

Poverty and the Peoples' Contract:
Reaping the post-apartheid dividend?

A Centre for Policy Studies Paper

Policy: issues & actors

Vol 19 no 6

**Poverty and the Peoples' Contract:
Reaping the post-apartheid dividend?**

A Centre for Policy Studies Paper

Centre for Policy Studies

Johannesburg

September 2006

The Centre for Policy Studies is an independent research institution,
incorporated as an association not for gain under Section 21 of the
Companies Act.

Centre for Policy Studies
1st Floor
Rosepark South
6 Sturdee Avenue
Rosebank
Johannesburg, South Africa

P O Box 1933
Parklands
2121
Johannesburg, South Africa

Tel +27 (11) 442-2666
Fax +27 (11) 442-2677
e-mail: portia@cps.org.za

www.cps.org.za

Paper funded by the Foundation for Human Rights

ISBN: 1-919708-74-X

TABLE OF CONTENTS

1. INTRODUCTION	1
2. A 'PEOPLE'S CONTRACT'	1
3. THE POOR AND THE PEOPLES' CONTRACT	2
4. DEFINING THE CONTRACT	3
5. DEMOCRATIC GOVERNANCE AND THE PEOPLES' CONTRACT	4
6. POVERTY: THE HYDRA-HEADED CHALLENGE	4
6.1. HIV/AIDS AND POVERTY	7
6.2. INEQUALITY PERSISTS	8
6.3. SOME PROGRESS, BUT STILL A LONG WAY TO GO...	10
6.4. GOOD NEWS, FOR SOME: UNEMPLOYMENT AND THE INFORMAL ECONOMY	12
7. GOVERNMENT AND THE PEOPLE: MIND THE GAP?	15
8. MOVING CLOSER	19
9. A GROWING BLACK MIDDLE CLASS	22
9.1. CONSPICUOUS SPENDING	23
11. WHAT IS TO BE DONE?	27
11.1. THE TERRIBLE TWINS: INEQUALITY AND POVERTY	27
11.2. INCREASING AGRICULTURAL EARNINGS	28
11.3. INCREASING NON-AGRICULTURAL INCOME	30
12. CONCLUSION	31

1. INTRODUCTION

In 2004, the African National Congress (ANC) completed a successful election campaign under the banner a 'People's Contract to Create Work and Fight Poverty'¹; it received 70% of the vote. Its manifesto that year dedicated it to halving poverty in South Africa by 2014. Following its return to power that year, President Thabo Mbeki reiterated his government's commitment to: 'Moving our country forward decisively towards the eradication of poverty and underdevelopment... and achiev[ing] further and visible advances with regard to the improvement of the quality of life of all our people, affecting many critical areas of social existence.'²

While some might argue that the people's contract was merely an election slogan designed to gain votes, the approach of this paper is to take the ruling party at its word and interrogate both the meaning and content of this contract and how it will impact upon the amelioration of poverty.

The concept's significance lies not only in its potential impact on poverty but also in its implications for processes and notions of governance. The notion of democratic governance - which gives operational meaning to peoples' involvement in governance and policy processes - and a peoples' contract, necessitates that democracy be deepened, strengthened and broadened.

2. A 'PEOPLE'S CONTRACT'

Debate and discussion about a people's contract is stymied by the fact that it is not altogether clear what the 'peoples' contract' means. Who are the people? What kind of contract?

At its core, the contract promises closeness to the people of South Africa, a reinvigoration of democratic representation and a responsiveness on matters of greatest concern to the people: poverty and employment are key among these. It promises a deepening of democracy to protect and empower the most vulnerable in society and implies making an effort to understand the needs and wants of the people. Implicit in this is the idea of respect between government and the people.

This latter aspect is important. Voting is a symbol of inclusion, a particularly potent one in the post-apartheid context, where our history meant that voting was denied the majority. There was a 88% turnout in the 1999 national elections, and a 77% turnout in the 2000 national elections; more than 21 million of a possible 27 million eligible voters are registered to vote.³ That our new democracy enjoys a significant degree of popular goodwill is an

¹ <http://www.anc.org.za/elections/2004/manifesto/manifesto.html>

² Quoted in Magasela, W 'Towards a constitution-based definition of poverty in post-apartheid South Africa' in *State of the nation: South Africa 2005-2006* edited by Buhlungu, S; Daniel, J; Lutchman J and Southall, R, Human Sciences Research Council, 2005, p.46

³ Quoted in 'Study: Voter turnout could reach 60%' in *Mail and Guardian* 14 February 2006

advantage - an aspect to be nurtured and celebrated, a vital intangible in building a new society. Much hope has been pinned on the new democracy, which promised inclusion and leaders that people could identify with and trust. These factors are underlined in the notion of a people's contract. Nevertheless, a particular challenge is also thrown up, encapsulated in the words of Friedman:

*'the government will not reach effectively enough into society to secure cooperation on development, until society reaches effectively enough into government to ensure that policy is informed by an adequate understanding of grassroots realities and that citizens feel sufficiently invested in the state to want to work with it.'*⁴

The notion of a peoples' contract, implicitly evokes such an iterative relationship between government and society, in which government is given more effective access to society in return for society being given more effective access to government.

3. THE POOR AND THE PEOPLES' CONTRACT

Poor people represent a large proportion of the population and are 'usually those who need participation most because it is people who lack education and resources who are mostly likely to be ignored by governments.'⁵ Public services may well matter more to the poor, who lack alternatives, than the rich.

In the words of President Mbeki, "... we know that the poor require sustainable relief and dignity. They demand of us programmes to build a growing economy which generates more decent jobs and more resources that can be used for social programmes..."⁶ So it is the mandate of government to ensure that the poor and the oppressed get well-designed help; only government has the resources to address development issues on a sufficiently large scale. The Peoples' contract envisages providing this through the engagement and participation of citizens by attempting to understand what they want and need, and in this way encourage co-operation with the state. The Reconstruction and Development Programme (RDP), for example, stated:

'the RDP requires fundamental changes in the way that policy is made and programmes are implemented. Above all, the people affected must participate in decision-making. Democratisation must begin to transform both the state and civil society. Democracy is not confined to periodic elections. It is, rather, an

⁴ Friedman, S 'Embedding the "developmental" state in South Africa' in Edigheji, O (ed) *Trajectories for South Africa: Reflections on the ANC's 2nd National General Council's discussion documents* Special edition of Policy:issues and actors Vol 18 No. 2, Centre for Policy Studies, Johannesburg, June 2005, p.20

⁵ Friedman, S *A voice for all: Democracy and public participation in Critical dialogue* Centre for Public Participation, Durban

⁶ Mbeki, T, Address to Growth and Development Summit, Johannesburg, 7 June 2003

*active process enabling everyone to contribute to reconstruction and development.*⁷

Given its perceived market friendliness in some quarters, there is the risk, argues Friedman, that the party of liberation might be seen by some as a vehicle for the 'rising black professional and business class at the expense of the poor'.⁸

If the people's contract is to mean much, the state must not only assist the poor and be responsive to their needs by providing literacy, basic health care, clean water, employment and all other things necessary to enable people to maximise their potential, but also avenues for participation and consultation.

The key issue is how to be both developmental *and* democratic; to nurture democratic values while simultaneously growing the economy, fighting poverty and engaging in development.

4. DEFINING THE CONTRACT

The Concise Oxford Dictionary defines a contract as "an, arrangement, compact, deal, or pact". So a contract is usually made between two or more parties, is normally enforceable by law, and entails one party offering goods or services in exchange for some or other consideration from the other party/s, including a monetary consideration.

So who are the parties to the 'People's Contract'? The party offering the goods is the ruling ANC - and this arises from a promise it made during the 2004 elections when it committed, in its manifesto, to "working within communities and within government, to play its part in forging this People's Contract for a Better South Africa, inspired by its commitment to democratic consultation, mass participation and volunteerism, moral regeneration as well as people-centred and people-driven development".⁹

Arising from this commitment, it is clear to see that the second party is "the people and communities of South Africa". The manifesto says that while the "government can promote the values of the Constitution and create laws to protect citizens' rights... and call for respect and better treatment of people by civil servants... [but] individual citizens, communities, trade unions and other organisations need to help monitor and report the violation of rights. We need as citizens to claim our rights and demand better treatment in government offices".¹⁰ The manifesto further calls for "active citizenship and a spirit of responsibility and volunteerism amongst all of us", as part of citizens' commitment to achieving the ends of this contract, including the eradication of poverty.

⁷ African National Congress, *Reconstruction and development programme* p.7

⁸ Friedman, S *An unfinished agenda: Incomplete democratic transitions with special reference to South Africa* paper presented at the International Political Science Association plenary 'What have we learned from three decades of transition' Durban, July, 2003, p.11

⁹ Ibid

¹⁰ Ibid

In short then, the 'People's Contract'¹¹ is meant to be a social contract between the ANC and the people of South Africa, wherein the ANC in government commits to achieving a bouquet of development goals by 2014 (including the halving of poverty and unemployment) and to take specific steps towards achieving this in the next five years from 2004. The people of South Africa in return are expected, under this contract, to exercise 'active citizenship' through: mass participation, volunteerism, moral regeneration, the monitoring and reporting of violation of rights and demanding better treatment in government offices. They are also expected to upgrade their skills through inter alia, opportunities provided by government, to take advantage of business and work opportunities arising from increased economic investment, promote the country's image, and provide good service to investors, tourists and others.¹²

5. DEMOCRATIC GOVERNANCE AND THE PEOPLES' CONTRACT

The "People's Contract" manifesto makes it clear that the role of citizens needs to go beyond the election of representatives every five years. Indeed, it calls for the active participation and help of society in achieving the goals it sets out - including the eradication of poverty. A central issue that arises revolves around how to build greater inclusivity into democratic processes in order to facilitate the greater involvement of society. How can the democratic state enable its citizens, especially the poor, to realize their own potential as part of the mainstream of politics and the economy, rather than be confined to the margins? This paper seeks to examine this and other questions.

