

RESPECTIVE ROLE AND FUNCTIONS OF GOVERNMENT, CORPORATE INSTITUTIONS AND PRIVATE SECTOR IN ECONOMIC DEVELOPMENT IN CISKEI

1. PURPOSE OF DOCUMENT

The purpose of this document is to outline the nature, role and function of the public and private sectors, and to indicate how institutions within these sectors interact and compliment each other in the development process.

It is therefore important to first understand the place and purpose of the wide range of institutions, commonly described as public and private sectors, which contribute to development.

2. INTRODUCTION

Since the early 1980's a new economic development approach has been adopted by common agreement between the Governments of the SATBVC countries and the self-governing territories in South Africa. This approach was articulated by a joint declaration on the promotion of private investment. This declaration can be described as a framework of principles based on the belief that a dynamic economic development process requires that as much scope as possible be allowed to market forces to determine, and private sector to decide, which goods and services to provide, and how, when and for whom to do so.

This approach implies that the economic role of the public sector should, apart from the provision of certain collective goods and services, the maintenance of law and order and of the integrity of the financial

system, be limited to supporting and facilitating the role of the private sector. The public sector's role in a free enterprise system is thus facilitative and supportive to what can be done by the private sector.

In carrying out this supportive role, public sector must operate according to certain principles:

- Private sector participation in development should be maximized.
- The priorities and the needs of the communities involved must serve as a departure point in the formulation of policies and strategies.
- Provision should be made for participation and involvement of the people in the formulation and execution of functions, programmes and projects.
- Public sector authority should be decentralized to local level and corporate institutions whose mission and policy should be directly derived from and consistent with the policy and strategy of the government.
- Under circumstances where private sector finds the risk/return ratio too high, a case exists for public sector intervention. When public sector intervenes to encourage and facilitate private sector involvement in development, it is of crucial importance that the public sector understands and takes into account the market principles according to which private sector takes its investment decisions.

- Public sector should take regional aspects into account in its decision making process such as the harmonisation of economic approach and the optimal utilisation of existing infrastructure in the region.

- The decision-making criteria for the public sector (government and corporate institutions) to involve itself in development projects and programmes must be based on a socio-economic cost/benefit analysis to ensure that economic development benefits are maximized.

- Intervention by public sector in development activities should be based upon sound financial and administrative control procedures.

- Public sector must take cognisance that development actions take place in urban and rural environments and that it is necessary to identify and differentiate between the different economic sectors, i.e. mining, commercial etc.

By adhering to these principles public sector will create a positive investment climate for private sector involvement in development. It will enable, facilitate, and support economic development in such a way that the private sector can participate in the economic development process without having to relinquish normal business principles and objectives. The optimal exploitation of economic potential would be facilitated eventually, ensuring the biggest possible benefits to each individual participating in the process. In this way far more income and job opportunities will be created than if only the resources of the public sector had to be relied upon.

3. CRITERIA FOR PUBLIC SECTOR SUPPORT

The ability and willingness of the private sector to participate in development will depend on its own level of development. It is important to recognise that the private sector does not only consist of big business enterprises but also all other entities involved in economic activities at own risk, from the individual in the informal sector through small and medium sized businesses to big enterprises. Its level of development, ranging from emerging to fully developed, can be gauged from the existence, or absence, of constraints and the ability of the individual private enterprise or entrepreneur to address such constraints.

The constraints inhibiting the participation of private sector enterprises in development can be divided into external and internal constraints. External constraints are those over which the individual enterprise or entrepreneur has little influence. They are related to fundamental structural aspects in the socio-economic system, such as individual freedom and property rights, price levels, regulations, nature of and changes in needs, and purchasing habits. Internal constraints are those which influence business efficiency and effectiveness and over which the individual enterprise or entrepreneur itself does have an influence. These include managerial and entrepreneurial competence, as well as constraints allied to the usual business functions of production, marketing, purchasing, staffing, training and finance.

By definition, emerging enterprises and entrepreneurs will be confronted with internal as well as external constraints. They are unlikely to be able to

completely overcome either their internal or their external constraints without assistance. Fully established enterprises on the other hand, can be expected to experience mainly external constraints while they will, or should, be able to overcome their internal constraints without public sector support.

The public sector's supportive role to facilitate private sector's involvement in the economic development process can be defined in terms of the alleviation of external and internal constraints. In supporting emerging businesses (such as small businesses), the public sector should direct its resources towards addressing both the internal and external constraints faced by such businesses. Support for established businesses should, in contrast, be directed mainly towards overcoming external constraints.

The target group for supportive action by the public sector would thus be the emerging and established entrepreneurs, but with different appropriate strategies. Intervention by public sector should be aimed at supporting this target group to enable them to address their constraints themselves. This indicates that such supportive actions must be of an interim nature and should be withdrawn as the businesses mature to fully developed enterprises.

4. THE ROLE AND FUNCTIONS OF GOVERNMENT, DEVELOPMENT INSTITUTION AND PRIVATE SECTOR IN THE ECONOMIC DEVELOPMENT PROCESS

4.1 PRIVATE SECTOR

In a system characterised by free enterprise the role of the private sector is to satisfy the needs of the people of a particular country, territory or region. The private sector should have the right to decide on the type of economic activity in which their resources are to be employed most efficiently and effectively in the provision of the goods and services. These resources include human resources and thereby the creation of job opportunities.

4.2.1 GOVERNMENT DEPARTMENTS

In broad terms, the role of government in a free enterprise environment, is supportive to the actions of the private sector.

Government should assume responsibility for the following specific functions:

- continuous attention to policy and formulation of appropriate strategies in accordance with the dynamic nature of economic development.
- attention to legislation and other factors controlled and influenced by Government to ensure an atmosphere conducive to the involvement by private sector in the development process.
- attention to actions that will provide for access by the private sector to the economy.

- Government also has to provide certain necessary development functions which in general do not have a direct financial return and are consequently unattractive to the private sector. The most obvious of these are education, public health and infrastructure.

4.2.2 CORPORATE DEVELOPMENT INSTITUTIONS

The principle reason for the establishment of corporate institutions, is the Government's decision to initiate activity in the economy in order to achieve its development objectives within a regional context and to stimulate private sector involvement. Any profits (although it is not the main aim) derived from its activities, can be channeled back into development.

It should be accepted that the various corporate bodies are not necessarily operating at the same level of responsibility. Thus there need not necessarily be conformity in any aspect of control or management between parastatals.

It is important to recognise that the activities of a corporate development institution should be directed exclusively at supportive, promotive and facilitative action needed by the private sector. Corporate institutions should not undertake commercial activities in which the private sector is both willing and able to participate. It is important to guard against corporate development institutions competing with the private sector in the market place, allocating resources to a project on an unfair basis, or restructuring their organisation to concentrate on commercial activities that are not consistent with its

fundamental developmental mission of providing support and advice to the private sector.

The potential and priority of the economic sector(s) will determine the need for a corporate development institution. Such a decision needs careful considerations because it will have financial implications for the government. Such an institution must operate in a professional manner to accommodate private sector needs. They should be able to operate autonomously within an agreed framework and to make expeditious rational decisions. This requires specific management capabilities outside the normal government personnel milieu to operate effectively and effeciently. The capacity should facilitate financial flexibility, personnel control and insulation from bureaucratic or political interference. When the institution is to act on behalf of government in the economic world, and respond to the private sector it must be able to appoint competent staff to carry out its functions.

In its efforts to support and promote the private sector the following specific corporate functions can be identified:

- the provision of advice to the private sector to identify, plan, appraise and implement economic activities;
- providing appropriate financial assistance where the private sector has no alternative sources. The mobilisation of alternative sources of funds within the private sector should be constantly pursued;

- physical facilities which in a fully developed economy would normally be provided by the private sector, but because of constraints, need to be provided by the public sector as an interim measure. The institution must conduct viability studies to be assured of the economic viability of such projects;
- undertake certain government functions, i.e. environmental protection, training and infrastructure in key sectors which it may be able to provide more effectively and efficiently because of particular circumstances, but only on an agency basis and within special financial arrangements;
- continuous monitoring and feedback to Government of the development climate in order to adjust policies and strategies to changing circumstances;
- actively promote the participation of private sector in the economic development process. With regard to emerging entrepreneurs this implies the provision of a comprehensive support programme aimed at the particular needs and requirements of such entrepreneurs;
- actively promote the different economic sectors of the state to its local community and to foreigners so as to maximise local resources;
- maintain a sound relationship with its local community and relevant organisations.

