Monetary Fund) to promote poverty reduction strategies in developing countries

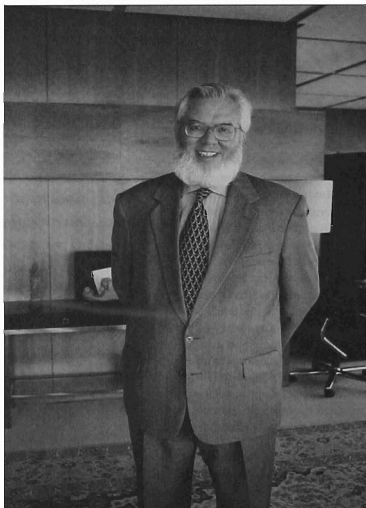
## **Decent work**

During his first ILO conference in June 1999, Somavia introduced the concept of 'Decent work', which is built around four strategic objectives: fundamental rights and principles at work, employment, social protection, and social dialogue. The organising theme for the 2002-2003 period is accordingly to put the decent work agenda into practice.<sup>1</sup> Statements so far would indicate that to make the decent work concept operational Somavia favours advocacy, persuasion and working with countries, 'by building on the social floor' established by the Declaration on Fundamental Principles and Rights at Work.

In line with his focus on dialogue and advocacy, Somavia convened a special meeting of the ILO Working Party on the Social Dimensions of Globalisation in June 2001. The meeting discussed a proposal for strengthening the Working Party, including the possibility of setting up an inter-institutional World Commission on the social dimensions of globalisation.

The meeting was notable for the fact that a range of developing countries including Brazil, Chile, South Africa and Burkina Faso supported the setting-up of a commission (as did the European Union, US and Canada, as had been expected). The ILO Workers' Group argued that a World Commission should undertake a useful body of research on the social consequences of globalisation and the role of the various institutions (such as the WTO, IMF and World Bank) in supporting or undermining respect for core labour standards. Furthermore, they argued that such a commission should include several prominent trade union leaders among its members, and had to conclude its work by the time of the 2003 ILO Conference.

The commission, which comprises leading trade unionists (such as Vavi),



*ILO director-general Juan Somavia*

employer representatives, academics, economists (Joseph Stiglitz) and politicians, will have to report back to the ILO governing body in March 2003. The commission's findings will form the basis for Somavia's report to the June 2003 International Labour Conference.

### **Endnotes**

<sup>1</sup> *This is to be done by promotion and realisation of standards, securing decent employment and income, enhancing the coverage and effectiveness of social protection, strengthening tripartism and social dialogue and crosscutting activities*



# Argentina: What lessons for South Africa?

**B**ut what is so different about South Africa? The similarities between South Africa and Argentina, the latest centre of emerging market crisis, are considerable. Both countries have roughly the same population, fall in the category of middle income, have a considerable amount of industry, an extensive middle class, and a well-developed trade union movement. Both also have highly unequal distributions of income. Objectively, the similarities between South Africa and Argentina far outweigh the differences.

Yet, our economists and politicians persist with this notion of 'South African exceptionalism'. The lynchpin of this view is that we are the only emerging market which has got its economic 'fundamentals' right. This is the biggest deception of all. Nearly every emerging market in the last decade has attempted to get their 'fundamentals' right.

## Distorted perspective

In this regard, Argentina is a perfect example. Conventional economists would have us believe that the Argentines did nothing but mindlessly run up debt to the point where they could no longer afford to repay the international financial institutions. This is a distorted perspective. For the last decade, Argentinean economic policy makers followed the market to the letter. They drew the highest praise from their ideological gurus in Washington and Brussels. They did most of the things the

*Mainstream economic analysts and government officials like to think of South Africa as an emerging market of a 'special type'. It is supposed to be different from Thailand, South Korea or Argentina. John Pape examines whether South Africa is the 'exception', not the rule.*

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South African government advanced in Gear. They engaged in fiscal discipline and implemented perhaps the most extensive privatisation programme in Latin America.

The Argentine Finance Ministry followed the advice of the International Monetary Fund (IMF) and pegged their currency to the US dollar. This pegging was not an act of irrationality. It was done to ensure that banks and foreign investors would not lose out if the value of the Argentinean peso were to fall. Like Gear, the economic plans of the Argentinean government had horrific effects on the workers and rural dwellers. Unemployment skyrocketed to nearly 20% and the gap between the rich and the poor continued to rise.

But make no mistake about it, the Argentines had got their fundamentals right. So confident were their economic policy makers that as recently as early December

2001, Minister of Finance Domingo Cavallo told the press: 'There is no need to worry. I realise people are worried but there is no need to be alarmed.' Within a month the situation which was not supposed to cause any 'alarm' brought millions of Argentines to the brink of starvation and led to the resignation of Cavallo and the entire Argentinean Cabinet including President Fernando de la Rúa.

