

# South Africa

<b>Status Index</b> (Democracy: 8.70 / Market economy: 7.25) <b>7.98</b>		<b>Management Index</b> <b>7.01</b>	
<b>HDI</b>	0.658	<b>Population</b>	46.9 mn
<b>GDP per capita (\$, PPP)</b>	10,346	<b>Population growth<sup>1</sup></b>	2.1 %
<b>Unemployment rate</b>	41.8 %	<b>Women in Parliament</b>	32.8 %
<b>UN Education Index</b>	0.81	<b>Poverty<sup>2</sup></b>	10.7 %
		<b>Gini Index</b>	57.8 (2000)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003).			

## A. Executive summary

South Africa continues to be on the road to democratic and economic transformation and reform. During the period under review, there were no economic or political breakthroughs. Democratic elections, which have become a routine feature in South Africa, were held on the national level in April 2004, marking the first decade of democracy. The African National Congress (ANC) was victorious with an overwhelming share of nearly 70% of the vote, a clear two-thirds majority in parliament. For the first time, the ANC managed to become the strongest party in all nine provinces, thus weakening the constitutional checks and balances of the National Assembly and the Council of Provinces. South Africa's vibrant civil society, which includes an articulate and critical press, is an asset to South Africa's democracy. Voter absenteeism, a decrease in party membership and in the support for democratic institutions could be interpreted either as growing alienation of voters or as a sign of "normalization" following a period of high mobilization and even enthusiasm.

The record in socioeconomic reforms remained mixed. On the one hand, the social infrastructure was improved and the social net extended. On the other hand, the country still suffers from an immense unemployment rate between 30 and 40%, a severe poverty problem, enormous levels of inequalities and a burgeoning HIV and AIDS problem. The government has recognized these deficits and reacted with renewed efforts to meet the challenges. The aim of the government is to bridge the gap between the "two economies," (President Thabo Mbeki) namely a modern first economy, including the white population and the growing black middle and upper class, and the second economy, consisting of the marginalized 30% to 40% of the population that tries to survive in the informal or in the subsistence sector. The reform strategy has shifted gradually toward a more interventionist approach and it includes public works programs and an increase in promoting a Black Economic Empowerment (BEE) policy. The reasons for this strategic shift lie in the disappointment by less-than-spectacular economic

development, which includes sound macroeconomic conditions but only limited effects on labor markets. This has fuelled growing opposition from many civil society groups and the ANC's coalition partner, namely the trade union federation COSATU.

Willingness for reforms is not so much hampered by a lack of financial resources, but rather by low administrative capacities, a shortage of management and professional skills and bureaucratic frictions (especially on the provincial level), leading to unsatisfactory and inefficient delivery of services and policies in general. South Africa remained strong in problem analysis but weak in implementing programs that were often too sophisticated.

With 23% of the economically active population infected with HIV and AIDS, the pandemic hangs like a Damocles sword above the medium and long-term social and economic perspectives of the country.

During the period under review, South Africa pursued an active and progressive foreign policy. South Africa is one of motors in building new continental institutions, such as the New Partnership for Africa's Development (NEPAD) and the African Union (AU). South Africa deployed troops as part of peacekeeping missions in Burundi and the DRC and tries to foster peaceful solutions for Africa's hot spots, such the DRC and Ivory Coast.

## **B. History and characteristics of transformation**

In terms of a transition to democracy, South Africa can be regarded as one of the rare success stories on the African continent. The negotiated ("pacted") transition to democracy started in 1990 and, after a difficult period of immense violence and uncertainty about the future of the country, led to the founding elections in 1994. The legacy of hundreds of years of discrimination and Apartheid (from 1948 onward) was a deeply divided and segregated society. Major challenges in democratic consolidation included the establishment of representative and efficient political institutions, the economic reform of a country weakened by sanctions and international isolation and reconciliation between different racial groups. The task was to create or at least to foster a new South African nation, which would include a common identity for all groups.

The economically and socially disadvantaged black South African population demanded and hoped for an extension of the welfare system to improve their situation. Simultaneously, the reintegration of the South African economy into the global economy and a shift in foreign relations, especially toward the African continent, were at stake.

After the first decade of democracy, lively and controversial discussions started inside and outside the country about achievements and deficits. The South African government presented a review of the previous 10 years. On the one hand, the review praised the “historic” achievements, especially the success in extending the basic social infrastructure, but on the other hand, it was well aware of the deficits concerning unemployment and delivery of state-run services. Although there was notable disillusionment among the population with the government’s ability to cope with problems as well as growing skepticism toward democracy, the government nevertheless maintained a high level of electoral support.

The third democratic elections, held in April of 2004, saw a victorious ANC again. The party received nearly 70% of the votes and secured its two-thirds majority in the National Assembly. The period under review saw the ANC consolidating its power. The trend set in the 1999 election continued, and South Africa has become a democratic dominant-party system. The ANC’s overwhelming majority raised concerns about the future of democracy in South Africa. Politicians from opposition parties, journalists, representatives from civil society organizations and social scientists argue that there that there is a danger of weakened checks and balances, a situation that, if abused, could see corruption and mismanagement by politicians go unpunished. Furthermore, there are signs that the party’s electoral dominance has also allowed it to spread its influence to other social spheres like business and sport.

The informal alliance between the ANC, the SACP and COSATU remained intact despite tensions about the course of economic and social policy.

The other major development was the reorientation of economic policy. The president and the influential finance minister, Trevor Manuel, opted for a greater role for the state. Budget shifts will be in favor of increased social spending to ensure greater social justice and less inequality. In addition, the government has also announced an increase in public expenditure of 180 billion rand to revitalize its ageing infrastructure. The majority of this will go to the transport parastatal Transnet to improve quality and reduce costs to manufacturers who want to export. Another beneficiary will be Eskom, the energy parastatal, to assist it in generating additional capacity to support required levels of economic growth. The reorientation of economic policy cannot be explained merely as a tactical maneuver in the wake of the elections in April 2004 since it was obvious that the ANC would be successful at the polls. The only “real” question was whether the party would reach a two-thirds majority.

## **C. Assessment**

### **1. Democracy**

The consolidation of South Africa's democracy continued. In the short period under review, no major dramatic changes occurred. So far, there is no evidence that the dominance of the ANC affects the democratic institutions. The dominance of the ANC has weakened institutional checks and balances, especially in most of South Africa's provinces. This does not mean that the ANC is heading towards authoritarian rule, but the party can use its majority to get itself out of difficult circumstances, e.g. with respect to recent corruption scandals (see chapter 3.3). A vibrant and well-organized civil society and the print media, which plays the role of a "watchdog" for democracy, are counterweights. Negative developments include indifference toward or even tolerance of political corruption and a growing alienation between the electorate and politicians, leading to only modest support for democratic institutions.

#### **1.1. Stateness**

There are no challenges to the territorial integrity of the country. The (mostly right wing) secessionist groups are weak and play no political role. These groups are widely ignored by both the government and the public. The central government has a monopoly on the use of force. Only in certain areas does rampant crime prevent consistent enforcement by local authorities.

All ethnic and religious minorities enjoy human and civil rights. With the exception of a few radical groups, the fundamental principles of the liberal South African democracy are acknowledged. Although religion plays an important role in the lives of the majority of South Africans, the secular nature of the state is generally accepted. Fundamentalist Islamist groups, which had been active in particular in the Western Cape Province at the onset of the 1990s, are currently marginalized due to lack of organization.

A functional administration, a core element of stateness from Max Weber's perspective is – in notable contrast to many African states - in place, but its efficiency is curtailed by capacity problems and insufficient implementation, especially in some of the economically weaker provinces (e.g. Eastern Cape).

## 1.2. Political participation

Democratic elections on the national, regional and local levels are regularly held in South Africa. The third national elections, held in April 2004, were a routine exercise of democracy. The outcome of the free and fair elections clearly mirrors the preferences of the electorate. The Independent Electoral Commission (IEC) guarantees a level playing field. An independent media commission responded to complaints by some opposition parties about the amount of air time available for the ANC. Political parties receive funds from the state according to the number of seats they obtain in Parliament. Currently, civil society organizations are fighting for new regulation to force political parties to divulge their funding.