In general, corporate development institutions are established by promulgation of legislation. In Ciskei's case, the Ciskeian Corporations Act 16 of 1981 was

promulgated to provide for the continued existence in Ciskei of a development corporation and for the establishment of other corporations. This Act prescribed in extremely broad terms the objects and powers of such corporations as well as their financing, control and management procedures.

The Act determines that Ciskei corporations shall be corporate bodies with limited liability and perpetual succession and capable of suing and being sued in their own right.

5. INTER-RELATIONSHIPS BETWEEN GOVERNMENT AND CORPORATE INSTITUTIONS

It is important that Government recognises the need to adopt certain basic principles in respect of the relationship between the government departments, local authorities, the corporate public sector institutions, private sector and the people of Ciskei. The following are of importance.

- 5.1 The mission and policies of a corporate institution in the public sector should be directly derived from and consistent with the overall policies and strategies of the Ciskei Government. Furthermore such a corporate institution should also be seen to carry out its responsibilities in such a way that it is in full harmony with the needs and aspirations of Ciskei. This implies an approach where full provision is made for participation and involvement of the people in the formulation, planning and execution of functions, programmes and projects.

5.2 Control of Corporate institutions

The Board of Directors and senior management of a corporate institution are responsible for operational decisions within the framework of the overall economic policy of Ciskei. A corporate institution must be able to operate in a professional manner to accommodate the private sector's needs. It must be able to operate autonomously within the agreed framework without interference from government on the normal day to day operations of the corporate institution.

The Government should, however, be continuously satisfied that a corporate institution is effectively and efficiently carrying out its mission and objectives as determined by the Ciskei Government and if necessary the act should be reviewed to accommodate this. This can, inter alia, be ensured by the Government being directly represented on the Board of Directors, by appropriate channels of communication between the government department responsible for a particular corporate body, by approving the annual budget of a corporate body and by evaluating the performance of such corporate institutions on a regular basis as, for instance, in considering the Annual Report. Furthermore the Board of Directors should provide an optimum mix between representatives of government as shareholder, representatives of the people to be served by the organisation and the necessary expertise and experience from private sector.

5.3 Financial Arrangement

The establishment of an appropriate financial arrangement between a government and its corporate development institution is also of utmost importance in

order to place such an institution in a position to carry out its mission within the policy framework of Ciskei. Such financial support would be to provide sufficient share capital to provide a institution with the necessary financial basis to mobilise other sources of finances and maintain its average cost of capital at a level conducive to its role and mission, and to provide guarantees when necessary. When a corporate institution is instructed by Government to carry out functions which are normally the responsibility of Government, special financial arrangements must be agreed upon to fund such actions. It should not form part of the normal budget, and the allocation of funds should be clearly specified. If such a system does not operate efficiently, a corporate institution is tempted to undertake functions of a commercial nature simply to ensure a continuous flow of financial resources and by doing so, to compete directly with the private sector instead of providing the facilitating, promotional and supportive role as indicated in the economic policy of Ciskei.

In order for Government to determine the amount of share capital and grants to the institutions, detailed estimated budgets should be provided to Government to then determine the amount of share capital and grants to make available to the development institutions.

In order to resolve any conflict with the JFAC's financial guidelines in Ciskei, the development institution should be required to produce detailed budgets for their main activities to be presented to this forum. Once these have been accepted and the budget agreed upon, the institution should have the right to vary within a specific programme. The switching of funds from a main programme to another should be subject to the approval of Government.

However, within each approved programme the corporation must retain the right to act autonomously and have sufficient flexibility to take advantage of opportunities that may suddenly arise. Should such an opportunity arise outside of the limits of approved programmes, the institution should seek government approval before a commitment is made.

In view of the specific, important roles that Government, local authorities, corporations, the private sector, and the public at large must play in achieving development objectives, it is clear that appropriate mechanisms to ensure sound communication and interaction among these entities must be established. To this end, it will be necessary to develop forums of communication to:

- improve Government to corporation interactions;
- improve corporation to corporation interaction;
- strengthen the interface with private sector;
- establish a regional interface.

ma900615/01

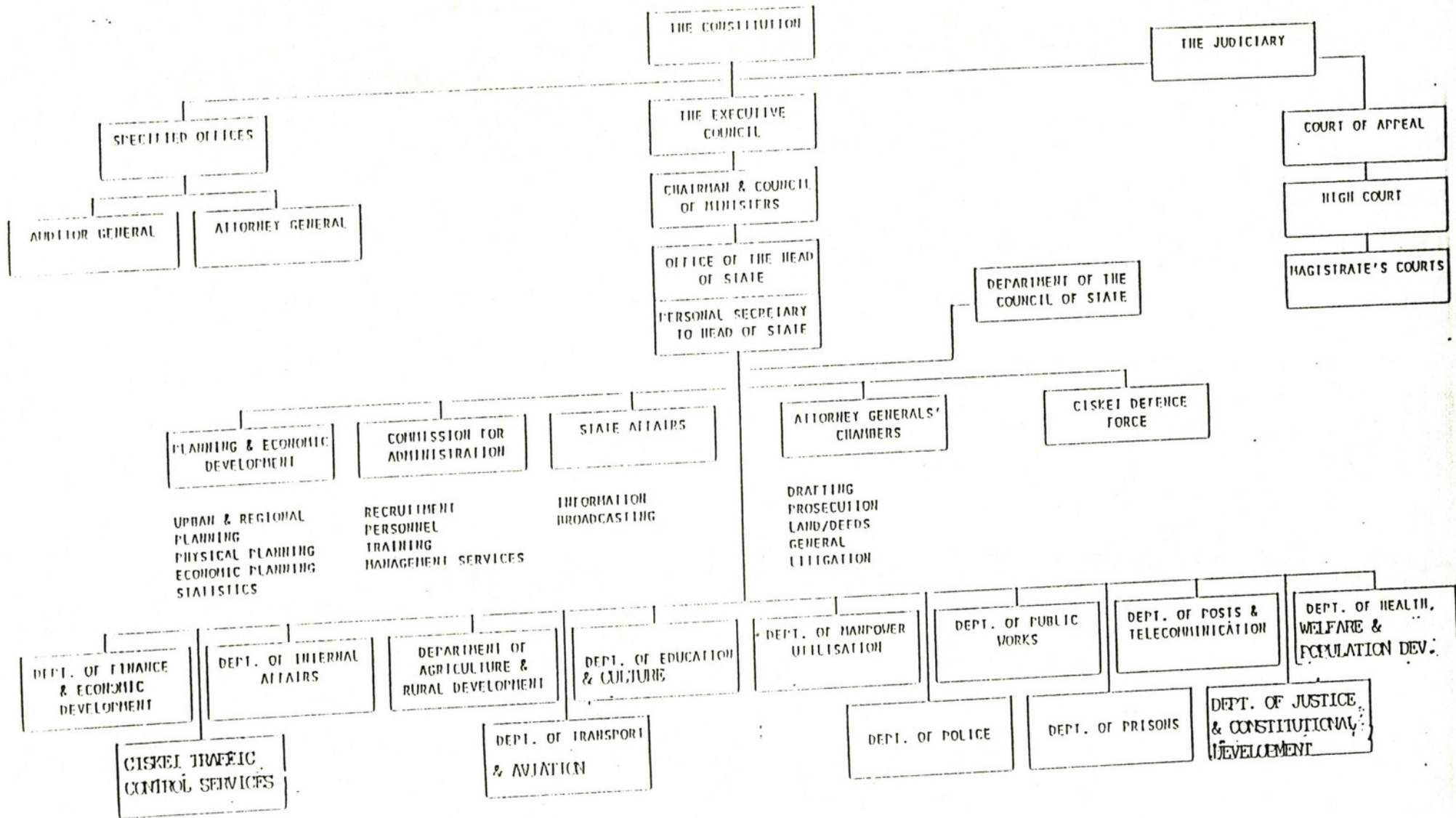
However, within each approved programme the corporation must retain the right to act autonomously and have sufficient flexibility to take advantage of opportunities that may suddenly arise. Should such an opportunity arise outside of the limits of approved programmes, the institution should seek government approval before a commitment is made.