6. POVERTY: THE HYDRA-HEADED CHALLENGE

The combination of poverty and inequality has been described as 'the most explosive factor in the political mix'.¹³ Indeed, debates on the levels of poverty and inequality since the political transition are complex. Incomplete information adds complexity and hinders poverty reduction efforts as programmes to improve the lives of the poor cannot be effectively monitored if it is not known how many there are or how poverty is officially defined?

Are there more poor people among us in South Africa as compared to 1994? Or are there fewer? This answer to this deceptively simple question depends largely on the definition of poverty. Poverty can be variously defined and there is currently no official definition of it. Inevitably, poverty statistics are disputed. The RDP describes poverty as 'the single greatest

¹¹ To paraphrase Thomas Hobbes (*Leviathan*, 1985), society is able to function because members of society jointly agree to an (implicit) social contract in which each one is accorded rights in return for accepting and upholding the rights of others. In the course of this contract, each member of a society gives up some of their personal freedoms in order to honour this contract. Jean-Jacques Rousseau (*The Social Contract, or Principles of Political Right*, 1762) in similar vein, proposes the social contract as a form of association "which will defend and protect with the whole common force the person and goods of each associate, and in which each, while uniting himself with all, may still obey himself alone and remain as free as before".

¹² Ibid

¹³ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.76

burden of South Africa's people.'¹⁴ Census data between 1996 and 2001 show that more South Africans have sunk into poverty. This fact, coupled with economic growth per capita, meant 'an unambiguous increase in inequality', according to Murray Leibbrandt *et al*¹⁵ - discussed in more detail below.

South Africa was ranked 111th of 175 countries in terms of its Human Development Index (HDI)¹⁶ in 2001, down on its ranking of 93rd in 1992 United Nations Development Programme (UNDP).¹⁷ In 1991, white South Africans reportedly had an HDI similar to that of Canada while the HDI for Africans was lower than that of Swaziland. A provincial comparison shows that the score for the Limpopo province was lower than that of Zimbabwe.¹⁸

By 2000, the racial aspect of the South African situation 'remain[ed] unchanged' with the gap having widened between the index of the poorest province which is mostly African and the richest province which has the highest proportion of whites in South Africa.¹⁹ Poverty is much higher for blacks than any other group. Africans still have the worst access to services. As recently as 2001, according to the UNDP, the average annual expenditure of a White household was six times more than that of an African household.²⁰

Statistics South Africa figures show that the real average income of African households declined 19% between 1995 and 2000. In the five year period between 1996 and 2001 poverty measured in terms of income increased in South Africa, with more households falling below the poverty line of R250 per month in 2001 than 1996.²¹

According to the Labour Force Survey of September 2004, one in four households goes hungry at least sometimes while about 7% go hungry regularly.²² In 2002, the UNDP ranked South Africa 26th in the world in terms of GDP per person, but only 43rd in access to piped

¹⁴ African National Congress *Reconstruction and Development Programme* 1994 Point 2.1.1

¹⁵ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.72

¹⁶ The Human Development Index (HDI) is published annually by the UN and is a comparative measure that ranks states according to their citizens' quality of life, using a basket of indicators including literacy, education, income as measured by GDP per capita, poverty, and life expectancy.

¹⁷ United Nations Development Programme 2002 *Human Development Report* 2000 quoted in May, J and Hunter, N 'Poverty, inequality and the social wage: Balancing the books in post-apartheid South Africa?' in Jones, P and Stokke, K (eds) *Democratising development: The politics of socio-economic rights in South Africa* Martinus Nijhoff Publishers, Leiden, 2005, p.102

¹⁸ May *et al* 200:23 quoted in May, J and Hunter, N 'Poverty, inequality and the social wage: Balancing the books in post-apartheid South Africa?' in Jones, P and Stokke, K (eds) *Democratising development: The politics of socio-economic rights in South Africa* Martinus Nijhoff Publishers, Leiden, 2005, p.103

¹⁹ Quoted in May, J and Hunter, N 'Poverty, inequality and the social wage: Balancing the books in post-apartheid South Africa?' in Jones, P and Stokke, K (eds) *Democratising development: The politics of socio-economic rights in South Africa* Martinus Nijhoff Publishers, Leiden, 2005, p.103

²⁰ UNDP Press release *Human Development Report says political will and major economic changes are needed to deal with growing poverty and unemployment* 5 May 2004, p.2

²¹ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.76

²² Makgetla, N 'Different economy demands tailored strategies' in *Business Day* 7 October 2005

water - a 'figure that helps explain the current wave of unrest about living conditions in many townships and formal settlements.'²³

Poverty lines are often calculated by a dollar-a-day measurement devised by Robert McNamara when he was president of the World Bank.²⁴ Hoogeveen and Ozler's research in 2004 found that the number of people living on incomes of less than \$1 a day increased by 1.8 million over the period 1995-2000.²⁵ Also on this measure, both the percentage and absolute number of people living in poverty increased in the period 1996-2004, spiking in 2002 - as the table below shows.

Table 1: Number and proportion of people living on less than \$1 a day^a, 1996-2004

	Number	Proportion
1996	1 899 874	4.5%
1997	2 248 801	5.2%
1998	2 617 562	6.0%
1999	2 953 955	6.7%
2000	3 227 543	7.2%
2001	3 678 709	8.1%
2002	4 486 686	9.7%
2003	4 391 123	9.4%
2004	4 313 247	9.1%

Source: Global Insight Regional Economic Focus

^a = constant 2000 prices

But is it really possible to use a single measure of poverty given that it is a multifaceted, intersectoral, cross-cutting problem, incorporating deprivation on a number of levels? Similarly, it can be argued that reported income is not that useful a measure of well-being, overlooking earnings from informal work, as well as the value of services and subsidies provided by government.

Government's *Ten Year Review* dismissed data showing persistent poverty and argued instead that social expenditure has resulted in declining poverty and narrowing inequality. Servaas van der Berg's analysis of poverty trends indeed illustrated that 'for all poverty lines ranging from R2 000 to R4 000 per capita income per annum, poverty seems to have been declining sharply since about 2002 after a modest rise at the end of the previous decade.'²⁶

What emerges from this brief scan of trends is that the debate is highly complicated and that poverty statistics and definitions should be treated with caution. As poverty analyst Julian May reminds us, 'changes in the incidence and depth of poverty since 1995 are less clear due to both problems with the data and the apparent reluctance of the government to

²³ Makgetla, N 'Jobs data credit product of imperfect science' in *Business Day* 3 June 2005

²⁴ 'Goodbye to poverty, maybe, perhaps' in *The Economist* 12 June 1997

²⁵ Hoogeveen and Ozler (2004) quoted in van der Berg, S *et al Trends in poverty and inequality since the political transition* Stellenbosch Economic Working Papers: 1/2005, Bureau for Economic Research, p.6

²⁶ Van der Berg, S *et al Trends in poverty and inequality since the political transition* Stellenbosch Economic Working Papers: 1/2005, Bureau for Economic Research, p.18

adopt an official poverty line.²⁷ He adds, 'Notwithstanding the confusion, most analysis points to an increase in the numbers of people who are poor.'²⁸

6.1. HIV/AIDS and poverty

Regional considerations deepen the complexity. Drawing on the 1996 and 2001 Census data, Leibbrandt *et al* found an increase in poverty in all of the provinces, including the two best off - Gauteng and the Western Cape - while the Eastern Cape and Limpopo had the highest poverty rates. Folscher points out:

*'if you live in KwaZulu-Natal or Mpumalanga, are female, unskilled, unemployed, poor and African, your likelihood of dying an Aids-related death increases many times. To put it plainly, HIV/Aids is most strongly affecting those already at the bottom of the population pile, the poorest and the least powerful.'*²⁹

A key challenge is the paucity of hard data on HIV status and its association with poverty and inequality.³⁰ A representative of America's Centre for Disease Control pointed out that attitudes to Aids can 'be summed up in four words: silence, stigma, discrimination and denial.'³¹ The figures are sobering. Folscher states, 'by 2010 approximately 700 000 people will die annually and we can expect a total of 3 million Aids orphans.'³² Compared with Botswana, Zimbabwe, Lesotho, Mozambique and Swaziland, South Africa has the most Aids orphans, with 2003 estimates suggesting that there were 2,2 million orphans, half of whom had Aids.³³ The spread of HIV/Aids has undercut many of the developmental gains of the past decade.

HIV/Aids impacts heavily on the poor; resources that would have been used for the welfare of the family often end up being redirected to treating the disease, buying medication and paying for funerals. The ramifications of this disease extend far beyond the health sector - schooling and the delivery of social services have been hampered, as teachers and other workers, mostly women, take leave to care for sick relatives or friends, or fall ill

²⁷ Quoted in May, J and Hunter, N 'Poverty, inequality and the social wage: Balancing the books in post-apartheid South Africa?' in Jones, P and Stokke, K (eds) *Democratising development: The politics of socio-economic rights in South Africa* Martinus Nijhoff Publishers, Leiden, 2005, p.104

²⁸ Quoted in May, J and Hunter, N 'Poverty, inequality and the social wage: Balancing the books in post-apartheid South Africa?' in Jones, P and Stokke, K (eds) *Democratising development: The politics of socio-economic rights in South Africa* Martinus Nijhoff Publishers, Leiden, 2005, p.105

²⁹ Folscher, A 'HIV/Aids: Deadly enemy of transformation' in in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.94

³⁰ Bhorat, H and Shaikh, N *Poverty and labour market markers of HIV + households: An exploratory methodological analysis* Development Policy Research Unit, Working Paper 04/83, February 2004, p.1

³¹ 'A turning point for Aids' in *The Economist* 13 July 2000

³² Folscher, A 'HIV/Aids: Deadly enemy of transformation' in in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.94

³³ 'Worry about the children' in *The Economist* 7 May 2002

³³ Roelf Wendell 'New plan to boost Aids orphan care' in *Mail and Guardian* 20 July 2005

themselves.³⁴ Death by Aids is “often prolonged, traumatic and unpleasant. Carers are not only exposed to HIV but also to microbes causing the opportunistic infections that will eventually kill the patient.”³⁵

Good data would help the fight against poverty in general and HIV/Aids in particular. President Mbeki's announcement in the 2006 State of the Nation speech that 100 000 people living with Aids are now receiving antiretroviral treatment from the public health system is to be welcomed.