### Results of national elections in 1999 and 2004

<b>Parties*</b>	<b>1999</b>	<b>2004</b>
	<b>Percentage of total vote/seats in National Assembly (total 400)</b>	<b>Percentage of total vote/seats in National Assembly (total 400)</b>
<b>ANC</b> (African National Congress)	<b>66.35/266**</b>	<b>69.68/279</b>
<b>DP/DA</b> (Democratic Party /Democratic Alliance)***	<b>9.56/38</b>	<b>12.37/50</b>
<b>IFP</b> (Inkatha Freedom Party)	<b>8.58/34</b>	<b>6.97/28</b>
<b>UDM</b> (United Democratic Movement)	<b>3.42/14</b>	<b>2.28/9</b>
<b>ID</b> (Independent Democrats)	<b>-</b>	<b>1.73/7</b>
<b>NNP</b> (New National Party)	<b>6.87/28</b>	<b>1.65/7</b>
<b>ACDP</b> (African Christian Democratic Party)	<b>1.43/6</b>	<b>1.60/6</b>
<b>FF+</b> (Freedom Front Plus)	<b>0.8/3</b>	<b>0.89/4</b>
<b>UCDP</b> (United Christian Democratic Party)	<b>0.78/3</b>	<b>0.75/3</b>
<b>PAC</b> (Pan-Africanist Congress)	<b>0.71/3</b>	<b>0.73/3</b>

\* Excluded are micro parties which 1.56%/5seats of the total vote in 1999 and 1.34% and no seat in 2004. \*\*The ANC reached the two-thirds majority of 267 seats in 2003. The reason for that was the temporary removal of a law stating that members of parliament leaving their party would have to sacrifice their seat, giving the party the right to choose a successor for the disloyal member of parliament. Because of the short period when floor crossing by members of parliament was allowed, UDM members of parliament joined the ANC, increasing its number of seats to 279. The DP also benefited from floor crossing, receiving 8 seats more, while the PAC lost 1 and the IFP 2 seats. \*\*\* The DP formed an alliance with the NNP and changed its name to DA. Although the alliance was later dissolved, the name DA remained.

The elections in 2004 saw a triumph by the ANC. The party not only won a majority of over two-thirds in the national elections, but it also won the provincial elections, gaining control in all 9 provinces. In the Eastern Cape, Limpopo and Mpumalanga, the opposition parties are marginalized by ANC majorities of close to 80% of the vote. For the first time, the ANC became the strongest party in the Western Cape and KwaZulu Natal provinces as well, which had previously been

governed by New National Party (NNP) and the ANC, and the Inkatha Freedom Party (IFP) and ANC coalitions respectively, both with a non-ANC premier. The ANC leads a minority government in both provinces because the party failed to receive the absolute majority.

The reason for this clear victory can be found within the party, which is, largely, a product of the legacy of Apartheid, which had created the logic of identity politics - the social and racial cleavage structure of South African society. In addition to these structural constraints, it is obvious that the celebrations of the 10<sup>th</sup> anniversary of South African democracy gave the ANC an advantage since official celebrations and events went hand in hand with electoral campaigning: In its campaign, the ANC could argue that it had brought liberation and improved the well-being of the majority of the population.

An interesting and often overlooked feature of the elections was the relatively low voter turnout. Although the official voter turnout was 75.5% (compared to 87.1% in 1999), it must be examined more closely. In reality, only 57% of the eligible voters cast ballots, and millions of voters remained unregistered or did not vote in spite of being registered. The IEC's registration campaigns and the extension of the registration period proved to be only a limited success. Young voters especially tended to abstain either from registration or from voting.

The democratically elected government has the effective power to govern. There are no veto powers - such as the army, big business and so on - since they are included in the political system.

In comparison to other African states, South Africa has a strong and vibrant civil society. According to recent estimates, nearly 100,000 organizations (including self-help organizations, see chapter 1.5) form a dense network of heterogeneous groups. They ensure participation, and they are able to challenge politically the government. Large parts of the more important South African civil society groups are organized in two umbrella organizations: The South African National Civic Organisation (SANCO) federation represented approximately 2500 groups in the 1990s. The South African National Non-Governmental Organization Coalition (SANGOCO) represents approximately 4000 member organizations. In general, civil society tends to be stronger in urban areas. Most of the groups cooperate with the government, and they are aligned or at least sympathize with the ANC. Political activities have declined steadily since the demise of Apartheid.

Beginning at the end of the 1990s, new social movements emerged. They mobilize and organize around issues neglected by the government, such as AIDS treatment. Most prominent among these organizations are the Treatment Action Campaign (TAC), the Anti-Privatization Forum and the Environmental Justice Network. They are much more critical about government policies, and some are critical of working within the boundaries of representative democracy. For

instance, the Landless Peoples Movement called for an electoral boycott at the recent elections. The emergence of new social movements marks a division within civil society between the more traditional groups, stemming from the struggle against Apartheid and supporting the general line of government policies, and the new movements, who fight mainly for the interests of the marginalized using unconventional methods. It will be a challenge for formal civil society organizations to link up with the new, informal social movements. In many communities, the established organizations are regarded as elitist and unrepresentative.

The constitution guarantees the freedom of expression except in cases of “hate speech”, which are subject to prosecution. The national broadcaster SABC, which owns various radio stations and 3 television stations, dominates television and radio in South Africa. Private media is legalized, but only one television station can be received without paying additional fees. The quality of state-owned and private television is mediocre, especially with respect to the news and critical analysis of the issues of the day. Print media is much more differentiated and of high quality. Several quality newspapers are on the market. After 13 months, a new quality national daily newspaper named “This Day” had to give up because the circulation rate was too low, and therefore, advertisement did not come in. The failure of “This Day,” which was financed by a Nigerian company, demonstrates that the market size is rather limited in an industry that is dominated by three large media conglomerates. The various daily newspapers and weekly journals can freely express critical opinion. The press is one of the most important non-constitutional checks and balances in South Africa. There are permanent tensions between the press and the ANC. As the party has done with many of its other critics, it has accused this sector of having a hidden anti-transformation agenda, driven by the (mainly white) elite.

### **1.3. Rule of law**

There is no political interference in the judiciary. At the time of this writing, it is not clear whether a discussion initiated by the ANC to “transform the judiciary” will affect its independence in the future. The rule of law is in place, although deficits in efficiency can be observed. The separation of powers is anchored by the constitution and functions. The overwhelming victory for the ANC weakened checks and balances, especially that of Parliament where opposition parties were weakened.

The legal framework to penalize office holders who abuse their power is impressive but in practice often not enforced. For instance, there are a number of cases in which there is no protection for whistleblowers who report corruption. According to complaints by the public protector, a kind of ombudsman, the Protected Disclosures Act, which should protect whistleblowers, is ignored. The fight against corruption has lost credibility (see also 3.3).

The South African constitution contains a detailed chapter on the usual civil liberties and human rights. A number of independent bodies (“chapter 9 institutions”), such as the public protector (ombudsman) and commissions for human rights, gender equality and the rights of religious and cultural minorities, assess the implementation of those rights. There are no human rights violations committed by the government for political reasons, but according to Human Rights Watch ([www.hrw.org](http://www.hrw.org)) the following shortcomings can be observed:

- Brutal and inadequate treatment of prison inmates led to over 500 casualties in police custody or during arrests in 2003. In addition, the prisons are overcrowded, and juveniles in detention are not separated from adult detainees in some cases.
- In some cases, the police have used excessive force against peaceful demonstrators. For instance, activists of the Landless Peoples Movement were attacked, arrested and beaten by the police.
- The fact that approximately 20-25% of South Africa’s schoolgirls are raped or sexually harassed by classmates or teachers can be regarded as a violation of human rights. This finding sent shock waves through South African society. Sexual violence against female students is also affecting their right to education, since victims often do not attend schools anymore. In general, violence against women has reached levels among the highest in the world. In the South African context, rape could mean a death sentence for the victim since 23% of the age group between 14 and 49 are HIV-positive.
- Human rights non-governmental organizations (NGO’s) also complain about the deportation of illegal immigrants, the absence of basic health services in some rural areas and the overall policy toward HIV and AIDS.

The government and authorities such as the Independent Complaints Directorate (ICD) recognize these problems. New laws are under way or have already been amended to protect prison inmates and to address the rape problem. The implementation of new laws and counterstrategies, however, has been slow and unsatisfactory due to administrative bottlenecks and a culture of ignorance, especially with respect to school administrators who often downplay the incidence of violence. To sum up: Human rights violations continued because of inadequate government reaction.

