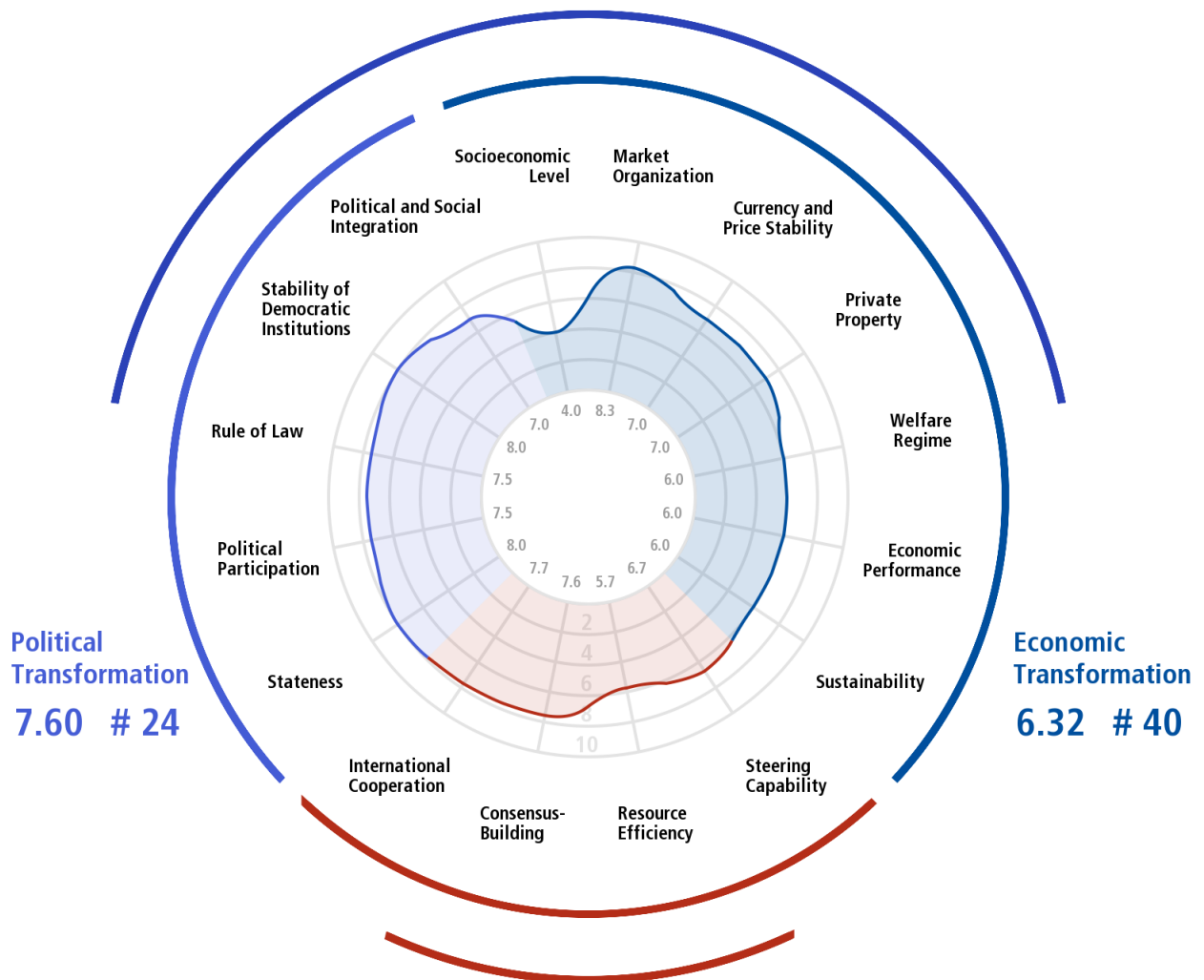


South Africa

Status Index

6.96 # 26

on 1-10 scale out of 129



Political Transformation
7.60 # 24

Economic Transformation
6.32 # 40

Governance Index

5.96 # 28

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	55.9	HDI	0.666	GDP p.c., PPP \$	13225
Pop. growth ¹	% p.a.	1.6	HDI rank of 188	119	Gini Index	63.4
Life expectancy	years	61.9	UN Education Index	0.720	Poverty ³	% 35.9
Urban population	%	65.3	Gender inequality ²	0.394	Aid per capita \$	25.8

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In the period under review, South Africa faced some of its most stringent economic-, social- and political challenges since its democratic transition in 1994. A new generation of South Africans, born during and after the transition, are becoming politically active, and are questioning the basic tenets upon which the 1994 transition rest in light of persistent historically-inherited forms of unjust exclusion. This will require creating a new social compact at a time of deep polarization.

At the economic level, the country continues to be crippled by the triple challenge of poverty, inequality and unemployment under conditions of sub-par growth. These challenges are structural and more often than not, it is difficult to determine the causal links between them. All are inherited, but arguably the most catalytic of the three is the question of employment. Unemployed households are poor, and research by the country's leading development economists make it clear that wages are the primary driver of inequality in society. Given a significant skill deficit in the country, induced by an underperforming public education system, the high demand for skilled workers further exacerbates inequality, also among those that are employed.

Against the backdrop of low growth in the post-global financial crisis years, the prospect for a significant improvement in employment levels remains limited. Not since its launch in 2012 has the country come close to the National Development Plan's (NDP) target annual growth of 5.4% to eradicate poverty and significantly reduce inequality by 2030. In 2015, GDP growth stood at a paltry 0.5%. After successive years of subdued growth and lower than expected revenue levels, the country is running out of fiscal space to budget in a countercyclical manner over a medium-term expenditure framework. The level of public debt is growing at a worrying rate, and debt-financing costs, at 10% of total government expenditure, has become the fastest growing item in the budget.

In light of this, and the government's difficulty in reducing its budget deficit to predicted targets, international ratings agencies have downgraded their credit ratings for South Africa in 2016 to just

above subinvestment status. In the event of a further downgrade to junk status, the country's economic woes will deepen in terms of international borrowing and the servicing of current debt commitments. It will also be restrained from further investment in economic infrastructure, aimed at kick-starting labor intensive growth. For ordinary citizens, it will mean higher interest and an escalation in living costs.

These pressures are already weighing down on society. In poor communities, some settlements have been rendered ungovernable by people who can no longer tolerate poor service delivery. On university campuses, research and classes have come to a halt for protracted periods due to student boycotts about the prohibitively high costs of tertiary education. Toward the end of 2016, some of these turned violent and resulted in clashes with police. In the face of reduced government subsidies to tertiary institutions, the system requires a new funding model that allows for greater access in an economy that desperately needs skills. At the same time free education – the objective of the so-called Fees Must Fall Movement – cannot be provided at the expense of quality of research and education.

Under circumstances like these, a focused and cohesive body politic becomes essential to stabilize and address the key issues. This is absent in South Africa. Levels of political polarization are higher than they have been in many years. Trust has broken down between the governing party and opposition groups, but even more damaging is the internal war raging within the ruling tripartite alliance, consisting of the African National Congress (ANC), South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). This internecine political battle has spilled over into the state with consequences for good governance. These internal schisms that are holding the country ransom are not ideological, but rather about the polarizing personality of the country's controversial president, Jacob Zuma, whose patronage network, allegedly funded by three naturalized Indian brothers, has created insiders and outsiders within the ruling party. In the course of 2016, the Constitutional Court ruled that Zuma had forsaken his constitutional duties by using public funds for private home renovations. In the same year, a report by the Office of the Public Protector, titled *The State of Capture*, published concerning evidence about the alleged influence of the Gupta family over Zuma and his government's decisions.

This power struggle has been a substantial detraction from governance at a time when critical issues loom, such as the impending credit downgrade. At the beginning of 2017, it has changed its rhetoric on economic policy by calling for "radical economic transformation." At the time of writing, it remained unclear what the party exactly means by this.

History and Characteristics of Transformation

South Africa builds upon a long tradition of statehood. The Union of South Africa came into being in 1910 with the amalgamation of the separate British colonies of the Cape and Natal with the former Boer republics of the Orange Free State and Transvaal.

Before and after the creation of the Union, political power continued to be concentrated in the hands of the country's white minority, while the economic disenfranchisement of black South Africans accelerated since its creation. On the economic front, the 1913 Land Act, which took away land ownership from millions, represented a significant blow to the economic security of black South Africans.

In 1948, the National Party of Daniel Malan came to power on the back of Afrikaner nationalism. Under National Party rule racial and economic discrimination became instituted in the form of the policy of apartheid, which benefited white South Africans, and Afrikaners in particular, at the expense of black South African. In 1961, the country left the British Commonwealth and became a republic. Until 1994, it remained a race-based democracy that forcefully repressed any attempt by black South Africans to broaden the political franchise and access the country's wealth.

Following a difficult period of immense violence and uncertainty about the country's future, the negotiated ("pacted") transition to democracy began in 1990 and led to the founding elections of 1994. The former liberation movement, the African National Congress (ANC), took power as Nelson Mandela was elected the first non-white president. After decades of international isolation, South Africa was politically and economically reintegrated into the international fold.

The ANC, together with its tripartite alliance partners, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU), have won all five democratic elections with comfortable majorities of over 60%. Though, voter participation has declined and public disillusionment of ANC leaders has grown. South Africa has a dominant party system, but the opposition parties gained strength in the last two elections. The 2016 local government elections signaled an acceleration of the ANC's slide. Several large cities are now ruled by coalitions led by the official opposition, the Democratic Alliance (DA).

Economic development after 1994 proceeded through different phases. After a period of relatively modest growth, the years up to 2008 saw a flourishing economy with the highest growth rates in South Africa in the last two decades. The country was hard hit by the global financial crisis, and since 2010 growth has been sluggish, with growth rates not exceeding 2%. Official estimates are that in 2016 the economy expanded by only 0.5%

The first black government under President Mandela's leadership introduced the Reconstruction and Development Program (RDP) in 1994. This comprehensive program focused on improvements in meeting basic needs, fostering human resources and establishing a social welfare system. The program was replaced by the Growth, Employment and Redistribution Program (GEAR), shortly thereafter in 1996. The economic and fiscal policies of the Mbeki government

led to heated political debates and became the main reason for an ongoing tension within the Tripartite Alliance. The alliance has its roots in the liberation struggle against the apartheid regime. It consists of the ANC in a centrist position, and the Congress of South African Trade Unions (COSATU) and South African Communist Party (SACP) on the left. Since 1994, the alliance has been characterized by growing infighting between a more market-oriented wing that strongly advocated for privatization and further liberalization, and a more socialist-oriented group – represented by COSATU and the SACP – promoting a major state role in the economy. The adoption of Accelerated Shared Growth Initiative for South Africa (ASGISA) represented a moderation of GEAR policies in response to this growing discontent.