However, there is concern about attitudes and mixed messages coming from government, an impression that Mbeki “remains uncomfortable with an energetic programme to distribute antiretrovirals to those who need them. Another, perhaps more important, obstacle to a serious response to Aids is that he has done nothing about the messages Health Minister Mango Tshabalala-Msimang continues to send out on this issue.... Attitudes to Aids in parts of government remain an oddity ...They also make it far harder for people at the grassroots to believe this is a government that cares.”³⁶

Confronting the reality of HIV/Aids, the burden it places most notably on the poor and the need for “a comprehensive programme that includes prevention, treatment and care, and mitigation of the impact of HIV/Aids”³⁷ has to be a key feature of government's approach in the spirit of the people's contract.

6.2. Inequality persists

Inequality is particularly acute. At the time of the transition in 1993, the World Bank described South Africa as among the world's most unequal economies, with a Gini coefficient measuring 0.58.³⁸ According to UNDP data, the Gini coefficient rose from 0.596 in 1995 to 0.635 in 2001; inequality has, according to the UNDP, worsened within all racial classifications, but comparatively less so within the ‘white’ groups.³⁹

Table 2: Inequality in South Africa: 1996 - 2005

	African	Coloured	Indian	White	Total
1996	0.53	0.48	0.47	0.45	0.60
1997	0.54	0.49	0.48	0.46	0.61
1998	0.56	0.51	0.50	0.46	0.62
1999	0.57	0.52	0.50	0.47	0.62
2000	0.59	0.53	0.51	0.46	0.63
2001	0.60	0.54	0.51	0.46	0.64

³⁴ ‘Worry about the children’ in *The Economist* 7 May 2002

³⁵ see ‘A lost generation’ in *Mail and Guardian* 4 October 2002

³⁶ Friedman, S ‘On HIV/Aids, government still speaks with forked tongue’ in *Business Day* 8 February 2005

³⁷ UNDP Press release *Human Development Report says political will and major economic changes are needed to deal with growing poverty and unemployment* 5 May 2004, p.2

³⁸ Quoted in May, J and Hunter, N ‘Poverty, inequality and the social wage: Balancing the books in post-apartheid South Africa?’ in Jones, P and Stokke, K (eds) *Democratising development: The politics of socio-economic rights in South Africa* Martinus Nijhoff Publishers, Leiden, 2005, p.103

³⁹ Ohiorhenuan, J *The challenge of sustainable development in South Africa* Introductory remarks at the launch of the South African Human Development Report 2003, Johannesburg, 5 May 2004, p.3

2002	0.61	0.54	0.51	0.46	0.64
2003	0.62	0.55	0.51	0.45	0.64
2004	0.64	0.55	0.51	0.45	0.64
2005	0.64	0.56	0.50	0.44	0.65
Change	20.75%	16.67%	6.38%	-2.22%	8.33%

Source: Global Insight, *Regional Economic Focus*, 2005

As researcher Marco MacFarlane observes, the groups with the highest base incomes in 1996, whites and Indians, are also the groups that have experienced the least change in terms of inequality. By contrast, the African and coloured population groups experienced increases of 20.75% and 16.67% respectively in measured inequality. These increases, according to MacFarlane, 'point to rapidly rising incomes for small sections of these respective population groups, while little financial benefit has accrued to the lowest income earners since 1996.'⁴⁰

It is important to note that calculations vary between economists, 'one eminent group... tell[s] us that we have the highest Gini coefficient of 0.73. Another eminent economist, van der Berg, tells us that, when we take account of other factors such as grants and social services, our inequality level is quite middling, at a relatively modest 0.44.'⁴¹ We have also been told that our Gini coefficient is estimated at 0.60, either the highest in the world or second behind Brazil.⁴²

What we are more certain about is that inequality increased within all population groups between 1996 and 2001 Census period. Africans are poorer on average and simultaneously more unequal within their group than other population groups.⁴³ According to Leibbrandt *et al* 'the general trend is still one in which there is notable upward mobility of Africans into the top sections of the income distribution. At the same time, there is no real evidence of downward mobility of whites.'⁴⁴

According to the UN Human Development Index, 'multiple and interlocking layers of inequality create disadvantages for people throughout their lives... income inequalities interact with other life chances inequalities.... Disadvantage tracks people throughout their lives. Poor women are less likely to be educated and less likely to receive antenatal care when they are pregnant. Their children are less likely to survive and less likely to complete

⁴⁰ MacFarlane, M 'The poor get poorer' in *Fast Facts* No 9/2005, South African Institute of Race Relations, Johannesburg, September 2005, p.2

⁴¹ Friedman, S 'Understanding poverty: The limits of data' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.96

⁴² Poswell 2002 quoted in Friedman, S 'South Africa: Globalisation and the politics of redistribution' in Tulchin, JS and Bland, G *Getting globalisation right: The dilemmas of inequality* Lynn Rienner Publishers, Inc, 2005, p.15

⁴³ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.77

⁴⁴ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.86

school, perpetuating a cycle of deprivation that is transmitted across generations.’⁴⁵ Young women are indeed, vulnerable to abuse and HIV infection if they remain economically dependent. They are in a weak negotiating position when it comes to, for example, insisting that a man put on a condom prior to sex. Previous minister of education in South Africa, Kader Asmal, pointed out - in 2001 - that 70% of disabled children of school-going age did not attend school⁴⁶ thus perpetuating an unhelpful cycle. People with disabilities tend to be unfairly discriminated against because of ‘ignorance, or fear’, leading to a high rate of unemployment and making people with disabilities dependent on the state, according to one report.⁴⁷

Breaking these cycles requires constant and consistent effort on a number of levels - political, social and economic. A key feature that emerges from the above discussion is that race remains a relevant a factor shaping poverty and inequality, but inequality within racial groups is significant. Social and economic transformation seems to be moving towards eroding the correlation between race and class in post-apartheid South Africa - intra-racial and not inter-racial inequality is becoming a significant factor. The implication, argues Friedman, is ‘that social inequality cannot be reduced purely by addressing racial disparities since a purely racial approach to inequality will benefit only the upper echelons of the black majority.’⁴⁸

6.3. Some progress, but still a long way to go...

Some analysts accuse government of neglect of the most needy. But this claim is undercut by a number of factors. For example, tax at the lower end has been dropping steadily, increasing disposable income. There has, according to Leibbrandt *et al*, been a massive increase in access to services by the poor, particularly the poorest of the poor.⁴⁹ Access to basic services such as clean water, electricity, sanitation has a major impact on quality of life, leading to improvements ranging from health to productivity. ‘Having adequate shelter is a basic necessity, a constitutional right and a keystone to social well-being.’⁵⁰ In February 2006 President Mbeki pledged to spend R413 billion on clean water, sanitation and electricity to all by 2012, and pledged to replace shacks with houses.

⁴⁵ Summary Human Development Report 2005 *International cooperation at a crossroads: Aid, trade and security in an unequal world* Published for the United Nations Development Programme 2005, New York, p.25

⁴⁶ Quoted in South African Institute of Race Relations *South Africa Survey 2000/2001* Johannesburg, 2001, p. 569

⁴⁷ ‘Jo’burg makes giant leap forward for disabled’ in *Business Day* 12 July 2005

⁴⁸ Friedman, S ‘South Africa: Globalisation and the politics of redistribution’ in Tulchin, JS and Bland, G *Getting globalisation right: The dilemmas of inequality* Lynn Rienner Publishers, Inc, 2005, p.16

⁴⁹ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I ‘South African Poverty and Inequality’ in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.72

⁵⁰ Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I ‘South African Poverty and Inequality’ in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.79

Approximately two thirds of the national budget is devoted to social spending and, according to the minister of finance, 57% of its spending is allocated to the poorest 40% of households while under 9% goes to the wealthiest.⁵¹ Welfare policy has, says Van der Berg *et al*, 'become increasingly proactive in efforts to alleviate poverty through the provision of social grants'.⁵²

Consider the following data from Leibbrandt *et al*'s study *South African Poverty and Inequality*:

- by 2001, 60 out of every 100 African households were living in a formal dwelling with walls made of bricks or concrete and tiled or corrugated iron roofs, up from approximately 50 in 1996;
- more Africans have access to piped water in 2001 (78%) than in 1996 (73%) - a factor which cuts down the amount of time mostly women have to spend on fetching water, and on the likelihood of illness, particularly among children;
- two in five households used electricity for lighting in 1996; five years later this number had increased to three in five households;
- there was an increase in the proportion of households with access to flush or chemical toilets. While the majority of coloureds, Indians/Asians and whites had access to a flush or chemical toilet, just 40% of African households had this facility in 2001 - up from a third of African households in 1996. In both 1996 and 2001 more than a quarter of households in rural areas had no access to either a toilet or to a pit or bucket latrine.

However, these positives need to be placed in context. The findings quoted above are based on the 1996 and 2001 Census data which and 'do not take into consideration substantial service cut-offs in the past three years'.⁵³ There is evidence of people being provided with services they cannot afford, largely arising from job losses. In the past two years, for example, Telkom's 2,09 million disconnections have outnumbered its 1,97 million new connections, resulting in net line shrinkage; Eskom has 'written off millions in unpaid accounts, again partly for reasons of affordability'.⁵⁴ And, many poor people do not qualify for social grants.

A society in which there are great disparities in wealth, where millions live in conditions of poverty, where some do not enjoy access to clean water or adequate health services,

⁵¹ Trevor Manuel 2000 quoted in Friedman, S 'South Africa: Globalisation and the politics of redistribution' in Tulchin, JS and Bland, G *Getting globalisation right: The dilemmas of inequality* Lynne Rienner Publishers, Boulder London, 2005, p.30

⁵² Van der Berg, S *et al Trends in poverty and inequality since the political transition* Stellenbosch Economic Working Papers: 1/2005, Bureau for Economic Research, p.4

⁵³ Friedman, S 'Understanding poverty: The limits of data' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.96

⁵⁴ Kane-Berman, J 'Extension of services will not help the jobless' in *Business Day* 2 December 2003

where there are high levels of unemployment means that the journey towards transformation into a society in which there will be human dignity, freedom, equality is incomplete.

