CONTENTS

1. FOREWORD

We are pleased to report in the first annual report of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), that after the first year, it is on track regarding key targets.

Against the backdrop of many ambitious targets, current economic trends indicate that South Africa will meet the AsgiSA objective for 2004 – 2009 of average growth of 4,5% or more per year. Employment creation has also been strong since 2004. However, in other areas, particularly industrial, sector and Second Economy strategies, and efforts to improve state capacity, much is still needed before AsgiSA can claim success.

While government is optimistic about meeting some key targets for the first period of AsgiSA (2004 – 2009), the 2010 – 2014 targets are challenging. South Africa's ability to reach 6% average annual growth relies on removing bottlenecks to growth. Significant macroeconomic gains already made must be consolidated to provide a stable base for growth. Infrastructural services must improve considerably, and those responsible for education and skills delivery must focus on producing more skilled people, and more rapidly.

Economic sector development strategies need to be well-executed, promoting increased and diversified exports. Efforts to include the marginalised poor, especially the youth, in the broad economy must become more effective, while services in all three spheres of government need to continue to improve. Government's slow response to some key challenges and opportunities remains a concern.

AsgiSA was initiatied specifically to tackle the above objectives. It has already achieved a common understanding of opportunities and priorities, resulting in higher levels of public and private sector investment. However, sustainable economic growth and job creation depends on successful investment, and as such, AsgiSA is focused on ensuring this is appropriately targeted and efficient.

One of the challenges is communicating AsgiSA's objectives and achievements. Not all South Africans understand AsgiSA and its intentions. The initiative has been reasonably well publicised within government, the African National Congress' (ANC's) alliance partners, trade unions, and local and international businesses. Although there is broad public awareness, the majority of the population cannot access detailed information about AsgiSA regularly. As a result, enhancing AsgiSA's communication programme will be a priority in 2007.

The current year will also see a focus on building on the past year's successes, and ensuring they remain on track, while concentrating on addressing delays in other initiatives.

It is important to encourage leaders in the public and private sector, non-governmental organisations (NGOs) and unions to continue their past engagement around AsgiSA. Accelerating and sharing growth is essential to improve the lives of all, especially the poor. In spite of considerable progress, poverty and unemployment remain unacceptably high. The best solution is to increase the rate of job creation. Additionally, the economic benefits of having a higher number of South Africans employed can be redistributed as better social services and other social transfers.

AsgiSA is an essential pillar of our democracy. Together we must ensure we all walk a sustainable path to poverty alleviation and social upliftment.

Deputy President Phumzile Mlambo-Ngcuka

2. SUMMARY OF ASGISA

AsgiSA originated from a commitment made by the ANC in its 2004 election manifesto to halve unemployment and poverty by 2014. Accomplishing this depends on achieving 6% growth per year by 2010. By 2004, economic growth had exceeded the average 3% growth per year of the first 10 years of democracy. Yet the challenge remained to increase and sustain growth at levels sufficient to meet social targets.

Following discussions between the ANC, its allies, and a range of domestic and international stakeholders, government developed a focused set of initiatives to accelerate shared growth. A broad strategy paper was prepared under Minister of Finance Trevor Manuel's leadership, after which President Thabo Mbeki asked the Deputy President and a team of Cabinet ministers and provincial premiers to develop AsgiSA.

AsgiSA identified six 'binding constraints' – mitigating against achieving desired growth rates. Removing these constraints would promote economic momentum.

Analysis showed that the commodity sector was reasonably strong while the non-tradable sector – including retail, services, and construction, among others – was expanding rapidly as employment and disposable incomes rose. Tradable products other than commodities – manufacturing and tradable services – were relatively weak, making the balance of payments vulnerable to a commodity price decline. Decreased demand for commodities could increase the trade deficit, potentially forcing a sharp reversal in the economy. Without a stronger non-commodity tradable sector and more diversified exports, South Africa would remain fragile and susceptible to the vagaries of international commodity prices.

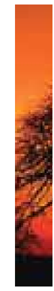
The challenge was to use strong demand for South Africa's natural resources to build foundations for sustainable growth and bring the economically marginalised third of the population in the mainstream economy.

Key constraints were:

- the relative volatility of the currency
- the cost, efficiency and capacity of the national logistics system
- shortages of suitably skilled labour, and the spatial distortions of apartheid affecting low-skilled labour costs
- barriers to entry, limits to competition and limited new investment opportunities
- the regulatory environment and the burden on small and medium enterprises (SMEs)
- deficiencies in state organisation, capacity and leadership.

Action was required in the following categories:

- macroeconomy
- infrastructure
- sector and industrial strategies
- skills and education
- the Second Economy
- public administration.



Although in many cases required actions were not new, AsgiSA created a new system of priorities and a new set of mechanisms to enforce decisions, led by a team under the Deputy President.

This is not a government programme. It is a national initiative supported by key groups in the economy – business, labour, state-owned enterprises (SOEs), government economic agencies, entrepreneurs and all spheres of government.

The Deputy President formally launched AsgiSA in February 2006, and the Joint Initiative on Priority Skills Acquisition (Jipsa) was established a month later to address scarce and critical skills needed to meet AsgiSA's objectives. The Deputy President reports to Cabinet and the public on AsgiSA and Jipsa's progress.

3. PROGRESS REPORT OF SPECIFIC INITIATIVES

A. MACROECONOMIC ISSUES

AsgiSA identified the following actions needed for sustained accelerated growth:

- Reducing currency volatility via progressive improvements in macroeconomic policy management
- Ensuring inflation targeting continues to support growth
- Selecting projects and programmes to ensure spending efficiency and to eliminate government dissaving
- Continuing improvements in budgeting to enhance the environment for economic growth
- Removing obstacles to investment.

Progress

Progress has been made in reducing rand volatility even though the currency is freely traded and regarded a proxy for emerging market currencies. Foreign reserves have been accumulated to reduce exchange rate risks. United States (US) dollar-denominated gross reserves held by the South African Reserve Bank (SARB) increased from below US$8 billion in early 2004 to US$25,6 billion at the end of 2006, supported by National Treasury funding to prevent excessive money-supply growth.

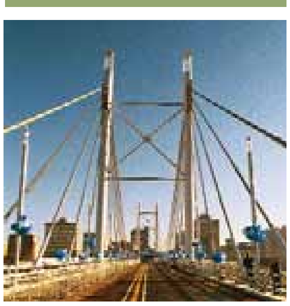
The budget deficit was reduced to 0,3% in 2005/06, with a small surplus likely for 2006/07, while a budget surplus of 0,6% is planned for 2007/08. This helps to contain consumption expenditure and the balance of payments deficit, as well as eliminating government dissaving, all of which enhance monetary policy stability.

Exchange controls have been eased to allow South Africans to diversify investment portfolios, contributing to greater currency stability.

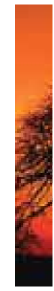
The SARB has demonstrated that the current inflation targeting range is suitable for continued growth.

The gap between budget allocations and actual expenditure is narrowing, and the number of capital projects behind schedule has also decreased steadily in recent years. Between the April-June quarter of 2005 and the June-September quarter of 2006, the percentage of projects on the National Infrastructure Project Register behind schedule fell from 14,5% to 4%.

Tests of AsgiSA's assumptions indicate that it is largely sound, but sufficient employment creation remains the most crucial and most difficult of the AsgiSA objectives.



An international team of economists headquartered at Harvard, asked by the Government to review AsgiSA, was concerned about the rapid increase in South Africa's trade deficit in 2006, suggesting that AsgiSA planned investments could put further pressure on the balance of payments. Unless exports grow more rapidly, AsgiSA will be difficult to sustain, particularly if commodity prices decline. The economists underlined the importance of strengthening the non-commodity tradable sector, especially manufacturing, saying stronger, more diversified exports would be enabled by a stable, competitive exchange rate. In conjunction, South Africa must continue improving institutions that foster industrial development.



Guidelines and recommendations for the next period

- Foreign reserves, while steadily improving, remain low relative to comparable countries. The SARB is expected to continue steadily accumulating reserves.
- Aligning National Treasury and SARB policies is expected to continue and increasingly contribute to strengthening a base for growth and export diversification.
- Inflation targeting is expected to continue in the growth-supporting style of recent years.
- Planning and implementing capital projects should continue to improve.
- Estimating government revenues is expected to continue to improve and be matched by improved estimates of government expenditure.
- AsgiSA strategies and the effectiveness of the outcomes will be reviewed regularly. The international panel of economists will submit a final report to government in July 2007.

B. INFRASTRUCTURE INVESTMENT

Main activities and progress in 2006

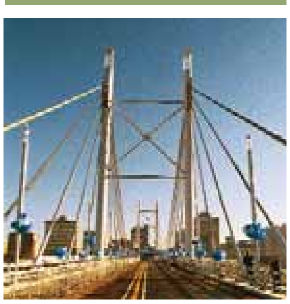
In 2006, fixed investment continued to climb towards the target of 25% of gross domestic product (GDP), reaching 18,7% in the third quarter, the highest level since 1991. Overall public sector infrastructure expenditure increased 15,8% per year between 2003/04 and 2006/07. The planned R409,7 billion Medium Term Expenditure Framework (MTEF) budget represents an average annual growth rate of 14,2%. (The MTEF is a three-year rolling budget).