After President Thabo Mbeki was ousted from power by his own party due to the general path of economic and fiscal policy and his centralist style of leadership, Jacob Zuma became president in April 2009 and was re-elected in 2014. During Zuma's first term, the government released a new macroeconomic strategy in 2011, called the New Growth Path (NGP), drafted by the newly-created Economic Development Ministry. The NGP signaled a more pronounced role for the state in the country's economic development by, for example, emphasizing the role of industrial policy. A year later, the National Planning Commission released the National Development Plan (NDP), which provided a framework for the achievement of development goals until 2030. While the NGP was drafted by officials on the left of the ANC's ideological spectrum, the development of the NDP was spearheaded by those closer to the center, and as a result the content of the two documents reflects much of the tensions within the tripartite alliance. As with previous economic policies, these tensions ensured that full implementation of both the NGP and NDP was disrupted by power shifts within the tripartite alliance. As in the past, this necessitated concessions that weakened the impact of each.

Socially, the country remains divided and low levels of trust between the country's historically-defined racial groups remain. Social attitudes are reinforced by low levels of social interaction between groups. This is underpinned by racialized settlement patterns, with most South Africans still living in very racially homogenous neighborhoods. But these patterns are also reinforced by the failure of economic policy to address income inequality. While the country's economy has grown and poverty levels have been reduced, the distribution of wealth has been less pronounced and, as a result, class and race still overlap.

Alongside the weak implementation of economic policy, high levels of corruption are increasingly draining resources intended for development. During the first quarter of 2016, the Constitutional Court found that President Jacob Zuma had forsaken his oath of office by using public funds for upgrades to his private home in the KwaZulu-Natal town of Nkandla. The court ordered him to repay some of the costs. In the same year, after a successful court challenge, the DA succeeded in reinstating 783 corruption charges relating to the notorious arms procurement deal of the late 1990s, which had been dropped just before Zuma entered office.

Although support for the ANC is still strong, protests against deficits in service delivery, which in some cases developed into violent unrest characterized by arson, intimidation and the destruction of public and private property, have sporadically broken out and increased in recent years. Despite spontaneous outbursts of violence, surveys reveal strong support for democratic principles and values.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

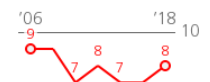
The South African state's control over its territory is unchallenged. There are no guerrilla or secessionist groups challenging its authority. Only right-wing groups did so during the country's transitional period in the mid-1990s. Less organized fringe groups have not managed to pose the same threat since then. The South African state fails only to protect its citizens from persistently high crime rates in some of the country.

The vast majority of citizens endorse the legitimacy of the South African state. The 2015 round of the SA Reconciliation Barometer (SARB) Survey showed that 75% of respondents felt that "being South African" forms an important part of their identity. Only 7% disagreed with this assertion. Against the background of the country's history of social division, prior to the end of apartheid, it is also significant that 71% of respondents supported the pursuit of one united South African nation. During the 2015 to 2016 student protests against rising student fees and in favor of the "decolonization" of the academic curriculum, many within the student movement have voiced stringent criticism against the political compromises of the country's political transition in the 1990s, going as far as rejecting the foundations upon which the post-apartheid state has been built. Since students at tertiary institutions make up only 2% of the total population, it would be incorrect to assert significant and widespread opposition to the legitimacy of the state.

Question
Score

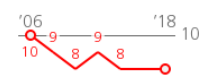
Monopoly on the
use of force

8



State identity

8



The state is secular; there is no interference by religious dogmas. The country's high level of religiosity does, however, mean that its politicians on occasion leverage it for political reasons. President Jacob Zuma, for example, is on record saying that Jesus would have voted for the ruling African National Congress (ANC) and that the party would govern until his second coming.

No interference of religious dogmas

9



Administrative structures exist at the national, provincial and local levels of government. Although these structures cover the entire country, the quality of and access to these services remain variable, with the highest levels of administrative and implementation capacity existing at the national and provincial levels. Significant deficits on both counts exist at the local government level, where protests against weak service delivery, often accompanied by the illegal destruction of public infrastructure, continue to be a pervasive feature. Exceptions in this regard are the country's eight metropolitan municipalities, which includes large cities, such as Johannesburg, Cape Town and Durban.

Basic administration

7



The country has shown strong capacity to develop policy and pass legislation, but its own progress reports, such as the Department for Performance Management and Evaluation's (DPME) Twenty Year Review (1994-2014), underscore dire implementation weaknesses. While the ruling ANC has managed to address development backlogs, such as housing, sanitation, electrification and basic health care, the pace at which it has done so are below popular expectations. The Afrobarometer's 6th round survey in South Africa, for example, found 70% of citizens disapproving of its efforts to improve the living conditions of the poor.

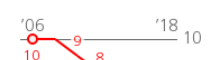
Corruption features strongly. According to the 2015 Global Corruption Barometer of Transparency International, 83% of South Africans feel that corruption is increasing. The latest round of the Afrobarometer showed that 79% of South Africans feel that the government is doing badly in combating corruption.

2 | Political Participation

The last general election, the fifth since the end of apartheid, was held in 2014 and the next will take place in 2019. The 2014 elections can be described as free and fair, and all parties abided by the election results.

Free and fair elections

8



The Independent Electoral Commission (IEC) is widely trusted by South Africans as an impartial arbiter of elections. The body remains one of the most trusted public institutions according to the Afrobarometer, with 58% of respondents indicating that they trust it somewhat or a lot. This notwithstanding, the commission's reputation was affected by the controversial circumstances related to the resignation of the

previous head of the commission, Ms. Pansy Tlakula, and a Constitutional Court judgment against the IEC during the first half of 2016 on administrative weaknesses which may have compromised the integrity of election results at the ward level within the Tlokwe municipality in the North West Province.

Political leaders are democratically elected, and up to now, the only curtailment on their ability to fully represent the interests of their constituencies has been internal party discipline, underpinned by a proportional representation system. Failure to tow the party line can have significant career implications.

A major concern is the ability of business interests – particularly those close to the ANC – to influence government decisions to further their interests. The behavior of the Gupta family, three expatriate brothers of Indian origin with very close ties to President Jacob Zuma, has raised particular concern after suggestions surfaced in the media that their influence may have stretched as far as actually proposing cabinet and senior bureaucrat appointments to the president. These allegations have placed the issue of state capture firmly on the South African public agenda. President Zuma, some ministers and the Gupta brothers unsuccessfully attempted to halt the publication of a report of the Public Protector, Thuli Madonsela, through court action since this report presented alarming evidence of interference in state governance. Among other things, the report raised serious questions about the appropriateness of Zuma’s son’s directorships in some of the Gupta companies that conducts business with the state; deals that were made between the Gupta family and state-operated enterprises (SOEs), such as the embattled electricity provider Eskom, with close allies of the Gupta family on the board; as well as strong evidence of the Gupta family’s influence in the appointment of ministers and senior public servants. As events related to this saga unfolded in 2016, evidence emerged that the apparent capture of key individuals, may have progressed to the effective capture of key state institutions, such as SA Revenue Service and the National Directorate of Public Prosecutions (NDPP).

The firing of the country’s finance minister was likely the most controversial instance of the Gupta family’s alleged interference in governance matters. In December 2015, Zuma replaced the country’s respected Finance Minister Nhlanhla Nene with Des van Rooyen, an obscure ANC member of parliament with close ties to the Gupta family. The country’s stock market plunged and its currency, the rand, nose-dived. After sustained pressure from business leaders and members of his own party, Zuma begrudgingly recalled Van Rooyen after only four days in office and replaced him with Nene’s equally respected predecessor, Pravin Gordhan. Subsequent evidence presented to the country’s Public Protector suggested that Nene’s unseating was orchestrated by the Gupta family. After this political debacle, other senior ANC members came forward to claim they were also summoned to the Gupta residence and offered jobs in return for favors to the family.

Effective power to govern

8



1

In the course of 2016, Gordhan came under significant pressure from the president and his Gupta-aligned allies, who resented his appointment above their preferred candidate. The family's newspapers and news channels harshly criticized the minister, who over the course of the year survived a number of trumped-up corruption charges relating to his tenure as Commissioner of the South African Revenue Service (SARS). These charges, which were fervently pursued but the NDPP, with the active support of the current SARS Commissioner Tom Moyane, a close Zuma ally, were dropped at Gordhan's first court appearance. Although legal experts unanimously felt the charges against Gordhan and the co-accused were futile, the relentless nature with which it was pursued nevertheless suggests that there had been a concerted effort by Zuma's patronage network to get rid of a minister who stood in the way of its material ambitions.

Articles 17 and 18 of the South African constitution protect the right of citizens to assemble and protest within the confines of the law. In practice, this right is broadly exercised for civil causes and often also forms part of industrial strike action. In the face of deteriorating economic circumstances, characterized by rising unemployment and living costs, as well as growing perceptions of public sector corruption, the country has witnessed a significant rise in both peaceful and violent forms of protest. In the most recent round of the SARB Survey in 2015, 25% of respondents in a national sample of South Africans have indicated that they either have participated in violent protest over the preceding year, or that they would be inclined to do so over the next year if circumstances demand it.

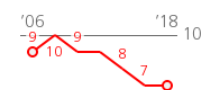
In recent years, concern has grown over the state of public order policing and, in particular, the increased force used by the South African Police Service (SAPS) in responding to the proliferation of violent protest and the seeming lack of accountability for its actions. In April 2011, the country was shocked by the fatal police shooting of a peaceful protester, Andries Tatane, captured on film by journalists. The Farlam Commission, which investigated the circumstances that led to the Marikana Massacre a year later in 2012, where 34 striking mine workers died at the hands of SAPS officers, recommended an investigation into the criminal liability of SAPS officers, but absolved senior politicians, most notably, Deputy President Cyril Ramaphosa, who at the time was a director of Lonmin, the Marikana Mine's holding company.

Questions about police brutality once again arose during the 2015 to 2016 student protests on campuses across the country. In some instances, it was alleged that violent actions by students provoked a forceful response by police, but on several occasions police were also accused of provoking violence from students by the disproportionate use of riot control mechanisms, such as tear gas and stun grenades.

Similarly, parliamentarians of the Economic Freedom Fighters were violently removed by security police from parliament after disrupting President Zuma's State of the Nation speeches in 2016 and 2017 with verbal interjections. In an

Association /
assembly rights

7



1

unprecedented move, the entire parliamentary precinct was cordoned off for the 2017 opening of parliament to exclude any form of public gathering in close vicinity of the legislature.

Although media freedom is guaranteed in South Africa and legislation circumscribes political party coverage and advertising by the public broadcaster, the main media outlets focus their attention on the major parties and the most prominent persona representing them. As a result, smaller parties generally suffer from a lack of platforms to communicate their party manifestos.

Section 16(1) of the South African constitution guarantees freedom of expression for individuals, the media and academia. Section 16(2) notes that such freedom does not extend to propaganda for war, incitement to violence and advocacy of hatred, meant to cause harm, as far as race, ethnicity, gender and religion is concerned.