6.4. Good news, for some: unemployment and the informal economy

As noted earlier, the ANC's full slogan read: 'A people's contract to create work and fight poverty'. It is trite but true to say that poverty has an employment dimension; work is a route out of poverty. The increase in poverty noted above coincides with increases in unemployment. Between 1995 and 2002, the official unemployment rate increased from 16.4% to 30.5%. Among black people, unemployment in 2002 was 36.8%, compared to 14.1% for others. Unemployment amongst women was 35%, compared to 27% for males.⁵⁵

Measuring joblessness is both difficult and sensitive. While it is often asserted that South Africa has experienced jobless growth, the key issue is that the rate at which jobs have been created, lags well behind the number of job-seekers, as the table below demonstrates. Research by UCT-based economist, Haroon Borat, shows that employment would have needed to expand by 52% between 1995 to 2002 just to maintain employment at the 1995 level.⁵⁶

Table 3: Employment Absorption Rate: 1995-2002

Race	Jobs created	Percentage change	Employment absorption rate
Black African	612 146	9.94	25.07
Coloured	178 515	15.95	69.17
Asian	43 607	12.37	49.25
White	119 799	6.22	70.36
Total	971 504	10.17	32.59

Source: Borat 2003:11⁵⁷

Most who lose their jobs are unlikely to find another; the stark reality is that there is probably a generation of people in South Africa who will never work.

Bhorat also alerts us to a new alarming trend, the 'massive' increase in the number of unemployed graduates, mostly Africans suggesting a mismatch between qualifications/skills and the demands of the labour market, and thus the need for a better articulation between the two. It also undercuts the frequently made claim that poor education explains unemployment and further, the false comfort that education is a powerful crane with the ability to lift thousands out of misery. The situation is more complex. It is the quality and orientation of education and the manner in which it articulates with employment that has to guide policy intervention.

⁵⁵ Quoted in Ohiorhenuan, J *The challenge of sustainable development in South Africa* Introductory remarks at the launch of the South African Human Development Report 2003, Johannesburg, 5 May 2004, p.4

⁵⁶ 'SA is creating jobs, but not as fast as the labour force is growing' in *Business Day* 10 June 2003

⁵⁷ Quoted in Friedman, S 'South Africa: Globalisation and the politics of redistribution' in Tulchin, JS and Bland, G *Getting globalisation right: The dilemmas of inequality* Lynn Rienner Publishers, Inc, 2005, p.15

That the poor do not benefit adequately from growth is a fundamental problem. What kind of growth is most likely to maximise job creation so critical for the poor? A sectoral approach might be useful - services, trade and construction have been better than manufacturing. In finance, real estate and business services, employment grew 76% from 1995-2002, in construction the increase was 22%, transport 32% and in wholesale and retail trade, 17%. Mining and telecommunications both lost jobs - mining employment was down 17%.⁵⁸

The recent Labour Force Survey reports that employment grew by 5,7% in the year to September 2005. However, what was less stridently reported was that more than half the reported new jobs were for hawkers.⁵⁹ The informal economy plays an important role in the economy, but it is not uncomplicated. In the words of Andre Ligthelm of the Bureau for Market Research, 'While it offers opportunities for the unemployed, jobs in this sector tend to be low paid, with little job security. Moreover, entrepreneurial activity is promoted, but at the price of non-compliance with tax, labour and other regulations.'⁶⁰ According to the Commission on Private Sector development, 'in many poor countries, small and medium enterprises (SMEs) are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on.'⁶¹ In effect, the growth of this type of informal work will do little to dent poverty, boost incomes, has limited prospects for expansion and offers little security. The trend towards informalisation is likely to persist. The declining capacity of the formal sector of the economy to provide jobs is a key cause for concern.

In 1999, StatsSA estimated the number of entrepreneurs (self-employed persons) to be about 1 630 000 or 3,7% of the population. About 70% of these 1,6 million entrepreneurs operate in the informal sector, 41% are women - illustrating two of the main challenges of any small, medium and micro-enterprise (SMME) support strategy. The 1999 October Household Survey data showed that non-survivalist enterprises were still dominated by whites and Asians, accounting for 6,4% and 3,8% respectively of economically active people. Black non-survivalist entrepreneurs accounted for only 0,54% of all economically active people.⁶² African females have the highest incidence of informality while those of white males have the highest incidence of formality.

Informal entrepreneurship has indeed 'boomed' in South Africa with a total growth of 10.9% in the period 2002-2003, highest among African women at 13.9%, for African men

⁵⁸ 'SA is creating jobs, but not as fast as the labour force is growing' in *Business Day* 10 June 2003

⁵⁹ Quoted in Makgetla, N 'Jobs data show symptoms of Dutch disease' in *Business Day* 27 January 2006

⁶⁰ Quoted in Hudson, J 'Not any job will lead out of poverty' *Enterprise* March 2004

⁶¹ Commission on the Private Sector and Development *Unleashing entrepreneurship: Making business work for the poor* Report to the secretary-general of the United Nations, 1 March 2004, p.1

⁶² Berry and others, *The economics of small, medium and micro enterprises* Trade and Industrial Policy Strategies, 2003, p.14

growth is 10.7%.⁶³ Research by the Centre for Social Science Research shows that the informal sector, including domestic workers and subsistence farmers, grew from 23% of total employment to 28% in the six years to 2003. A majority of the new entrants are women.⁶⁴

Table 4: The growth of informality: Formal and informal sector employment

Year	Formal employment	% change	Informal employment	% change
1996	8 291 000	-	996 000	-
1997	8 111 000	-2,17	1 136 000	14.06
1998	8 074 000	-0.46	1 316 000	15.85
1999	8 462 000	4.81	1 907 000	44.91
1996-1999	171 000	2.06	911 000	91.4

Source: Borat 2003:⁶⁵

Our economy would grow faster and more equitably if the most successful elements of the informal sector could be brought into the formal sector. Part of the challenge is in making the process of formalising easier so that informal enterprises do not become trapped in sub-scale activities.⁶⁶ Entrepreneurship was certainly blunted by apartheid policies, which contributed to a highly dualistic economy characterised by a high productivity (modern) and a low productivity (informal) sector with scant interaction between them, and a division along racial lines. Our specific history meant the exclusion of the majority of potential entrepreneurs from proper education and access to property and/or financial resources. In attempting to remedy this, the ANC's discussion document on *Development and Underdevelopment* proposes 'linkages' aimed at building a 'staircase' which will transport people in the Second, deprived, underdevelopment and isolated economy into the wealthy First - modern and integrated. However, the fact is that many attempts to graduate the second economy into the first are simply overblown. Says Barrie Terreblanche, editor of the South African *Big News for the Business Owner*:

serious research is needed into the extent of graduation from informal to formal business, and whether it is at all possible on a large scale. My unhappy conclusion is that well-intentioned attempts at getting informal business to graduate to formal businesses have been a waste of scarce developmental resources. My observations suggest that informal business owners either remain informal, or leave their businesses to become formal employees. Unemployed youths who are encouraged to start their own businesses fail in frightful numbers when their attempts are coupled to formal business arrangements such as bank loans or contracts. It leaves them with ruined credit records and dashed

⁶³ See *Annual review of small business in South Africa* - 2003 p.23

⁶⁴ Quoted in Boyle, B 'Unemployment: The most important undelivered promise of freedom' in *Sunday Times* 12 February 2006

⁶⁵ Quoted in Friedman, S 'South Africa: Globalisation and the politics of redistribution' in Tulchin, JS and Bland, G *Getting globalisation right: The dilemmas of inequality* Lynn Rienner Publishers, Inc, 2005, p.15

⁶⁶ *ibid* p.20

*confidence... It seems that a major step forward would be for the development community to accept this reality, and to rather train informal business owners to become employable, and to support employed middle management to become employers.*⁶⁷

South Africa is not unique in this regard. Surveys across Southern Africa show that less than one percent of firms 'graduate' from the micro-enterprise seedbed and become established enterprises employing more than 10 workers.⁶⁸

Importantly, some entrepreneurs, notably women in home-based enterprises, are often less willing to pursue a growth orientation, aiming for business stabilisation and income security rather than high-risk growth opportunities. This does not mean there are no exceptions, but it does mean that difficulties are likely and further that research is perhaps needed before strategies are embarked on with gusto.

President Mbeki has acknowledged that the jobless rate was high enough to constitute a danger to those with jobs and property: 'there cannot afford a rebellion of the marginalized against a system that guarantees the property owners their property rights and comfortable lives, while condemning the excluded million to lives of misery'.⁶⁹ Perhaps the critical factor is marginalisation, something which can spur alienation from political and economic systems and undercut the public goodwill surrounding South Africa's democracy.

7. GOVERNMENT AND THE PEOPLE: MIND THE GAP?

Representative democracy is, as Friedman argues, 'the most fruitful challenge for participation by the poor because it is the one in which their greatest strength, their numbers is rewarded. Participation processes, by contrast, tend to give advantages to those who have the capacities which come with access to resources.'⁷⁰

Arguing the benefits of representative democracy, is not to ignore that there is often distance between elected officials and ordinary citizens, particularly the poor.

This chasm manifests itself at several levels. Our current system of fixed list proportional representation at national and provincial levels, for example, has been criticised on the grounds that it does not allow sufficient contact between an elected representative and constituents. People, rather than political parties, may be better able to decide what they need; their decisions are less likely to be decided by extraneous forces such as political favouritism. For many, floor-crossing does not do much to boost voter

⁶⁷ Quoted in CDE 'Supporting South Africa's emerging entrepreneurs' *Key to Growth* Research Report no. 12 p. 21

⁶⁸ Mead, DC and Liedholm, C 1998 'The dynamics of micro and small enterprises in developing countries' *World Development Report* 26, p.67

⁶⁹ Quoted in Boyle, B 'Unemployment: The most important undelivered promise of freedom' in *Sunday Times* 12 February 2006

⁷⁰ Friedman, S *A voice for all: Democracy and public participation* in *Critical dialogue* Centre for Public Participation

confidence in the electoral system. Jonathan Faull notes 'where floor-crossing was a significant part of the political process, as was the case in Western Cape and KwaZulu-Natal, it was no coincidence that these provinces had the lowest voter turnout in the 2004 general elections.'⁷¹ These factors suggest perhaps the need for debate and discussion on the merits of a constituency based system that will allow voters a greater say in who their public representatives are.