Some 37% of the R409,7 billion will be spent by SOEs, mainly for power generation, transmission and distribution investments by Eskom and municipal distributors; and port, rail and pipeline infrastructure investments by Transnet.

2007 MTEF infrastructure expenditure estimates

R million	2005/06	2006/07	2007/08	2008/09	2009/10
National departments [1,2]	5 178	5 636	6 386	7 075	8 189
Provincial departments [2]	22 741	27 414	34 554	40 340	42 910
Municipalities	21 084	22 238	25 537	30 870	32 637
Public-Private Partnerships (PPPs) [3]	728	3 368	3 366	4 849	3 947
Extra-budgetary public entities	3 875	4 378	5 257	5 565	6 340
Non-financial public enterprises	26 424	38 322	44 681	50 324	56 929
Total	80 030	101 356	119 781	139 023	150 952
Percentage of GDP	5,1%	5,8%	6,2%	6,6%	6,5%
GDP	1 562 785	1 745 795	1 928 295	2 119 871	2 330 459

1. *Transfers between spheres have been netted out.*
2. *Includes maintenance of infrastructure assets.*
3. *Infrastructure expenditure on PPPs overseen by National Treasury's PPP Unit, South African National Roads Agency, Department of Public Works and at municipal level.*



State-owned enterprise infrastructure

The Airports Company of South Africa (ACSA) has revised its capital expenditure programme to address 2010 Soccer World Cup needs. Key projects have been prioritised, including completing a new airport at the Dube Trade Port (Durban) by 2010, upgrades at Johannesburg, Cape Town and Port Elizabeth airports, among others, and expanding international and domestic air transport services.

Transnet planned to spend R12 billion by 31 March 2007 but it will be marginally below target due to under-spending at Coega and delays in getting Environmental Impact Assessment (EIA) approval for Cape Town's container terminal expansion.

Eskom had spent R6,7 billion out of a budgeted R8 billion by the end of the second quarter of 2006. One project is behind schedule, and is being monitored. Both Eskom and Transnet have improved their capital expenditure capabilities, but much work remains in this regard.

Eskom and Transnet are establishing strategic supplier-development plans to identify necessary upgrades. A comprehensive procurement capacity-building programme will begin in March 2007 to reach cost-reduction and supplier-development goals.

Recapitalisation of electricity distribution infrastructure and creation of sustainable Regional Electricity Distributors (REDs): this ambitious restructuring programme has experienced many delays, partly due to government's cautious approach to addressing the complexities. However, in October 2006 Cabinet approved the creation of six REDs as public entities operating under Electricity Distribution Industry Holdings (EDI).

Cabinet also approved the following:

- The enactment of new electricity distribution industry restructuring legislation
- The promulgation of a framework to transfer assets from local government and Eskom to the REDs
- Eskom will be a shareholder of the REDs but will reduce this shareholding over time
- The Department of Minerals and Energy, through Electricity Distribution Holdings, will oversee the establishment of the REDs
- The development of a strategy for the capital investment requirements for REDs
- The design of a roadmap for the future industry structure
- The development of a national electricity pricing system.

A 2006 National Energy Regulator of South Africa (NERSA) audit of City Power attributed deteriorating infrastructure to insufficient funds for maintenance and refurbishment, and a technical staff shortage. The audit said while maintenance has improved, deficiencies remain and funding for accelerated refurbishment is inadequate. Even if maintenance and refurbishment were done efficiently, it would take several years to restore City Power's network to satisfactory reliability. A three-year action plan has been initiated to monitor City Power's progress in this regard.

NERSA has also started auditing Ekurhuleni, City of Tshwane, City of Cape Town, eThekwini, Emfuleni, Mangaung, Msunduzi, Rustenburg, Nelson Mandela Municipality and Eskom's Southern Region. The results are currently being evaluated.

Electricity distribution infrastructure restructuring will be an AsgiSA priority in 2007. The economic cost of worsening national power interruptions and inefficiencies due to poor infrastructure is estimated to be between R2,9 billion and R8,6 billion annually, while the maintenance backlog is over R5 billion. Measured against the 2012 electrification target for universal access, current access is 73%.

Capacity to implement infrastructure projects

Improving government capacity, particularly at provincial and municipal level, to implement infrastructure investment programmes effectively was prioritised in 2006, and continues in 2007.

The Development Bank of Southern Africa (DBSA) is helping municipalities with weak management and financial systems through Siyenza Manje. This initiative was designed to deploy engineers, project managers, town planners and financial management specialists in selected municipalities to accelerate the provision of basic services, promote economic growth and job creation, and to provide financial management assistance. Since May 2006, 44 project managers and 15 finance experts have been deployed. By March 2007, this number will increase to 90, with a further 30 young interns taken on board.

The DBSA has also set up a database of retired and returning expatriates to deal with skill shortages at local authority level. To date 900 experts have been registered. The plan is to launch a live database during the first quarter of 2007 that can be accessed by all companies requiring skills.

Siyenza Manje has a relatively small effect, given the scale of the problem. It complements government's existing capacity-building initiatives in Project Consolidate, the Municipal Financial Management Technical Assistance Programme, and the Municipal Infrastructure Grant (MIG). Some R741,3 million was allocated to this initiative for the next three years.

In 2006 the Business Trust added its support through a joint project with government called the Support Programme for Accelerated Infrastructure Development, which is supporting provincial and municipal infrastructure development capacity, expanding the Public-Private Partnership (PPP) framework, and establishing a facility to expedite capital projects.

Monitoring and evaluating infrastructure projects

National Treasury developed the National Infrastructure Project Register. The following statistics of expenditure patterns are noteworthy:

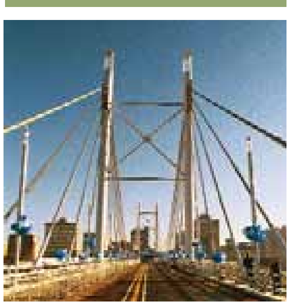


Table 1: National consolidated infrastructure budgets and expenditure at 30 September 2006

2007 MTEF infrastructure expenditure estimates					
R million	2006/07 Main Budget	Actual expenditure as at 30 September 2006	Actual expenditure as % of main budget	2005/06: Outcome (as at September 2005)	Year-on-year growth
Justice & Protection Services					
Correctional Services	737	287	38,9%	465	-38,3%
Defence	73	62	84,9%	79	-21,5%
Safety & Security	498	84	16,9%	258	-67,4%
Justice & Constitutional Development	336	239	71,1%	123	94,3%
Economic Services					
Environmental Affairs & Tourism	157	67	42,7%	16	318,8%
Science & Technology	65	34	52,3%	30	13,3%
Trade & Industry	637	99	15,5%	96	3,1%
Urban Development & Infrastructure					
Transport	4 684	1 483	31,7%	792	87,2%
Housing	6 383	1 551	24,3%	1 925	-19,4%
Minerals & Energy	1 100	231	21,0%	57	305,3%
Water Affairs & Forestry	–	–	–	102	-100,0%
Social Services					
Health	1 440	995	69,1%	439	126,7%
Arts & Culture	195	51	26,2%	13	292,3%
Administrative Services					
Foreign Affairs	204	26	12,7%	5	420,0%
Home Affairs	68	6	8,8%	24	-75,0%
Public Works	1 706	680	39,9%	75	806,7%
Provincial & Local Government	6 265	2 340	37,4%	1 426	64,1%
Total	**24 548**	**8 235**	**33,5%**	**5 925**	**39,0%**

Source: National Infrastructure Project Register
Please note that the data includes some entities/agencies delivering infrastructure projects

In aggregate, national departments spent 33,5% of a total R24,5-billion infrastructure budget in the first six months of 2006/07. While this is a 39% increase in expenditure on the comparable period in 2005/06, spending remains relatively low.

Although delivery of many social services projects is on track, most large projects are still behind schedule. Some projects that should have started three years ago are yet to begin, and there are cases where projects have missed completion dates, and are still not finished. Expenditure on hospital revitalisation has substantially improved on the previous financial year, but some provinces, like the Free State and Northern Cape, are still lagging.

Most MIG projects are small in value terms, with the average being R1,8 million. Only 78 out of a total 6 532 projects are valued over R50 million. By 30 September 2006, R2,3 billion had been spent on municipal infrastructure, with the majority going to water projects (R646 million) and municipal roads (R589 million).