In view of the specific, important roles that Government, local authorities, corporations, the private sector, and the public at large must play in achieving development objectives, it is clear that appropriate mechanisms to ensure sound communication and interaction among these entities must be established. To this end, it will be necessary to develop forums of communication to:

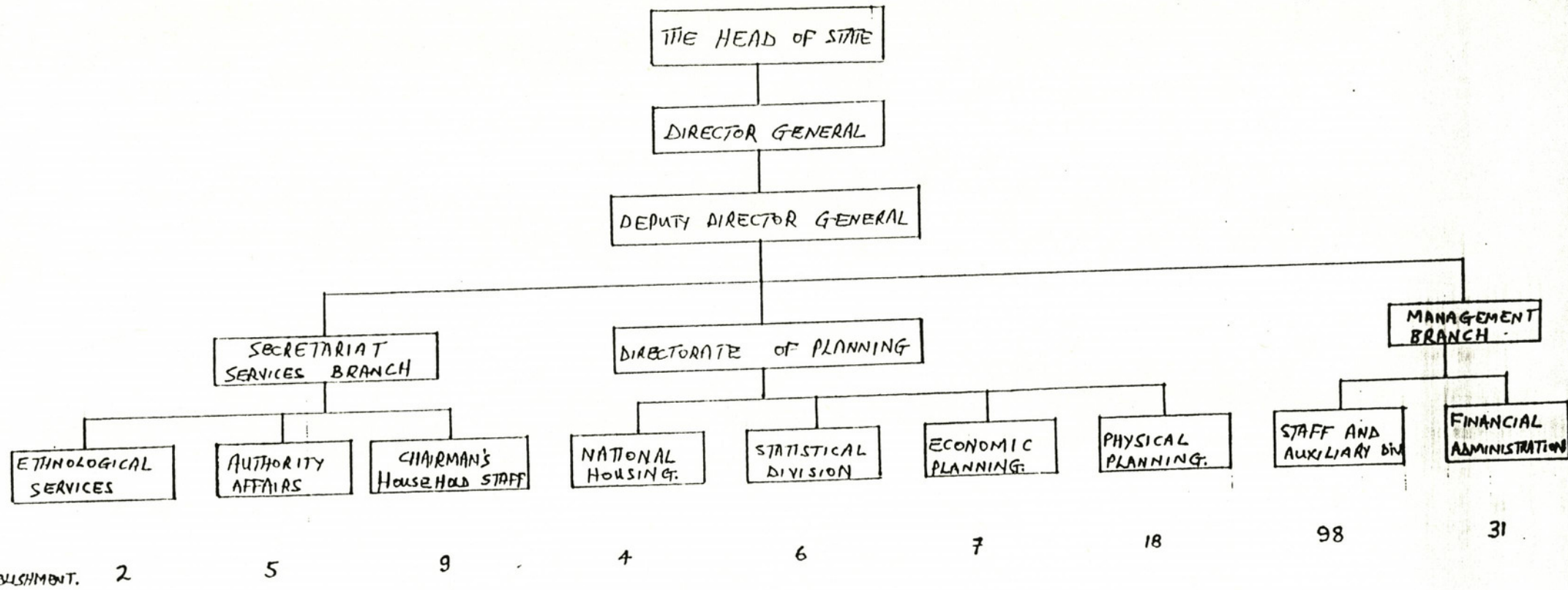
- improve Government to corporation interactions;
- improve corporation to corporation interaction;
- strengthen the interface with private sector;
- establish a regional interface.

ma900615/01

FIGURE 4.1: STRUCTURE OF CISKEI GOVERNMENT



DEPARTMENT OF THE COUNCIL OF STATE



Total Staff Complement 185

FIGURE : 4.2

CENTRAL PERSONNEL ADMINISTRATION

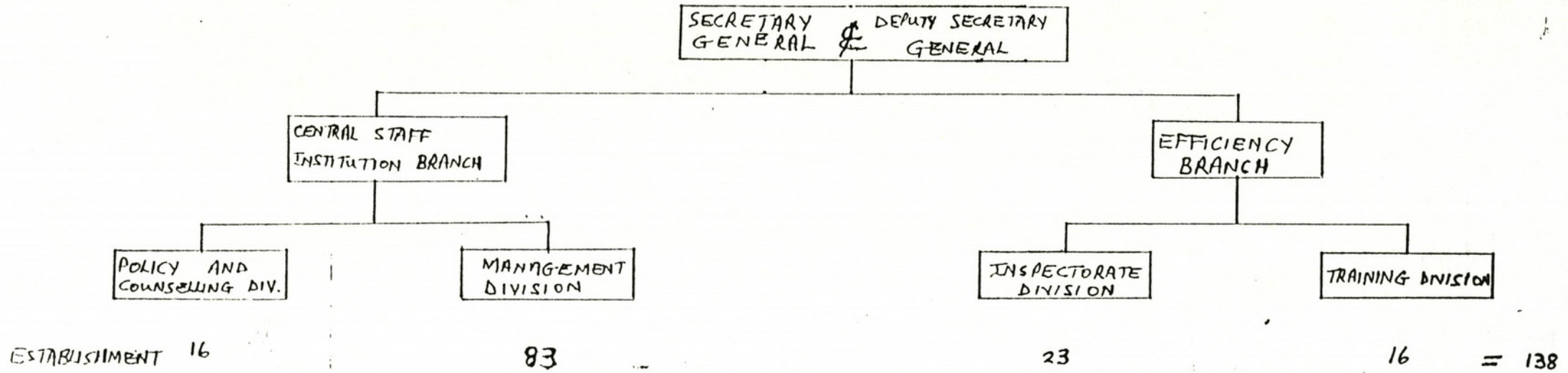


Figure 4.4

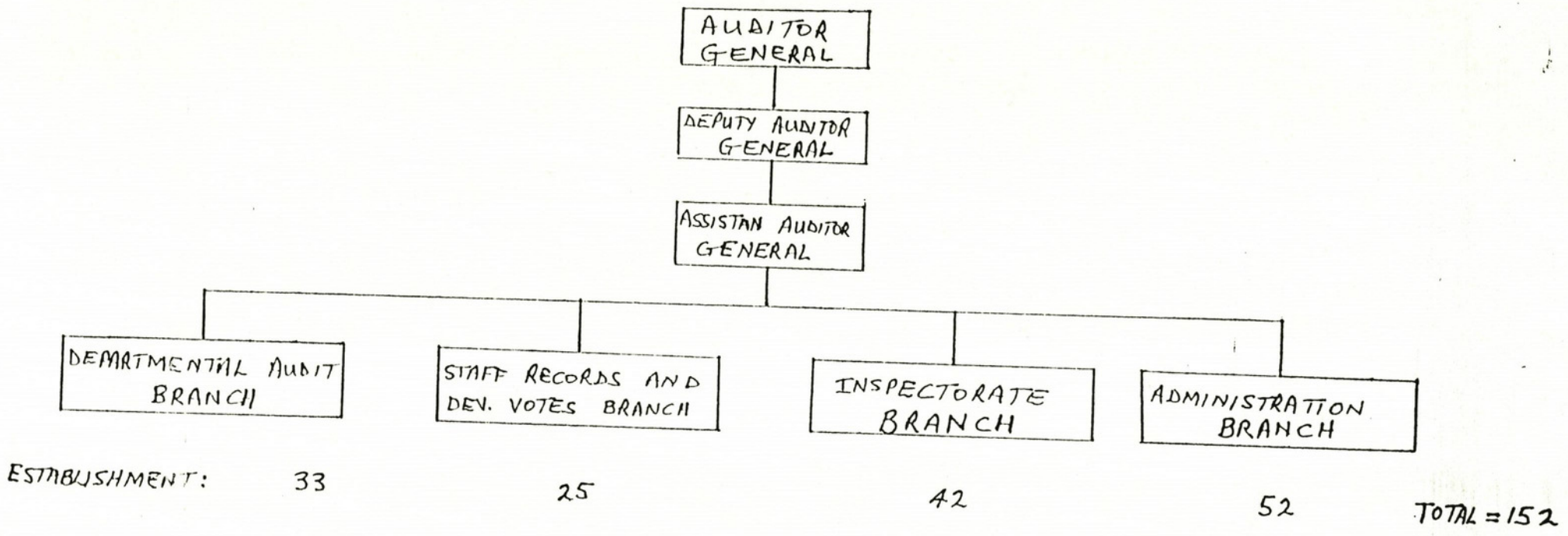


Figure 4.5

DEPARTMENT OF FINANCE & ECONOMIC DEVELOPMENT.