The ability of communities to hold elected leaders to account is particularly important in ensuring the politicians do not engage in corruption. Andile Sokomani and Hennie van Vuuren point out that 'when everyone knows who you are, it's more likely that your few new garages and golf club membership will raise eyebrows in your neighbourhood where you were once known as the politician in the old beat-up bakkie'.⁷²

There are further indications of a gap between government and the people. Even when policy makers try to reflect the interests, needs and wants of the poor, they are constrained by having limited tools for identifying them and weighing them against other considerations. As a consequence, 'development policy', according to Friedman, 'repeatedly reflects misreading of preferences and social realities among the grassroots poor. If confirmation is needed that the ability to mobilise anti-apartheid resistance does not mean an insight into the minds of those at grassroots level under democratic conditions, the current wave of urban protest provides it.'⁷³

In the run-up to the last local elections in 2006, local government - arguably the most important interface between the people and government - has been the subject of around 900 protests⁷⁴ and, according to a survey quoted by the president, 'the sphere of government most citizens believe is not performing.'⁷⁵

This is not to deny the many challenges this layer of government confronts. For example, the Waterberg area of Limpopo province, where more than 50% of households live in poverty, includes 136 towns and covers almost 44 000 km². This factor undercuts the supposed advantage of local government being small enough to ensure that representatives are accessible to the poor, who as mentioned elsewhere have fewer resources to leave their footprint on policy.

One example of misreading of the preferences of the poor identified by Friedman relates to housing policy, in particular mortgage financing, which was the subject of forum

⁷¹ Quoted in 'Floor-crossing has "warped democratic principle"' in *Business Day* 16 September 2005

⁷² Sokomani, A and van Vuuren, H 'Who are the graft-busters?' in *Mail and Guardian* 17 February 2006

⁷³ Friedman, S 'Embedding the "developmental" state in South Africa' in Edigheji, O (ed) *Trajectories for South Africa: Reflections on the ANC's 2nd National General Council's discussion documents* Special edition of Policy:issues and actors Vol 18 No. 2, Centre for Policy Studies, Johannesburg, June 2005, p.20

⁷⁴ Quoted in Friedman, S 'The president's plan won't work without the people's participation' in *Sunday Times* 5 February 2006

⁷⁵ Quoted in Friedman, S 'The president's plan won't work without the people's participation' in *Sunday Times* 5 February 2006

negotiations for an extended period during the 1990s. What emerged was that discussions were informed by the misplaced assumption that this type of finance was actually desired by the poor. Focus groups on this topic revealed that participants associated this form of financing with evictions and were as a consequence anxious to avoid mortgage commitments. This perception was based on experience - when home ownership was first opened to black people in the cities in the mid-1980s, housing was 'oversold' and many of the purchasers proved unable to meet their obligations.⁷⁶

The South African government has tried harder than most to put a more feminine face on the often male-dominated arena of politics, and thus signal inclusivity to some 50% of the population. The elevation of Mrs Phumzile Mlambo-Ngcuka to the deputy presidency, has been 'a wake-up call to start taking account of the enormous, and often unacknowledged role of women in society.'⁷⁷ Recently, the South African Local Government Association committed itself to ensuring that women make up 50% of the candidates for the 2006 local government elections. ANC Women's League deputy president, Mavivi Kyakayaka-Manzini, was quoted as saying 'It is women who actually know the needs of their communities. They are often heads of households, they are aware of issues such as sanitation, water and electricity.'⁷⁸

For the vast majority of women languishing in worsening poverty, unemployment and indignity, there seems to be a chasm between them and powerful women in parliament. Asks Nominiso Gasa, 'How does participation and representation of women in parliament change the quality of life of citizens?'⁷⁹

Indeed, government's 'reach' into certain sections of society is perceived to be low. As Laila Smith points out 'many citizens...are yet to be incorporated into the relationship between government and citizens suggested by the payment of taxes;⁸⁰ revealing that they 'do not work and live within the same set of rules as the people who draft policy.'⁸¹ According to de Soto, 'massive extralegality is not a new phenomenon. It is what happens when the law fails to coincide with the way people live and work.'⁸²

⁷⁶ Tomlinson (1996 and 1997) quoted in Friedman, S 'South Africa: Globalisation and the politics of redistribution' in Tulchin, JS and Bland, G *Getting globalisation right: The dilemmas of inequality* Lynn Rienner Publishers, Inc, 2005, p.33

⁷⁷ Colleen Lowe-Morna, C quoted in 'Mlambo-Ngcuka takes a giant stride for women of SA' in *Business Day* 23 June 2005

⁷⁸ Brown, K 'ANC Women's quota no magic fix for party' in *Business Day* 23 September 2005

⁷⁹ See Gasa, N 'Gender and democratisation' in *Southern Africa post-apartheid: The search for democratic governance* published by the Centre for Policy Studies, Institute for Democracy in South Africa, and the Netherlands Institute for Multiparty Democracy 2004, p.64

⁸⁰ Smith, L *The power of politics: The performance of the South African Revenue Service and some of its implications* Policy: Issues and Actors Vol 16 No 2, Centre for Policy Studies, Johannesburg, April 2003, p.8

⁸¹ Friedman, S *Sending them a message: Culture, tax collection and governance in South Africa* Policy: Issues and Actors Vol 16 no 3, Centre for Policy Studies, Johannesburg, July 2003, p.16

⁸² Quoted in Hudson, J (ed) *Why capitalism triumphs in the west and fails everywhere else: A South African Conversation with Hernando de Soto* Centre for Development and Enterprise, Johannesburg, November 2001, p.2

Seemingly attempting to address gaps between government and the people, in January 2006 the ANC forced its local government candidates to sign a pledge promising not to desert the communities that elect them. The party purged most of its councillors in the run-up to the municipal elections and its manifesto promised a 'plan to make local government work better'. These moves underline that the importance the party places on politicians being attuned and connected to local politics, key to the spirit of the peoples' contract.

However, there are some doubts. One analyst points to 'a tendency towards the denial of local preference in the selection of candidates for public office - provincial premiership candidates are now chosen nationally, not by provincial ANC congresses; executive mayors and other key local government candidates are chosen - or "deployed" - by the centre.'⁸³ Taking the choice out of the hands of voters undercuts the people's contract since becoming a local government executive mayor in an ANC area remains a gift of the party not the people.

While South Africa is richer and more stable than ever before, angry protests and clashes with the police were evident in the run-up to the local government elections in 2006. Mass action gives ordinary people a voice in the policy processes, which otherwise might remain the preserve of the powerful and well-resourced groups and individuals. As Makgetla points out, "Businesses can pay for lobbyists, golf games and cigars. Workers and the poor have only their feet, their voices and their solidarity."⁸⁴ But a full appreciation of the people's contract entails that their voice is listened to. So far, the evidence of this is uneven.

Protests against the incorporation of Khutsong into the North West province from Gauteng in the run-up to the 2006 local government elections saw some 800 high school pupils stoning the Khutsong police station; police fired rubber bullets and teargas at protesters. According to President Mbeki, 'What is happening in Khutsong is thoroughly unacceptable'.⁸⁵ But in the words of a protester, 'the ANC sold us. They didn't even consult us.'⁸⁶ This sentiment illustrates the larger importance of conducive politics in South Africa, that people are not just passive consumers of government provided services and decisions, but rather want to be viewed as empowered members of a political community that demands respect. Engaging the people also requires listening to them, no matter how challenging their message.

A further aspect relates to the manner in which corruption is addressed, which goes to a deeper level of trust. Corrupt officials appropriating funds earmarked for development reduces confidence in those who represent the public in political life. Corruption poses 'a major challenge at provincial and local government level, negatively affecting the capacity of the public sector to deliver services to the poor. At a national level almost R2billion was

⁸³ See Friedman, S and Chipkin, S *A poor voice?: The politics of inequality in South Africa* Research Report no.87, Social policy series, Centre for Policy Studies, Johannesburg, August 2001, p.29

⁸⁴ Makgetla, N 'Poor see a different side of economic boom' in *Business Day* 21 October 2005

⁸⁵ Quoted in 'Mbeki gets tough over troubled Khutsong' in *Mail and Guardian* 20 February 2006

⁸⁶ Quoted in 'Khutsong: "The ANC sold us"' in *Mail and Guardian* 22 February 2006

lost in 2003 to corruption in the Social Welfare system, the Labour ministry may have lost as much as R1 billion of the money allocated to skills development - and the Road Accident Fund which has long been susceptible to fraud and corruption may have lost R1 billion in the past year as well. The private sector, as a major source of corruption, may be losing as much as R50 billion a year to fraud and corruption, according to former Minister of Justice Penuell Maduna'.⁸⁷ Effectively corruption robs resources which have alternative productive uses, including the reduction of poverty.

One of the effects of corruption is that some voters will tune out because the way in which some politicians comport themselves; others because they no longer have an interest in politics. Research by IDASA in the late 1990s showed a widespread sense among voters that representatives and their institutions are remote and unresponsive.⁸⁸ A notable exception was Nelson Mandela, a moral colossus, who cruised above negative perceptions about politicians.

Corruption holds the potential to alienate voters, undercut attempts to alleviate poverty and undermine delivery to the poor.