#### **1.4. Stability of democratic institutions**

The democratic institutions defined by the constitution are stable and capable of performing. As mentioned, the opposition in Parliament is weak on the national level and nearly marginalized in some provincial legislatures. With isolated exceptions, the Parliament behaves in a reactive manner, especially the National Council of Provinces (NCOP). Legislation is executive-driven, based on ANC



policy, and once before Parliament, ordinary members of the dominant party will not risk their political future on obstructing measures that were agreed upon by the party's top leadership. This hold on ANC members of parliament can be explained in terms of the proportional system, which makes members of parliament dependent on the party leadership for their position. This reduces the opportunities for bottom-up checks on power. The current situation will make it much more difficult for the constitutionally guaranteed institutional counterweights to check the ANC. In general, institutions are capable of performing, but inefficiency and capacity hamper the performance of some departments and administrative institutions.

All relevant actors accept South Africa's democratic institutions. Only some radical movements or groups of no political relevance fundamentally oppose democratic institutions. Veto powers are non-existent; all major players respect the constitution.

In 2000, the political parties decided to change a constitutional provision that stipulated that a member of parliament lose his seat if he leaves his party. The constitutional change was necessary to make the dissolution of the Democratic Alliance (DA), the union of the NNP and DP formed just prior to the 1999 general election, possible. As part of a political deal and because the ANC expected to benefit from this change, the ANC agreed on the new regulation, which allowed floor crossing by members of parliament and other elected officials on all levels for a short period of around 2 weeks. The regulation determines that a minimum of 10% of members of parliament can defect from one party at a time. The ANC's calculation proved accurate because it turned out the ANC is usually the biggest winner of floor crossing periods. The new regulation introduced the principle of a free mandate, which is a cornerstone of representative democracy. A broad majority of the South African population disagrees with the new regulation, however, and voters feel betrayed.

### **1.5. Political and social integration**

South Africa has developed into a dominant-party system. A dominant party system is characterized by the uninterrupted electoral dominance of a single party, which thereby governs alone continuously. In addition to political dominance, dominant parties shape the public agenda and have a major influence on the society as a whole. Dominant-party systems are not undemocratic, as the example of the decade long rule of the Japanese Liberal Democratic Party demonstrates. The critical discussions inside and outside of South Africa can only be understood against the background of African experiences with one-party systems. After a short democratic spring after gaining independence from the colonial masters, most African states became autocratic. The dominant parties in, for instance, Kenya, Tanzania and Zambia developed into the political machines of their more

and more autocratic leaders, and pluralism was abolished, either step-by-step or even overtly and immediately.

The results of the 2004 elections revealed the vast gap between the ANC and the second strongest party, the DA: Whereas the ANC received over 10 million votes, the DA received only 2 million. The DA tried to make the dangers of a dominant-party system a topic in the election campaign. The campaign, however, characterized by the aggressive style of party leader and forceful orator Tony Leon, failed in that the DA could mainly attract only white voters. For most black or colored voters, the DA is no alternative. Voter identities are still shaped by the Apartheid past: blacks perceive the DA as a white party, which therefore cannot be their political home. The overall popularity of the ANC, an efficient mobilization of its voters and a well-planned campaign also contributed to its electoral success. The majority of the ANC's electorate still believes in the party's historical project, namely the transformation of South Africa, leading to "a better life for all," an ANC campaign slogan.

The IFP cannot be an alternative for the majority of black voters either since it is perceived as a regional party representing the ethnic group of Zulus. The decrease in votes for the IFP reflects demographic and socioeconomic changes in that the party's potential base – Zulus living mainly in rural areas – is shrinking. The NNP, which is the renamed NP, which dominated South African politics for half of a century, has collapsed. The party received a mere 1.6% of the vote, in contrast to 20.4% in 1994 and 6.87% in 1999. Largely the party's opportunistic leadership can explain this disastrous result for the NNP: An alliance with the then DP failed, and the regular members did not support the informal coalition with the ANC. The party failed to explain to its white and colored voters what it stood for, and so its political aims remained vague.

In August 2004, party leader Marthinus van Schalkwyk, Minister for Environment and Tourism, declared that he would join the ANC and recommended that party members follow his example. The ANC's tactic of a "deadly embrace" proved to be successful. As one commentator put it, "the ANC's hug of alliance with the NNP was therefore that of the bear, and its smile was that of the crocodile".<sup>1</sup> Van Schalkwyk's decision led to a split among voters, members and activists. All other parties benefited from the "bankrupt estate" of the NNP. Many NNP councilors joined the ANC, DA, Independent Democrats (ID) or even the right wing Freedom Front Plus (FF+). Former President and Nobel Prize winner Frederic de Klerk left the party. The UDM, which was seen as the only nonracial party, was weakened through internal divisions and floor crossing members of parliament. It degenerated into a regional party in the Eastern Cape. The only winner was the newly formed ID, led by former Pan African Congress (PAC) member Patricia de Lille. The party received support mainly from colored communities in the Western and Northern Cape provinces. Some support also came from disgruntled white NNP members who could not bring themselves to joining the ANC or DA.

Whereas the ID has a potential beyond the 1.73% of the vote the party most recently received, the potentials of the two Christian parties and the FF+ remain rather limited.

Both the outcome of the elections and the growing disconnect between politics, parties and voters have fueled discussions about electoral reform. Some prominent opposition politicians, journalists and academics as well as an Electoral Task Team headed by Van Zyl Slabbert, a highly respected leader of the forerunner of the DA (the then (liberal) Progressive Party), have proposed either a majority voting system or a mixed system similar to the German electoral system. The aim of the proposals is to strengthen the ties between voters in the constituencies and members of parliament. The ANC and Parliament have not taken up the idea so far, and the debate has not produced any results.

In general, the party system is stable and the polarization moderate. Extremist or anti-system parties do not play an important role. Ten years after the end of Apartheid, the parties represent largely racial and political identities stemming from the Apartheid period, which are still more important than social cleavages. The best example for this is the ANC. The ANC is a “broad church” representing such diverse social groups as the unemployed and marginalized industrial workforce, farmers and the new black middle and upper classes, including black business. A breakaway by the party’s left-wing strata seems unrealistic at this time despite many conflicts within the tripartite alliance.

All parties are losing members. The ANC claimed to have roughly 416,000 paid-up members and many more signed-up ones. The figures for all other parties are much lower. Besides the decreasing voter turnout, this is another indicator for growing alienation among the electorate.

There is broad spectrum of interest groups representing the most important groups of South African society. The industrial sector is densely organized by 4 umbrella trade union federations. By far the largest and most influential trade union federation is COSATU with around 1.8 million members in 2001. Besides COSATU, the Federation of Unions of South Africa (FEDUSA) claims to organize approximately 530,000 mainly white and white-collar workers in 26 unions, and the nearly all-black National Council of Trade Unions (NACTU) claims to have about 400,000 members organized in 19 trade unions. A third independent trade union is Solidarity, representing about 128,000 mainly white workers. Although small, it is a dynamic union that has successfully challenged various pieces of legislation, some before the Constitutional Court. One of its first cases dealt with unfair affirmative action practices. This gave it an initial label of being right wing, but since then it has shared platforms with COSATU on matters such as the selling of a stake in Telkom to high-ranking ANC officials. The

COSATU president, Willie Madisha, opened Solidarity's annual conference in June 2005.

In the opposing camp, on the side of business, several powerful umbrella organizations exist too. The South African Chamber of Business (Sacob) is the largest business association in South Africa. The National African Federated Chamber of Commerce (NAFCOC) mainly represents black business, while the Afrikaanse Handelsinstituut represents mostly Afrikaner concerns. CHAMSA (Chambers of Commerce and Industry South Africa) is the unified body of business, consisting of Sacob, NAFCOC, the Afrikaanse Handelsinstituut and the Foundation for African Business and Consumer Services. Although the new body has been formed, its three constituent parts still exist separately while merger talks continue. The corporatist National Economic, Development and Labour Council (NEDLAC) plays an important role in industrial relations, solving conflicts through negotiations and paving the way for compromises.

Compared with the urban and the semi-urban periphery, the people living in rural areas are less organized in interest groups. Self-help groups and churches are much more important in those areas. In general, the Christian churches and a broad variety of religious sects play an important role in public and private life. South Africa is a religious society compared to most secular Western European countries. The traditional Christian churches, however, are losing members to charismatic Christian churches (Pentecostal).