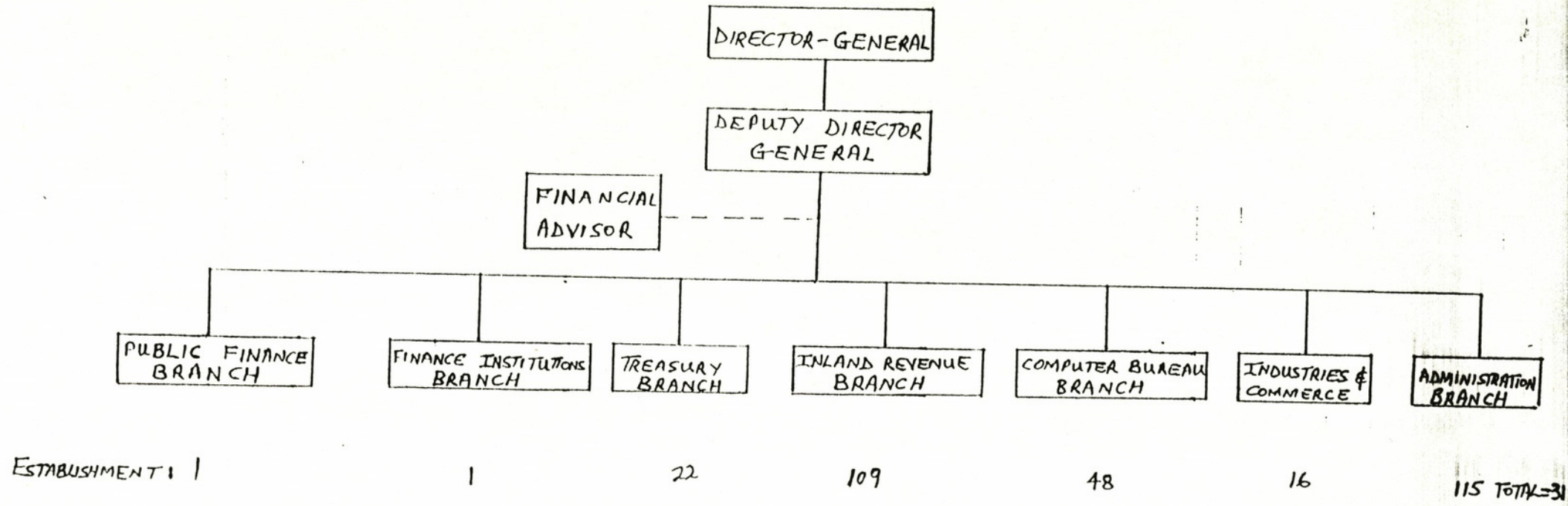
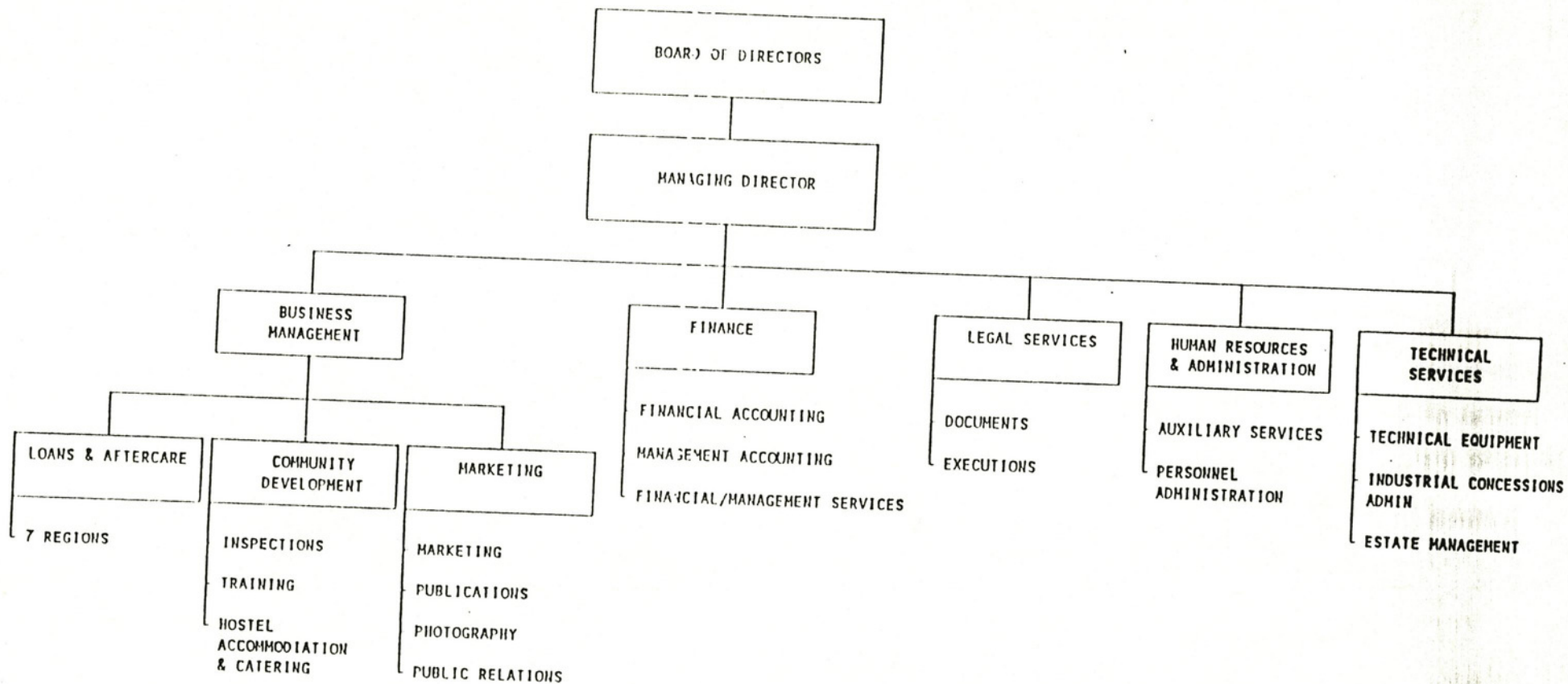


FIGURE 4.6 (a)