8. MOVING CLOSER

There are bright spots that signal government's practical commitment to engaging the people. During the 2006 State of the Nation speech, for example, President Mbeki, spoke about an 'overall programme to introduce a regulatory impact assessment (RIA) system to enable the government regularly to assess the impact of its policies on economic activity in our country.'⁸⁹ Because there are political aspects, not just technical aspects to RIAs, consultation with stakeholders - business, consumer groups, local government, non-government organisations - is a vital part of the assessment process.⁹⁰ This involvement of stakeholders in sectors is critical in the development of sustainable development strategies. Concerns about social and environmental costs are just as important as the impact on business. Chosen policy options should not create new groups of vulnerable people. A good RIA process is essentially inclusive, transparent and democratic - in order for it to work well, there must be willingness to review fixed positions and commitment to open debate. As the UNDP reminds us, 'an inclusive policy-making framework, with processes that embody the major concerns of the various stakeholders is likely to produce the right conditions under

⁸⁷ Van Vuuren, H *Transparency International: South Africa* Paper commissioned for the Kenya meeting on new anti-corruption governments co-organised by the Government of Kenya, TI-Kenya and Transparency International. 11-13 October 2004, p.48

⁸⁸ Institute for democracy in South Africa *A submission to the white paper secretariat by the Idasa Public Opinion Service* December 1997

⁸⁹ Mbeki, T *State of the nation address of the president of South Africa, Thabo Mbeki* Joint sitting of parliament, Cape Town, 2 February 2006, p.15

⁹⁰ See Hudson, J 'Understanding regulatory impact assessments: Lessons from the international experience' *SME Alert* Small Business Project, Johannesburg, January 2003

which they can unleash their creative involvement in the development process.'⁹¹ This approach is likely to foster greater compliance.

In taking the RIA agenda and the consultation processes that accompany them, it will be critical that details on implementation are spelt out. Further down the line, it is important that plain language is used in proposed policy documents, and policy options in languages other than English are available - English is the home language of less than 10 percent of the population. This would enable ordinary people to engage meaningfully in policy processes.

There is a challenge in terms of how RIAs as a policy mechanism will, or will not, reach those operating in the informal sector. Formal and informal operators respond differently to the regulatory environment, the latter tend to ignore regulations, taxes, levies, and health standards.⁹² They are also likely to ignore requests for consultation because of collective action problems or because they do not have huge incentives to make themselves and their activities known to policy-makers. In the words of Friedman, 'people who earn their living through informal activities have far less opportunities for collective action and very little bargaining power even if they engage it.'⁹³ Political imagination is required in terms recognising and harnessing the potential residing in the informal sector and engaging with it.

While policy-makers often assume that informal businesses stay that way because their owners do not wish to pay burdensome taxes, extra-legality can be uncomfortable. Illustratively, one hundred and fifty South African informal sector enterprises were recently asked whether or not officials had interfered with their operations in any way; 28% said yes, 62% of these had had stock confiscated or destroyed, 19% had been prosecuted and fined, 17% had been ordered to close or move on, 10% had been asked to pay bribes. These are non-compliance costs borne by these enterprises. Advantages of formalisation identified by them were: less harassment (30%); cheaper stock/inputs and credit (17%); the possibility of government aid (24%); and a better image for marketing and tenders. Among the perceived disadvantages to registering their businesses were taxes (38%) costs in relation to rewards (22%) and red tape (7%).⁹⁴ Some of these entrepreneurs would find benefits in moving to the formal sector in the form of greater access to credit and courts; secure premises, corporations and the public sector might take them on as suppliers - as enterprises need a tax certificate to tender for contracts. Some will not want to make this journey towards formalisation. If policy-makers are to tilt the balance towards encouraging informal enterprises to formalise the focus might have to shift from punishing wrongdoers to making the system easier to comply with, to listening to what the needs, concerns and issues of

⁹¹ Ohiorhenuan, J *The challenge of sustainable development in South Africa* Introductory remarks at the launch of the South African Human Development Report 2003, Johannesburg, 5 May 2004, p.7

⁹² Hudson, J *Everyone can be an entrepreneur and other myths...* Presentation to the Sol Plaatje memorial discussion group, Johannesburg, 14 May 2004, p.6

⁹³ Friedman, S *An unfinished agenda: Incomplete democratic transitions with special reference to South Africa* paper presented at the International Political Science Association plenary 'What have we learned from three decades of transition' Durban, July, 2003, p.11

⁹⁴ SBPC *Counting the cost of red tape for business in South Africa: Headline report* November 2004, p.14

those operating in the informal sector are. In this way, these 'outsiders' who wish to change their status might be encouraged to do so, or at least not discouraged still further.

What about the role of civil society in public decision-making? Here civil society refers to 'visible and organised citizens' groups which seek to influence government policy. Indeed, civil society campaigns, using Constitution-based rights, have been launched to address the plight of the poor.⁹⁵ But from the perspective of poverty and the people's contract the real issue is whether or not the emphasis on civil society increases the freedom of the poor to shape policy. As Friedman points out:

*most citizens do not belong to civil society organisations.... It is the poor and the weak, because they lack the resources which organisation requires, who find it hardest to organise and, therefore, to become a strong voice in civil society. Ironically, then, the demand for heightened participation through civil society association may be an insistence that the more affluent and the better resourced participate - not that the poor be heard.*⁹⁶

Of course, a situation in which civil society organisations have power and are active, often translates into a society that is richer, better and more vibrant for it. But by absorbing and hearing the concerns of civil society, government has not necessarily taken account of the concerns of the poor.

The notion of informality is also complicated by the fact that there are non-survivalist but unregistered micro-businesses that are 'informal' by default; this is so largely as a form of tax evasion. This points to the need to make a distinction between an informal economy of survival, an informal economy of growth, and a formal - often highly profitable and skilled - micro-sector. Authorities would most likely be interested in non-survivalist but unregistered business - this might be a successful bed and breakfast in Johannesburg's leafy northern suburbs - and getting them into the tax net, but less likely to try and collect tax from a taxi rank or a shoe polisher at a roadside.⁹⁷

Engaging with the poor cannot only be a formal process. In the words of Desmond Tutu: 'We need to find ways in which we engage the hoi polloi, the so-called masses, the people, in public discourse through indabas, town-hall forums, so that no one feels marginalised and that their point of view matters, it counts.'⁹⁸

⁹⁵ Magasela, W 'Towards a constitution-based definition of poverty in post-apartheid South Africa' in *State of the nation: South Africa 2005-2006* edited by Buhlungu, S; Daniel, J; Lutchman J and Southall, R, Human Sciences Research Council, 2005, p.61

⁹⁶ Friedman, S *A voice for all: Democracy and public participation* in Critical Dialogue Centre for Public Participation, Durban, 2005

⁹⁷ See Hudson, J forthcoming *Resource Report 3: Literature review on entrepreneurship, housing and housing finance* 12 September 2005, Finmark Trust, p.44

⁹⁸ Tutu, D 'SA needs to look beyond its borders to realise its own triumphs' in *Business Day* 24 November 2004

This approach requires effort and energy, but it is this kind of effort that holds the potential to build substantive democracy with deep roots in people's lives and thus address the lack of a political voice for the poor. Identifying their preferences and needs is the only way to ensure that policies intended to benefit the poor actually do so.

And the ANC-led government has instituted several participatory structures and processes, both formal and informal. Jeremy Cronin, quoted by Edigheji⁹⁹ puts it thus:

A number of notable participatory practices and institutions have emerged more or less directly out of the pre-1994 popular struggle. These include community policing forums; school governing bodies; and ward committees in which, at least in terms of the law, councils are obliged to submit budgetary proposals and integrated development plans to popular local assemblies. Government has also increasingly instituted the practice of izimbizo - open-ended community meetings in church halls and township meeting places in which the president or ministers listen to community concerns and engage with their interlocutors, explaining policies, promising interventions and assigning officials to effect follow-up. Running through all of these realities is an implicit broadening of the meaning of government - that it is a matter of collective engagement and popular participation, and not something for elected representatives or state functionaries alone.

But these processes and institutions do not always heed the wishes or needs of citizens, especially those of the poor and indigent, who are often unable to engage in policy process for reasons ranging from inability to get the venues where these are discussed, and lack of technical expertise to interrogate often very techno-centred policy documents. The protests against the incorporation of Khutsong into the North West province from Gauteng (cited above) is illustrative of this, with protestors claiming that the government did not even consult them.

The challenge from the perspective of poverty and the people's contract is to ensure that the developmental partnership between society and the government does indeed result in the needs of the poor not only being heard, but also accommodated.

9. A GROWING BLACK MIDDLE CLASS

More and more black people are getting richer, clearly a measure of the success of political and economic transformation since 1994. The *Business Times* Rich List published towards the end of 2005, said that there are seven black people among South Africa's 50 richest - 'there would have been none in 1994'.¹⁰⁰ South African Advertising and Research

⁹⁹ Edigheji, O *The Discourse of the Developmental State and the People's Contract in South Africa*, Centre for Policy Studies, Johannesburg August 2006

¹⁰⁰ Klein, M 'More power to the people' in *Business Times* 12 February 2006

Foundation (SAARF) data shows that blacks now account for approximately a third of South Africa's 'middle class'.¹⁰¹

It must be noted that media definitions and portrayals of the African 'middle class' are to be treated with circumspection; they can be, according to Lawrence Schlemmer, 'very generous. Almost any family that is not grindingly poor gets to be "middle class"'.¹⁰² It is perhaps more useful to consult more thoughtful depictions, such as that of Servaas van der Berg in the table below.

A growing middle class: 1994 - 2004

	1994	2004
The higher middle-class (above R40 000 per capita)		
Blacks	397 987	1 193 780
Other (non-Black)	2 826 092	3 635 405
All	3 224 079	4 829 184
% of whole population	8.1%	10.4%
% of blacks	1.3%	3.3%
Black share of higher middle class	12.3%	24.7%
The working and lower middle class (above R25 000 per capita)		
Blacks	1 137 367	2 553 998
Other (non-Black)	4 240 358	5 105 222
All	5 377 724	7 659 220
% of whole population	13.5%	16.5%
% of blacks	3.7%	7.0%
Black share of working and lower middle class	21.1%	33.3%

Source: Van der Berg *et al* 2005

Denting the popular image of a huge black middle class using weighted All Media Products Survey data, Schlemmer estimates 'the core African middle class at less than 1% of the entire African population of about 22,4 million... and 9% of the South African core middle class in late 2003, and rising very rapidly but still a rather small proportion of around 11% in late 2004'.¹⁰³ The number of Africans in the top LSM category has grown by 'a phenomenal 21% a year over the decade to 2003, more than eight times faster than the adult population as a whole'.¹⁰⁴ However, it should be borne in mind that this increase is off a low base.