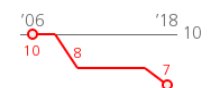
The question of the boundaries between free speech and hate speech has become topical during the period under review, given several instances of crude racism on social media. Following a series of inflammatory racist remarks on social media, policymakers have been pondering the criminalization of hate speech, with severe punishment for transgressors. Those arguing for the tabling of such legislation, suggest that in a country that remains highly polarized, such language could hinder social cohesion, and, in the worst-case scenario, potentially destabilize the country. Others have called for more caution in its implementation, fearing blanket legislation may criminalize any criticism of government.

Although concentrated ownership in the private media space has had implications for the diversity of views expressed, such institutions continue to experience a large degree of freedom to publish opinions that are often highly critical of the government of the day. For a protracted period after the country's political transition, the mainstream media has been criticized for being too white and generally anti-government. This state of affairs is changing with majority black-owned media houses, such as Independent Media, bought with the support of the South African Public Investment Company (PIC), and the Gupta family-aligned TNA Media that owns the national daily the New Age and the 24-hour news channel ANN7.

The worst regression in terms of media freedom reported in the 2018 BTI is the impact the parlous state of management at the public broadcaster, the South African Broadcasting Corporation (SABC), has had on the editorial freedom of its staff. During the fourth quarter of 2016, parliamentary hearings into the state of the broadcaster revealed editorial interference by the broadcaster's former Chief Operating Officer Hlaudi Motsoeneng to cast the ruling party, and President Zuma in particular, in a positive light. Motsoeneng, among other things, prohibited media coverage of any form of protest against the government in the run-up to the 2016 local government elections. As a result of their refusal to adhere to this instruction, the SABC fired eight journalists in July. The "SABC 8," as they have become known,

Freedom of
expression

7



1

has successfully challenged this decision in court and pressed ahead with a Constitutional Court Case against the SABC, arguing that its censorship continues. In the parliamentary hearings, several of the journalists testified that they were intimidated and received death threats aimed at persuading them to drop the suit.

3 | Rule of Law

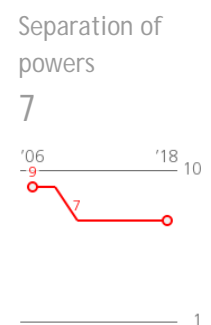
Although the South African constitution does not explicitly refer to a separation of powers as doctrine, it differentiates between three spheres of government, the legislative, executive and judicial branches, all bound by the Bill of Rights and vested with functions in different organs of the state.

Legislative power is located in the South African parliament, with a lower house, the National Assembly (NA), and an upper house, the National Council of Provinces (NCOP). Having obtained a 62% winning margin in the 2014 national elections, and clear majorities in eight of the nine provinces, the ANC has a clear numerical dominance in the NA. Given the strict enforcement discipline within parties, backed up by the potential sanction that the proportional system place at their disposal, MPs almost never vote against the official party line.

The cabinet, headed by the president, constitutes the executive. Government decisions are executed by departments headed by ministers, who form part of the cabinet. In light of the ANC's significant parliamentary majority and the iron-fisted control from its headquarters, parliamentary oversight of the executive has generally been weak. In a number of cases, compromised or weak individuals have been appointed to key positions, with devastating consequences for their institutions. In instances such as the Nkandla saga relating to unauthorized state expenditure on President Zuma's private home, poor performance of loyalists have been without consequences. In a subsequent finding on the matter, the Constitutional Court found that the president and the National Assembly had forsaken their constitutional oversight duties.

Party members have, however, shown temporary signs of assertiveness, coinciding with factional divisions around the leadership of the ruling party. This was most evident in the period leading up the recall of former President Thabo Mbeki, and more recently as President Zuma came under increasing pressure from within the party due to controversies around the use of state funds for his private residence and the alleged influence of the controversial Gupta family on his government's decisions.

The South African judiciary, with the Constitutional Court at its apex, remains independent and has on a number of occasions ruled against the government. It has not shirked in its duty to overturn legislation that has been found inconsistent with the constitution or government appointments that do not comply with requirements. Due to the weak legislative oversight political issues that are normally dealt with in



more competitive legislatures land in court, which has had the impact of polarizing public perception of the judiciary.

The South African constitution is the supreme law of the country, binding all levels of all arms of government. The South African judiciary is independent and only subject to the constitution. This means that it has the power to review laws, legislation and policies, but is precluded from making policy itself. In practice, however, its rulings, measured against the yardstick of the constitution, may force government to adjust or abandon existing policies.

The constitution provides for a Constitutional Court, a Supreme Court of Appeal, High Courts in regions, and Magistrates Courts across cities and towns. While a Magistrates Commission appoints magistrates for the last category, the president appoints judges for the others upon recommendation from the multiparty Judicial Service Commission (JSC). The JSC's composition is determined by party representation in parliament and, in practice, it is unlikely that it would forward names to the president not approved of by the ANC. Yet, once a judge has been appointed, he or she cannot be swayed or influenced by any political office.

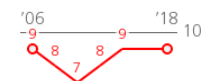
A notable example of the judiciary's independence was the 2015 the High Court order for the Sudanese president's arrest in light of an arrest warrant by the International Criminal Court for allegedly directing campaigns of mass killing and pillage against civilians in Sudan's Darfur region.

The South African government frequently articulates its commitment to eradicate public sector corruption, but its efforts in this regard often fall short of the mark. In the 2015 Afrobarometer survey, 80% of South Africans indicated that the government is either doing "badly" or "very badly" in fighting corruption, with 64% saying that corruption increased "a lot" over the year preceding the survey. Some 50% of respondents indicated that "most" or "all" government officials at the national level are corrupt, while 40% felt that this was true of members of parliament. Perceptions of corruption at the local government level were particularly common, with 78% of South Africans indicating that "most" or "all" local government councilors are corrupt.

During the period under review the saga around the use of public funds for alterations to Zuma's private homestead continued and concluded with a Constitutional Court order that Zuma was liable for at least a portion of these costs. Allegations around the president's relations with the controversial Gupta family (see above) and the extent to which it may have had a mutually beneficial relationship for both parties were further strengthened by evidence that was given to the Public Protector while compiling her State of Capture Report. In the same period, the opposition, DA, successfully litigated for a reinstatement of 783 corruption charges against Zuma,

Independent
judiciary

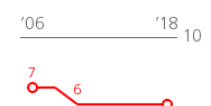
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Prosecution of
office abuse

6



1

relating to the government's controversial arms deal of the late 1990s. Zuma has appealed against this finding from the Supreme Court of Appeal.

The Directorate for Priority Crime Investigation, more commonly known as the Hawks, sits within the South African Police Service (SAPS) and is tasked with investigating national priority crimes, which includes organized crime, commercial crime and high-profile corruption. The Hawks replaced the Directorate of Special Operations (DSO), also known as the Scorpions, which was located within the National Prosecuting Authority (NPA) and, unlike the Hawks had prosecutorial powers in addition to investigative powers.

The Special Investigations Unit (SIU) is another entity that investigates corruption. Although its mandate includes the private sector, its focus falls strongest on the public sector. It is an independent body, receiving its budget from the Department of Justice, and any private person, company, state institution or non-governmental organization, can refer allegations to the SIU. It reports to the president and to parliament and is not part of the NPA or the SAPS.

The Office of the Public Protector (elsewhere often referred to as an Ombudsman) is constitutionally provided for to investigate state misconduct and maladministration at all spheres of government. Its recommendations for remedial actions are binding, unless overturned in a court.

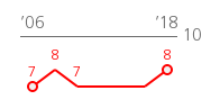
During the period under review, serious questions have been raised about the independence of the NPA, SAPS and the Hawks. All three are being led by individuals that are widely regarded as being close President Jacob Zuma, whose primary objective, arguably, is to ensure that he is succeeded as ANC president by an ally in the ANC's General Elective Conference at the end of 2017. This would be critical for Zuma, who may in 2017 still stand trial on the 783 arms deal-related corruption charges, and face further questioning about his relationship with the Gupta family.

The South African constitution contains an extensive Bill of Rights that protects individual rights and liberties, and prohibits discrimination on the basis of race, ethnicity, religion, gender, sexual orientation and political preference. The constitution, in Chapter 9, furthermore provides for institutions that are mandated to protect and strengthen these liberties. These include the South African Human Rights Commission (SAHRC), the Commission for Gender Equality, the Auditor-General, the Public Protector (ombudsman), the Electoral Commission and the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities.

Given the country's long history of racial discrimination and its resultant impact on the distribution of economic resources, the country continues to be afflicted by high levels of structural discrimination on the basis of race and class. As a conservative,

Civil rights

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patriarchal, society, gender violence is also rife, particularly in poor marginalized communities. A lack of sufficient resources, devoted to above-mentioned institutions, make the practical enforcement of rights vis-à-vis the state and non-state actors more complex.

With SAPS under-resourced, affected by high levels of corruption and distracted by political factionalism, high levels of domestic violence where perpetrators are known to victims often make it difficult to protect those exposed to the threat of physical violence. The same is true with regard to murder rates in South Africa, with a murder rate of 34 per 100,000, the sixth highest in the world according to the UN Office on Drugs and Crime (2013).

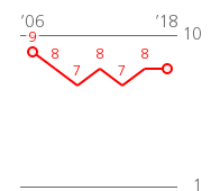
4 | Stability of Democratic Institutions

Representative democratic institutions exist at all three levels of government. The country has a proportional representation (PR) system and members of the national and provincial legislatures owe their positions to party lists. A mixed system operates at the local government level. Half of representatives at this level come from PR lists, while the other half are directly elected. Given the ANC's dominance at all levels until recently, it could pass laws or by-laws within each sphere of government without many obstacles. This is changing. For two general elections in a row the DA has managed to win the Western Cape Province, and in the 2016 local government elections it succeeded in wresting control from the ANC in the country's economic hub Johannesburg, the capital Pretoria, and the Nelson Mandela Bay Metro in the ANC's heartland of the Eastern Cape. The left-wing Economic Freedom Fighters (EFF), under former ANC Youth League (ANCYL) leader Julius Malema, has also emerged as a very robust contender with unorthodox methods of engagement, such as the disruption of parliament at times during the presidential address.

As the replacement of Thabo Mbeki as party president, for instance, has indicated, opposition can also come from within the ranks of the ANC. In fact, there are greater divisions within the party and its coalition partners, including the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). These divisions largely center on President Zuma, whom many blame for the party's weak performance in recent years. At the beginning of 2016 fierce debates in the ANC were raging between the Treasury and Zuma supporters, who argued that Pravin Gordhan's strict control of the country's purse strings precluded them from executing their mandates.