ORGANISATION CHART CISKEIAN SMALL BUSINESS CORPORATION

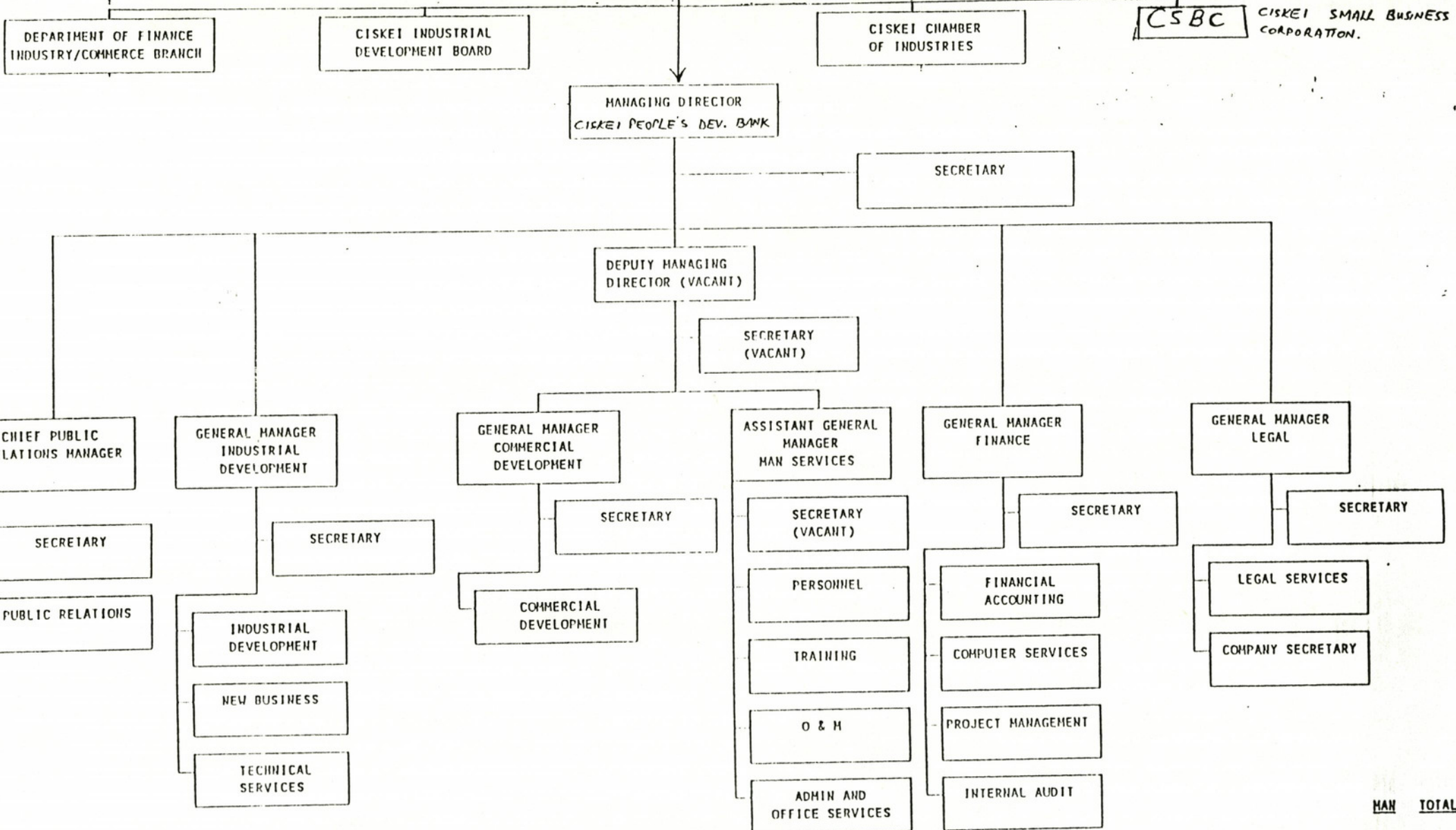


EMPLOYMENT:	41	16	9	25	4	107	4	TOTAL
MANAGEMENT :	19	14	3	22	3	97	3	161
CANT :	22	2	6	3	1	10	1	45

Figure 4.6 (b)

CISKEI PEOPLES DEVELOPMENT BANK ORGANISATION CHART

MINISTER OF FINANCE



CSBC CISKEI SMALL BUSINESS CORPORATION.