Table 8: MIG projects by type of infrastructure, April to September 2006

Type of infrastructure	April 2006	May 2006	June 2006	July 2006	August 2006	September 2006	Expenditure as at September 2005
				R thousand			
Water	130 898	52 800	114 306	106 918	119 594	121 019	645 535
Sanitation	219 091	51 427	96 139	63 172	70 929	88 064	588 820
Municipal roads	125 494	38 223	87 272	65 939	80 772	75 725	473 425
Sewerage	3 529	2 832	24 901	19 192	13 578	25 099	89 131
Sport facilities	6 777	9 161	4 185	12 034	6 493	22 040	60 689
Community facilities	3 035	8 609	6 106	4 422	5 431	3 694	31 298
Other	76 410	43 691	118 891	56 309	67 240	89 445	451 986
Total	**565 234**	**206 743**	**451 799**	**327 985**	**425 086**	**425 086**	**2 340 883**
Province							
Eastern Cape	8 214	28 199	82 463	60 598	77 882	83 345	340 702
Free State	406 442	1 779	22 054	18 541	18 043	36 139	504 999
Gauteng	42	-	101 640	76 190	70 399	97 670	345 941
KwaZulu-Natal	65 669	65 903	67 713	47 672	85 582	60 418	392 957
Limpopo	9 355	8 956	30 242	32 056	39 151	31 056	150 817
Mpumalanga	111	250	136	12 215	7 130	10 833	30 675
North West	23 840	45 001	108 508	46 139	38 486	63 313	325 287
Northern Cape	38 659	41 388	5 724	5 081	-	-	90 853
Western Cape	10 901	15 267	33 319	29 493	27 362	42 312	158 653
Total	**565 234**	**206 743**	**451 799**	**327 985**	**364 036**	**425 086**	**2 340 883**

Spending on maintenance (including rehabilitation and renovations) accounted for 13,4% of the R24,5 billion infrastructure budget for 2006/07. In August 2006, Cabinet approved a National Maintenance Strategy to maintain provincial, municipal and SOE assets. The strategy is being implemented, but progress is slow.

Extending and improving the National Infrastructure Project Register to provide more detailed analysis will be a key 2007 priority.

Information and communications technology (ICT) infrastructure

The focus on ICTs continued in 2006 but much is still needed in this critical infrastructure area.

The Medium-Term Budget Policy Statement – a November statement of intent that precedes the Budget in February – allocated R627 million to the State-owned Infraco to buy the full-service, national long distance network from Eskom/Transtel, which should significantly reduce current high broadband costs.

Infraco's planned capital expenditure plan on fibre optic and broadband infrastructure is as follows and will need to be tracked carefully in the future.

	2005/06	2006/07	2007/08	2008/09	2009/10
Infraco	–	85	377	432	369

Source: Department of Public Enterprises

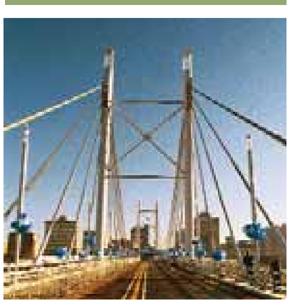
Revised regulations for EIAs came into effect in July 2006 and are being implemented by provincial and national authorities. Progress reports on implementing the new EIA regime will be submitted to Cabinet from February 2007.

Progress of other noteworthy national, provincial and municipal infrastructure projects

Construction has started on Phase One of the Gautrain. This phase, which includes the link between OR Tambo International Airport, Sandton, and the route between Sandton and Midrand, should be completed by 2010. The Gautrain will create about 58 800 direct jobs and substantial indirect income, trade and engineering capacity and other benefits.

Government's December 2006 deadline for the Taxi Recapitalisation Programme to remove 10 000 unroadworthy minibus taxis was not met, further contributing to the high road death toll and the steep economic costs of inefficient public transport. Considerable attention will be needed in 2007 to achieve the objectives. By 2009, 80% of public transport must comply with set safety requirements.

The Department of Transport has consolidated 2010 World Cup transport plans into one national transport agenda. Cape Town, Nelson Mandela, eThekwini, Mbombela, Polokwane, Rustenburg, Tshwane, Johannesburg and Mangaung are the designated host cities. The 2006 Budget allocated R3 billion for stadium construction and R2,4 billion for supporting transport infrastructure. A further R9,5 billion was announced in the MTEF, half for building five new stadiums and upgrading five existing ones, and the rest for transport-related support infrastructure in host cities.



A technical report on the Moloto Rail Development Corridor, to be presented to the Mpumalanga Cabinet by the end of April 2007, will consider physical obstacles, linkages, system capacities, longer-term sustainability, human resources needed, safety and emergency measures. A feasibility study, to be completed by November 2007, will then be commissioned. The development corridor project has developed more slowly than expected and will be an AsgiSA priority in 2007.

Funding issues have slowed implementation of parts of the Cape Flats Infrastructure Project. Public sector investment is focusing on the Cape Town public transport plan to upgrade links between the airport, Khayelitsha and the CBD, to improve the Klipfontein Corridor and upgrade Athlone Stadium, and human settlement upgrades and expansion. Co-ordinating these projects was challenging as the funding resides in provincial, municipal and other budgets. By early 2007, it should be clear which projects have already been funded and what amounts are still needed.

King Shaka International Airport should be completed by 2010. A turnkey contractor has been appointed and a preferred bidder announced. Negotiations are in progress to secure a final contract for construction. However, a Record of Decision must be secured from the Department of Environmental Affairs and Tourism before construction can start in March 2007.

A co-operation agreement between ACSA and the Dube Trade Port has been approved by their respective boards and chief executive officers (CEOs).

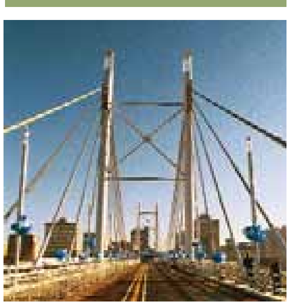
Road infrastructure absorbs significant funds. Some R15 billion is earmarked for the next five years to the Expanded Public Works Programme (EPWP), channelled through provincial and municipal infrastructure grants. Pilot programmes created 47 530 jobs in 2005/06, with KwaZulu-Natal generating the most positions (30 647 jobs), followed by North West (6 325 jobs) and the Western Cape (4 004 jobs).

The EPWP is to be significantly expanded over the MTEF period. Such 'massification' of the programme within the Access Roads Sector (a key link to the Second Economy) will start in April 2007. About R600 million has been allocated for the first year, R800 million for the second year, and R1,6 billion for the final year. Approximately 80% of the funds are for construction and rehabilitation, and 20% for maintenance, but the percentages will vary between provinces.

Provincial capacity for the EPWP must be improved. In the nine provincial departments, about half the number of professional engineering posts is vacant. Of those filled, many are occupied by less-qualified technicians. Of the 231 local municipalities, 79 have no civil or transport engineers, technologists or technicians and 42 have only one civil or transport technician. Of the 47 district municipalities, four have only one civil or transport technician.

The Olifants River Water Resources Development Project (De Hoop Dam) is an AsgiSA priority for Limpopo. It includes building the De Hoop Dam in the Olifants River Catchment area, realigning the R555 road, building a construction village, relocating graves and archaeological sites, preparing an Integrated Environmental Management Plan, and installing distribution pipelines. This project will unlock the mining potential in the Sekhukhune district of Limpopo, which has South Africa's largest platinum reserves but development is limited by inadequate water supply. The project is at implementation stage by the Department of Water Affairs and Forestry. It should have started in April 2006, with partial water containment scheduled for 2009 and final containment a year later. The dam is due to be commissioned by March 2011. However, the containment date will be delayed by at least six months.

The Mzimvubu Development Zone in the Eastern Cape is aimed at unlocking the dormant economic potential of the Mzimvubu Basin by developing a modern agro-industrial economy linked to value-chain processing, manufacturing and marketing. The Department of Water Affairs and Forestry has committed R9 million to design the water storage, water transfer and hydropower infrastructure required for agriculture, agro-processing, tourism and forestry projects.



Service providers were to be appointed by the end of the 2006 year. The province is appointing board members and a CEO to ASGI-EC (Pty) Ltd, a special-purpose vehicle set up to oversee the projects. The provincial Cabinet will allocate the R300 million Transkei Development Reserve Fund to this vehicle.

Government targets to eradicate sanitation infrastructure delays are in reach. Government targets to provide all people in South Africa with basic functioning water supply by 2008 and access to a basic functioning sanitation facility by 2010. The Department of Water Affairs and Forestry estimates that 69% of South African households have access to a basic or higher level of sanitation (including houses with pit latrines). As a special priority programme an additional R1,2 billion over three years was allocated to sanitation programmes with the sole target to phase out the 460 000 bucket latrines in formal areas by December 2007. Based upon progress reports, 110 648 buckets had been replaced by November 2006 and it is expected that the December 2007 target will be met.

Expenditure on health and associated infrastructure in all provinces continues to improve, but underspending persists in Limpopo (R310 million in 2005/06) even though this was a 14,9% increase on the previous period. There were significant improvements in Mpumalanga and North West. Year-on-year expenditure increases were strong across the board, with a 16,1% increase to R47,1 billion in 2005/06. Higher spending appears to be related to improved management capacity.

The Hospital Revitalisation Grant to upgrade or replace infrastructure at government's 386 hospitals will be R2 billion by 2008/09, comprising around 40% of capital expenditure. The programmes recently completed include Mary Theresa (Eastern Cape), George (Western Cape), Lebowakgomo (Limpopo) and Piet Retief (Mpumalanga).