South Africa has an extraordinarily high number of 50,000 self-help organizations. These organizations, called Community Based Organizations in South Africa, quite literally organize the survival of marginalized groups, especially in rural areas. In most cases, they do not receive governmental support. They contribute to the formation of social capital. Characteristic for South Africa and due to its history of segregation and Apartheid, trust and social capital can mainly be observed locally and between citizens belonging to the same ethnic group, race or political camp. There is still a considerable amount of distrust, dislike and sometimes hostility between members of the different racial and political groupings. According to representative surveys, the most disliked group is the right-wing Afrikaner organization AWB, followed by the IFP and the Afrikaners. Homosexuals are a minority strongly disliked by South Africans as a whole. In every racial or ethnic group negative attitudes, stereotypes and prejudices against other groups can be found. The low frequency of personal contacts between members of different groups – often predominantly at the workplace – and geographic segregation hamper the development of social capital. Trust and social capital formation remain weak in South African society.

Support for democracy is high, but lower than in many African countries. In the latest available surveys covering the years 1999-2001 (see [www.afrobarometer.org](http://www.afrobarometer.org)), 60% of the respondents stated that democracy is always

preferable to any other kind of government, but 21% said that it wouldn't matter for them what kind of government one has. The figure for support of democracy in South Africa is significantly lower than in eleven other African countries with a mean of 69%. Only 56% of South Africans clearly reject a one-party state as an alternative. Furthermore, surveys indicate that South Africans trust key political institutions but with some reservations. Compared with other African countries, trust in institutions in South Africa is lower than in longstanding democracies and compared with countries such as Tanzania and Uganda, but higher than in Nigeria. Support for democratic institutions is much lower among whites.

A survey conducted by the TRC revealed that support for parliament and the constitution was highest among blacks (59.9% and 54.2% respectively) and lowest among whites (30% and 35.3% respectively) (Gibson, James L., 2004: *Overcoming Apartheid. Can truth reconcile a divided nation?* Cape Town, p. 309).

All surveys demonstrate a general support for democratic principles, but South Africans are not enthusiastic supporters of their democracy and are even more critical of government performance concerning unemployment and crime.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

South Africa belongs to the upper-middle-income countries, with a per capita income of \$9,870. The relatively high figure hides the extremely unequal distribution of wealth.

With a Gini Index of 59.3, the country is one of the most unequal societies in the world. The president and cabinet members often refer to "two economies in one country" in public speeches. This metaphor has become popular and has replaced the metaphor of "two worlds" in one country, which was used to describe the consequences of Apartheid. The first economy refers to the modern, capitalist parts of the economy that are integrated into the global division of labor. The second economy refers to economic activities outside or at the edges of the modern one, for instance subsistence sector, informal and illicit activities. The traditional South African social cleavage between white and rich and non-white and poor reflects the reality of the country only in a very general sense.

The two economies metaphor is not synonymous with this cleavage because the growing black middle class and black business people clearly belong to the first economy. It is also misleading because the economies are interconnected and interdependent. However, the metaphor correctly mirrors the fact that a large part of the population – according to estimates between 30% and 40% of the entire population – are excluded from the formal sector. The main reason for the

exclusion of such large parts of the population is unemployment. Whereas unemployment among whites is around 5% it has grown to around 20% among the Indian and colored populations, and it hits black Africans hardest with over 36.8%. A worrying fact is that 75% of the unemployed are less than 35 years old, and only a minority of the between 450,000 and 600,000 new entrants to the labor market each year will be able to find a job. Therefore, the high unemployment figures predominantly reflect the inability of the South African economy to create jobs for new entrants to the labor market.

Additional socioeconomic data for South Africa reveal contradictions concerning the level of development: South Africa has the highest HDI in the heavily populated states in Sub-Saharan Africa; only island states and oil-rich Equatorial-Guinea score higher. The country also has an impressive infrastructure and the most advanced industrial production and service industries in Sub-Saharan Africa.

A recent UNDP-South Africa Report (UNDP, 2003: South Africa. Human Development Report 2003. The Challenge of sustainable development: unlocking people's creativity, Oxford) fueled discussions inside and outside the country about the achievements and deficits during the last ten years. One of the most important and discussed findings was related to mainly stagnating poverty rates. The share of the population living below \$1 a day increased from 9.4% in 1995 to 10.5% in 2002. The figures concerning the \$2 per day indicate that in 2002, 23.8% of South Africans lived at this level of poverty compared with 24.2% in 1995. The share of people living below the poverty line (UNDP definition) decreased slightly, from 51.5% to 48.5%, as result of increased government spending. In general, poverty rates stagnated on a high level. These alarming figures from the UNDP worried the government and they were immediately used by opposition parties and media during the campaign.

Although the HDI is higher than in most African countries, it has decreased during the last years (from 0.684 to 0.666) because life expectancy decreased from 57 to 55 years because of AIDS infections. The official rate of HIV infection has remained at the high level of 23% of the economically active population. At the end of 2002, approximately 5.3 million South Africans had been infected with the pandemic. The HIV-prevalence rate among pregnant women is approximately 28%. With more than 5 million infected, South Africa has the largest number of infected in the world.

## **2.2. Organization of the market and competition**

Historically, South Africa has always been a market economy, but for political reasons, with a relatively large state-owned and parastatal sector. The rationale behind the government's historically strong interference in the economy had been the creation of employment for lower and middle-class Afrikaner whites. The new

“black” governments continued to guarantee market-based competition. It is part of the government’s political objectives to foster black business and to increase black ownership and the number of blacks in middle and senior management positions, both in the private and public sector. The government puts pressure on companies and sectors to support Black Economic Empowerment (BEE) in different forms. The pressure on business has increased since the results of BEE and affirmative action measures did not meet the government’s expectations. Companies and sectors have to draw up concrete plans and industry-wide “charters” to meet the objectives. If companies refuse to adopt BEE and affirmative action measures, they will be penalized. For instance, they will be excluded from further government contracts and tenders. This positive discrimination is not in line with the principle of equal opportunity. It remains to be seen whether the announced shifts in economic policy will lead to a higher degree of governmental intervention concerning BEE. From the business side, BEE is regarded as a business risk damaging local and foreign investment.

As of this writing, the issue of BEE is a sensitive topic within the tripartite alliance. COSATU argues that BEE is not broadly based enough, benefiting the same small group of already empowered black individuals. In November 2004, COSATU took the ANC to task when it became known that a significant share of Telkom was to be sold to, among others, high-powered ANC officials - such as its spokesperson, Smuts Ngonyama and the former director-general of communications, Andile Ncaba - and other individuals that were well connected with the ruling party. This was flagrant behavior, especially taking into consideration that just shortly before this, Telkom had announced that it would lay off thousands of employees (despite the release of record profits!).

The informal sector’s contribution to GDP was estimated at only 6.9% in 1995 but counts for 18.9% of non-agricultural employment. Compared to the Sub-Saharan African mean, which is estimated at 25.9% of the GDP, the role of the informal sector in South Africa is rather modest. After a substantial increase in the number of people working in the informal sector over the past few years, the capacity of this sector to absorb additional job seekers has been limited. The size of the informal sector is stagnating.

The government’s privatization policy is still in place but has been slowed down. Some sectors of South Africa’s industry and services are still monopolies.

The liberalization of foreign trade continued. Foreign investment was encouraged by lifting capital market regulation but remained low.

South Africa has one of the most advanced and functioning capital markets (Johannesburg Stock Exchange) in Africa. The banking system consists of four large privately owned banks and a number of smaller banks. In 2004, Barclay’s Bank (British) announced it would buy shares of South Africa’s largest bank,

ABSA. The South African government welcomed this announcement. It was interpreted as an indicator of trust of foreign business with respect to the future economic development of the country.

### **2.3. Currency and price stability**

Fiscal policy can be regarded as a success story. The inflation rate (Consumer price index) has been tamed from two-digit figures in 2001 to a one-digit rate in 2003. The central bank pursues a restrictive monetary policy, and the government's inflation targets are often reached. The independent South African Reserve Bank views itself as the guardian of stability and low inflation. The bank reduced the interest rate to stimulate domestic growth several times in 2004.

Progress in pursuing macroeconomic stability is demonstrated by a small budget deficit. The budget deficit had been 3% in 1999, and it decreased to just 1.4% in 2002/2003. In the 2003-2004 period, it was expected to be around 2.4%, and for the subsequent years it is expected to be slightly over 3%. South Africa has a lower budget deficit than Germany and would theoretically comply with the EU's Stability Pact.