### **Not a level playing field**

If Argentina had gotten its fundamentals right, what went wrong? The real problem is that the global economy is not a level playing field. The Domingo Cavallos and the Trevor Manuels of the world can do everything in their power to ensure that their ducks are lined up in the free market row. They can spend time in meetings with the IMF and the World Bank extracting assurances that things are on course. Yet at the end of the day, the economic model they implement is a direct attack on the living conditions of the majority of their populations. Economic fundamentals are a set of policies constructed to give top priority to the interests of global investors and International financial institutions. Despite growing global inequality and poverty, the supporters of sound economic fundamentals insist that the only way forward is further liberalisation.

Not surprisingly, in Argentina, it was not the bankers and the political leaders who questioned the market model, it was those who had felt the razor edge of the market's effects. The unemployed, whose numbers had swelled enormously as Argentina pressed on to get its fundamentals right, come together with blue-collar workers and the middle classes to say no to austerity and force Cavallo and President Fernando de la Rúa into the ranks of the unemployed. These popular economic actors did not need

experts or workshops to realise that budget cutbacks, privatisation, and the wealthy taking billions of dollars offshore were gradually grinding them into the dirt.

### **Coherent response**

Our business press would have us believe that the mass movements which brought down the Argentinean government are forces of economic irrationality. Those who blocked highways in Buenos Aires, rattled pots outside ministers' houses, and looted the stores of US-based retail giant Walmart, are part of a growing cohort of people around the world who are looking for an alternative to the dictatorship of the market.

For the majority of South Africans, the lessons to be learned from Argentina are not about how to manage debt or currency depreciation (nor to invent more ways in which South Africa is the exception). Instead, Argentina's experience further fuels the argument that the countries of the South and the majority of their population are under attack. The problem is not one of appropriate economic policies, it is a problem of the unsustainable structure of the global economy. The economic crisis in Argentina is not the first (nor likely the last) amongst South America's emerging markets.

Ultimately, South Africa's turn will also come. The alternative is to join with ordinary people around the world to contest the dominance of the market. As more and more face unemployment, disruption of services and escalating prices, maybe the economic policy-makers need to stop focusing on inflation targets and investment incentives and consider such an alternative. Otherwise, their strategic plans may have to include how to respond to millions of South Africans blocking highways and rattling pots outside their front doors.

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*John Pape works at ILRIG.*

## *Lumumba: An African leader's brief blaze of glory*

Patrice Lumumba (played by Eric Ebouaney) was for a very short period of time, until his assassination, the first prime minister of an independent Congo. *Lumumba* starts in 1960 but then jumps back a few years to the beginning of Lumumba's political career. The wholesale change he helped bring about, the insurrections that forced the hand of Belgium's King Leopold II, who then ruled Congo, went beyond anything he might have dreamed and feared.

The film refuses to lay out Lumumba's life in traditional, corny terms by presenting a lengthy and unwieldy history lesson and then groveling for audience sympathy. Instead *Lumumba* vaults through his radicalisation and the track that led this former civil servant and beer salesman to leave his angry stamp on the world. Lumumba's compulsiveness is pivotal during the handing over of Congo from Belgium to its freshly elected black officials. The new president, Joseph Kasavubu (Maka Kotto), is an alleviator; he gently thanks Belgium, taking his lead from paternalistic comments like, 'Beware of hasty reforms, and do not replace Belgian institutions unless you are sure you can do better.' When Lumumba hears this, he is unable to contain the wolfish snarl on his face. 'Our wounds are too fresh and painful for us to erase them from our memory,' he brags.

Certainly Lumumba's wounds are fresh. He incurred them when he was arrested

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*Elvis Mitchell of the New York Times reviews this movie which opened in South Africa recently!*

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for subversion and spent six months in jail before he was freed to attend a political summit in Brussels. Lumumba is a man who remembers indignity and wants to ensure that others will never have to suffer.

It's a thrill to see a movie about African politics that does not condescend to audiences by placing a sympathetic white African at the centre. The film's director was out to make a film that exposes the ugliness of cold war politics and knee-jerk imperialism. The movie's view is that Lumumba was sacrificed to stop African independence. His enemies used the hollow well meaning guise of stamping out the Communist threat. And *Lumumba* lets neither the United States nor the United Nations off the hook: it implicates both in his assassination. The irony is that Congo remains embroiled in overthrow and turmoil, the bleakest Pandora's box ever to be pried open. This is a movie about chaos and regret, focusing on the unleashing of forces greater than any one person could hope to handle and the carnage, however necessary, left in their wake.

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*This is an edited version of the review, supplied by the Film Resource Unit (FRU)*

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# Labour voices on the airwaves

**B**etween September and December 1997, a collective of labour service organisations carried out a radio pilot project, called Workers World. It consisted of 12 weekly 30-minute slots on Bush Radio, a community radio station, focusing on issues relevant to workers and the labour movement.