Performance of democratic institutions

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All major parties recognize the supremacy of the South African constitution and the institutions that exist by virtue of it. While the EFF has on several occasions disrupted parliamentary proceedings when President Zuma addressed the house, its strategies are not directed at the institution of parliament, but what it regards as an illegitimate president after the Constitutional Court ruled that Zuma had forsaken his constitutional duties in relation the public expenses incurred for the renovations of his private home. The same level of legitimacy is extended to democratic institutions by the military and other non-state civic organizations.

Commitment to democratic institutions

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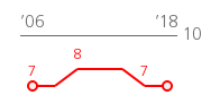
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5 | Political and Social Integration

The ANC remains dominant at the national level. The largest opposition parties are the Democratic Alliance (DA) and the Economic Freedom Fighters (EFF). The ANC, Africa's oldest political movement, founded in 1912, has a mainly black, broad ideological, base. Most white voters support the center-right DA, although the party has been increasingly successful in attracting black voters under the leadership of Mmusi Maimane. The EFF's support base is almost entirely black and subscribes to radical left-wing economic policies and to an anti-white rhetoric. While there are distinct patterns of racial voting preference, there are, no strong ethnic parties represented in parliament, with the exception of the Freedom Front Plus which exclusively campaign for Afrikaner interests. The African Christian Democratic Party (ACDP) is the only explicitly religious party in parliament.

Party system

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The results of the 2016 local government elections suggest that the opposition parties are on the rise, the DA in particular, as results in the country's major metropolitan areas including Cape Town, Johannesburg, Pretoria and Port Elizabeth imply. The ANC remains dominant in smaller centers and rural areas.

Looking at the national picture, one can question the extent to which parties represented in parliament sufficiently cater to all potential interest groups. Since 1994, there has been a marked decline in voter turnout as a percentage of the total voting age population in the country. When South Africa had its first democratic elections in 1994, 85% of all voters of voting age (adults of 18 and older) turned out. The comparative figure for the 2014 elections was 53%. This meant that the ANC support of 62% of voters who turned out at the polls, translates into only one-third of the total voting age population. While the opposition may, therefore, have increased their share of registered voter turnout, they have been less successful in luring passive or disillusioned voters back to party politics.

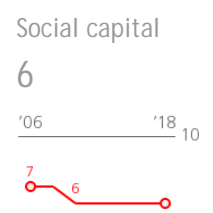
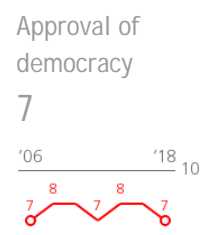
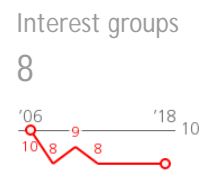
South Africa has experienced growing social and political fragmentation. While the past decade has been marked by distrust between the major players in government, labor, business and civil society, there has been significant internal cohesion within each of the stakeholder groups. This has changed, with growing divisions developing within each of the respective groups. Probably the most damaging of these has been the ANC’s internal power struggles.

The previous iteration of this index alluded to growing divisions within the labor movement, following the Marikana massacre, where 34 striking miners were killed by the police. After its stringent criticism of the ANC and the president’s handling of the massacre, the union was expelled from COSATU, the umbrella organization of South Africa’s trade unions, and by the end of 2013 it completely withdrew its support from the ANC and SACP.

The vast majority of civil society organizations are small, informal, survivalist by nature and pursue specific needs of community members where they are located. Formal South African civil society is vibrant and engages on a wide spectrum of social justice issues, which include peacebuilding, gender, the environment, education and public health. Funded mostly by international donor organizations, these organizations fill important development gaps, which government struggle to address alone. In addition to established think tanks, recent years have also seen the emergence of a new breed of well-organized, issue-specific social movement emerging, such as Ground Up, Section 27, Equal Education and the Social Justice Coalition. Some are activist in nature, and due to their assertiveness in holding government to account, have been accused of promoting the “imperialist agendas” of funding countries by the government.

According to the 2015 South African round of the Afrobarometer, almost two-thirds of South Africans (64%) feel that democracy is preferable over any other form of government. This is 7% higher than the 57% recorded in 2002, but 8% lower than the 72% of the previous round that was conducted in 2011. This measurement reports on public demand for democracy. The findings on the supply side is, however, less encouraging. In the 2011 Afrobarometer, 60% of respondents indicated that they were happy with the way that democracy is functioning in South Africa. In the most recent 2015 round, this figure has declined to 48%.

South Africa’s political transition in the 1990s, resulting in the country’s first democratic elections in 1994, was largely driven by collaboration between political, business, labor and civic elites. Post-apartheid South Africa, nevertheless inherited a deeply divided society, separated along the lines of race and class. These deep schisms remain features of present-day South Africa. Race is still a strong feature of society, which is exacerbated by growing income inequality, which in turn is reinforced by high levels of unemployment, particularly among young black South Africans. As a result, social integration mostly takes place among employed South Africans in the middle and upper-middle classes. Given the country’s high



unemployment level of 26.4% (Q4 of 2016), this sphere of society remains small. A key lesson of the years since the country's political transition is that true nation-building will only occur under conditions of greater equality. According to the 2015 SA Reconciliation Barometer (SARB) Survey, 65% of South Africans feel that national reconciliation can only occur if apartheid's material legacy is addressed. The same survey found that more than two-thirds (67%) of South Africans had little or no trust in fellow citizens outside their racial groups. The country is indeed a far way off from the "rainbow nation" that Desmond Tutu envisioned in the 1990s.

II. Economic Transformation

6 | Level of Socioeconomic Development

From a development perspective, South Africa has three major challenges: poverty, inequality and unemployment. All three have deep structural roots in the country's apartheid history, and as such, none of them can be eradicated overnight. Adding to the social dimension of these challenges, race remains a major fault line in terms of each, with white South Africans generally being more affluent and more likely to be employed even though white males increasingly face difficulties due to quota systems.

According to the World Bank, 16.56% of South Africans lived on or under its poverty line of \$1.90 per day in 2011, which was an improvement from the 25.6%, which did so in 2006. Data from Statistics South Africa captures similar progress noting that the percentage of South Africans living in extreme poverty has declined from 26.6% in 2006 to 20.2% in 2011, while the actual number of extremely poor persons have declined from 12.6 million to 10.2 million over the same period. The cut-off line for extreme poverty, used by Statistics South Africa was ZAR 320 (\$46) per person per month at 2011 rates.

Although the country has made small gains in terms of addressing inequality, South Africa remains one of the most unequal societies in the world. Income inequality in the country has declined from a Gini coefficient of 0.72 in 2006 to 0.69 in 2011, according to Statistics South Africa. The inequities, however, remain stark with the poorest 20% of the population, accounting for only 4.4% of total consumption, compared to the 61.3% of the richest 20%.

While these developments in terms of poverty and inequality may be encouraging, such progress rests on a fragile basis. A look at the country's unemployment figures shows that these improvements have not been brought about by labor income. In the fourth quarter of 2008, just before post-apartheid South Africa entered its first

Question
Score

Socioeconomic
barriers

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recession, unemployment stood at 21.5%, the employment absorption rate was 46.2%, and the labor force participation rate at 58.8%. In the fourth quarter of 2016, unemployment stood at 26.5%, the employment absorption rate was 43.5%, and the labor force participation rate was 59.2%. In simple terms this means, higher unemployment, a smaller percentage of the working-age population finding employment and stagnant percentage of working age South Africans either working or looking for work.

Underpinning the country's high unemployment levels, is a weak primary and secondary education system. This is most evident in the country's Grade 12 (completion of high school) completion rates at the end of each year. In 2016, the national completion rate was 72%. Yet if the total number of passes are taken as a percentage of the total cohort that started school 12 years earlier, the pass rate drops to 40%.

Instead, the reductions in poverty and inequality came as a result of the rapid expansion of the coverage of the social welfare system. By the end of 2016, 17 million South Africans received different forms of social grants from government (e.g., child, old-age, disability, military veterans, etc.). According to research by the University of Cape Town, the expansion of the social protection system has exercised downward pressure on both poverty and inequality levels. However, it also contends that labor income is the primary driver of inequality. Within a context of low growth and subdued government revenues, combined with high unemployment, it can be expected that the system itself will come under pressure, should current circumstances prevail over time.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	366623.9	350850.6	317406.6	294840.6
GDP growth	%	2.5	1.7	1.3	0.3
Inflation (CPI)	%	5.8	6.1	4.6	6.3
Unemployment	%	24.6	24.9	25.1	25.9
Foreign direct investment	% of GDP	2.2	1.7	0.5	0.8
Export growth	%	3.6	3.2	3.9	-0.1
Import growth	%	5.0	-0.5	5.4	-3.7
Current account balance	\$ M	-21638.5	-18682.6	-13911.0	-9478.6

Economic indicators		2013	2014	2015	2016
Public debt	% of GDP	44.1	47.0	49.3	51.7
External debt	\$ M	139789.8	141598.6	138077.5	146040.3
Total debt service	\$ M	12752.4	7791.7	8080.1	12614.5
Net lending/borrowing	% of GDP	-5.6	-5.0	-4.8	-
Tax revenue	% of GDP	26.0	26.5	27.3	-
Government consumption	% of GDP	20.6	20.7	20.5	20.5
Public education spending	% of GDP	6.0	6.0	-	-
Public health spending	% of GDP	4.2	4.2	-	-
R&D expenditure	% of GDP	0.7	-	-	-
Military expenditure	% of GDP	1.1	1.1	1.1	1.1

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The country is a market economy that, in theory, offers market access to all participants. In practice, there are however some significant barriers that distort access to the economy for millions of South Africans. Given the historical economic marginalization of the black African majority and the coloreds, many today lack an asset base that could serve as equity for business start-up costs or to buy shareholding in existing businesses. As a result, patterns around ownership and access to credit still favors white South Africans. Already under Nelson Mandela the government has sought to address the question of ownership through Broad-based Black Economic Empowerment (BBB-EE) legislation, which provides for sectoral charters with ownership targets in particular industries and preferential procurement that favors black businesses. Support for larger ventures comes from loans from the Development Bank of South Africa (DBSA) and the Industrial Development Corporation (IDC), while the Public Investment Corporation (PIC), which controls the pension funds of government workers, makes strategic investments aimed at empowering black business. Government has provided for funding vehicles for small and medium enterprises (SMEs), but due to their weak coordination it has, in addition, created a Ministry for Small Business Development. In terms of creating a more representative workforce, it introduced an employment equity act to ensure affirmative action in the hiring of workers.

Despite these measures, the government has recognized that its policies have not been as effective as it hoped to create a more inclusive economy. In early 2017, it indicated

Market-based competition

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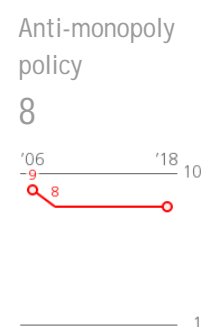
that it would now embark on a process of “radical economic transformation” to expedite greater economic inclusion.