9.1. Conspicuous spending

Reports on the overall transformation often fail to give indications of the modifications in lifestyles and expectations, the symbolic and qualitative aspects that often accompany and

¹⁰¹ Ibid

¹⁰² Schlemmer, L *Delineating South Africa's African middle class* Presentation of 2004 results with brief updates for 2005, Markdata (Pty) Ltd, and CDE, Johannesburg, 2005, p.1

¹⁰³ Schlemmer, L *Lost in transformation: South Africa's emerging African middle class* Centre for Development and Enterprise, Johannesburg, 2005, p.4

¹⁰⁴ Schlemmer, L Centre for Development and Enterprise *Lost in transformation: South Africa's emerging African middle class* Centre for Development and Enterprise, Johannesburg, 2005, p.4

characterise change. There is a fear that black empowerment is little more than the enrichment of a tiny politically connected elite as the emerging black middle class plunks down its newfound spending power in a similar way to the white middle class during the apartheid era.

Reporting on consumption patterns, Marcia Klein of *Business Times* notes that the proportion of blacks in South Africa's top income bracket is now around 20%. This group apparently has different spending patterns from the middle class, preferring to spend on homes, luxury cars and leisure (including liquor and clothing). The middle class, according to Klein, is buying consumer goods, particularly household goods (fuelled partly by increased access to electricity) and cars.¹⁰⁵

Vuyo Jack of Empowerdex reportedly worries that consumerism rather than investment is taking place: 'people do what they had not been able to do, such as buying a nice car or going on holiday'.¹⁰⁶ For Jack, the 'massive spending boom may not be sustainable' as people 'need to build an asset base or net worth to support that consumption. Leading businessman Saki Macozoma, has been quoted as saying that 'too many in the black middle class are absorbed in the fetish of conspicuous consumption and its attendant pathologies to bother about the direction of the country.'¹⁰⁷

While this reported trend raises concern in many quarters, whether or not conspicuous consumption is occurring needs to be substantiated with further research. The concern is undercut by research which shows that 'the emerging African middle class is relatively small, growing rapidly, and is still too unformed in terms of attitudes and orientations to provide unambiguous evidence.'¹⁰⁸ However, perceptions can shape actions regardless of whether or not they have a robust empirical base. International research by brand consultancy Added Value, say that South Africa is 'one of the most aspirational markets on earth, with plenty of new and old money chasing the bling.'¹⁰⁹

It is useful at this point to look to trends in Chile captured by Arturo Fontaine Talavera in *Trends towards globalisation in Chile*:

one of the revolutions with the greatest impact on the poor was the abolition of regulations prohibiting the import of used clothing... No sooner had these regulations been withdrawn than tons of clothing, used but in excellent condition, began to arrive from the US. Within three years, no one was walking barefoot. The poor districts filled up with parkas, authentic Wrangler and Lee jeans, and brightly coloured T-shirts emblazoned with tropical palms or legends

¹⁰⁵ Ibid

¹⁰⁶ Klein, M 'More power to the people' in *Business Times* 12 February 2006

¹⁰⁷ Quoted in Klein, M 'More power to the people' in *Sunday Times* 12 February 2006

¹⁰⁸ Schlemmer, L Centre for Development and Enterprise *Lost in transformation: South Africa's emerging African middle class* Centre for Development and Enterprise, Johannesburg, 2005, p.14

¹⁰⁹ Thole, D 'Bling it on' in *Business Day* 1 November 2005

*in English. Women began to wear trousers. ... It wasn't unusual to see, for instance, a shantytown dweller, who was probably semiliterate at best, dressed in shorts and a T-shirt that read "University of Michigan" or "Make Love Not War".... A television programme might interview a peasant from the south. The man cannot read or write; even so, he sports a Gap cap, jeans, and a parka, all of which are in good condition...[G]lobalisation has an equalising effect: people with high incomes wear brand name clothing, which the poor can only access secondhand. The result, however, is that the child of a poor family is visually seen in a manner equal to the child of a middle-class family - their differences are reduced, at least on a symbolic plane.'*¹¹⁰

Due to the availability of used clothing to the Chilean poor, a greater percentage of the population was able to participate in the globalisation of consumption, something which previously was reserved for the elites.

The social effect of having a nice car and/or designer clothes automatically puts one in the category of the rich, visibly. While this is the culture of the elite, it is also the culture of those who take the elite as their point of reference.¹¹¹ Marked differences in class become more evident where these goods are not within the reach of everyone. In terms of social stratification, things might appear less egalitarian; status barriers may well grow as a result.

Congress of South African Trade Unions (COSATU) secretary general, Zwelinzima Vavi, was reported as saying that perceptions about corruption and actual corrupt practice 'derive in part from the huge gap that has emerged in living standards between ANC leaders and the poor they represent ... Objectively the conspicuous consumption found in some in government opens the door to improper behaviour.'¹¹²

What is the content of beliefs and values that inform outward material acquisitiveness, or the perception thereof? Is there a possibility reports of 'heavy' consumption can continue to reinforce divisions in a nation still endeavouring to heal the divisions of the past? Is there a danger that the focus on becoming 'filthy rich' might overshadow the concerns of the poor and thus potentially dilute the importance of broad-based black economic empowerment strategies? Put differently, what kind of values, behaviour, and attitudes are supportive of the people's contract and the inclusivity it suggests, in the context of poverty for many South Africans?

A buoyant economy and the presence of an increasingly affluent black middle class should not obscure the fact that, as noted earlier, most black people remain poor and unable to share in the benefits of macro-economic success.

¹¹⁰ Talavera, A F 'Trends toward globalisation in Chile' in Berger, P and Huntington, S *Many globalisations: Cultural diversity in the contemporary world* Oxford University Press, 2002, p.262

¹¹¹ Berger, P L 'Globalisation and culture: not simply the west versus the rest' *CDE Focus* January 1999, p.3

¹¹² Quoted in Kindra, J 'Cosatu speaks out on Zuma corruption charges' in *Mail and Guardian* 11 September 2003

As Friedman reminds us, 'In a society in which most people cannot acquire large cars or fancy clothes by honest means, making this the standard by which people are judged is an open invitation to do so by other means. It also sets unrealistic standards for people to measure themselves by. Those who have enough to get by but not to acquire the goods which bring status, begin to believe they have failed.'¹¹³

A survey of South Africa's emerging African middle class identified 'social distance between the African middle class and its white counterpart ... This sense of distance was manifested in evidence of a lack of networks between the two classes; and strong perceptions of illegitimacy of white middle class wealth, skills and social capital.'¹¹⁴

What is an appropriate lifestyle for our leaders, given high levels of poverty and inequality in society? How does one deal with wider normative issues in society that might reinforce marginalisation of groups and divisions? Perhaps it is time for compassion to make a comeback? Asks Desmond Tutu:

*What is black empowerment when it seems to benefit not the vast majority but a small elite that tends to be recycled? Are we not building up much resentment that we may rue later?... We were involved in the struggle because we believed we would evolve a new kind of society - a caring and compassionate society. At the moment, many, too many, of our people live in gruelling, demeaning, dehumanising poverty. We are sitting on a powder keg.... We want a new quality of society, compassionate, gentle and caring. The kind of society where the president sits on the floor to talk to his people in their modest house... A nation where we all belong and know they belong; where all are insiders, none is an outsider; where all are members of this remarkable, this crazy, country; they belong in the rainbow nation.'*¹¹⁵

Says Brian Whittaker of the Business Trust 'Compassion for the worst affected by the challenges we now face, may ultimately now define the nation most clearly. This poses a particular challenge for the well-off in this unequal society. The way elites respond to crises, which their positions of privilege could help them to avoid, can make the difference between success and failure.'¹¹⁶ The good news is that the elite can choose the way it wishes to respond; this is within their realm of control.

Such conspicuous consumption tends to starkly differentiate the poor from the rich and serve as a visible reminder of the growing inequality within South African society.

¹¹³ Friedman, S in *Business Day* 4 August 1997

¹¹⁴ Schlemmer, *Lost in transformation: South Africa's emerging African middle class* Centre for Development and Enterprise, Johannesburg, 2005, p.14

¹¹⁵ Tutu, D 'SA needs to look beyond its borders to realise its own triumphs' in *Business Day* 24 November 2005

¹¹⁶ Whittaker, B 'Unemployment crisis' in *Business Day* 30 June 2006

11. WHAT IS TO BE DONE?

Evidence from a study of poverty reduction in 14 countries in the 1990s confirms “that the pace of overall economic growth is the main factor that determines how quickly poverty declines. A successful pro-poor growth strategy should have, at its core, measures to achieve sustained and rapid economic growth”.¹¹⁷ The study said that poverty “fell in the 11 countries that experienced significant growth during the period, and rose in the three countries that saw little or no growth... On average, a 1 percent increase in GDP per capita for these countries reduced poverty by 1.7 percent ...”¹¹⁸

Such growth increases job opportunities as the economy expands, and provides more resources for the public purse that can be used for the alleviation of poverty. South Africa, as is clear from the contract, sees economic growth as a vital ingredient for the creation of jobs and the reduction of poverty: it has set itself a target of some 6% growth per annum. While economic growth over the last five years from 2002 cannot be described as ‘rapid’, there certainly has been sustained growth at an average of about 3%. But if sufficient jobs are to be created to both impact poverty and accommodate new job entrants, the economy will have to begin to grow at a pace closer to that of the 6% annual target. In this regard, the peoples’ contract calls for the involvement of all in the creation of this growth through, *inter alia*, the acquisition and upgrading of skills needed to grow the economy. This means acquiring skills in areas where growth is occurring (and where there are employment gaps) such as the service industries, including the IT sector. For business people, it includes increased local investment, as this will provide the right signals to those who wish to invest from abroad.

Also, in South Africa high levels of unemployment and a massive informal sector reveal that we have perpetual outsiders - the poor, the unemployed - in our midst. Since they often lack organisational resources to make a substantial impact on policy debates, assertive attempts must be made to reach them and hear their concerns.

Human potential is unleashed by managing sickness and deaths, educating all children, engaging citizens, overcoming gender inequalities coupled with creating the conditions for economic growth and poverty alleviation. The vibrancy of our democracy requires full and equal participation of everybody in the country who wishes to participate.