Another 26 large hospital projects are underway at Chris Hani Baragwanath, Natalspruit and Mamelodi (Gauteng), Paarl, Vredenberg and Worcester (Western Cape), Pelonomi and Boitumelo (Free State) and Rob Ferreira, Ermelo and Themba (Mpumalanga).

An additional R550 million may be allocated to the national tertiary services grant over the MTEF period for radiology and oncology equipment in the large tertiary hospitals, and to improve cancer services.

Some 32 hospitals will also be included in the revitalisation programme, including upgrading the Chris Hani Baragwanath Hospital, building two new district hospitals in Soweto, completing the three rural regional hospitals in the Western Cape, upgrading the Paarl Hospital, erecting two new 250-bed hospitals in KwaMashu, Durban and providing four replacement hospitals in Limpopo. The larger projects will not be completed in the current MTEF period.

This significant capital programme is a major challenge for government in terms of supervisory and project management, planning, technical skills, interdepartmental co-ordination and the acquisition of international best practice designs. Steps are being taken to strengthen programme and project management, and to address delivery obstacles.

The National Infrastructure Project Register reports that hospital revitalisation expenditure was R995 million or 69,1% of budget in the first six months of 2006, an increase of R556 million or 126,6% on the same period in 2005/06.

Northern Cape is the worst spender, at 36,3% of budget, followed by the Free State with 44,1%. Limpopo and Gauteng recorded the highest rates of spending of 112,1% and 93,4% respectively.

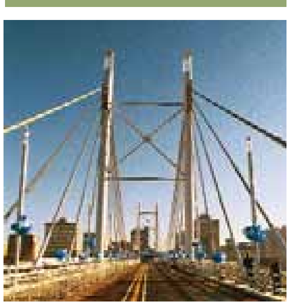
Table 4: Expenditure on Hospital Revitalisation Programme as at 30 September 2006

Province	2006/07 Main Budget	Actual expenditure as at 30 September 2006	Actual expenditure as % of main budget	2005/06: Outcome (as at September 2005)	Year-on-year growth
R thousand					
Eastern Cape	105 318	96 857	92,0%	49 216	96,8%
Free State	45 673	20 136	44,1%	26 922	-25,2%
Gauteng	327 525	305 987	93,4%	44 019	595,1%
KwaZulu-Natal	205 171	138 785	67,6%	47 555	191,8%
Limpopo	48 247	54 086	112,1%	63 358	-14,6%
Mpumalanga	53 477	49 784	93,1%	30 878	61,2%
North West	190 884	133 893	70,1%	36 197	269,9%
Northern Cape	313 649	113 939	36,3%	53 847	111,6%
Western Cape	149 703	81 643	54,5%	87 240	-6,4%
Total	**1 439 647**	**995 110**	**69,1%**	**439 232**	**126,6%**

Source: National Infrastructure Project Register

National Treasury reports that provincial spending on capital assets, including education infrastructure, grew an average 12,4% per year between 2002/03 and 2005/06. However, some schools still do not have libraries, laboratories or computers, and many lack electricity, sports fields, and water and functioning toilets. Over the next three years, capital expenditure budgets will grow an average 15,5% per year in real terms, allowing the sector to improve classroom, sanitation, water and electricity backlogs.

The programme to recapitalise Further Education and Training (FET) Colleges, has so far resulted in more than 150 classrooms and workshops being refurbished or rebuilt at 80 FET College sites.



Guidelines and recommendations for the next period

AsgiSA infrastructure priorities for 2007 should include:

Strategy

- Extending AsgiSA's current approach to infrastructure by adopting a more holistic framework.
- Linking to the infrastructure planning framework process under the auspices of the Cabinet Economic Cluster to produce a National Integrated Infrastructure Programme.
- Setting a realistic deadline of July 2007.

Monitoring and evaluation

- A comprehensive and coherent infrastructure monitoring and evaluation system is evolving but some entities still need to be included. SOEs are being incorporated into the National Integrated Infrastructure Programme and will be included in the next quarterly assessment.
- Quarterly reports on infrastructure spending will be issued.

Possible individual projects/infrastructure priority areas

- RED industry restructuring. The cost of associated inefficiencies amounts to between R2,9 billion and R8,6 billion per year.
- National maintenance strategy implementation
- Bucket latrine system eradication
- Infrastructure input costs
- Transport, stadium and other associated infrastructure for the 2009 and 2010 soccer events
- Commuter rail services
- ICT
- Regulatory processes that affect infrastructure.
- PPP programmes
- EPWP – Access roads programme.

C. EDUCATION AND SKILLS DEVELOPMENT

Inadequate education and skills development is one of the six 'binding constraints' on accelerated and shared economic growth and development. Education and skills provision are a fundamental responsibility of government. Established initiatives reported here represent continuing efforts by the departments of education and of labour to improve the quality, relevance and effectiveness of the education and training system. These initiatives support AsgiSA's specific short- and medium-term objectives.

Departmental initiatives

The School Quality Improvement and Development Strategy aims to provide the poorest quintile of primary schools with resources for effective teaching. The programme is in its first year but more than 5 000 schools have already been provided with books. Another 6 000 schools will receive indigenous language materials to improve literacy in the foundation phase of schooling. The programme also targets teacher training and the development of Mathematics, Science and Technology skills.

Not all provinces have allocated the necessary funding for the 2007 school year. This is being addressed by the Minister of Education and the department.

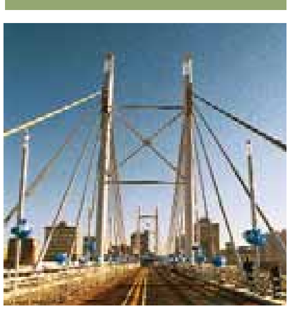
The Department of Education has launched the second phase of the Dinaledi Schools programme, aimed at substantially increasing the number of learners, particularly from previously disadvantaged groups, passing higher grade (HG) Mathematics and Science. Currently 529 schools are participating in the programme, designed to double HG passes from 24 000 in 2004 to 50 000 in 2008.

Good progress has been made in providing a basic support package to schools, teacher training and development, and establishing a monitoring and evaluation system. However, the programme faces funding and other challenges. According to the department's analysis, there was a relatively small increase in 2006 compared to 2005 in the number of learners passing HG Mathematics and Science in the then 400 Dinaledi Schools.

Provincial education departments need support for building and equipping science laboratories and appointing teachers. The programme faces funding constraints but more can be done to mobilise private sector funding and support.

The department has identified the FET colleges sector to expand educational opportunity, preparing young people for the working world in response to intermediate and higher-level skills requirements. A major R1,9 billion programme will recapitalise the sector, tackle vital and long-neglected curriculum reform, and invest in staff training and development, infrastructure and equipment for colleges. Partnerships are actively encouraged to ensure colleges are responsive to social and industry demand.

Modernised college programmes must encompass industry-based training, and this is being addressed by the departments of education and of labour. There is wide scope for co-operation and partnerships between colleges, the Sector Education and Training Authorities (Setas) and employers, and to foster partnerships with industry.



The Department of Labour is responsible for the National Skills Development Strategy (NSDS), which is supported by a levy-grant system administered by the National Skills Authority and 23 Setas.

The department has compiled a master list of scarce and critical skills, which the Department of Home Affairs uses to establish parameters for importing skills.

The second five-year NSDS, currently being implemented, is designed to align skills development with economic growth, job creation and poverty alleviation strategies. While measurable progress is being achieved, concerns have been expressed regarding the National Skills Authority's role and functioning, and its relationship with the Department of Labour, the National Skills Fund (NSF) and certain Setas. Administrative inefficiency, Seta costs, poor responsiveness to labour market requirements, uncertainty and confusion about the apprenticeship and learnership systems, and uneven quality assurance are among these concerns.

The concerns are being addressed by the Department of Labour in collaboration with Jipsa. This is discussed further under the section on Jipsa and artisan training.

Scarce skills initiatives: Concerns have been voiced about the interpretation and uneven application by the Department of Home Affairs of skills quotas, and delays in processing applications to import necessary skills. A streamlined skills importation process with a guaranteed rapid turnaround time is needed.

Employment Services Systems is an information technology-based system focused on core Department of Labour services. It is an important platform for national skills profiling and ensuring that placement opportunities are registered. In future, the system should go a long way in catering for the needs of various labour market stakeholders, including recruitment agencies, employers, training institutions and others.

Tourism is a growth industry with considerable potential to increase employment. The Department of Environmental Affairs and Tourism, assisted by the Tourism and Hospitality Seta, is developing a skills profile and skills development strategy to support growth and transformation. The department has also embarked on various skills development initiatives to develop the sector.

The Department of Communications is engaging government departments and private sector ICT companies to develop a strategy to improve infrastructure, prepare for 2010 and build the skills base. Preliminary investigations reveal shortages of high-level skills including professional, specialist and strategic skills, while there appears to be an oversupply of intermediate and low-level ICT skills.

Business Process Outsourcing (BPO) has significant job-creation potential. Much work has been done by the Department of Trade and Industry in partnership with South African Call Centre Community (SACCOM) and supported by the Business Trust. A skills development strategy has been developed and the skills required for call centres have been identified for entry-level employees, supervisors and middle managers. Although the NSF has agreed to fund 1 000 positions nationally and work with its provinces to meet provincial applications for training, further funding is required. A funding proposal of R560 million has been submitted to the Department of Labour to fund 30 000 training positions through the NSF.