In terms of its plans, parastatal companies, which were created during the apartheid era to deliver key services like energy, transport infrastructure, communication infrastructure and postal services, would become key engines of this process. Serious questions have, however, been posed about their governance and quality of leadership, as well as the extent to which they have become vehicles for political patronage. Given their large procurement budgets, some have been subject to scrutiny relating to alleged corruption and questionable procurement processes. In the period under review, the Public Protector’s report into state capture raised serious questions around Eskom’s coal procurement from the politically-connected Gupta family. The National Treasury refused to approve a refinancing proposal for South Africa Airlines (SAA) planes that would have benefited another politically-connected entity. The Passenger Rail Agency of South Africa (PRASA) was mired in controversy after it came to light that, following a questionable procurement process, it made a multimillion dollar order for Spanish locomotives that were too large to pass through South African train tunnels. Instead of boosting the country’s economic prospects, many of these entities have now become a drag on the fiscus.

Prices are usually set by market forces, except electricity prices, fuel levies, airport fees and port tariffs. The currency (rand) is fully convertible. Compared to other African countries, where the informal sector is sometimes as important as the formal sector, South Africa’s informal sector contribution is relatively small. Estimates of its size range between 7% to 9%, and according fourth quarter employment statistics for 2016, about 14% of the labor force work within the non-agricultural informal sector. The contribution of the informal sector to total income is 11.1% (2007).

At the time of the country’s political transition, the country’s private sector was heavily monopolized, with five companies – Anglo American, Rembrandt, Sanlam, Old Mutual and Liberty – controlling 84% of the Johannesburg Stock Exchange (JSE). Since then, there has been a major unbundling of monopolies, and in 2015 almost half of companies listed on the JSE were majority foreign-owned. In recent years, the size of black control of the JSE has become an important proxy for the extent to which economic transformation has occurred in South Africa. A report commissioned by the JSE in 2015, found that 10% of shares in the JSE’s Top 100 companies are held directly by black South Africans, while a further 13% are held through mandated investments in the form of pension funds, unit trusts and life policies (in comparison: white South Africans hold 22% and 39% respectively). These figures have been contested by the National Empowerment Fund (NEF), which claims that black ownership does not exceed 3%. The NEF’s calculation is based on information about companies where black ownership exceeds 10%.

While ownership may be more diversified today than in 1994, there are still large players in a number of sectors that make entry difficult. In 1998, the government established a Competition Commission to prevent the abuse of dominant positions



and mergers in the economy. The commission has thus far investigated several sectors and industries and has made important rulings on collusion in the fields of bread pricing and the construction industry. At the beginning of 2017, it referred a case of currency rate collusion between major national and international banks for further investigation. It has recommended that, should these institutions be found guilty, they be penalized with 10% of their annual turnover.

Upon its re-entry into the international economy in the 1990s, South Africa embarked on a process of liberalization by opening its markets to the rest of the world. In line with WTO-rules, import quotas have been removed and tariffs have been lowered, with some exceptions in the textile, automotive and clothing industries.

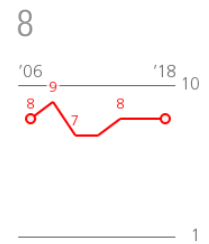
After more than 10 years of negotiations, a Southern Africa Development Community (SADC) Economic Partnership Agreement (EPA) was signed between the EU and Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa on 10 June 2016. This asymmetric agreement gives duty- and quota-free access for all exports to Europe from signatory countries, except South Africa, who already had a Trade Development and Cooperation Agreement (TDCA) in place since 2009. The country, however, joined the EPA negotiations in 2007 – three years after it started – in order to ensure that it is aligned with other trade agreements in the region.

Like several other African countries, it has also benefited from the African Growth and Opportunity Act (AGOA). In 2016, after initial disagreement about the status of imported poultry from the United States, the agreement was renewed, which will see an extension of the AGOA terms until 2025. On the international level, the country generally supports trade liberalization but also criticizes the disadvantages of such policies for developing countries.

The country furthermore forms part of Southern African Customs Union (SACU), one of the oldest existing custom unions, created in 1910. The members include South Africa, Botswana, Lesotho, Namibia and Swaziland (BLNS). SACU provides for a common external import tariff, which enables the more sizable South African economy to support the much smaller BLNS countries, by redistributing a disproportionate share of the customs tariffs to these countries. In early 2017, talks among SACU members were underway to negotiate a new distribution formula for the region. In 2011, SACU members agreed on a five-point plan to convert the union from a simple distribution mechanism to an instrument for regional growth and integration.

Together with other BRICS countries (Brazil, Russia, India, China), South Africa has campaigned for strengthening fair international trade through the World Trade Organization. In 2015, they also jointly formed the New Development Bank that would provide funding support to infrastructure projects in the respective countries.

Liberalization of
foreign trade



South Africa has a highly sophisticated banking system, and is aligned to international banking best practice. According to the 2016 Annual Supervision Report of the South African Reserve Bank, the country's five largest banks (Standard Bank, FirstRand, Absa, Nedbank and Investec) together hold 89.2% of the South African banking market share, while the local branches of international banks have a joint market share of 7.3%.

In 2016, non-performing loans as a percentage of total gross loans was, according to the World Bank, 3.2%, which is lower than the average for other upper-middle income countries (3.7%). The comparative South African figure for the bank capital to assets ratio stood at 7.8%, compared 10.6% average for all upper-middle income countries.

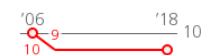
The South African Reserve Bank began implementing the rules of the Basel III agreement in January 2013 and aims to be fully compliant by 2018. According to the Bank's 2016 Financial Stability Review, the country's "financial system is assessed as remaining robust, characterized by well-capitalized, liquid and profitable financial institutions."

At the beginning of 2017 the South African Competition Commission referred a case of currency rate collusion between major national and international banks to a tribunal for further investigation. It has recommended that, should these institutions be found guilty, they be penalized with 10% of their annual turnover. While a guilty verdict will have a definite impact on their balance sheets, experts in the banking sector don't believe that it will lead to the collapse of any of the South African banks. The political impact may, however, be more far-reaching at a time when the banking sector has increasingly become a target of the ruling party for reform toward greater financial inclusion of the South African population.

Amendments to the country Financial Intelligence Center Act (FICA) to ensure greater compliance to international best practice in combating money laundering, have also been a source of controversy during the period under review. After stalling on signing the amended act into power for most of 2016, President Zuma sent it back for review to parliament in December 2016. Those backing the adoption of the amended act argue that it is critical in the combat of corruption and that the country could be excluded from international banking bodies if it fails to comply. Zuma's reasoning for returning the bill to parliament was that he had concerns about the constitutionality of certain provisions about searches and warrants to obtain information.

Banking system

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8 | Currency and Price Stability

The South African Reserve Bank is formally independent, and committed to price stability through the use of monetary policy set by its Monetary Policy Committee. It uses a flexible inflation-targeting framework that gives it the discretion to allow inflation to temporarily veer out of the target range, when it responds to first-round effects of a supply shock, before it is restored back to the target range. The bank's current target rate is 3% to 6%, but for most of 2016 the country's inflation rate fell in the range between 6% and 7%, peaking at 6.8% in December.

The Bank's main monetary policy instrument is the repurchase rate (also known as the repo rate) at which it lends money to commercial banks. In the course of 2016, the bank upwardly adjusted this rate twice, starting the year at 6.25% and ending it at 7%. Increases in the repo rate impact on the prime lending rate of the commercial banks, which affects the interest rate that banks charge their clients. This, in turn, affects the spending capacity of South Africans. During 2016, the bank had to balance its considerations between a weak economy on the one hand, and rising inflation and rand volatility on the other. The latter was particularly evident around the episode of the replacements of the finance ministers, when the rand lost close to 30% of its value within a week.

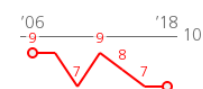
The rand remains notorious for its volatility. As is the case with many emerging economies, it is vulnerable in this regard, but according to research by Nasha Maveé, Roberto Perrelli and Axel Schimmelpfennig, which looked into the currency's behavior since 2008, the rand's major determinants appear to be commodity price volatility, surprises in the U.S. economy and political uncertainty. Their research finds that although the country cannot control commodity price volatility or global financial market volatility, it can build up its defenses through building up international reserves and reducing external vulnerabilities.

During most of the previous decade, South Africa experienced a fortuitous confluence of a commodities boom that boosted growth and prudent fiscal management by the National Treasury, characterized by a countercyclical approach to a medium-term expenditure framework. This allowed the state to reduce its debts and slice its deficits. Importantly, it also allowed for a rapid expansion in the provision of services, as well as social grants and pensions to the most vulnerable in society. However, due to its reliance on commodities and a booming financial sector, the growth experienced during this period did not create a large number of jobs.

Unfortunately, the country did not leverage the commodities boom of the previous decade to diversify its economy and, as a result, its manufacturing sector continued to shrink. In 2000, manufacturing contributed to 19.1% of the country's growth, while the comparative figure for 2015 was 13.2%. Given this context of depressed commodities markets in the wake of the global financial crisis, and limited to export

Anti-inflation /
forex policy

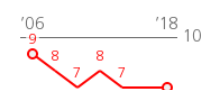
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Macro stability

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potential from manufacturing, the country's current account deficit continued to widen. Unlike the previous decade where portfolio flows from developed economies to emerging markets helped to plug the gap, this was not the case in the post-crisis period. According to the National Treasury, the country ran a current account deficit between 2013-2015 that averaged 5.2% per year, which it expects to decrease to an average of 3.9% from 2016-2019.

Given the low-growth trajectory that the country followed since the global crisis, its fiscal options have become increasingly constrained. The country's budget deficit has been revised upward in the Treasury's medium-term budget statement in October 2016 to 3.4%, and in recent years it had to increase its borrowing to fill the gap. Whereas the country's debt to GDP ratio stood at 28% in 2008, it almost doubled to 50.1% in 2015. Total government debt in 2015 stood at ZAR 1.8 (\$137,887 bn), of which 10% was foreign denominated. In the 2016 budget, debt service cost, which now stands at 10% of all expenditure, has been identified as the fastest-growing budget item.

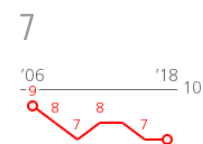
In this low growth, low employment environment, the Treasury is highly constrained in terms of finding sources of addition revenue. The country has only 7.1 million taxpayers out of a total population of 54 million. Of these, only one million earn above ZAR 500,000 (\$38,000) per year, and account for over 60% of all personal income tax (PIT). PIT, in turn, makes up 37% of all tax revenues compared to, for example, the 17% contribution of corporate tax. Because the corporate tax rate of 28% is already high in international comparative terms and, an increase in value added tax (currently 14%) is politically unpalatable, government has targeted the small personal income tax base. In 2016, for the first time in many years, the marginal tax rate for the highest income category was raised from 40% to 41%, and given the larger than expected revenue shortfall in this year, this is most likely to be repeated in 2017.