ESTABLISHMENT: 6
IMPLEMENT : 4
CANT : 2

153
112
41

72
8
4

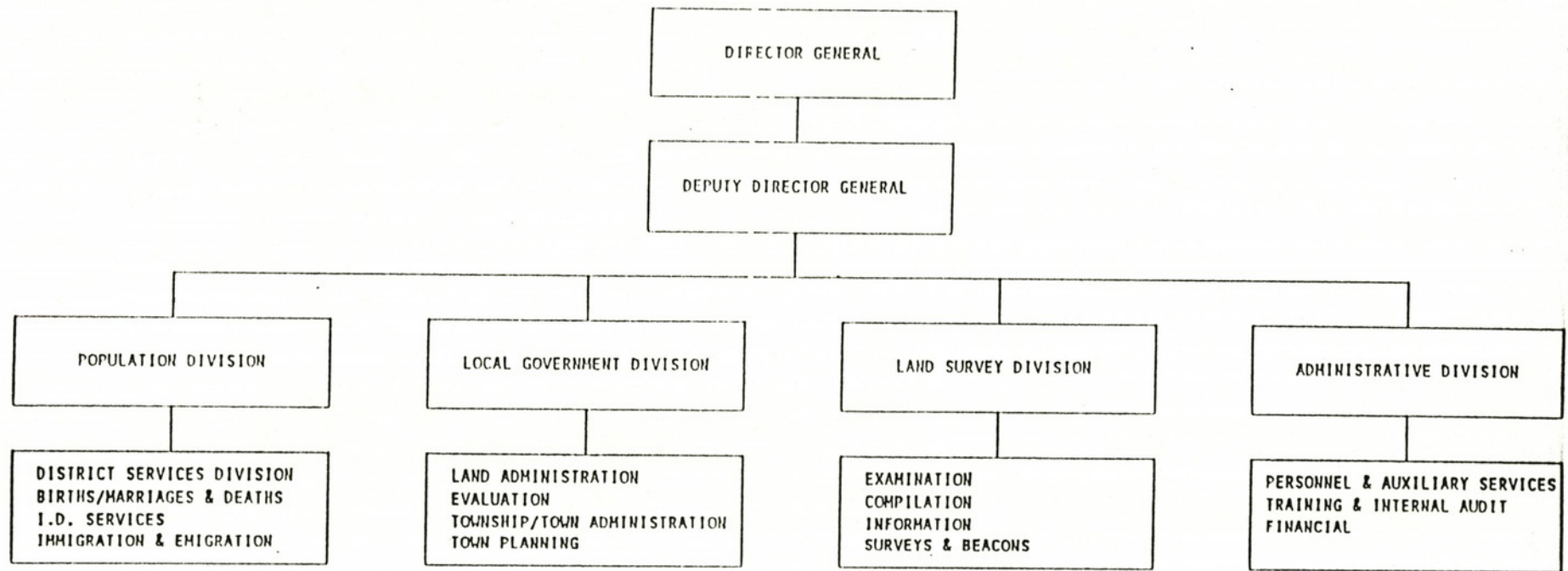
93
71
22

156
93
63

11
7
4

MAN	TOTAL
17	508
14	369
4	139

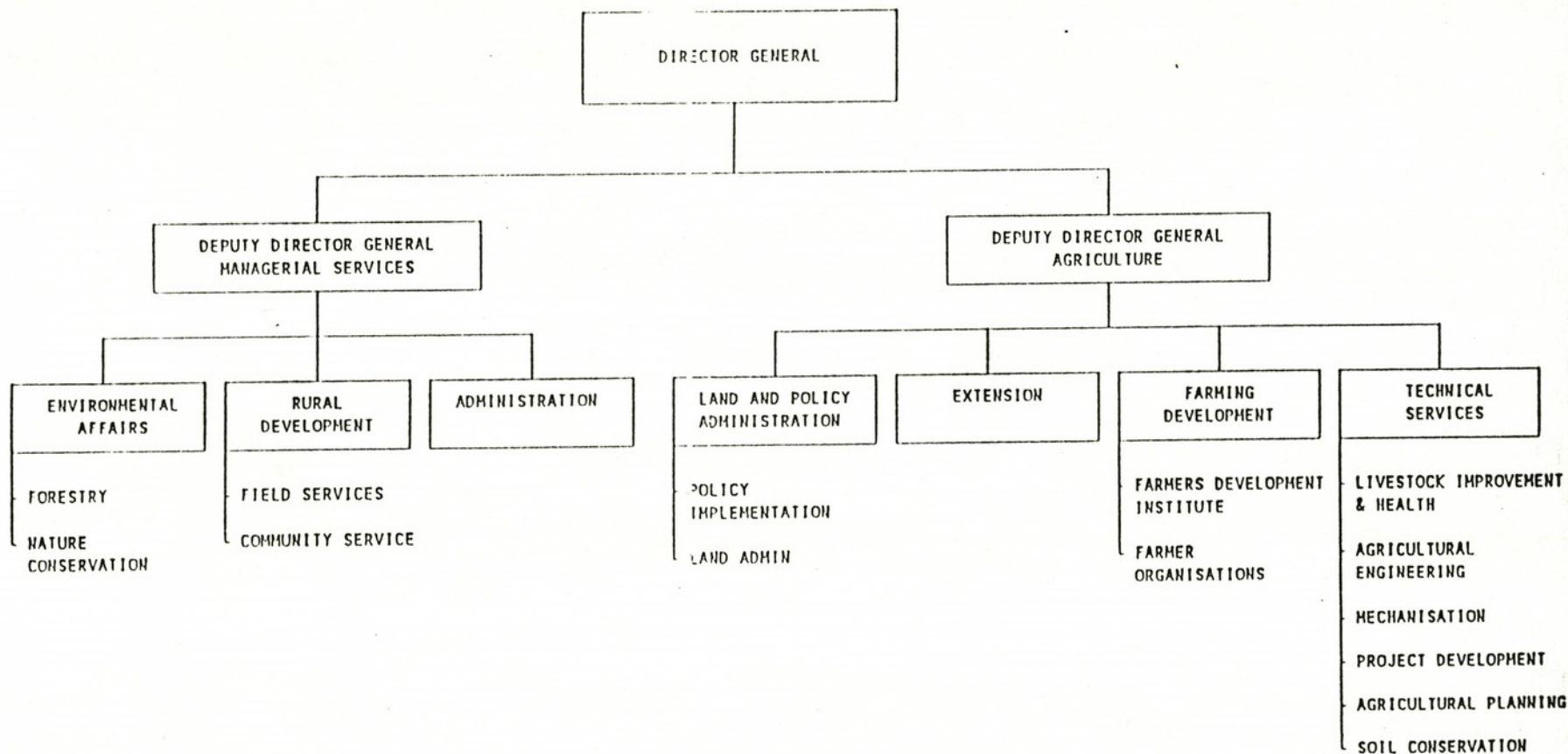
**ORGANISATION CHART
DEPARTMENT OF INTERNAL AFFAIRS AND LAND TENURE**



					<u>TOTAL</u>
ESTABLISHMENT:	140	285	18	66	509
COMPLEMENT :	49	105	11	35	200
VACANT :	91	180	7	31	309

Figure 4.7

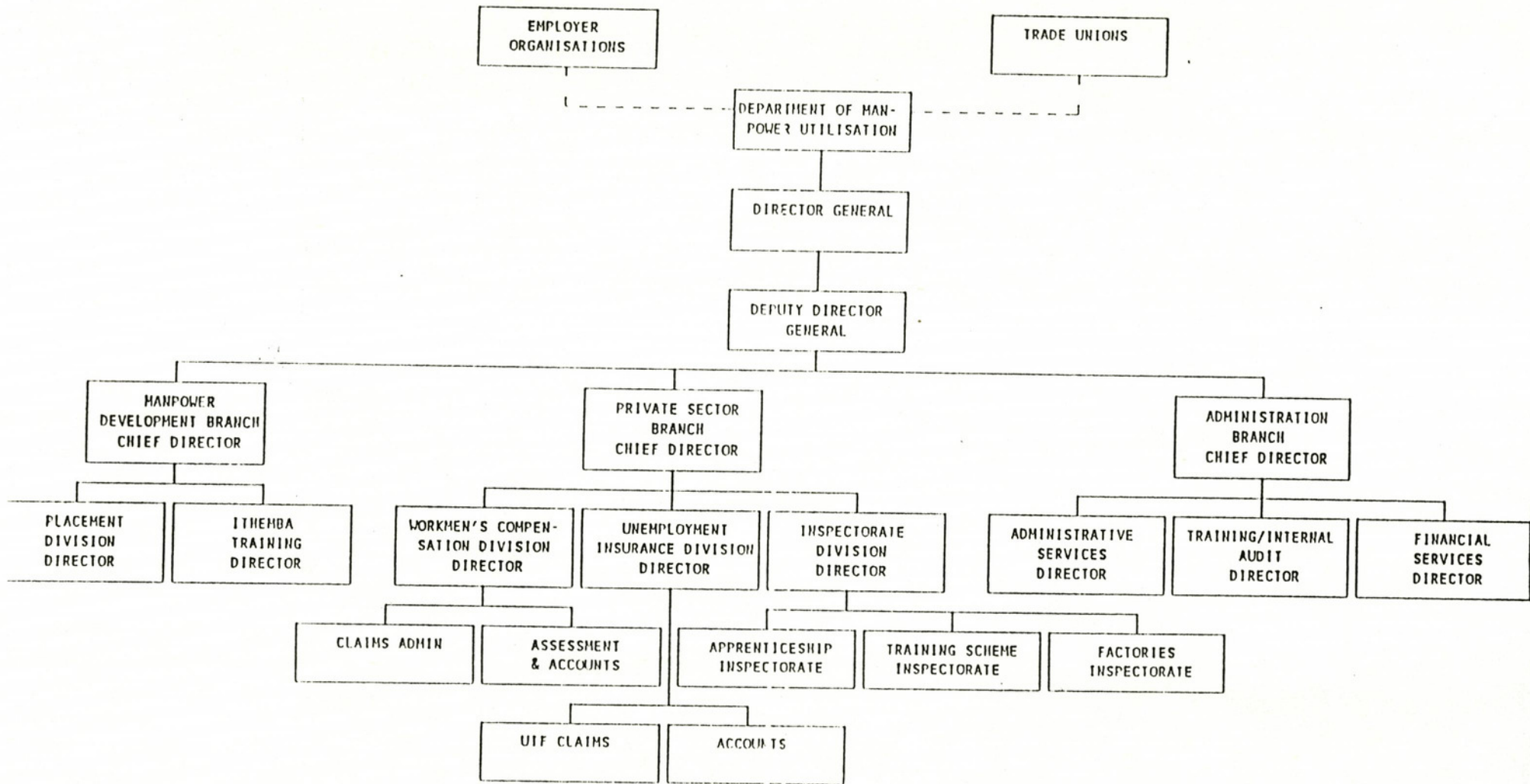
**ORGANISATION CHART
DEPARTMENT OF AGRICULTURE, FORESTRY AND RURAL DEVELOPMENT**



	ENVIRONMENTAL AFFAIRS	RURAL DEVELOPMENT	ADMINISTRATION	LAND AND POLICY ADMINISTRATION	EXTENSION	FARMING DEVELOPMENT	TECHNICAL SERVICES	TOTAL
ESTABLISHMENT:	817	131	196	177	140	71	910	2 442
PERSONNEL:	523	55	122	155	26	25	723	1 629
BUDGET:	294	76	74	22	114	46	187	813