The government pursues a policy of macroeconomic stability, but the country's key macroeconomic figures depend to a high degree on international developments; the relatively small currency invites speculation, and the size of its market is limited, making South Africa vulnerable to economic shocks. The government has little influence on foreign exchange rates. The national currency's strong ups and downs pose a threat to export and tourism (with an increase of 10% of visitors in 2003), engines of South African growth. Shifts in the exchange rate have been dramatic. At the end of 2002, 10.6 rand were equivalent to \$1; at the beginning of 2003, the ratio had been 9 rand to \$1; in 2003, 7 rand bought \$1, and at the end of 2004, the rand stood at 5.9 to the dollar. One immediate result was that the trade surplus decreased by half, but in 2003 South Africa still had a positive trade balance of approximately 750 million euros.

### **2.4. Private property**

Private property is guaranteed by the constitution. This fact is of high political significance, since the ANC was a long-time sympathizer with socialist ideas, and the stealing of land and forced resettlements of approximately 3.5 million people under Apartheid had to be addressed by the democratic governments. In 2003, the government accelerated the process of land redistribution and restitution (for the victims of forced removals) for two reasons. On the one hand, experiences with violent occupation of "white" farmland and the expulsion of white farmers and their black farm workers in Zimbabwe and the ongoing discussions in Namibia



underlined the necessity for changes. On the other hand, the emergence of the Landless Peoples Movement put the government under pressure to act. By the end of 2003, 42,000 of 68,000 claims for restitution had been settled, mostly in urban areas, which are less problematic because compensations can be paid.

Furthermore, the government aims to settle all land claims by 2005 and transfer 30% of farmland to dispossessed Apartheid victims. In contrast to Zimbabwe, the land policy follows strictly legal principles. Occupations of land are regarded as illegal and not tolerated by the authorities. The redistribution mechanism takes place according to the market-compatible willing buyer – willing seller principle. The government provides grants for the purchase of land. Government institutions in a (time-consuming) case-by-case procedure carry out the restitution. Expropriation (again with compensation) has not been used yet, but is theoretically possible.

Privatization of state-owned enterprises and parastatals continued to be on the government's agenda, but with lower priority. To maintain foreign business confidence, the government is still advocating privatization on the rhetorical level. In reality, not much has happened: The assets of the large-scale companies ESKOM (electricity) and Transnet (transport, trains, South African Airways) remain in government hands. Whereas ESKOM is highly profitable and investing heavily in the rest of Africa, Transnet made huge losses in 2003-2004. Limited progress can also be found in the communication sector. Sixty-one percent of Telkom, South Africa's monopoly in telecommunications had been sold. However, due to the exclusion of possible competitors, the telecommunications sector has not been liberalized, and South Africans still pay high prices for telephone and internet.

It is encouraging, however, that the South African government announced new regulations at the end of 2004, which amounts to a far-reaching liberalization of the telecommunications sector. These regulations, which are already being phased in, will allow, for example, companies to make use of internet telephone calls, which would dramatically bring down the cost of communications. There are four reasons for the limited progress in privatization. First, the resistance from trade unions, which organized three general strikes between 2000 and 2002, had slowed down privatization. Second, the aforementioned shift in economic policy enabled the government to pay less attention to the issue. A third reason for the delay in introducing a second national operator has been court challenges that had been launched by disgruntled bidders who have been overlooked by government. A fourth reason is the simple fact that Telkom would have been rendered uncompetitive with rapid liberalization. Its local rates remain amongst the highest in the world.

## **2.5. Welfare regime**

The post-Apartheid expansion of the welfare system continued, and more and more South Africans received governmental grants. Currently, 17% of the entire population receives social support, compared to Brazil and Mexico, where the figure is around 4%.

The president promised in a May 2004 speech following the elections to increase government spending to finance the expansion of child grants for an additional 3 million children and to ensure that all households have access to clean water. The social security system now counts for 4% of the GDP. Furthermore, health facilities would be improved to support the government's policy on HIV and AIDS. In reaction to mass unemployment and political pressure from trade unions and civil society, the government announced the implementation of public works programs. They will be implemented through the private sector, partly because of corruption in the civil service. Private companies will be allowed to tender for labor-intensive infrastructure programs, the main element of the public works programs. These programs will take the form of public-private partnerships on the local governance level.

For political reasons, equality of opportunities has been manipulated in the sense that formerly disadvantaged groups – mostly black South Africans - benefit from affirmative action measures. The measures are designed to overcome the consequences of Apartheid, especially in the public sector. The affirmative action programs are strongly criticized by white South Africans and they often contribute to individual decisions to emigrate.

Gender equality ranks high in the constitution, and a legislative framework has been introduced, leading to many programs to end the historically subordinate role of women. However, despite notable progress, women are still often disadvantaged, especially in rural areas and with respect to access to land.

## **2.6. Economic performance**

In its Ten Years Review, the government stated that the overall performance of the South African economy had been “unspectacular” and “mediocre”. The growth rates are low, with an average of 2.77% for 1994-2004, because the population grew around 2% annually during the same period. A revision of South African growth levels at the end of 2004 indicated that year-on-year growth for the third quarter of 2004 was 5.6% and that the economy in general was growing at more robust levels than expected. Predictions for economic growth in 2005 range between 3.5% and 4%.

The growth per capita (PPP) in 2001-2002 stood at 2.2%. South Africa reveals a sound macroeconomic picture with a positive perspective, except for unemployment. It will be seen whether the marginal decline in the unemployment figures in the 4<sup>th</sup> quarter of 2004, although statistically insignificant, may be an indication of a turning point.

The country also benefited from the rising price of gold. Compared to other middle-income countries, South Africa's debt service in 2002 was only 4.5% of the GDP (see table in chapter 4.2), but some structural deficits remain:

- South Africa has a very low savings rate of 11.2% of disposable income.
- The investment rate between 1994 and 2003 was on average a low 12.1%. The domestic net investment is a meager 24 billion rand (roughly 3 billion euros). FDI is closer to the developing countries average than to the average of middle-income countries. Reasons for this are extensive and expensive labor regulations, overburdening crime and uncertainty about future economic and social policy. Investors are afraid of the pro-poor policy recently announced by the government.
- South Africa is a net capital exporter. The outflow of private sector capital continued after 1994. Between 1994 and 2002, 23 million rand in capital were exported annually

## **2.7. Sustainability**

Environmental concerns are taken seriously in South Africa. To protect the environment and to save the country's fascinating natural resources, the government has introduced a detailed legal framework and a variety of sector-specific measures, for example in water management and renewable energy. Most important is the National Environmental Management Act (1998), which includes binding principles for economic development. All decisions affecting the environment are subject to Environmental Impact Assessment (EIA) regulations. The effectiveness of South Africa's progressive environmental laws and regulative mechanisms is – again - hampered by capacity deficits, lack of experience and unclear community competences.

The education system faced tremendous challenges after Apartheid. It was necessary to establish a non-discriminatory system but also to reorganize the department and to improve the quality of schools and universities, especially in neglected areas such as the former homelands. At first glance, the average annual increase in education is impressive, with an average of 10.3% for the years between 1995 and 2002, but in reality, this reflects only a 1% increase when inflation is taken into account. The share of the budget devoted to education is still comparable high, but decreased from 19.2 to 18.8 between 1995 and 2002 (See UNDP 2003, p. 22-26). Although schools in former neglected areas receive more

support than before, the majority of schools are still mono-racial. School fees for white students have increased remarkably, but this makes it even more difficult for blacks to enter these schools. A tertiary education reform began in 2004. The government decided to reduce the number of universities and so-called “technicons” from 36 to 24. Universities will be merged or incorporated into neighboring institutions. Thus, universities known for weaker and lower standards will be merged with well-established institutions to improve their performance.

It is much too early to judge the effects of these reforms and additional reforms in primary and secondary education. So far, the South African education system, , reveals massive deficits in the quality of education. There are various reasons for this failure, ranging from a high number of unqualified or under qualified teachers (22% in 1994) to widespread delivery and capacity problems, especially in some provinces (e.g. Eastern Cape). The government celebrated the increase in the number of students passing the final school exam (matric), but it is very likely that the numbers of students passing the matrices exam increased because the standards had been lowered. Furthermore, the dropout rates in schools and universities – fewer than two out of ten students graduate – are extremely high. The most dangerous threat for the sustainability of the South African education sector is AIDS. The high number of teachers infected with HIV and AIDS has already led to a shortage of teachers and high rates of absenteeism.