9 | Private Property

While the South African constitution does not explicitly guarantee the right to private property, it does protect property from arbitrary state interference and from expropriation without just and equitable compensation. Provision is made for expropriation when it is for a public cause or in the public interest. Such expropriation should coincide with compensation, determined either by agreement between the relevant parties or by a court.

The land question remains a profoundly political and emotional question due to the dispossession of land during colonial times and the apartheid era. In 2013, South Africa commemorated 100 years since the passage of the 1913 Natives Land Act that formed the cornerstone of the dispossession of black ownership of land. Thus far, attempts at achieving reform has had limited success. The first critical target missed

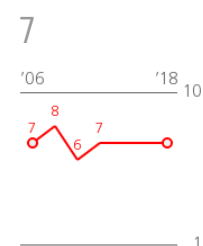
Property rights



was the transfer of 30% of agricultural land to black farmers by 1999. This target was shifted to 2014, but was also missed. During the same year, the Restitution of Land Rights Amendment Act was promulgated, which reopened the period for land claims that originally closed in 1998 and extended it until 2018. At the beginning of 2017, ANC rhetoric on land reform has become more radical, indicating that it would seek ways to expropriate land without compensation, but within the limits of the constitution.

Private enterprise is encouraged and dominates the South African economy, despite the central role played by a number of strategically important state-owned enterprises, such as Eskom in energy, Transnet in freight, and Telkom in Communications. The sector is fairly efficient and, while it ranks 47th on the Global Competitiveness Report of the World Economic Forum, there are particular areas where it performs exceptionally well. These include its first ranking for “financing through local equity markets,” its second ranking for the “soundness of banks,” and its 7th rank for the “effectiveness of anti-monopoly policy.” Although cordial, there has also been significant strain in the relationship between government and big organized business over the past 2.5 decades.

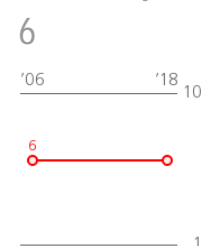
Private enterprise



10 | Welfare Regime

Poverty, inequality and high levels of unemployment are the three main development legacies of apartheid. The commodities boom of the previous decade, as well as prudent fiscal management, allowed the South African government to address the plight of its most marginalized citizens through an impressive expansion of the coverage of its social welfare system.

Social safety nets



The South African Social Security Agency (SASSA), which resides under the Department for Social Development, takes responsibility for the payments of grants to all recipients. In 2001 the system of social grants (child grants, old-age pensions, disability grants etc.) reached four million South Africans, but by 2016 this had expanded to 17 million. Social Development constituted 8.1% of the total budget in 2016, of which 94% was directed toward social grants. Overall social grant payments constituted around 3.2% of total GDP.

Given the poor state of the economy, it is however unlikely over the long run that social welfare will expand at the same rate in terms of coverage and real value of grants. In order to reduce dependence on grants, the unemployment question needs to be addressed with more urgency. Yet, even in the context of a growing economy, significant skills deficits, owing to an underperforming education system, exclude citizens from entry to the economy.

In recent years SASSA has come under significant criticism for outsourcing grant distribution to a private company, and at the beginning of 2017, contractual

uncertainties with the contracted company, Net1, placed the system under significant risk.

South African society is characterized by high levels of structural exclusion, which has been inherited from apartheid. This makes entry to the economy particularly difficult for black South Africans, who were marginalized under apartheid, and particularly so for women from these communities. The structural exclusion of South Africans which deter them from participating in the economy are multi-layered.

The failures of the country's poor education system are particularly manifest in black communities, where infrastructure is poor and the quality of teaching is compromised by the South African Democratic Teachers Union (SADTU), whose political agenda on the national level frequently trumps the best interest of learners. In 2016, only 40% of the cohort of students that started their schooling system 12 years ago graduated from high school.

Young people who do progress to the tertiary education system are faced with prohibitive costs that can lead to high levels of indebtedness. Again, the most adversely affected are young black South Africans. During 2015 and 2016, the country has seen student uprisings across the country to protest against the high costs of tertiary education. Under the banner "Fees Must Fall," these protests disrupted campuses across the country and necessitated additional measures to ensure that students complete their academic year. These protests have rendered results for students. The outcome of the 2015 protests has been a 0% increase in registration fees for 2016, and in the medium-term budget statement of the same year, additional allocations were made to support students through the National Student Financial Aid Scheme for 2017. Those who do make it through this system still face the challenges of accessing professional networks and weak asset bases, which make it difficult to obtain equity that can serve as security to start businesses. All these challenges are furthermore overlaid by the country's inherited spatial challenges, where black South Africans live in neighborhoods that are typically far removed from places of employment.

Over the past two-and-a-half decades, the South African government has made particular interventions in implementing affirmative action, preferential procurement for black-owned companies and the introduction of legislation to alter ownership patterns in the economy. Progress has, however, been slow, and many accuse the ruling party of empowering only those with political connections.

Equal opportunity

6

'06 '18 10



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11 | Economic Performance

According to International Monetary Fund (IMF) estimations, South Africa's total GDP amounted to \$725,925 billion in 2016 (2016 prices), which means that with a population of around 55 million, the GDP per capita (PPP) stood at \$13,179 per person. Given the country's huge income inequalities – it has a Gini coefficient of 0.69 (2011) – the per capita figure does not provide an accurate picture of the income of an average South African.

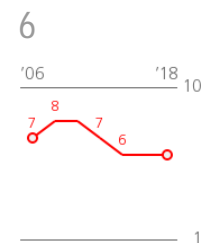
South Africa's economy has failed to generate the necessary revenue required to address its development challenges in any year since the economy briefly went into recession 2009. Estimated growth for 2016 was 0.5%, compared to 5.6% a decade earlier.

While foreign direct investment in the country peaked at \$80.1 billion in 2013, it slowed down to \$62.6 billion in 2014, and then declined dramatically to \$1.5 billion in 2015. According to the National Treasury, the country ran a current account deficit from 2013 to 2015 that averaged at 5.2% per year, and is expected to decrease to an average of 3.9% from 2016 to 2019.

Given the narrowing fiscal space of recent years, government's tools to stimulate the economy are limited. Debt as a percentage of GDP in 2016 stood at 50.1% in 2016, compared to 28% in 2008, while debt service costs – 10% of total government expenditure – has been the fastest-growing item in the 2016 budget. Options for additional revenue generation are limited, with individual taxation for the country's 7.1 million taxpayers already high. In early 2016, personal taxation for the upper income bracket stood at 41%, with strong speculation of a further increase in the marginal rate. Corporate tax, at 28% is higher than the average for its emerging country peers and will be a deterrent for investment. Although increasingly speculated about, an increase of value added tax will remain an option of last resort, given its political unpalatability in a country with high poverty levels.

As far as cost-cutting is concerned, the most obvious place to start would be the public sector wage bill, but also this would be politically sensitive territory as the country approaches general elections in 2019. In recent years, the state has been one of the biggest employers in an economy that otherwise has an exceptionally high unemployment rate. In the fourth quarter of 2016, unemployment stood at 26.5%, the employment absorption rate was 43.5% and the labor force participation rate was 59.2%.

Output strength



12 | Sustainability

The protection of the environment is defined by the South Africa constitution (Art. 24b). A high level of awareness exists in South Africa about the need for environmental sustainability. Global climate change, the effects of raw material extraction and questions of energy security have gained more and more attention among academics and policymakers. Political responsibility for environmental issues lies in the Department for Environmental Affairs and Tourism. In 2008, the government adopted the National Framework for Sustainable Development (NFSD).

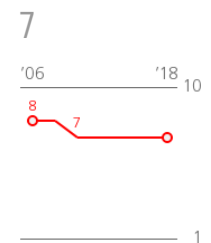
Yet the country's environmental record is mixed. On the one hand, the country undertakes serious efforts in nature and wildlife conservation. On the other hand, South Africa is among the 20 largest emitters of greenhouse gases. The energy supply is mainly based on cheap coal. It is estimated that 77% of South Africa's electricity is generated from fossil fuels. This does not mean, however, that the country is not concerned about securing renewable energy options. Major investments are currently being made in wind and solar energy. Another environmental concern is the high volume of waste per capita (approximately 300 kg per capita). The country also faces growing problems with the usage of freshwater.

According to data from the 2016 Environmental Performance Index South Africa ranks 128 out of 178 countries. The reality is that environmental and health concerns are often subordinated to economic growth and job creation. In 2011, the South African government launched a Green Economy Accord which pays greater attention to environmental issues and gives more attention to cooperation with the private sector.

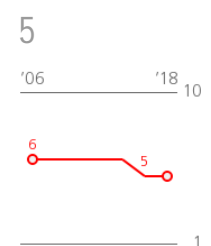
In April 2016, the country also signed the Paris Agreement on Climate Change that was reached in December 2015. Given the low profile of environmental issues on the national policy agenda, little is known about its implementation in South Africa. It is in the process of developing a National Adaptation Strategy to adapt to the impacts of climate change, and it is therefore reasonable to believe that the Paris Agreement will be integrated into this strategy.

South Africa has an adult literacy rate of 94%, with 81% of the population over 15 having completed primary education, 64% having completed secondary (high school) education, and 15% having obtained a post-secondary qualification. Schooling is compulsory until the completion of ninth grade. The latest Research and Development (R&D) Survey that was released by the country's Human Sciences Research Council (HSRC) in December 2014, showed that although R&D expenditure increased by 7.5% in nominal terms from 2012/13 to 2013/14, such expenditure constituted only 0.76 of the country's total GDP. This is below the international benchmark of 1%.

Environmental
policy



Education policy /
R&D



Education spending accounts for 6% of GDP and 19% of total government expenditure. According to World Bank Statistics, almost 39% of education expenditure goes to primary education, 38% to secondary education and 12% to tertiary education.

Even though the country's budgetary allocation for education of close to 20% of government expenditure is high, the returns on such investment fall way below expectation. While school enrollment levels may be high at the entry point to the education system in first grade at 94%, the dropout rate while in the system is extremely high, according to the World Bank. Although 72% of students who wrote their twelfth grade (final year in high school) exams and in 2016 passed, the actual number of students who did so represent only 40% of the cohort that started their education 12 years earlier.

In the period under review the tertiary education sector has been in the spotlight due to student protests, as noted above. Toward the end of 2015 and during much of 2016, students mobilized nationally against increases to student fees, calling for the complete scrapping of student fees. Over the past decade and a half, government subsidies to tertiary institutions have been reduced significantly, from 49% in 2000 to 38% in 2014, which necessitated fee increases by universities. After negotiations with university administrators, the Minister of Higher Education Blade Nzimande announced that while institutions will be allowed to determine their own fee increases, this should not exceed 8%.