The Jipsa focus areas

Jipsa has identified a limited number of priorities:

- High level planning and engineering skills for the network industries – transport, communications, energy and water
- Town and regional planners
- Engineers and technologists
- Artisans
- Planning and management skills for the public education and healthcare systems
- Mathematics, Science and ICT in schools
- Skills to support AsgiSA priority sector strategies, such as BPO, tourism and biofuels
- Cross-cutting skills in project management, ICTs, finance, and Adult Basic Education and Training (ABET).

In its first year Jipsa focused on town and regional planners, engineers, technologists, artisans, ICT skills and placing unemployed graduates. Initial consultations about planning and management skills for the public health system started at the end of 2006. The remaining focus areas will be addressed in 2007.

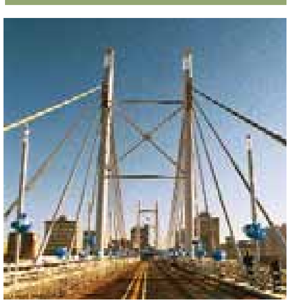
Government must address a number of challenges in the current policy, regulatory and institutional environments for town and regional planning. This profession is in disarray, and attention needs to be paid to the role and status of town and regional planners, the competencies required, professional registration, and the role and functioning of institutions like the Planning Council and the South African Planning Institution.

The Jipsa Joint Task Team agreed on a target of 1 000 additional professional engineers per year over the next four years. The majority of required skills are in civil, electrical, mechanical and chemical engineering. Jipsa is focused on increasing the number of engineering and built environment professionals, technologists and technicians emerging from universities and universities of technology, and supporting them from graduation to registering with their respective professional councils to encourage retention in the respective professions.

Jipsa suggests an increase in the number of architects by 30% to 35% is required, while the number of quantity surveyors must increase by at least 65% to keep pace with the expected long-term construction phase.

In 2006, the Minister of Education made a special allocation to support engineer training at universities. Discussions are underway to assess the higher education system's capacity to increase the number of graduates in the main engineering fields. Targeted strategies may be needed to address more specialised engineering requirements.

There are also proposals for a 'candidacy phase' to increase the number of graduate engineers achieving professional registration with the Engineering Council. Measures to fast-track the importation of scarce and high-level engineering skills are also being considered. Technologist training will be addressed in 2007.



Jipsa advises that engineers must be imported in the short- to medium-term for major infrastructure and other projects. Over the longer term, analysis suggests that South Africa faces a critical shortage of engineers.

The Jipsa Joint Task Team has set a target to train 50 000 artisans over the next four years. Some 16 priority skills areas have been identified. The NSF will provide funding for training in priority skills areas.

Developing a dedicated priority skills funding window and creating a rapid project approval and disbursement mechanism could expedite an expanded artisan training programme to meet short- to medium-term skills demands.

While not one of Jipsa's priorities, unemployed graduates are a source of concern, considering skills shortages and widespread unemployment. But some success has been achieved in placing unemployed graduates. Some 3 589 graduates have been placed with South African companies for training and job experience through the Umsobomvu Youth Fund (UYF) and the Independent Development Trust; 97 practitioners with municipalities for project management skills, and 90 retired skilled professionals will be deployed through Siyenza Manje, and implemented by the DBSA. An additional 202 people were placed with companies overseas. Some of the trainees are mid-career professional women who are using the opportunity to gain knowledge and best practices in the fields of finance, construction and hospitality. The recipient countries are India, China, the United Arab Emirates (UAE), Japan, United Kingdom (UK), Germany and the US. Another 100 will be sent to India and the US by March 2007. Countries such as China, Netherlands, South Korea and New Zealand have also provided written offers of placement.

The Deputy President visited several countries in 2006 to seek international support for exchange programmes, training for post-graduate students, sector specific skills, vocational training and other areas of need. The countries visited included Japan, New Zealand, India, Portugal, Ireland, Australia and the UK.

Guidelines and recommendations for the next period

Additional socio-economic barriers to education include transport costs, safety in schools, poverty, the alignment of curricula with the world of work, and the correct mix between technical and academic studies. There should be greater co-operation between government, the private sector and the community to remove these impediments.

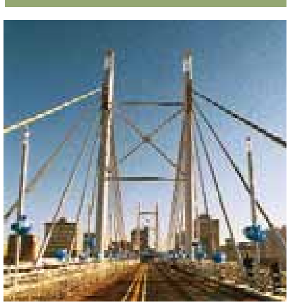
The efforts to improve quality of education at schools will continue to be a central focus, particularly the School Quality Improvement and Development Strategy and the Dinaledi programme for Mathematics and Science at high schools.

Another concern is that few previously disadvantaged graduates progress to post-graduate studies. Funding and incentives are needed to encourage young graduates, and National Treasury has committed to increase the number of scholarships for post-graduate training in FET colleges and universities.

Jipsa is starting to demonstrate the potential benefits of a targeted approach to priority skills acquisition within the wider skills development framework. Simultaneously, the inherent limitations of a short-term intervention outside government and other formal structures must be considered as Jipsa reaches the end of its initial 18-month mandate.

Monitoring, evaluating, co-ordinating and the targeted prioritisation of skills requirements require systematic consideration by government. In the medium- to long-term, these functions may be located within The Presidency. However, an alternative previously mooted by government – to establish a national Human Resources Development Council – deserves careful thought, considering Jipsa's experience. This would be a forum under the Deputy President's leadership comprising contributions from government, business leadership, organised labour, and the education, training and research communities.

Jipsa's future and any transitional arrangements must be addressed in early 2007. Responsible implementation might require extending Jipsa's mandate into 2008.



D. INDUSTRIAL AND SECTOR STRATEGIES

AsgiSA selected priority sectors in terms of:

- An industry's potential contribution to AsgiSA targets of growth, investment, employment creation and poverty alleviation.
- The capacity of the State and other stakeholders, especially business, to implement programmes to develop an industry.

Sector strategies promote inclusivity by supporting SMEs, development in historically black communities and rural areas, and job creation and skills development.

Progress and obstacles

Progress has been made in BPO, tourism, biofuels and on the National Industrial Policy Framework (NIPF). All three sectors can create sustainable employment. In addition, BPO and tourism can increase export earnings from services and attract foreign investors. Biofuels production, based on maize, will replace a portion of imported petroleum as well as promoting the use of renewable energies.

The main challenges that emerged were:

1. Difficulties in co-ordinating relevant departments and spheres of government to support priority sectors. Some officials have dragged their feet in reallocating resources to support AsgiSA priorities. A particular concern is delays in aligning funds for skills development with AsgiSA's sectoral targets.
2. Capacity deficiencies in government departments limit robust sectoral interventions. Key departments must strengthen their sectoral personnel for effective implementation of industrial policies.
3. Ensuring that consultation with stakeholders is meaningful without either capitulating to special interests or ignoring the legitimate concerns of major actors.
4. Redirecting economic interventions to support employment creation, rural development, and small and micro enterprises.

Top priority sectors

Substantial progress has been achieved in defining constraints and addressing them in all three top priority sectors. All sectors have clearly defined policy frameworks, approved by the responsible departments and Cabinet. However, more needs to be done if they are to contribute as expected to shared growth.

Tourism: Tourism's strategy includes an airlift programme; improving safety and security for tourists; building a skills partnership; support for small, medium and micro enterprises (SMMEs); a sectoral Black Economic Empowerment (BEE) Charter; and customised incentives.

Successes in 2006:

- Working with the South African Police Service to enhance tourism safety and security, development of a communication strategy to reassure tourists, and establishing Tourism Safety and Security Forums in KwaZulu-Natal, the Western Cape, Gauteng and Mpumalanga. However, the provinces need to allocate more personnel to develop and implement safety and security strategies for tourists.

- Supporting small and medium tourism enterprises, with the Tourism Enterprise Programme receiving further funding from the Department of Environmental Affairs and Tourism, and the Business Trust. The programme focuses on training to ensure small and medium tourism enterprises benefit from 2010. To date over 250 enterprises have been assisted.
- Increasing the number of inbound aircraft seats by 700 000, mostly from Mozambique, France, Oman and the UAE. However, ACSA still lacks systems to track traffic on different routes, making it difficult to respond to changing demand.
- Circulating a first draft of a skills audit to stakeholders.
- Appointing a consultant to develop appropriate incentives for new initiatives in the industry.
- Signing a Tourism BEE Charter and establishing a charter council to drive implementation.
- In response to the Deputy President's call for partnerships in developing foreign language capacity for the tourism sector, several foreign embassies offered language training. Some tour guides have already been trained in Chinese languages.

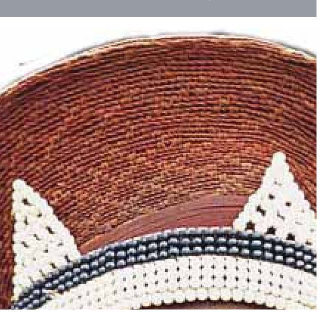
BPO: A five-year strategy for BPO, approved by Cabinet in December 2006, identified the main constraints as telecommunications costs, the need for skills development, and competition for foreign investment on the basis of initial incentives. The Department of Trade and Industry is working with National Treasury and the departments of labour and of communications to address these issues.