11.1. The terrible twins: inequality and poverty

The accepted wisdom that growth in itself is the predominant means of poverty reduction has been challenged recently. Ravallion, for instance, argues that reductions in income inequality also significantly influence the reduction of poverty.¹¹⁹ In several

¹¹⁷ Cord, L et al, *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*, Operationalizing Pro-Poor Growth (OPPG) program, June 2005.

¹¹⁸ Ibid

¹¹⁹ Ravallion, Martin. ‘Growth, Inequality, and Poverty: Looking Beyond Averages’, Working Paper No. 2558, Washington D.C., The World Bank, 2001.

developing countries he shows that reductions in income poverty have been “much larger in those that have combined rising average incomes with falling income inequality”.¹²⁰ Bourguignon, however, points out that:

*“the amount by which economic growth reduces income poverty...depends on the initial level of inequality. Holding inequality constant, small increases in average income may be enough to lift large numbers of people out of poverty when income is fairly equally distributed, but not in countries where income is unequally distributed...Hanmer and Naschold (2002) find high-inequality countries need as much as three times the amount of economic growth to reduce poverty as low inequality countries. The implication is that reductions in poverty in high-inequality countries will be very difficult to achieve unless inequality is explicitly addressed.”*¹²¹

It is clear that the level of inequality in the country mediates the effect of economic growth on poverty. As pointed out above, South Africa has one of the highest levels of inequality in the world (at least by some ratings) so it will need to seriously tackle inequality and increase economic growth simultaneously in order to effectively reduce poverty. The uneven distribution of wealth that has been occurring has served to deepen inequality in the country. Inequality has increased within all population groups between the 1996 and 2001 Census period. Africans are poorer on average and simultaneously more unequal within their group than other population groups.¹²²

11.2. Increasing agricultural earnings

If it is to make the desired impact on poverty, economic growth should be viewed through a pro-poor lens. Firstly, since most of South Africa's poor live in rural areas, much focus should be applied there. Cord *et al* point to several policy interventions that were important in helping to raise the agricultural earnings of the poor in their study.¹²³ These included: improving market access and lowering transaction costs; strengthening property rights for land; creating an incentive framework that benefits all farmers; expanding the technology available to smallholder producers; and helping poorer and smaller producers deal with risk.¹²⁴

¹²⁰ Ravallion as quoted in Bourguignon, Francois. ‘The Poverty-Growth-Inequality Triangle’, paper presented at the Indian Council for Research on International Economic Relations, New Delhi, 2004

¹²¹ Bourguignon, Francois. ‘The Poverty-Growth-Inequality Triangle’, paper presented at the Indian Council for Research on International Economic Relations, New Delhi, 2004

¹²² Leibbrandt, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I ‘South African Poverty and Inequality’ in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.77

¹²³ Cord, L *et al*, *Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries*, Operationalizing Pro-Poor Growth (OPPG) program, June 2005.

¹²⁴ Cord points out that the effect of implementing these policies was not the same in all countries because of factors such as initial country differences and only partial application of policies

Market access and the lowering of transaction costs was achieved through improving rural infrastructure, including rural access roads to markets and the building of markets in rural areas. South Africa would do well to follow the route of other African countries where “contract farming with NGOs and the private sector facilitated market access...particularly when complemented by organized involvement at the grassroots”.¹²⁵ Although it is moving slowly, South Africa is already in the process of securing land tenure for those who were disposed during apartheid through its land reform programme. There is increasing evidence to support the notion that agrarian reforms are a sustainable way to address unemployment and poverty among a relatively large number of the people.¹²⁶

But the incentives available to small farmers will have to be increased and their transaction costs reduced by providing access roads to markets in adjoining towns and villages. In addition subsidies for small farmers is an important incentive even though they “may receive only a small share of total subsidies...these subsidies are a significant share of their total income”.¹²⁷

Increasing access to appropriate technology for small farmers, through for instance improving access to credit, is important, as this often leads to an increase in yield and thus income. It also makes the undertaking more sustainable over the longer term. Helping farmers deal with risk could include, as was the case with Burkina Faso, “improving access to market storage facilities [which] can help to smooth seasonal fluctuations...”.¹²⁸ Cord *et al* point out that their study illustrates that “[I]n general, expanding the use of targeted safety net programs (where administrative capacity exists or can be reinforced) would help avoid severe deprivation from output and price variations and encourage farmers to adopt riskier technologies that offer higher returns”.

Of course an alternative would be to increase non-agricultural opportunities for rural residents in surrounding towns and urban areas. This may mean providing them with the necessary skills, through skills training programmes, including public works programmes, which at the same time could provide the infrastructure (such as roads and electrification) needed to decrease the transaction costs of getting the commodities of small producers to markets and of rural workers commuting to nearby towns. South Africa has already embarked upon massive public works programmes designed precisely to improve infrastructure. More of these programmes should however, be centred on rural areas and aimed at improving infrastructure there.

¹²⁵ Cord, L et al, Op cit, June 2005

¹²⁶ See Edigheji O, *The Discourse of the Developmental State and the People's Contract in South Africa*, Centre for Policy Studies, Johannesburg, August 2006

¹²⁷ Ibid

¹²⁸ Ibid

11.3. Increasing non-agricultural income

Cord *et al* also underscore four broad policy options to enhance access to non-agricultural earnings for poor households: improving the investment climate; expanding access to secondary and girls' education; designing labour market regulations to create attractive employment opportunities; and increasing access to infrastructure.¹²⁹

Improving the investment climate (specially fixed direct investment) increases job opportunities and leads to increased economic growth. More jobs means less unemployment and a thus a decrease in poverty. It is desirable to have a labour relations regime which encourages employment, especially for poor workers, as this helps "expand their non-agricultural earnings, particularly in countries with fast growth. Labour market regulations, often designed to protect the interests of poor workers, can restrict formal labour markets and the access of poor workers".¹³⁰ But a flexible labour regime is not the only factor influencing investment. As Cord *et al* point out:

"Other critical constraints include policy uncertainty, fiscal burdens, cost of finance, corruption and the quality of courts...Second, loosening labour market regulations in some regions, particularly Africa, may have little impact on labour markets, especially if employment is mainly in agriculture...Third, labour market regulations, though imperfect, constitute a form of social protection. The extent of labour market regulation needs to reflect a balance between workers' needs and employers' needs, a balance that hangs on a country's labour market conditions and level of development.

Increasing access to secondary education and girls' education is important in increasing the skills profile of the workforce. Even in South Africa, where the provision of education is not influenced by gender, many girl children, especially in traditional rural settings, are denied education. Bringing these girls into the education system will allow the country to tap into a skill resource that could help drive the economic upswing.

Moreover, the increases in access to services by the poor, particularly the poorest of the poor¹³¹ - to basic services such as clean water, electricity, and sanitation has had a major impact on quality of life, leading to improvements ranging from health to productivity. This has been greatly facilitated, says Liebbrecht because 'Having adequate shelter is a basic necessity, a constitutional right and a keystone to social well-being.'¹³²

¹²⁹ Ibid

¹³⁰ Ibid

¹³¹ Liebbrecht, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.72

¹³² Liebbrecht, M; Naidoo, L; Poswell, P; Welch, M and Woolard, I 'South African Poverty and Inequality' in Brown, S and Folscher, A (eds) *Taking power in the economy: gains and directions* - Economic Transformation Audit, Cape Town: Institute for Justice and Reconciliation, 2004, p.79

Furthermore, as stated above, a sectoral approach might be useful - services, trade and construction have been better than manufacturing. Finance, real estate and business services employment grew 76% from 1995-2002, while that of construction was 22% and transport 32%, and in wholesale and retail trade, 17%. Mining and telecommunications both lost jobs - mining employment was down 17%.¹³³

12. CONCLUSION

While South Africa has established a regime of liberal rights and opportunities, the concept of a peoples' contract requires that we go further in deepening our democracy. Will government succeed in ameliorating poverty and inequality - however it is measured? The scale of the task is enormous, whatever definition or measurement is used. Trends in employment are not comforting. However, Servaas van der Berg's analysis of poverty trends have shown that "for all poverty lines ranging from R2 000 to R4 000 per capita income per annum, poverty seems to have been declining sharply since about 2002 after a modest rise at the end of the previous decade."¹³⁴

Addressing the many and various challenges requires that poverty data and analyses are subjected to a process of continuous scrutiny and improvement, that services are delivered efficiently, but also that the concerns, needs and issues confronting the poor are taken into consideration. In order for this to happen, channels to open up communication between policy-makers and those with few resources must be explored energetically. This raises a particular challenge and opportunity for government, which does not currently enjoy significant reach into certain sections of society, most notably the informal sector. Consideration might also be given to the messages that are sent in terms of who is excluded and included in our democracy - in this context, it may well be time for debates on values for leaders, corruption, electoral reform and HIV/Aids to become more robust. It is particularly vital that the ANC remains energised by the concept of a peoples' contract. In the absence of a viable opposition party - our ruling party remains the only hope for advancing the concerns of the poor at a significant scale.

If the peoples' contract is to have the desired outcome of reducing poverty, pro-poor growth policies and strategies need to be employed by government: these policies should specifically provide strategies for targeting the poor both in the rural setting and in the urban areas. The reduction of inequality must be seen as an important means of reducing poverty, alongside economic growth: economic growth must be shared or redistribute growth, rather than growth that accrues to a specific group in society.

While the views of society need to be heard and factored into government policy, society also needs to deliver its part of the social pact. Business must invest and create jobs in the local economy and promote the country as an investment destination in the wider

¹³³ 'SA is creating jobs, but not as fast as the labour force is growing' in *Business Day* 10 June 2003

¹³⁴ Van der Berg, S *et al Trends in poverty and inequality since the political transition* Stellenbosch Economic Working Papers: 1/2005, Bureau for Economic Research, p.18

world community. Citizens must monitor and report corrupt and unproductive civil servants, public representatives and government officials. Citizens must also acquire the necessary skills needed by the economy to grow so that the country is able to create a skilled human resource pool able to fulfil the employment needs of a growing economy. If both sides of the peoples' contract deliver their side of the bargain, then it has a good chance of meeting its ambitious poverty reduction goals.