This situation leaves many tertiary institutions in a financial quandary. With government subsidies not increasing and student fee increases capped, they face significant cuts across the system, which inevitably will also include reductions in terms of staff and research costs.

Governance

I. Level of Difficulty

South Africa's most challenging structural constraints relates to the apartheid legacy of poverty and inequality.

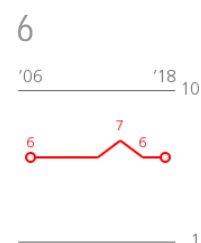
At the root of this is unemployment. The national figure stands at 26.5%, but if discouraged jobseekers are included in this figure, it surges to 35%. The most significant challenges of the South African labor market are the oversupply of low- and unskilled labor and a dire shortage of skilled labor in sectors critical to economic growth. This high demand for skilled labor, linked to the country's poor public education system, significantly skews income patterns. According to Statistics South Africa's Quarterly Labor Force Survey for the fourth quarter of 2016, 58.3% of unemployed South Africans have less than a secondary qualification, 32.4% have only a secondary education, 1.9% have a university degree and another 6.3% has some other form of tertiary education.

Although the country has extensive road, rail, port and air infrastructure, the first three have been neglected significantly for the greater part of the past three decades and require substantial investment to boost efficiency and, ultimately, growth. Although large amounts have been budgeted for infrastructure expansion by both the Mbeki and Zuma administrations, serious questions have been asked about the efficiency of such expenditure. During 2016, for example, both Transnet and PRASA, the country's freight and commuter rail agencies were involved in highly controversial procurement contracts that saw both entities paying inflated prices for inadequate rolling stock.

In terms of natural resources, the country remains well-endowed with sought-after minerals, but the impact of recent droughts, and their impact on the production of food for the South African market, underscores the challenges that it may still experience in term of water scarcity.

More generally, as far as geographic location is concerned, the country finds itself far removed from the major markets in North America, Europe and Asia. Nevertheless, over the past two decades, many South African companies have however made profitable forays into markets on the rest of the continent.

Structural
constraints



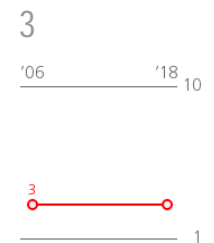
South Africa has a large and diverse civil society, although it is difficult to put a number on its actual size, given that the last actual count (98,000) was conducted in 2001. Generally, the sector is weakly funded, and the activities of most organizations – often survivalist by nature – are limited to their immediate communities. The organized NGO and think tank sector is much smaller, mostly urban and better resourced to execute their respective mandates, although they often lack a clear constituency. As such, these organizations, which are better endowed with international donor funding, focus on national, and frequently also continental, questions. In the wake of the international financial crisis of the previous decade, funding from traditional donors has shrunk, forcing many to develop alternative funding and organizational models. This has breathed new life in the sector, with dynamic organizations led by young South Africans keeping a check on government power, but also contributing to policy-making. Some of these include Equal Education, which is active in the education field, and social justice organizations, such as Section 27 and the Social Justice Coalition.

South African society has experienced a significant level of social, political and economic polarization during the period under review. This has had its roots, primarily, in the economic realm and has spilled over into the other two.

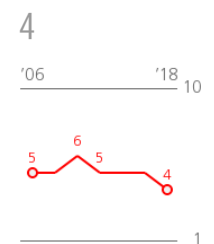
Political parties have not contributed to defusing social tensions inherited from the apartheid times, and the failure of South Africa's economic policy to bring change and relations between parties have become increasingly acrimonious. Nowhere has this been more evident than with the violent removal of Economic Freedom Fighters (EFF) parliamentarians from the legislature and subsequent walkouts from other opposition parties, following the President's State of the Nation address for two consecutive years. Again, the polarizing figure of President Jacob Zuma loomed large as a source of these tensions, as did the ANC's losses of critical city municipalities, such as Johannesburg, Pretoria, and Nelson Mandela Bay (formerly known as Port Elizabeth).

An underlying social tension that remains present, but has never been comprehensively addressed, is the pervasiveness of xenophobia in society. Persistent threats and intimidation of foreign nationals, particularly from the rest of Africa, has become commonplace and, occasionally, breaks out in waves of extreme violence that culminate in deaths and the destruction of property. While the South African government condemns such attacks, it is not followed up with proactive policies to change social attitudes. At the beginning of 2017, another such wave of violence was unleashed on a number of communities in Gauteng province, resulting in arson and physical intimidation of migrants.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

The ANC-led government has shown weakness in implementing long-term macro level policies that pursue strategic priorities such as the Reconstruction and Development Plan (RDP), the Growth, Employment and Redistribution, the Accelerated and Shared Growth Initiative for South Africa and the New Growth Path. Although not a macroeconomic strategy per se, the National Development Plan (NDP), adopted by the government in 2012, outlined South Africa's development targets for 2030 as well as the strategies to achieve them. These policies were not neatly sequenced, but rather reflected shifting ideologies within the ANC over time.

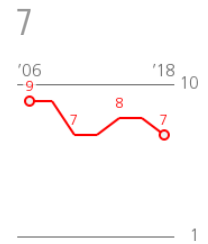
Zuma's grip on power potentially also has severe policy implications for the short- to medium-term future. The president seems bent on approving an unaffordable multi-billion-rand nuclear plant plan, which according to the government's own Integrated Energy Plan is not urgent or necessary at this point.

Implementation of key macroeconomic policies have in the past fallen victim to shifting political tides within the ruling ANC, which precluded complete execution of policy from inception through the different phases to their logical conclusion. As soon as their respective sacrifices became apparent, it provided political space for opponents to motive and mobilize for their replacement. Of late, policy implementation has also become compromised by internal factional battles within the ANC, framed around Jacob Zuma. Underperforming ministers, who fail to implement their mandates and/or comply with laws, such as the Social Welfare Minister Bathabile Dlamini, Communications Minister Faith Muthambi and Water Affairs Minister Nomvula Mokonyane, have remained in government due to their loyalty to the president, while high-performing cabinet members, like Pravin Gordhan, constantly battled for their political survival.

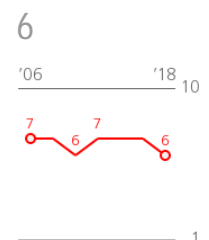
Given the party's stated policy of cadre deployment in the civil service, administrative capacity within the civil service has been a major casualty of the ANC's internal politics. This has had a number of consequences. First, many of these deployments have come at the expense of skill and leadership. And second, when factional battles erupted, these battles spilled over into the public sector, where state resources were employed to settle scores.

Question
Score

Prioritization



Implementation



Policy development on broad national strategies remain a strength of the South African government. The Department for Performance Monitoring and Evaluation (DPME) is located within the presidency, and also houses the National Planning Commission (NPC) Secretariat. The National Planning Commission, consisting of eminent scholars, strategists and business leaders, is responsible for the development of the country's long-term strategic vision and objectives by drawing on their local expertise and knowledge of international best practice. The country's current long-term strategy document, the National Development Plan (NDP), was crafted by the NPC. The DPME itself is mandated to measure the implementation and actual impact of existing policies over time.

15 | Resource Efficiency

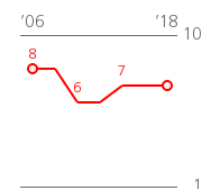
Sound financial management, as provided by South Africa's National Treasury, means little, if expenditure occurs in an imprudent fashion. In the 2015-2016 Audit Report of the South African Auditor-General Kimi Makwetu, critical questions have been raised about the use of state resources. According to the report, irregular expenditure in 2015-2016 amounted to ZAR 46 billion (\$3.5 bn), which represented an increase of 80% on the previous year. In it Makwetu expressed special concern about the leadership and management of state-owned enterprises, with the Passenger Rail Agency of South Africa accounting for ZAR 13 billion, or 30%, of all irregular expenditure in the previous year.

Corruption in the civil service remained a matter of equal concern. The latest South African round of the Afrobarometer, conducted in 2015, shows that 79% of South Africans believe that government is doing a bad job in curbing corruption. The growing likelihood that the country's president, Jacob Zuma, will stand trial on 783 corruption charges in the near future casts a shadow over the ANC's commitment to clean government. The charges were dropped several years ago, but reinstated last year after the Democratic Alliance was successful in litigating for their reinstatement in 2016. The Constitutional Court finding early in 2016 that Zuma had forsaken his constitutional duties in relation to the use of public fund for upgrades to his private home does not help.

Policy coordination remains a significant governance weakness, a fact that is also acknowledged by the National Development Plan (NDP), when it states that: "Coordination failures, split accountability and overlapping mandates hinder the implementation of existing policies." The Policy Coordination and Advisory Service (PCAS), formerly located in the presidency under Thabo Mbeki, was disbanded in 2009 and replaced by the Department for Performance Monitoring and Evaluation (DPME) and the National Planning Commission (NPC) Secretariat. In subsequent years, the NPC Secretariat was brought under the control of the DPME. The DPME provides government-wide systems for performance management and evaluation,

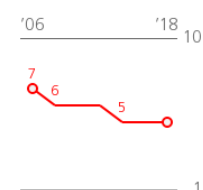
Policy learning

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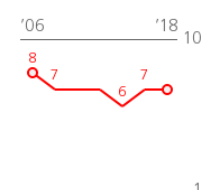
Efficient use of assets

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Policy coordination

7



while the NPC Secretariat, within it, combines its insights with the know-how of a specially appointed commission of experts to oversee implementation of the NDP. The Department for Economic Development (DED) oversees the coordination and implementation of the New Growth Path (NGP) Strategy and its alignment with the NDP. In recent years, however, mention of the NGP has become increasingly rare, while the gap between NDP rhetoric and implementation seemed to be growing.

Apart from the structural obstacles, infighting within the government has also become a significant obstacle to a more seamless coordination of government affairs, most notably the relationship between the National Treasury and the South African Revenue Service (SARS). Current Finance Minister Pravin Gordhan is the former SARS commissioner, while the current SARS Commissioner Tom Moyane is a close ally of President Zuma and seen as part of a faction that wants to undermine Gordhan. Moyane was behind a failed attempt in 2016 to prosecute Gordhan on trumped-up charges relating to his tenure at SARS. The case was withdrawn before it went to trial. Similar acrimonious relationships exist between Treasury and ministries headed by other allies of Zuma, such as energy, water affairs, social development, as well as state-owned enterprises, such Eskom and SAA.