Successes in 2006:

- Telkom's prices are regarded excessive compared to competitor nations. In late 2006, Telkom agreed to benchmark its prices against South Africa's relevant main competitors. A comparative cost study was commissioned by the Department of Trade and Industry for completion in early 2007. Telkom is expected to abide by its commitment.
- National Treasury allocated funds for an initial incentive for investors in BPO in the 2006 MTEF.
- The NSF will fund 1 000 positions nationally, working with provinces to meet provincial applications for training.
- A national business association, SACCOM, has been established.
- A Rural Call Centre Support Programme has been developed with partial funding, and 13 sites have been identified.

A delegation headed by the Deputy President and the Minister of Trade and Industry went to London in November 2006 to publicise these developments to major potential investors. Negotiations have started with leading companies, with a possible 10 000 new positions, paying R2 000 to R4 000 a month, being created in 2007.

The next steps that are urgently needed include defining procedures for allocating incentives; ensuring adequate funding for skills programmes; and negotiating specific packages with Telkom that are internationally competitive. However, it is a concern that the NSF has not reviewed its procedures to ensure sufficient funding for national priority programmes. This is hampering the BPO strategy, as uncertainty and persistent red tape inhibit skills development.



Biofuels: Cabinet has approved a draft biofuels industry strategy. It predicts that biofuels – based predominantly on maize with some sugar and other inputs – will contribute 4,5% of petroleum requirements by 2013 and create 55 000 jobs, mostly in small-scale maize production.

To support this industry, government must:

1. Regulate the rising share of biofuels in total liquid fuels
2. Manage price changes through the Equalisation Fund in the petroleum industry
3. Support the R6-billion investment needed for processing plants
4. Ensure increased production of relevant crops, with assistance targeted at smallholders through co-operatives.

NIPF: The NIPF seeks to ensure more effective and co-ordinated sectoral interventions. It identifies – as core aims of economic policy – the diversification of the economy beyond traditional dependence on commodity exports, moving towards a more knowledge-based economy, and the promotion of more labour-absorbing and inclusive growth.

The NIPF will be launched early in 2007

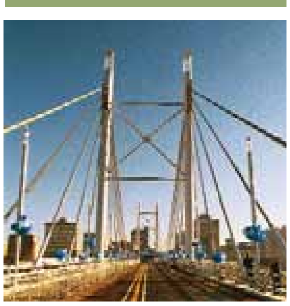
The critical issues to ensure a more coherent and inclusive industrial strategy are:

1. Establishing institutional structures to drive initiatives
2. Agreeing and urgently implementing measures for other priority sectors in AsgiSA.

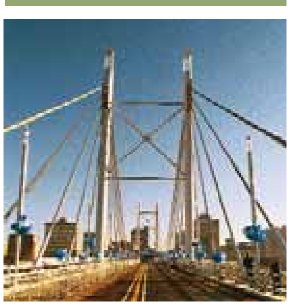
Further sectoral work under AsgiSA: In addition to the top priority sectors and the NIPF, AsgiSA has indicated that strategies are needed to address constraints facing suppliers of infrastructure inputs; capital goods; forestry products; chemicals; the creative industries; clothing and textiles; downstream minerals beneficiation; agriculture and agrarian reform; furniture and mass market white goods and pharmaceuticals. The NIPF process will prioritise sector strategy work though the economic cluster of government.

Guidelines and recommendations for the next period

1. AsgiSA highlighted the need to ensure sufficient production of materials and skills necessary for the extensive public investment programme. A process has been initiatied to identify potential shortfalls in construction inputs, and this should allow for engagement with relevant stakeholders.
2. The chemicals industry has agreed a sector strategy and a Customised Sector Programme (CSP) with the Department of Trade and Industry. An institutional structure is now required to drive this strategy.
3. The Department of Trade and Industry has established a CSP for clothing and textiles. The main challenge is improving co-ordination between the retail and clothing industries, and ensuring sustainable local production.
4. In the wood-paper value chain, a number of key interventions have been identified and a BEE Charter has been negotiated. Paper recycling will be promoted at the local government level; environmentally and socially suitable forestry land will be made accessible, and the land restitution process will be managed to support new forestry producers.



5. In 2007, government will identify key areas of growth and potential constraints for the minerals and agricultural sectors to ensure long-term sustainability while also highlighting actions needed in specific subsectors.
6. We plan to review the potential of the capital goods and pharmaceutical industries.. Discussions will be held with the relevant stakeholders to identify specific needs in these industries.
7. The National Industrial Policy Framework will be used to set priorities and plan sector investigations, as well as crosscutting interventions such as competition policy and trade tariffs.



E. SECOND ECONOMY INITIATIVES

Background

The main cause of mass poverty in South Africa remains insufficient employment opportunities. Black people, and particularly black women and youth, are the most affected. The vast majority of the unemployed are under 30, with an average 10 years of schooling.

Formal job creation will address unemployment. In the past five years, employment has risen at about 3% per year, however this is probably insufficient to halve unemployment by 2014. The estimated shortfall for 2014 is between one and two million jobs. Most formal jobs are created in the urban areas, providing few opportunities for impoverished rural communities.

To address the shortfall, AsgiSA proposed:

1. An EPWP to provide jobs in infrastructure and social services.
2. Supporting micro enterprises to raise incomes and generating more opportunities for poor households.
3. Measures, primarily skills development and improved labour-market information, to make it easier for the unemployed and poor to participate in the economy.
4. Unlocking productive assets by focussing on land access and use, agriculture and agrarian reform, and blue collar skills.
5. Implementing the BEE Codes, especially in areas that can benefit the majority of the population.
6. Mobilising and linking co-operatives to resources and the First Economy, as well providing them with skills and resources.

As part of its normal responsibility, government would continue to improve the quality and delivery of the social wage, comprising basic services plus social grants.

Progress and obstacles

Although progress has been made in identifying and initiating programmes in all the areas identified by AsgiSA, overall, the fact remains that it is insufficient, and critical challenges remain:

1. Setting broad targets for Second Economy interventions to achieve AsgiSA targets. In particular, these targets must ensure the integration of unemployed youth, and provide support for individuals and households to become economically independent.
2. Developing appropriate institutions to reach the poor in remote rural areas. The experience of other countries suggests that more autonomous and innovative institutions, rather than government departments, often do a better job with adequate mandates, funding and monitoring.
3. Securing adequate resources. Second Economy interventions require a substantial improvement in planning and funding.
4. Translating the National Spatial Development Perspective effectively into local Integrated Development Plans and Provincial Growth and Development strategies to guide appropriate provision of infrastructure, housing, services and various welfare programmes, particularly in the former Bantustans.

Public employment programmes

Infrastructure maintenance and construction have created the equivalent of around 70 000 full-time employment opportunities. Early Childhood Development and Home/Community-based Care systems, centred on existing plans for Community Health Workers, should create 72 000 permanent positions and 205 000 temporary job opportunities in 2007.

The National Youth Service expects to create around 9 000 positions out of a targeted 10 000. Some 18 departments are interested in working with this programme, but is it constrained by inadequate funding. In addition, the National Youth Commission and UYF have worked with the departments of Environmental Affairs and Tourism, of Safety and Security, and of Transport to create 8 350 positions for volunteers to work with vulnerable children. Working for Water has created 27 000 short-term jobs.

The total planned employment from these programmes, expressed in terms of full-time employment equivalents, comes to approximately 150 000 per year.

According to the Labour Force Survey for March 2005 and 2006, around 300 000 people had participated in public employment programmes.

Support for micro enterprises

Most programmes supporting micro enterprises do not provide figures on job creation. Figures that are available suggest fairly modest expectations of 70 000 opportunities, mostly in crop production for biofuels over the next five years. The programmes most likely to address rural poverty are still in the initial planning phase and have not reported any targets.

The following table summarises reported progress on support for micro enterprises.

Table 2. Progress on programmes to support small and micro enterprises.

Project	Dept	Aim	Quantified target	Progress
Sectoral programmes				
Goat productivity improvement	Agriculture	Improved marketing of goats	500 SMMEs and 10 000 permanent jobs	Planning and marketing materials prepared; still need funding for roll-out
Irrigation development	Agriculture	Improved irrigation	–	Strategy developed; still need funds for roll-out
Rehabilitation of land	Agriculture	Rehabilitation of agricultural land	–	Strategy developed; still need funds for roll-out
Biofuels inputs	Agriculture	Production of inputs for biofuels	55 000 employment opportunities in long run, acc. Minerals & Energy projections	Basic strategy approved by Cabinet
Business Opportunities Support Service (BOSS)	UYF	Businesses to franchise vendors	Nestle: 681 ice cream vendors; MTN: 100 vendors; Massmart: 30 hotdog vendors	Total vendors as of November was around 100. Average monthly income of R3 000 to R4 000
SMEs in tourism	Environmental Affairs & Tourism/Trade & Industry	Train SMEs and assist to benefit from 2010 World Cup	–	Planning in progress for skills development; Tourism Enterprise Programme working on training and communications for 2010

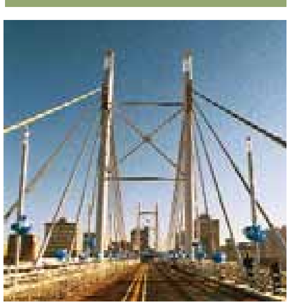


Table 2. Progress on programmes to support small and micro enterprises.