At the end of the pilot project, it was agreed to set up a semi-independent radio production project. This decision was based on the obvious need for radio productions focusing on labour-related issues.

## Why Workers World Radio Productions?

Due to a variety of reasons, the profile of the labour movement and labour issues has declined since the mid-nineties. Most references in the popular media to trade unions and their activities are cast in a negative light and portrayed as harmful to investment prospects and economic growth. This is despite the positive contribution made by labour during the anti-apartheid struggle and now in transforming South Africa.

Radio, as the most accessible and highly popular medium, can play a vital role in strengthening the democratic process in South Africa and the labour movement. It is for this purpose that Workers World Radio Productions (WWRP) was set up.

The project plays a multi-faceted role for the labour movement, whilst still

retaining its independence for the programme producers. The role of the project includes providing the trade union movement access to the airwaves. It enables workers and trade unionists to express their views in the form of quality productions and consequently enhances their democratic role within civil society.

## Pilot project

WWRP, together with the National Community Radio Forum (NCRF), developed a pilot project involving the setting up of weekly one-hour labour slots on over 30 community radio stations nationally.

Each week the slots focus on a selected topic. These topics are decided upon by a coordinating committee comprising representation from the key labour federations and labour service organisations. WWRP produces and distributes all the pre-recorded material to participating radio stations. Its labour news bulletins draw a lot of telephonic interviews with relevant trade unionists. Many trade unionists also use the WWRP labour news hotline, a 24-hour telephonic recording service based in the WWRP production studios (021) 447-6845.

Through this facility trade unionists are able to phone in from anywhere and tell their labour news story, which will then be included in the following week's labour news bulletin.

# BORWA FINANCIAL SERVICES

5<sup>th</sup> FLOOR, 13 Fraser St,  
Johannesburg  
Tel (011) 838-3751  
Fax (011) 838-4194  
email: sgreybe@hipip.org

**Objective: To provide a full range of financial and allied services to worker organisations on a non-profit but cost-effective basis.**

## **Collective ownership**

BORWA is collectively owned by those organisations to whom it provides services. As such BORWA responds to the needs of the members of mass-based worker organisations and by incorporating them into its ownership structure, its board of directors ensures accountability and efficiency.

Service provision to provident/pension funds, NGOs, SACCOs

BORWA provides a full range of financial services with respect to administering and insuring such organisations, maintaining their books of account, drafting budgets, facilitating meetings, conducting communication, coordinating legal assistance as well as providing other forms of general support.

The organisations currently administered by BORWA are involved in retirement funds, social housing and SACCOs (savings and credit cooperatives).

BORWA will soon be setting up a Trust Company to administer retirement fund death benefits on behalf of beneficiaries with an emphasis on a trust's social responsibility (to check that beneficiaries, especially children, are really benefiting from the trust monies) as well as providing the best possible financial returns. BORWA currently administers R116m worth of assets. Its auditors are Nkonki Sizwe Ntsaluba.

*If your organisation is interested in BORWA providing any one of the above services, please contact us for further information.*

## **BADIRI HOUSING ASSOCIATION (BHA)**

5<sup>th</sup> floor, 13 Fraser St, Johannesburg. Tel (011) 838-4493. Fax (011) 838-9138

### **Objective**

To provide housing assistance to workers earning below R5 000 per month. Such assistance takes the form of buying and maintaining blocks of flats for rental accommodation (between R650 and R1 300 per month); purchasing land for development of houses for ownership (ranging between R40 000 to R80 000), arranging housing finance for workers via provident funds, banks and the state subsidy; developing and maintaining sites for commercial and light industrial companies.

### **Collective ownership**

The stakeholders investing in and

making use of BHA on an organisational basis form the board of directors. BHA is a registered section 21 non-profit company.

### **Projects**

BHA currently has five projects in Gauteng, one in Bloemfontein and is investigating projects in the Cape and in Mpumalanga. BHA is available to initiate and manage projects for worker organisations such as retirement funds, trade unions, community associations, NGOs, savings cooperatives.

*For further information please contact the above numbers*



# IT'S NOT WHAT THE GSSC STANDS FOR, BUT WHO!

GSSC stands for many things; Gauteng Shared Service Centre being just one. It stands for an exciting initiative from the Gauteng Provincial Government. It stands for providing a range of shared services, from IT to Human Resources, Procurement to Finance and Internal Audit - so that our nurses, teachers, firemen, social workers and all other civil service personnel can get on with doing what they do best - without having to worry about time

consuming tasks outside their areas of expertise. It stands for helping to make Gauteng work more efficiently. It stands for creating an environment in which everyone who works for the GSSC can achieve his or her full potential and experience his or her true value. But above all, GSSC will help to make it possible for others to provide a quicker, more professional, more caring service to every single person who lives in our province.