Compared to many developing countries, South Africa has a nationwide modern education and training system, including some excellent universities and schools. Ninety percent of all children attend school, and the school attendance rate for girls is one of the highest in the world. The standards in many schools and some universities, however, are much too low to meet the requirements of society and the economy. The legacy of Apartheid has not yet been overcome, and despite many efforts, severe delivery problems could not be solved. A similar judgment can be made about programs providing training and developing skills in public service for the local and national governments. The performance of the Sector Education and Training Authorities (SETAS) is weak on average.

The extent of the AIDS pandemic in South Africa casts a shadow over every initiative and program, not only in the educational field, but also over all social and economic sectors generally.

### **3. Management**

#### **3.1. Level of difficulty**

The democratic governments since 1994 have been confronted with a high degree of structural difficulties, deriving both from Apartheid as well as from the development process in general. Major challenges include widespread poverty,

extremely unequal income distribution, a high number of HIV and AIDS infections, deficits in the educational system and a scarcity of skilled workers, especially technicians and engineers. Favorable preconditions for a transformation are a well-developed infrastructure, which is much more developed than that of most African states and modern industry and service sectors.

Civil society is well organized and vibrant, deeply anchored in society and ensures a high level of participation. Interethnic and racial relations are still polarized, but conflicts are not manifest. The existing strong ethnic and racial antipathies and potential conflicts are mostly swept under the carpet.

### Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	5
System of government:	<i>parliamentary</i>	Electoral system disproportionality:	0.2
		Latest parliamentary election:	01.04.2005
		Effective number of parties:	2
1. Head of state and government:	<i>Thabo Mbeki</i>	Cabinet duration:	1999-2004
Type of government:	<i>oversized coalition</i>	Parties in government:	2
2. Head of state and government:	<i>Thabo Mbeki</i>	Cabinet duration:	04/04-present
Type of government:	<i>single party majority</i>	Parties in government:	1
		Number of ministries:	27
		Number of ministers:	27
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: <math>\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}</math>; <math>v_i</math> is the share of votes gained by party <math>i</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

### 3.2. Steering capability

The South African political leadership sets and maintains strategic priorities to push transformation further. The main objectives are to overcome the legacies of Apartheid and to create sufficient economic growth within the framework of a market-based economy to solve the country's burgeoning social problems. The priorities and strategies are clearly defined. Many strategic initiatives have been developed, such as the "Vision 2014". They identify priorities for reform and define concrete targets. There is only a broad agreement within the tripartite alliance about the transformation aims of democracy and market economy. When it comes to the question of which strategy should be pursued, ideas differ, in particular concerning the extent of government interference in the economy. Support for an interventionist approach is still strong and derives from former socialist ideology, popular in the liberation movement. Although the left of "talk

left – act right accuses the government” the government remains committed to its reform trajectory.

In 2004, the government announced a new strategy whose main objective was to bridge the divide between the two economies. The government will take a stronger lead in the socioeconomic sphere. The “hands-off” approach with respect to the economy will be changed gradually to a more “hands-on” approach. The new policy will focus stronger on the acceleration of Black Economic Empowerment measures and includes a national skills initiative. In addition, a public works program of unprecedented size will be created. With the recent changes, a more social-democratic approach has become the dominant strategy.

In response to deficits and failures, the government has started to set concrete targets and periods (3 to 5 years) for the improvement of the delivery of services and policies in general. An important side effect of the concrete targets is that this will provide the opposition parties and civil society groups with the opportunity to check the government’s accountability. One of the main problems with respect to steering capability is weak implementation capacity. South Africa lacks the capacity to implement the many ambitious sophisticated reform projects with narrow periods. This can be attributed to several factors, including turnover of personnel and decreasing numbers of employees in the public service since 1994, lack of qualified staff (insufficient experience and underdeveloped managerial skills), weak monitoring and evaluations systems and corruption and mismanagement. As previously mentioned, the most severe problems can be found in many local and some provincial administrations and institutions.

For years, political leaders, the president and the minister of health remain uncommitted towards the fight against the AIDS pandemic. In the field of HIV and AIDS policy, which had been under heavy criticism from outside and the country, a new approach has been selected. The main reasons for this policy shift were consistent pressure from civil society and the upcoming elections. The articulate and outspoken Treatment Action Campaign (TAC) and the opposition parties, namely the Democratic Party (DP), put particular pressure on the government. The government was afraid that its refusal to provide Anti-Retroviral Treatment (ART) could become a topic during the election campaign. One immediate result of the new strategy was a strong increase in public funding for HIV and AIDS interventions. A 70% increase in the budget for 2002-2003 and 43% in the budget for 2003/04 was announced for the major three departments involved. The financial support for provincial administrations in the fight against HIV and AIDS totaled 1 billion rand (roughly 140 million euros). Most of the money will go to the infrastructure, including health stations. Government activities have thus been extended, but again, problems with delivery and disputes over competences between different institutions and governmental branches led to a gap between rhetoric and practice.

To make things worse, the president continued to provide poor leadership. He stated publicly in September 2003 that he personally did not know anyone who had died of AIDS. In 2004, he withdrew from public debates, and it seems that he is paying less attention to this challenge. A comprehensive approach is still missing. Negative effects of the pandemic on business can be observed: The effects are already affecting labor productivity because the prevalence among skilled and highly skilled workers is on the rise. In the KwaZulu/Natal province, the public sector is already affected by the pandemic. For instance, between 1998 and 2001, the number of deaths among teachers increased by 50%.

### **3.3. Resource efficiency**

The efficient use of available economic and human resources is hampered largely by capacity limitations. The aforementioned delivery problems, particularly visible in the Department of Home Affairs, result in large amounts of unspent funds. National departments failed to spend 1.1 billion rand (roughly 125 million euros) in 2002-2003 (This Day, Business 11.13.03).

In the socioeconomic sphere, the government faces opposition from its alliance partners, COSATU and SACP. This makes it difficult to pursue a coherent policy. In practice, the alliance partners only have significant influence in selected areas. The trade union federation COSATU dominates industrial relations and it managed to extend workers rights over the last 10 years. Politically speaking, COSATU's "control" of labor relations can be regarded as the price the ANC has to pay for the group's loyalty in the tripartite alliance.

Contrary to public perceptions and media reporting, corruption is not one of the major problems facing South Africa. Surveys have found that large parts of the population - including business - view corruption as one of the country's most pressing problems, but in reality, only relatively few South Africans have personally experienced bribes or other forms of corruption. Another indicator of the "normal" level of corruption is South Africa's upper-middle ranking in Transparency International's Corruption Perceptions Index. In the 2004 CPI, South Africa was ranked 44 of 146 countries. With the exception of Botswana (rank 31), South Africa had the best score in Sub-Saharan Africa.

However, this is not to say that corruption is not an important problem in South Africa; in fact, it is increasing. For example, an extraordinarily high level of corruption can be observed in some provincial administrations and in the granting of government contracts and tenders. The government has reacted by passing the Prevention and Combating of Corrupt Activities Act in late 2003, forbidding the receipt of a grant that has not been advertised in both the public and private sectors. There is a duty to report corrupt activities, and the maximum punishment can be 10 years imprisonment. In addition, a National Director of Public

Prosecutions (NDPP), with a special department for investigation using intelligence methods (publicly known as the “Scorpions”) has been established.

The fight against corruption is far from being satisfactory. Theoretically, the legal framework and the quality of prosecuting agencies are sufficient to curb corruption, but there is a lack of will on the side of the government to fight corruption more intensely. The biggest corruption scandal so far occurred when the government decided to modernize the armed forces. The country bought military equipment worth 2.5 billion euros, for which it was later revealed that there were financial irregularities in the awarding contracts. The case made headlines when it became very likely that prominent ANC politicians, including Vice President Jacob Zuma, had been involved. Although there is evidence that Zuma received large sums of money from businessperson Shabir Shaik, who is also close to the ANC elite, the vice president has not been accused. The case, which has still not been fully clarified, led to the resignation of National Director of Public Prosecutions Bulelani Ngcuka. Ngcuka had vigorously attacked Zuma and faced strong criticism from ANC heavyweights. The scandal is the most prominent example of the abuse of the ANC’s overwhelming power. During the controversy, IFP chair Gavin Woods was dismissed as member of the Standing Committee on Public Accounts (SCOPA), and the only critical ANC Member of Parliament on the committee, Andrew Feinstein, faced repeated rebukes. He later resigned from Parliament.