Project	Dept	Aim	Quantified target	Progress
Access to finance				
Khula	Trade & Industry	Funding for SMEs Increase private loans to black SMMEs and farmers	2/3 of loans under credit indemnity scheme to be less than R250 000	Lent R12 million to 32 enterprises to create 210 jobs
Financial Services Charter (FSC)	Trade & Industry/ National Treasury/The Presidency	Increase private loans to black SMMEs and farmers	Targets set in FSC	Report on progress still not available, in part because Codes not yet approved by the Department of Trade & Industry
South African Micro-Finance Apex Fund (SAMAF)	SAMAF/Trade & Industry	Provision of micro-finance through financial co-operatives and NGOs	50 partner organisations and R23 million approved for disbursement	23 approved partners; eight partners disbursing funds. R7,7 million disbursed to reach 1 700 borrowers and 10 000 savers
Micro-Finance	UYF	Provision of micro-finance	–	R6,1 million to 768 micro enterprise; plus 5 000 more loans through two retail loan agencies. Estimated jobs created: just under 1 000
SME Finance	UYF	Provision of finance to SMEs	–	Since 2003: R315 miliion to 230 SMEs for an estimated 3 000 jobs. In the past year: R98 million to 70 SMEs, creating 1 100 jobs
Procurement and other support for SMMEs				
Set asides	Trade & Industry/National Treasury	Set aside a share of government procurement for SMMEs	–	Researched potential set asides, but difficult to implement proposals under Public Finance Management Act, 1999 and Supply Chain Management (SCM)
Timely payment to SMMEs	Trade & Industry/National Treasury	Ensure all payments on time at least for SMMEs	All payments by 30 days, with SMME payments between 15 and 30 days; banks to provide bridging finance	Included in practice notes under SCM, and discussions initiated with banks. Still, timely payments are not a Key Performance Area for accounting officers, and it is difficult for companies to complain
Broad-Based BEE	Trade & Industry	Encourage private sector support and facilitate government procurement	Codes set target of 1,5% of after tax profits for SME support. Micro enterprise are exempt from BBBEE requirements in government procurement	Gazetted on February 9th, 2007
Co-operative support				
Co-operative support	UYF	Support for youth co-operative	–	Estimate almost 500 jobs through approval of R8 million for 23 co-operatives

Supporting entry into formal employment

Regarding skills development, 62 000 unemployed people have registered for qualifying learning programmes since April 2005, representing over half the total target for March 2010. Over 160 000 unemployed people have been trained in short courses through the Department of Labour's provincial structures. The department is recruiting 20 000 learners for ABET.

The UYF has two programmes to enhance labour-market information for job applicants. The JOBS database currently places around 500 people a year, and should expand to 2 000 a year in the future. The fund has also established 100 Youth Advisory Centres, in conjunction with the Department of Labour, the Thusong Service Centres (formerly multi-purpose community centres) and local governments. These centres have helped 350 000 young people to date.

The way forward

Departmental reports suggest targets for Second Economy interventions remain too modest. A concern is ensuring that programmes reach marginalised youth, who comprise the majority of the unemployed.

Formal employment creation

The retail and construction sectors accounted for two thirds of all new jobs over this period between 2002 and 2006, although they contributed less than a third to GDP. Both sectors are cylclical, requiring analysis of their growth potential. In the medium term, the AsgiSA public investment and sectoral programmes must provide a more sustainable base for employment growth.

Poverty alleviation in the former Bantustans

Joblessness and poverty are still disproportionately high in the former Bantustans, which acommodate 30% of total households but represent 40% of individuals spending less than R1 200 a month. As such the AsgiSA target to cut poverty by half cannot solely rely on formal job creation, as this has not occurred in these regions.

Options for addressing rural poverty include:

1. Accelerating job creation in the rest of the country and encouraging migration from deep rural areas. This requires planning to ensure appropriate location of infrastructure and social services.
2. Targeted expanded public works and agricultural programmes to create jobs in or near the former Bantustans. These programmes would have to be expanded dramatically to achieve AsgiSA targets.
3. Beyond AsgiSA, measures to address the Second Economy could include further efforts to include the social wage, especially grants or employment subsidies for the unemployed, accelerated improvements in infrastructure (and by extension, municipal budgets) and other forms of support for working-age jobless people.

Massification of Second Economy interventions

Departmental reports suggest that public works, especially in community service and agriculture/agro-processing, can create jobs in the required numbers. Massification of all Second Economy programmes poses

major institutional challenges as modern government systems are not designed to meet the needs of micro enterprises or poor households, particularly in remote rural areas.

Furthermore, Second Economy interventions require that government should encourage people to change behaviour. This means government must often initiate projects and provide holistic support. However, most economic support programmes provide assistance to projects driven by companies or individuals. Departmental reports demonstrate a tendency to focus on the provision of finance rather than new programmes. Moreover, it has proven difficult to ensure co-ordination across departments and spheres of government.

A final problem is that no single department is responsible for Second Economy interventions. Economics departments have historically seen their role as driving formal sector growth. Social service departments see their objective as improving the living standards of the poor rather than strengthening their ability to participate in the economy. If The Presidency were to drive Second Economy interventions, it would need capacity and a clearly designated structure.

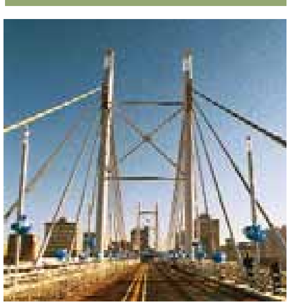
Addressing Second Economy intervention challenges requires:

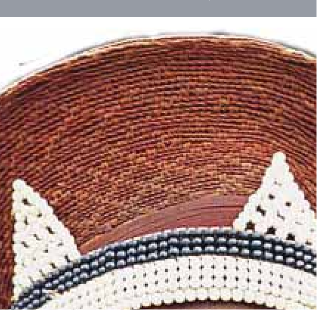
- Decentralising economic and social programmes to townships and rural areas requiring more broad-based structures. The process could start by reviewing the roles of community development workers. Decentralisation also requires improved funding for the poorest municipalities, which have inadequate budgets for local economic development.
- Reforming development agencies to become more entrepreneurial in the sense of encouraging new kinds of projects and supporting marketing agencies or co-operatives to bolster micro enterprises.
- Clearly allocating responsibility for driving Second Economy programmes. The responsible entity will have to enhance its capacity for developing, monitoring and supporting programmes. Implementation will fall to a variety of departments and spheres of government, as now, but co-ordination should become easier.

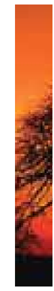
Guidelines and recommendations

To address these challenges, government should:

1. Develop a framework, in consultation with the relevant departments, to massify Second Economy interventions that set broad strategy targets. The targets should take into account the needs and potential of the marginalised groups, especially youth and black women, and should include cost estimates.
2. Develop a centre within government to drive Second Economy interventions. One proposal is to make the Department of Provincial and Local Government responsible for co-ordinating the implementation of Second Economy strategies.
3. Develop options for institutional structures that can make Second Economy interventions on a mass scale in an innovative and holistic fashion.
4. Commission analysis of the impact of growth on employment, and the effect of the social wage on poverty; the implications for the National Spatial Development Perspective on the provision of government services and infrastructure over the next 20 years; and factors affecting growth in retail and construction job numbers over the next 10 years.







F. GOVERNANCE AND STATE CAPACITY ISSUES

Progress of initiatives

Capacity assessments/Vulindlela

To strengthen government's economic function, the Department of Public Service and Administration investigated government capacity to implement AsgiSA. The transport sector's capacity to implement the Public Transport Strategy was assessed, while similar studies were done on the departments of agriculture, and of trade and industry about providing micro-lending services. An assessment of mining and petroleum licensing processes was also conducted. Vulindlela (desktop studies conducted by the Department of Public Service and Administration to assess the capacity of specific departments to implement their mandates) analysis of the departments of minerals and energy, and of agriculture and provincial economic departments was also carried out.

The Department of Transport's assessment revealed that the National Land Transport Transition Act, 2000 (Act 22 of 2000) and the Public Transport Strategy allow the devolution of key powers and functions to local government. The micro-credit assessment dealt with the South African Micro-Finance Apex Fund and the Micro-Agricultural Finance Scheme of South Africa (Mafisa). Both projects went into a pilot phase in the second quarter of 2006, with initial results showing that demand for their services had been underestimated. Shortages and gaps were experienced in terms of the reach of their services and resources. A serious concern that emerged from both projects was a lack of effective monitoring to inform further roll-out of the projects. It has been proposed there should be more collaboration between the two projects.