Figure 4.8

ORGANISATION CHART DEPARTMENT OF MANPOWER UTILISATION



							<u>TOTAL</u>
ESTABLISHMENT: 98	177	26	36	25	68		430
PLACEMENT : 47	93	22	28	15	45		250
AGENCIES : 51	84	4	8	10	23		180

FIGURE 4.11(a) EXISTING FUNCTIONAL ORGANIZATIONAL STRUCTURE

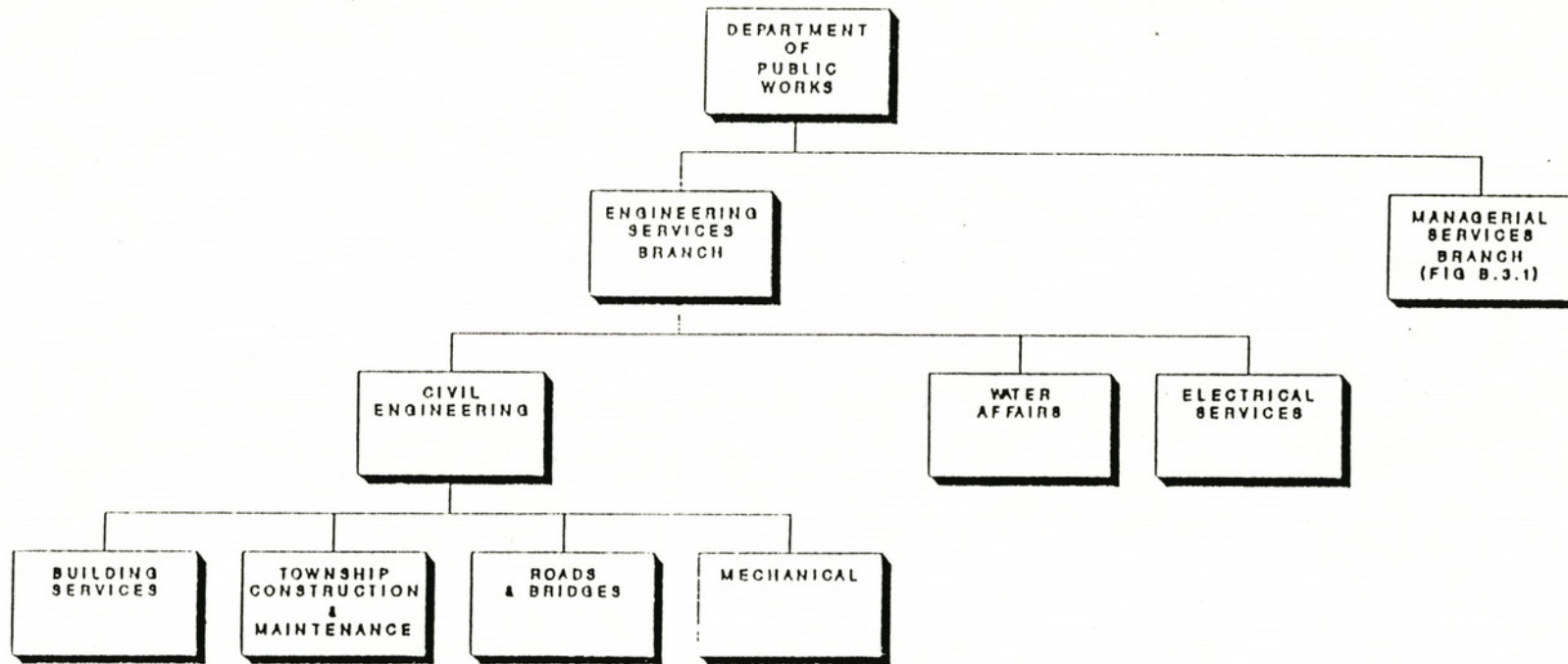


Figure 4.11(a)

FIGURE 4.11(b) EXISTING FUNCTIONAL ORGANIZATION STRUCTURE (MANAGERIAL SERVICES BRANCH)

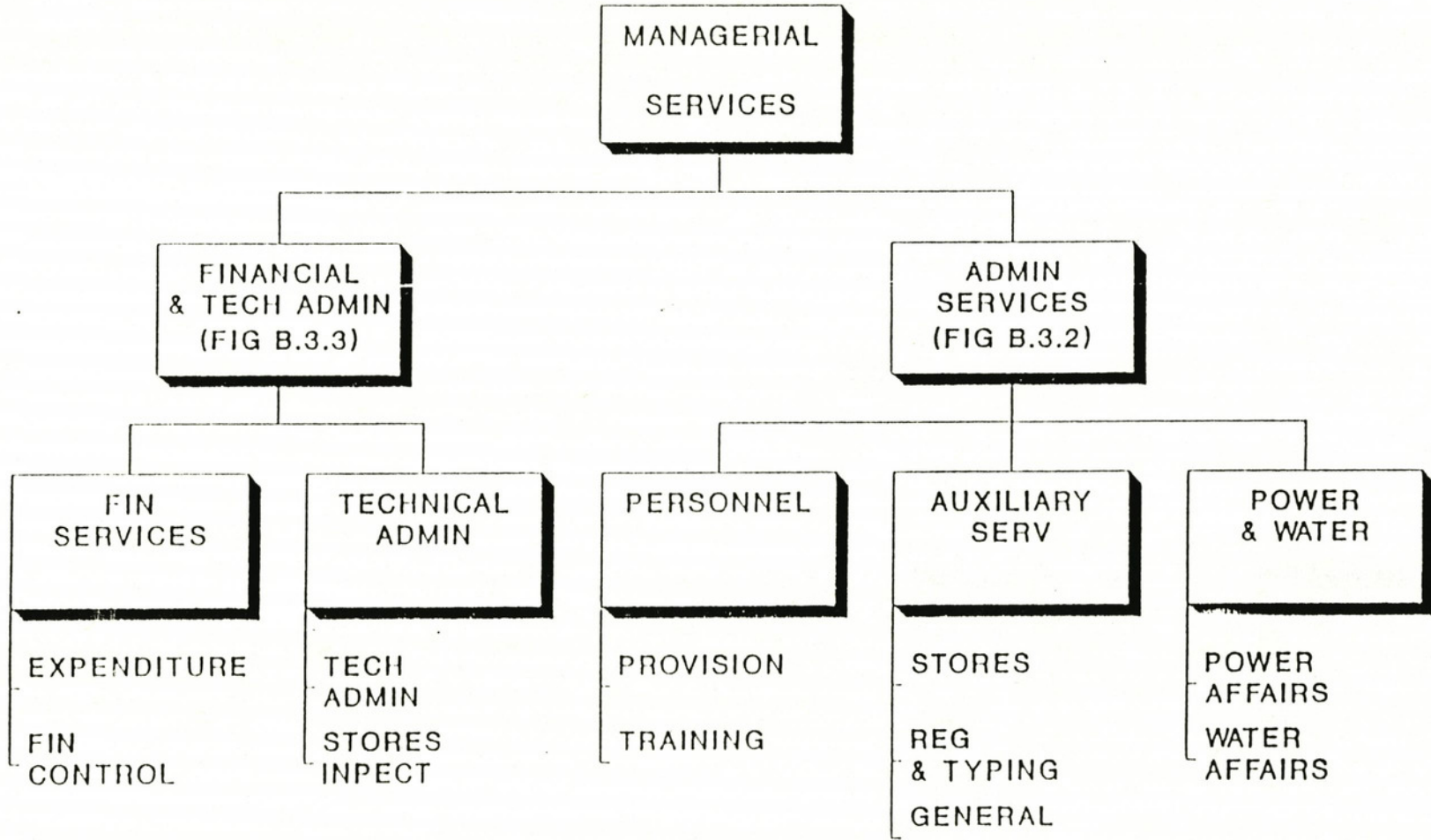
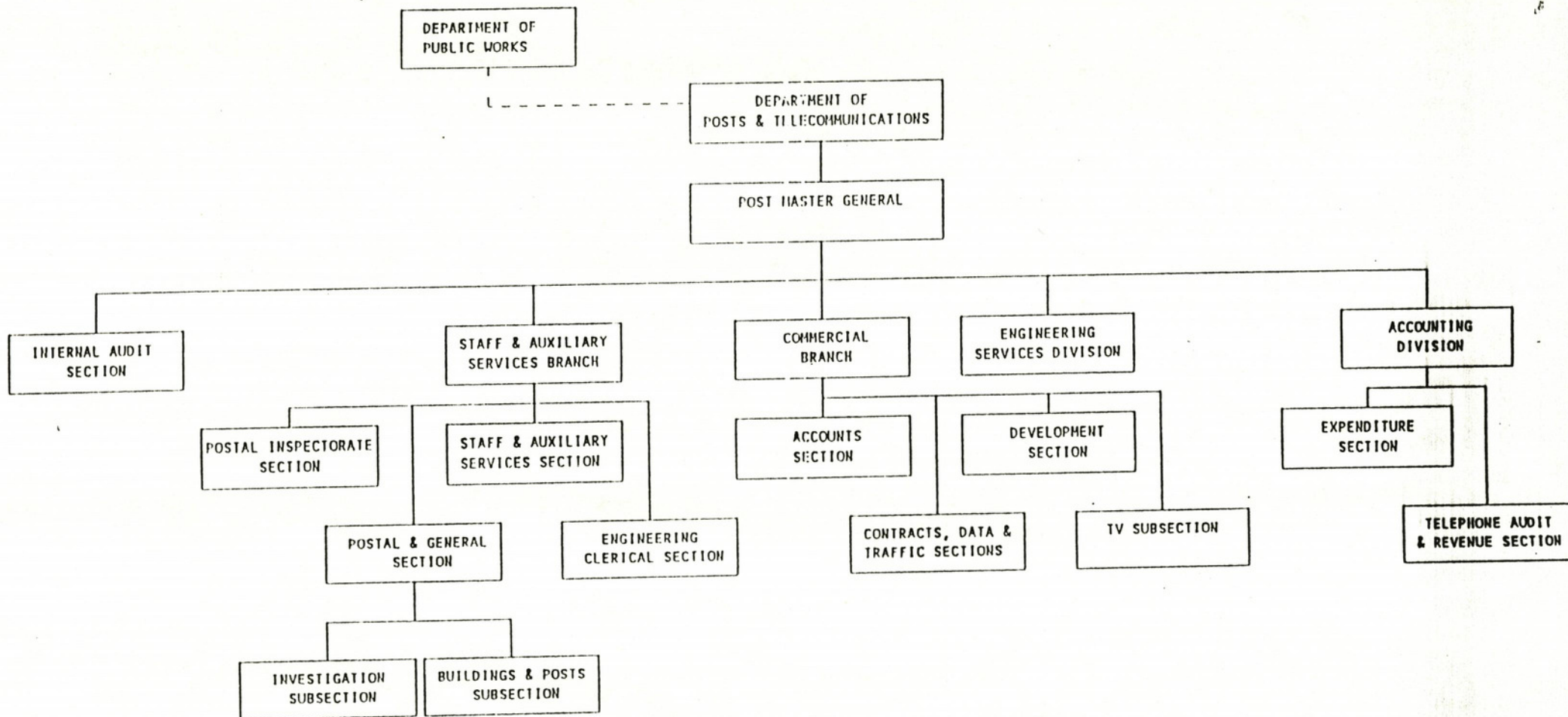