The so-called “Travelgate scandal”, which was exposed at the end of 2004, provides another example of how much attention the ruling party should pay to the issue of corruption. At the beginning of 2005, 23 members of parliament and former members of parliament were charged with irregularities regarding the use of travel vouchers for members of parliament. With one exception, all of the accused are members of the ANC. A deal was struck with the Scorpions to not formally arrest the accused. This, combined with the possibility of plea bargains, the secrecy with which the names of the accused were withheld from the public for a long time (all of them are low-profile backbenchers, although there were speculations of some ministers being involved) and uncertainty about the actual number of accused, raises serious questions. Parliament lost around 17 million rand in the process.

The arms deal, Travelgate and other similar cases do not only set a bad example, but also they highlight serious accountability problems caused by a confusion of national, party and personal interests. The provisions introducing stricter penalties for those who abuse their positions are not enforced in the case of prominent politicians. The ANC’s forceful rejection of thorough investigations and political penalties for high-ranking members raises questions about the party’s overall view of accountability. ANC infighting might have played a role in some cases as well. Allegations or even rumors about corrupt behavior are used as an instrument to discredit opponents. The growing monopoly of the ANC’s power, especially in



some provinces, raises concerns about future developments. Negative trends are foreseeable, but much depends on the ANC's willingness to police itself and its leadership's willingness to respect codes of conduct.

### **3.4. Consensus-building**

The major stakeholders and actors agree on a market economy and democracy as long-term goals. As mentioned, there are no veto powers, but potential veto powers, such as the strong trade union federation COSATU, form an informal part of the government. The government tries to build consensus regarding both its policy of transformation and the reconciliation of South African society. Through a variety of advertisements, it also actively seeks the support of the majority of citizens for the new democratic South Africa. The most important event in this nation and identity-building strategy was South Africa's successful Soccer World Cup bid for 2010. The government to strengthen the national identity and to make South Africans proud of their country used this. In addition, UN-sponsored world conferences, such as the Johannesburg world conference on climate change and the anti-racism conference, are used to underline the country's international reputation. Business is often included in the efforts of nation building.

The aim of building a new consensus includes different strategies and policies. Firstly, the African tradition of "Imbizos" has been revitalized. Imbizos mean a face-to-face meeting between the president and hundreds of local residents. The president, often accompanied by the premier of the province, listens to citizens' remarks, complaints and questions for hours and then answers briefly. The Imbizos are regarded as an opportunity for politicians "to speak to the people." Local communities visited by the president often receive service improvements after the event. The institution of Imbizos, however, was instrumentalized during the 2004 election campaign - suddenly they were held everywhere.

Secondly, the government and the sector-specifically relevant stakeholders meet in corporatist institutions such as NEDLAC. Beside NEDLAC, a high number of informal meetings between high-profile representatives from business, unions and the government take place throughout the country. Although it seems that NEDLAC has been underutilized and that the civil society component is rather weak, the institution plays an important role.

Thirdly, the core element for reconciliation has been the Truth and Reconciliation Commission (TRC). For years, the TRC investigated the unjust past of the Apartheid era. The commission, chaired by former archbishop Desmond Tutu, is widely regarded as a cornerstone of South Africa's reconciliation efforts. After the TRC had handed over its five-volume report to the South African public in 1998, the government reacted reluctantly toward the recommendations made therein. It was nearly five years later when, in early 2003, President Mbeki declared the

government's position on the question of reparations for the victims of Apartheid after having receiving two additional volumes of the TRC report. He announced individual payments for all 22,000 victims who had made statements before the TRC. NGOs have criticized that the payments came too late, did not cover all the victims and that the financial grants are very modest compared to the recommendations made by the TRC.

The surprising fact that the political parties did not take up these issues can be explained by a general feeling of not wanting to touch this sensitive issue and to raise emotions and increase polarization again. Parties shy away from the whole issue, and public attention declined after 1998. The ANC itself, many of whose early sympathizers suffered from Apartheid human rights violations, was found by the commission to have committed human rights abuses in military camps, a finding for which the TRC was accused of "criminalizing" the liberation movement. Progress had been made in the period under review, but there remains unfinished business with respect to the compensation of victims and the prosecution of perpetrators. Only very few perpetrators are imprisoned. The most notable high-profile figure not yet convicted is Dr Wouter Basson, who was involved in the Apartheid government's chemical warfare program and who was allegedly personally responsible for the deaths of a number of freedom fighters.

So far, the government has managed to prevent underlying tensions, grievances and antipathy between different groups from escalating into violent conflicts. Incidences such as violent clashes between refugees from Zimbabwe and local residents in Mpumalanga are currently exceptional. Xenophobia is rising in general, however. The development of social capital between different groups is still in its infancy and much stronger within ethnic, lingual and local groups. The ANC has always emphasized how important civil society was in bringing down Apartheid and to support for the transformation of South Africa. Therefore, civil society groups were integrated into project implementation within the framework of the Reconstruction and Development Program (RDP) in 1994. After the RDP was abolished, the ANC expected civil society groups to support its policies by taking up the role of development agencies.

The high political profile of many civil society groups, dating back to the struggle against Apartheid, is regarded as an impediment to transformation, especially if the groups criticize the government's policies. The ANC, as a the dominant party, has the ability to marginalize players in the political field, and once being branded as racist, right-wing, elitist or anti-transformation, organizations find it very hard to make an impact on public discourse. In general, therefore, their criticism tends to be weak because they always add some sweet (compliments) to temper the sour (criticism).

The distance between civil society and the ANC widened, and some groups such as the new social movement developed into political opposition. Many organizations fear being discredited by the ANC if they openly criticize the party.

### **3.5. International cooperation**

South Africa receives only very limited ODA from OECD countries. In 2002 the country received only \$14.7 ODA per capita, and ODA accounted only for 0.6% of the GDP that year. Therefore, the country is much less dependent on the international donor community (and therefore much more self-confident in dealing with external actors) than most African countries (except Mauritius and Botswana). For South Africa, trade agreements and the removal of export barriers in foreign markets are more important than ODA. However, there are numerous development projects funded by foreign governments and NGO's inside the country. Many projects focus on HIV and AIDS, environmental protection or poverty alleviation. Only a small number of projects – such as the project of the German Gesellschaft für Technische Zusammenarbeit (Society for Technical Cooperation, GtZ), located under the auspices of the presidency - aim at improving delivery capacities on such a high political level. This kind of support is often not visible to the broader public. The government accepts the various forms of support and tries to integrate them into its own priorities and programs.

The South African government is widely regarded internationally as the most important and credible actor for consolidating democracy and pursuing a market economy combined with social reform. In contrast to other African countries, international observers suppose that South Africa has a chance of catching up with other successful transformation countries, such as the Asian “Tigers.”

In a regional context, it is also viewed by the international community as a reliable partner and as an anchor of stability in Africa. Since 1994, South Africa has fostered cooperation and integration on the African continent. Under the Mbeki administration, South Africa became the driving force both behind the New Partnership for Africa's Development (NEPAD) and the African Union (AU). The country was essential in creating the NEPAD's APRM-mechanism, which is a voluntary self-monitoring mechanism to assess the progress toward good governance, democracy and human rights. South Africa's as yet undecided policy toward mismanagement and Zimbabwe's violation of human rights is strongly criticized from inside and outside the country. South Africa's “quiet diplomacy” toward Zimbabwe has damaged the country's credibility with respect to its policy to promote good governance and democracy. Despite the criticism from South African and international civil society, George Bush has called Mbeki the United States' “point man” in Africa regarding the Zimbabwe question. In addition, when asked about the issue on a visit in 2004 to South Africa, Joschka Fischer indicated that the German government has confidence in Mbeki's handling of the situation.

In the AU Constitutive Act, South Africa was crucial in establishing the right to intervene in member states in grave circumstances such as genocide, crimes against humanity and even instability. The intervention mechanism is the core instrument of the new and promising AU conflict mechanism. South Africa has so far deployed 3,000 troops to peacekeeping missions in Burundi and the Democratic Republic of Congo. President Mbeki continues the active conflict diplomacy of his predecessor, Nelson Mandela, and tries to negotiate and broker peace agreements in Burundi and Ivory Coast. The country also plays a cooperative role in Southern Africa's regional institutions, such as the Southern Africa Development Conference (SADC).