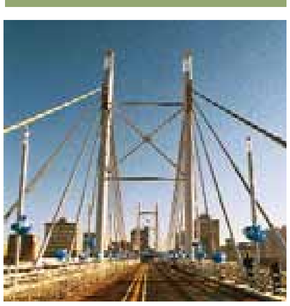
The Vulindlela analysis and other interactions between the Department of Public Service and Administration and relevant departments identified the need to strengthen human resource management. A number of issues relating to recruitment, retention and organisational structure were also identified.

A firm commitment must be secured to implement the core building blocks of the Department of Transport's Public Transport Strategy, namely strong local public sector network control and management, and an understanding of the intended time frame.

The micro-credit assessment analysis recommended, among other things, using information about the sophistication of applicants to streamline requirements and processes. Staffing for future roll-outs is inadequate, especially for the Mafisa. Both schemes, however, need to focus greater attention on training to ensure staff and clients make more effective and efficient use of the scheme, and that better reporting systems are urgently instituted.

Regarding mining licensing and conversion, it is recommended that reasons for rejecting, refusing or withdrawing applications be investigated, and that regional offices embark on a 'fit-for-purpose' analysis of staffing structures.

The Vulindlela analysis of the Department of Minerals and Energy recommends investigating institutional and other mechanisms to measure the effect of legislation at concept stage, including allocating reponisibility for this function. This would complement establishing a Regulatory Impact Assessment unit.



As far as the Department of Agriculture is concerned, the Department of Public Service and Administration and the South African Management Development Institute (a civil service training centre), should establish a mentoring and training programme for senior management, while a holistic recruitment and retention strategy must be developed by the Department of Agriculture with help from the Department of Public Service and Administration.

The outcome of the analysis on provincial economic departments urged the creation of a technical team comprising provincial economic departments, the departments of trade and industry, of public service and administration, and of provincial and local government, along with National Treasury and the South African Local Government Association (SALGA) to:

a. Assess the agency model taking into account the agency model developed by the Department of Public Service and Administration. This model makes it possible for municipalities to allow certain services to be provided by separate entities or agencies.
b. Assess the impact of the combination of functions in the provinces.
c. Develop an optimal organisational structure, including staffing norms and grading levels, based on the most appropriate service-delivery model.

Strengthening local economic development: South Africa's ability to accelerate growth and reduce unemployment and poverty is tied to the growth potential of different localities and regions. The Presidency, the Department of Provincial and Local Government, and other departments should continue to work with district and metropolitan municipalities to establish their economic potential and patterns of social exclusion using the National Spatial Development Perspective methodolgy, and designing appropriate development plans in response.

To ensure greater co-ordination and co-operation between government and social partners, Local Growth and Development summits will be held in all 46 district municipalities and six metropolitan municipalities before March 2007. Districts and metropolitan municipalities should build on the summits and strengthen partnerships and interactions with social partners at municipal level to improve their social and economic fortunes.

Project Consolidate was launched in October 2004 as a short-term initiative to provide hands-on support to 136 municipalities experiencing governance and service-delivery challenges. To date, 87 municipalities have been assisted by deploying experts. Government's 2005 Imbizo programme – where the President and ministers listen to community concerns – was aligned with Project Consolidate and helped support key national and provincial departments.

Varying degrees of success have been achieved by Project Consolidate:

- Marked acceleration of service delivery by deploying scarce skills. Attention has also been given to signing related performance agreements and filling Section 57 management posts with people with specific qualifications and experience, as defined in the Public Finance and Management Act, 1999 (Act 1 of 1999).
- Improved financial viability, resulting from revenue management interventions and much needed financial systems.
- New ward committees, which are municipal substructures, and engagement via the Presidential izimbizo programme were designed to enhance public participation.

Project Consolidate will not exist in its current form from 2007 as it is being expanded to all 283 municipalities in terms of the Five-Year Local Government Strategic Agenda – 2011.

Development finance institutions are being reviewed, led by National Treasury, to ensure their mandates and operations are coordinated and that they use economic resources more effectively and efficiently to support government's policy objectives. The review will be completed by January 2008.

The Presidency and National Treasury completed a joint study on Regulatory Impact Assessment in September 2005. This is a system for managing legislative processes to avoid unintended negative consequences for job creation, and other social and economic goals of government. The study results indicate that the Regulatory Impact Assessment is suitable for South Africa and can be adapted to current Cabinet and Parliamentary processes.

Cabinet has adopted the Regulatory Impact Assessment system and it will be piloted during 2007.

The EIA review process was completed and revised regulations came into effect in July 2006. This has led to a reduced number of EIAs; faster assessments for activities with minimal impact; greater awareness of environmental consequences; improved governance systems and improved co-ordination between government departments.

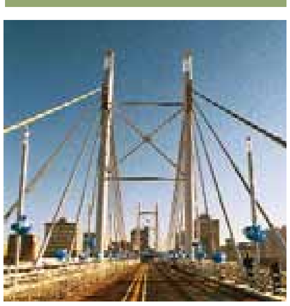
The 2007 year will see financial and technical assistance for provinces dealing with backlogs; new decision-support tools and strategic spatial information sets; the development of sector and procedural guidelines; the completion of the EIA regulations information series; training and awareness programmes; and capacity building among all stakeholders.

The new system will be continuously reviewed to streamline government processes. Co-operative agreements with other licensing and permitting functions will be pursued to prevent duplicating regulatory requirements and to streamline government processes. Further rationalising EIA processes by introducing alternative environmental impact management tools will also be considered.

The Land Use Management Bill, designed to simplify the regulatory framework further around land use, will be finalised in 2007. This is necessary as the current regulatory environment impedes spatial planning for industrial and settlement purposes, and undermines planning.

Guidelines and recommendations

1. Implement recommendations from the capacity assessment regarding public transport strategy, microfinance initiatives, and issuing minerals and petroleum licences.
2. Implement recommendations arising from the Vulindlela exercises to enhance the human resources function, job retention, recruitment and organisational structures within the departments of trade and industry, of minerals and energy, of agriculture and provincial economic departments.
3. Implement mainstreaming of the Project Consolidate approach to all 283 municipalities into the Five-Year Local Government Strategic Agenda – 2011.
4. The lessons from The Presidency's pilot project (relating to the contextualisation and application of the National Spatial Development Perspective methodology and approach in municipal development processes) should be extended to more district and metropolitan municipalities.



5. Districts and metropolitan municipalities should build on the Growth and Development summits, and strengthen partnerships and interactions with social partners at municipal level to improve their social and economic fortunes.
6. Finalise the review of Development Finance Institutions by January 2008.
7. Pilot and implement an appropriate Regulatory Impact Assessment tool.
8. Finalise implementation of new EIA processes and introduce alternative environmental impact management tools where appropriate.
9. Finalise and introduce the Land Use Management Bill into Parliament.
10. Introduce a 'one-stop' investor centre within the context of restructuring the trade and investment marketing and promotion of South Africa.

Monitoring and evaluating AsgiSA interventions

Monitoring and evaluating AsgiSA interventions happens at three levels. An inter-ministerial committee led by the Deputy President oversees implementation. It includes the ministers of public enterprises, of trade and industry, of finance, the premiers of Gauteng and the Eastern Cape, and the chairperson of SALGA.

The Cabinet Committee on Investment and Employment's monthly meeting is used to report progress on various initiatives. An interdepartmental AsgiSA Task Team meets monthly to monitor activities and prepare reports for the interministerial or Investment and Employment Cabinet Committee. AsgiSA has become a central element of government's Programme of Action, consequently it has been included in its bi-monthly reports.

4. CONCLUSION

The main proposals for focusing the work of AsgiSA and for new areas of emphasis are contained in the previous six chapters that address the key AsgiSA areas of work. They will not be repeated here.

Overall, there is no doubt that AsgiSA has had a considerable impact. It is clear that government should continue to drive the AsgiSA programme, and all the AsgiSA partners – including trade unions, businesses, NGOs and foreign governments – should be encouraged to continue and enlarge their commitments and contributions to AsgiSA. This annual report provides a platform for all stakeholders to review AsgiSA's progress and to renew commitments.

AsgiSA is helping change the South African mindset. It is opening up possibilities for success in the fight against poverty and unemployment that seemed impossible only a few years ago. Government organisations, private companies and SOEs have all reviewed their plans and scaled them up in the light of the new vision of accelerated and shared growth, revealed with AsgiSA's help.

Earlier policies and initiatives built a firm platform for shared growth. Real progress began to be achieved in accelerating the rate of growth and job creation, and the fight against poverty in the early part of the current millennium. While Second Economy programmes need considerable further development, existing ventures involving public works, small business development and community service have created opportunities for faster massification projects and programmes in the coming years.

The first economic challenge after 1994 was to stabilise the economy and build a foundation for growth and development. As employment began to rise in 2003, and evidence suggested that poverty rates started declining, the focus shifted. The new challenge is to sustain higher rates of growth and ensure that growth is shared, and to lay the groundwork for another increase in the rate of growth at the end of this decade, if not earlier. The prospects of achieving all the objectives look brighter daily, and AsgiSA will continue to illuminate the way forward.

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