Figure 4.11(b)

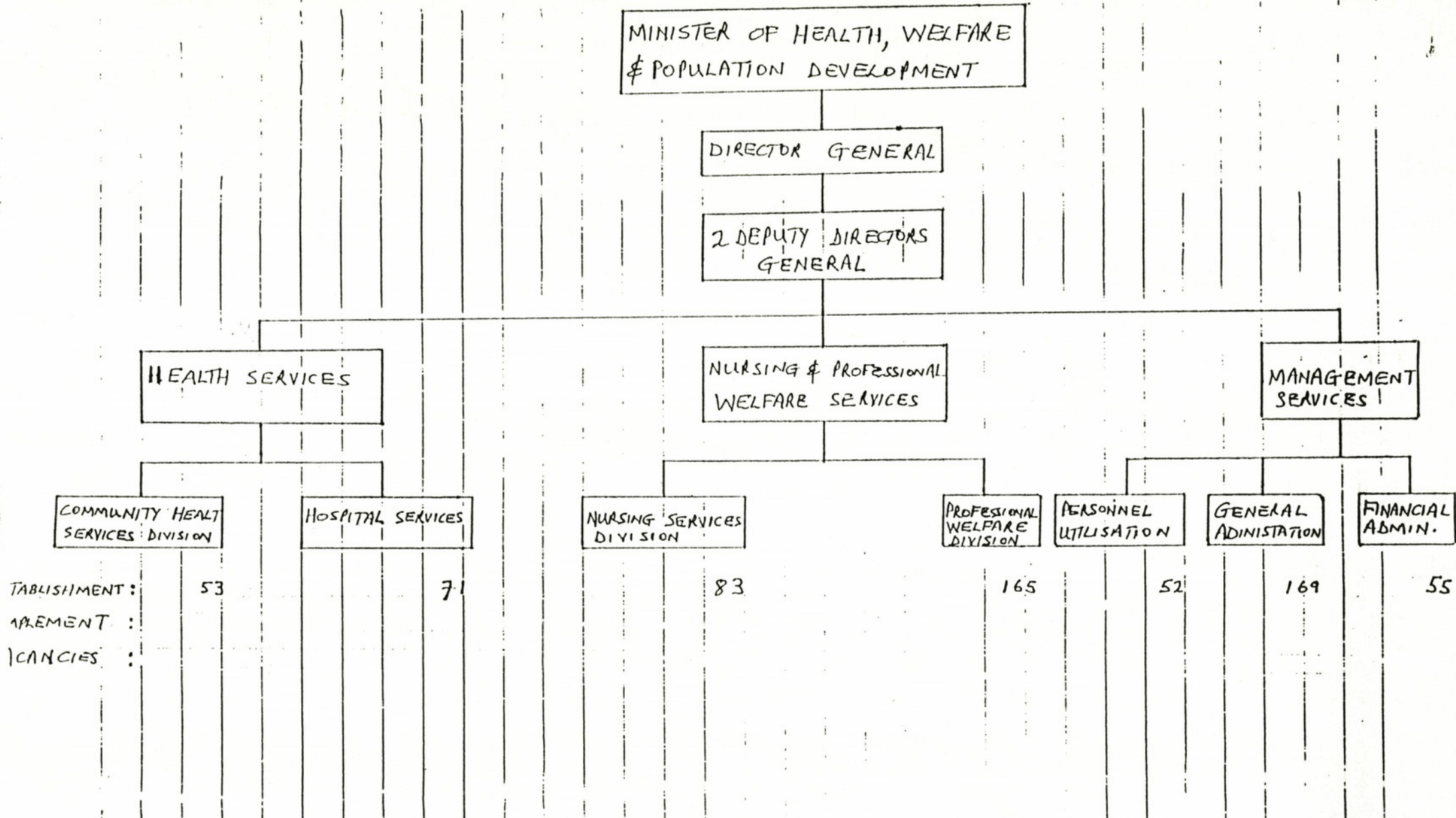
ORGANISATION CHART DEPARTMENT OF POSTS AND TELECOMMUNICATIONS



TOTAL AUTHORISED ESTABLISHMENT STANDS AT 682 POSTS; 509 FILLED (36 SECONDED OFFICIALS - TECHNICIANS/TELCOM ELECTRICIANS)

Figure 4.12

AND POPULATION DEVELOPMENT



ESTABLISHMENT :
VACANCIES :

53

71

83

165

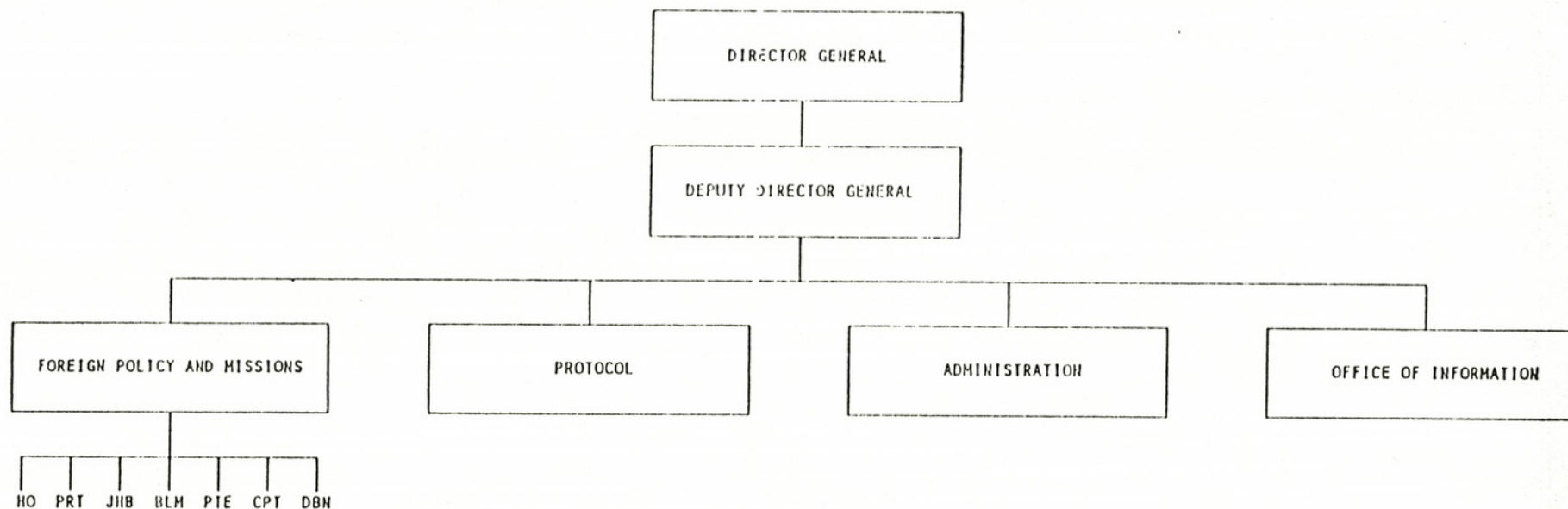
52

169

55

FIGURE 4.13

DEPARTMENT OF FOREIGN AFFAIRS



	HO	PRT	JIB	BLH	PIE	CPT	DBN				TOTAL	
ESTABLISHMENT:	10	43	26	20	30	26	27		9	104	26	321
COMPLEMENT :	10	30	17	12	22	16	14		9	79	20	229
VACANT :	0	13	9	8	8	10	13		0	25	6	92

Figure 4.14