#### **4. Trend of development**

##### **4.1. Democratic development**

In the period under review, stateness, political participation and the rule of law remained at more or less constant levels. Democratic elections have become routine, and there is consensus among observers that they are free and fair. The ANC benefited from the 10<sup>th</sup> anniversary of South African democracy, which contributed to the party's overwhelming victory at the polls. The rule of law is established, but civil liberties of certain groups (prisoners) are still neglected or not fully realized because of efficiency deficits.

The consolidation of South African democracy has not made significant progress, but no major setbacks can be observed. Some worrying trends can nevertheless be noticed. Lower voter turnout and the only limited success of massive voter registration campaigns indicate that there is a declining level of political participation. Since from a comparative perspective voter turnout is still high, the recent development could also be interpreted as a trend towards normalization after a period of extraordinary high degrees of political mobilization following the founding elections of 1994. The overwhelming dominance by the ANC on national and provincial levels creates an unfavorable context for further consolidation. The controversial HIV and AIDS policy saw some improvements, but a lack of will and the absence of a clear strategy can still be observed. Therefore, it is characteristic that improvements had been achieved despite the government's initial conviction and because of massive pressure by civil society and the international community.

##### **4.2. Market economy development**

South Africa remains a deeply socially divided society. Despite many programs to improve social conditions and progress in the extension of basic social

infrastructure, the level of socioeconomic development has not improved in general, mainly because of the impact of HIV and AIDS. The HDI reveals a slight downward trend from 0.684 to 0.666. This change of -0.018 can be attributed to a decline in life expectancy because of the high number of HIV and AIDS deaths. Approximately 6,700 people die of AIDS or AIDS-related illnesses every day. Furthermore, unemployment and the marginalization or exclusion of substantial parts of the population stagnated at high levels.

Major shifts in the institutional framework of the market economy could not be observed in the period under review. The government guarantees private property, even in highly disputed land questions, and adheres strictly to legal solutions. Although the BEE measures violate pure free-market philosophy, the programs do not affect the system's economic fundamentals. Privatization has been slowed down but remains on the government's agenda.

#### Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %		2.7	3.6	1.9	2.6 <sup>a</sup>
Export growth in % <sup>b</sup>	8.9	2.7	-0.8	1.6	-0.5 <sup>f</sup>
Import growth in %	7.1	0.2	3.4	9.7 <sup>g</sup>	
Inflation in % (CPI)	5.4	5.7	9.1		
Investment in % of GDP		15	16		
Tax Revenue in % of GDP <sup>b</sup>	27.4	28.6	28.7	24.8*	
Unemployment in % <sup>c</sup>	36,2	41,3	41,8		
Budget deficit in % of GDP			1% <sup>d</sup>		
Current account balance in billion rand <sup>e</sup>	-0.4	-0.3	0.3		

Source: Frankfurter Allgemeine Zeitung 12.13.2004 (South Africa Reserve Bank Data; Inflation: UNDP: South Africa. Human Development Report 2003, Oxford, p 252; Gelb, Stephen: An overview of the South African economy, in: Roger Southall/John Daniel/Jessica Lutchman (eds.): State of the nation. South Africa 2004-2005, Cape Town 2004, pp. 367-400, *ibid.* p. 375.

<sup>a</sup>Estimated. <sup>b</sup> Source: IMF im- and export of goods and services. <sup>c</sup>Taxes from various sources added, see UNDP SA 2003: p. 261 <sup>d</sup>According to an expanded definition. The official figures by the government are significantly lower, e.g. the official rate for 2002 is 30.5%. <sup>e</sup>For the financial year 2002/2003 <sup>e</sup>2000 and 2001 8 rand = 1\$, 2002 10 rand = 1\$ Investment: UNDP 2003: 172 <sup>f</sup>According to the Sunday Times Business 11.2.03 4.1%. <sup>g</sup> According to Sunday Times Business 11.2.03: 8.4%

The positive trends on the macro-level continued. South Africa's economic performance was solid, but the growth rate is still too low to have significant effects on the labor market.

In general, the capacity of the labor market is too low to absorb the annual 450,000 to 600,000 new entrants to the job market. The unemployment rate reaches 40%, according to a wide definition. Policy was successful with respect to the inflation rate, which has been curbed below 10%, and fiscal discipline has led

to a low budget deficit. However, structural constraints on the economy remain, such as a low investment rate compared to most countries in East Asia and a strong currency, partly because of speculation, that hampers exports.

#### **D. Strategic perspective**

South Africans can be proud of the democratic development of the country since 1994. Much has been achieved, and the country is rightly viewed as a success case and sign of hope in Africa, a conflict-prone and poverty-stricken continent. South African success is undeniable but it should not lead to the premature conclusion that the country's process of democratic consolidation has been finished. The political future of the country depends on at least the following three future developments.

The ANC's overwhelming electoral victory gives the party overwhelming political power. The ANC can exclusively shape the public agenda. The political opposition remains weak and fragmented and cannot, for various reasons, really challenge the ANC. Therefore, the future of South Africa lies largely in the hands of the ANC. The elections in 2004 reinforced the dominant-party system. A dominant-party system does not lead automatically to an undemocratic, autocratic or hegemonic system, but the question of control and limitation of the dominant party's power arise. There are many examples in Africa in which a dominant party paved the way for an autocratic system. Observers in South Africa point to worrying trends, such as the centralization of power in the presidency, the oppression of critical discussions within the party and an autocratic style of leadership by the president.

In addition, lack of parliamentary opposition supports worrying trends. Considerable attention had been paid by the ANC to Malaysia as a model for development. The discussions about Malaysia as a model for South Africa's development reveal that bureaucratic and autocratic models have become more and more attractive. The dubious arms deals and Travelgate scandals reveal the limited willingness of the ANC to investigate corruption among high-ranking party and government officials. Constitutional checks and balances have also been weakened by the electoral results. Due to the large majorities and weak opposition, Parliament and the Council of Provinces cannot and are not willing to challenge the ANC. Only the Constitutional Court remains to check the government's power. Countervailing political power limiting the ANC's power, could come from opposition within the tripartite alliance and civil society groups. It is too early to judge whether the ANC is able to resist the temptations of being the dominant party.

Despite budgetary shifts and many programs, South Africa is still a very unequal society with an extraordinarily high degree of unemployment. Unemployment,

poverty and low skills lead to the exclusion of 30-40% of the population. Estimates indicate that three-fourths of the population have no access to banks. The exclusion of such a large portion of the population could become the Achilles heel, since social distortions have not only an impact on crime but also affect the legitimacy of the new South Africa. The inclusion of the marginalized is one of the greatest challenges the country currently faces.

BEE programs and affirmative action measures are politically necessary, but a much more sophisticated strategy is required. The current strategies and public discourse run the danger to alienate whites, Indians and parts of the colored communities. Even amongst many blacks, there is dissatisfaction with BEE. COSATU, for example, came out very strongly against “empowerment for the few,” when it became known that top ANC figures would become the beneficiaries of a Telkom stock sell-off.

The HIV and AIDS pandemic has not been combated successfully by the government. On the contrary, the government’s reluctance has only worsened the situation. The pandemic hangs like a Damocles sword above the development prospects of South Africa. The pandemic increases the uncertainty of the transformation.

Against these trends and uncertainties, it is difficult to identify the key sectors for efficient external support. Measures and programs should be planned and implemented in close cooperation with the South African government wherever possible. The following target sectors for external governmental or non-governmental support can be identified:

- Building and strengthening administrative capacities on all levels of government, especially in those provinces revealing inadequate or malfunctioning public services, is needed. The aim is to improve the quality of delivery of services and the skills of the personnel through training programs.
- Support for the reform of the educational system, including additional training for teachers, would contribute to an improvement.
- Support for implementing anti-HIV and AIDS strategies. Cooperation should not only focus on governmental institutions, but also on non-governmental organizations.
- Increased support for NEPAD, especially with respect to the vague indicators of the APRM. The APRM mechanism, which will review South Africa, is planned for 2005. This could provide new opportunities for reform.
- Because South Africa has developed into a dominant-party system, one has to think about whether and how external actors could strengthen the fragmented opposition parties or concentrate their efforts on civil society. Another possibility would be to strengthen democratic tendencies

(regional branches, special interest groups) within in the party. This is clearly not a task for governmental support, but it could be an issue for political foundations and NGOs.

Since there is still a lack of national coherence and trust on the part of whites and other minorities, the efforts in nation-building, which played a prominent role under the Mandela government and only a secondary role under Mbeki's government, should be revitalized.