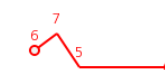
The National Prosecuting Authority Act of 1996, enables the National Prosecuting Authority (NPA), headed by the National Director of Public Prosecutions (NDPP), to prosecute criminal cases on behalf of the state. The NDPP is appointed by the president, accounts to parliament and falls under the jurisdiction of the Ministry of Justice. Discretion to prosecute alleged crimes, including those committed by officeholders, is located within this office. Positive sentiment on the government's commitment to fight corruption is in short supply. Almost eight out of 10 (79%) respondents in the Afrobarometer Survey in 2015 indicated that government is not doing a good job in fighting corruption.

An Anti-Corruption Task Team (ACTT) exists within the Police's Directorate for Priority Crime Investigation, more commonly known as the Hawks, and is chaired by its head General Berning Ntlemeza. In a 2016 presentation before the parliament's Standing Committee on Public Accounts (SCOPA), Ntlemeza reported that since its inception in 2010 the ACTT had dealt with 189 cases of which 68 were being finalized and a further 77 were still under investigation. According to Ntlemeza, 128 people were convicted for corruption cases, valued ZAR 5 million (\$386,100) or more. Members of parliament however castigated Ntlemeza for being unable to account for instances of corruption within state-owned enterprises, which typically preside over the largest procurement budgets in the public sector. At the time of writing, the Independent Police Investigative Directorate (IPID) was investigating four cases against Ntlemeza, including one of corruption and another defeating the ends of justice. He is no stranger to controversy, and following his testimony in another case, a High Court judge described him as "dishonest, lacking in integrity and dishonorable."

Anti-corruption
policy

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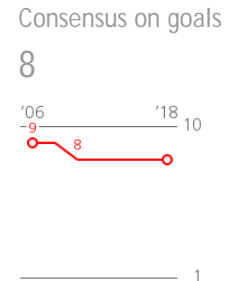
Strong concerns exist about the management of state-owned enterprises. The country's Auditor-General Kimi Makwetu found in the 2015-2016 Audit Report that irregular government expenditure surged by 80% from the previous year, while the recent Public Protector report on state capture, titled *The State of Capture*, also contained evidence provided to investigators suggesting serious breaches of the Public Finance Management Act (PFMA) relating to procurement at the electricity utility Eskom.

The Office of the Public Protector under Adv. Thuli Madonsela had been highly assertive in terms of standing up to corruption and maladministration at the highest level. This has also earned her the ire of senior ANC politicians, including the president. During her tenure she has been accused of being partial to opposition parties, and some have even gone as far as suggesting that she is an agent of the U.S. Central Intelligence Agency (CIA). It remains to be seen whether her successor, Adv. Busisiwe Mkhwebane who succeeded her in November 2016, will be equally assertive or more lenient toward government officials as Madonsela's predecessor, Lawrence Mushwana, had been.

16 | Consensus-Building

Despite high levels of party political polarization, all political parties openly subscribe to the principles of democratic governance, the rule of law and the Bill of Rights, as enshrined in the South African constitution. This sentiment is shared by other prominent actors, such as organized labor and business. According to the 2015 Afrobarometer Survey, 64% of South Africans felt that democracy is preferable above any other form of governance. Far fewer, however, registered their satisfaction with the way in which democracy is functioning. In the 2015 survey, less than half of respondents (48%) indicated that they are happy with the quality of democracy. This represents a 12% decline from the previous round that was conducted in 2015. This may have to do with the apparent discrepancies that exist between stated commitment to these values and the visibility of a significant number of high-profile cases, including the head of state, of alleged or proven instances of maladministration and/or corruption.

All major political groups agree on the need for a market economy. The core disagreements exist around the degree of state intervention in the economy to address the country's three major developmental challenges: poverty, inequality and unemployment. The ruling ANC espouses the idea of a developmental state, which involves the leveraging of existing state-owned enterprises, as well as industrial policy to promote strategic high-growth and employment intensive industries within a market economy. The official opposition, the Democratic Alliance (DA), with its stronger liberal tenets, places far more emphasis on the need for privatization and the creation of opportunities for private business to flourish. The Economic Freedom

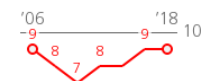


Fighters' (EFF) economic policies are of a more radical left-wing nature. Although it is explicitly anti-capitalist, it does not completely reject the role of markets and private enterprise. It does, however, believe that the state should take control of key sectors of the economy that are vital for social transformation, and where necessary expropriation would be required.

There are no noteworthy anti-democratic actors in the political sense of the word.

Anti-democratic actors

9



South Africans, according to the 2015 SA Reconciliation Barometer (SARB) Survey of the Institute for Justice and Reconciliation, regard inequality and race as the major sources of social division in South Africa. The two largely overlap, with white South Africans generally enjoying higher incomes and better access to services in the public and private sector than those groups that were marginalized under apartheid. But if development data is taken as a guide, there are also different levels of deprivation within the latter group, with South Africans of Indian origin in a better material position than South Africans of mixed origin (in SA referred to as Colored), who in turn, are in a better position than black African citizens. These economic and racial cleavages are further reinforced by spatial segregation, with South Africans from different racial groups still living in largely homogenous neighborhoods.

Cleavage / conflict management

7



Growing levels of xenophobia has exposed another important social cleavage between South Africans and migrants, particularly from the rest of Africa. While public opinion data show that these negative sentiments are widely-held across South African society, intimidation and physical violence toward African migrants, manifest most strongly in low-income, predominantly black African neighborhoods.

Despite a growing concern with the question of social cohesion on a national level and the publication of a draft National Action Plan to combat Racism, Racial Discrimination, Xenophobia and Related Intolerance, there is little tangible evidence of efforts on the ground to take decisive action on these issues. On public holidays such as Freedom Day, Heritage Day and the National Day of Reconciliation, public officials and politicians place emphasis on the theme of unity in diversity, but this is not a constant thread.

Given the growing polarization among political parties, they have generally failed in taking the leadership to address these cleavages, and arguably contributed to a deepening of social schisms. Not surprisingly, respondents to the 2015 SARB Survey,

regard political partisanship as the third most divisive feature of South African society, after inequality and race.

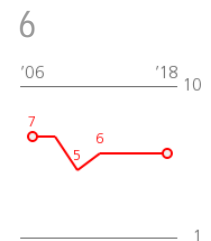
Although the country has a vibrant organized civil society, there has been a narrowing in the space for its participation in South Africa. At this point, this has not yet manifested in restrictive legislation, but rather in terms of exclusion as far as engagement and access to information is concerned. Government departments frequently ignore requests for basic information from members of civil society, and increasingly they have to resort to the Promotion of Access to Information Act of 2000 to obtain such information. This stems from an inherent distrust of the bonafides of many civil society organizations, given that many receive funding from international donors. Toward the end of 2016, State Security Minister David Mahlobo suggested that some of the country NGOs house security agents that are bent on destabilizing the South African state. Similarly, the ANC's secretary-general, Gwede Mantashe, without being specific, referred to some NGOs in the country as "regime change agents."

In the past, civil society organizations have been instrumental in changing government policy on key issues through effective mobilization. Examples of these include the Treatment Action Campaign's role in terms of provision of anti-retroviral drugs to HIV/AIDS patients, Equal Education's role in terms of the provision of minimum norms and standards for school infrastructure, and more recently, the successful legal bid by the Southern African Litigation Center to declare the South African government's failure to arrest Sudan's Omar al-Bashir, wanted by the International Criminal Court for crimes against humanity, as unlawful.

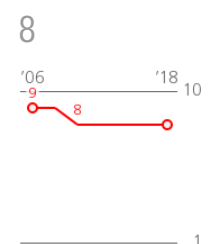
The South African Truth and Reconciliation Commission (TRC) was created in the wake of apartheid to unearth the truth about the country's apartheid past and promote national reconciliation in a post-apartheid South Africa. Despite being a role model for several post-conflict states, present-day evaluations of the TRC are mixed. Some argue that it played a critical role in laying the foundation for a national narrative premised on the need for restitution. Others argue that it has not gone far enough in terms of pursuing those that failed to obtain amnesty, and that it has neglected the victims and their families. A more common current critique relates to the limited mandate of the TRC. Its focus was solely on direct victims of politically-motivated human rights abuses, but it did not address the material consequences of a myriad of discriminatory legislation, such as forced removals and job reservation.

With regard to the former two critiques, it has to be noted that the TRC made explicit recommendations in terms of prosecutions and compensation for victims and their families. After the TRC submitted its final report to former President Thabo Mbeki, prosecutions and reparations became the responsibility of the South African government. There may be both political reasons and reasons related to the availability of evidence that resulted in the low conviction rate of apartheid era perpetrators, but it is simplistic to blame the TRC for this. In terms of reparations, the

Civil society participation



Reconciliation



TRC recommended an annual payment of ZAR 30,000 for six years in its final report to government. The government, however, decided on a once-off payment valued more or less at the same amount.

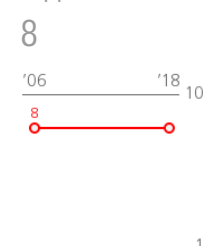
With regard to the broader critique around redress for economic marginalization under apartheid, some within government have argued that the entire post-apartheid project is essentially one of restitution – that a pro-poor government is committed to the eradication of poverty and inequality. Significant gains have been made in terms of the provision of housing, access to basic services, social welfare coverage and the racial integration of the public service, but in the wake of successive macroeconomic designs, with limited transformational impact, the country still faces substantial challenges in terms of the racialized nature of its three major challenges: poverty, inequality and unemployment. The country’s poor growth performance therefore does not only affect the material conditions of the most marginalized, but also exacerbates strained relations between this group and the more privileged white sections of the population.

As such, there has been growing support within government for a more forceful approach to economic change, framed as “radical economic transformation” to ensure greater black ownership of the economy. This is in line with what many view as a break with the post-1994 consensus around national reconciliation, brought about by the mobilization of a younger generation of South Africans who were born in the wake of the transition but still feel marginalized in a post-apartheid South Africa. In response to a question in the 2015 SA Reconciliation Barometer (SARB) Survey, 65% of South Africans responded that national reconciliation would only become possible if the material legacy of apartheid is properly addressed.

17 | International Cooperation

As an upper-middle income country South Africa is a small recipient of official development assistance (ODA). In 2014, ODA totaled \$1.07 billion, which represents 0.31% of Gross National Income (GNI), or \$19.8 per capita. According to Foreign Assistance and World Bank data, the United States disbursed \$116 million in development assistance, of which the majority went to health, education and economic development programs. The Multiannual Indicative Program for South Africa (2014-2020) outlines the European Union’s (EU) commitment to development cooperation in the fields of employment creation, education and training and the creation of a capable developmental state. 241 million euros were earmarked for this purpose. In addition to official EU funding, the country also has several bilateral cooperation agreements with individual member countries. Although China has also emerged as an important development cooperation partner over the past decade, accurate data on the extent of its assistance is not readily available. Productive partnerships exist between the country and its development partners, and it utilizes

Effective use of support



assistance where offered and required. As a sovereign state, it reserves the right to make critical decisions about development need and the nature of support required.

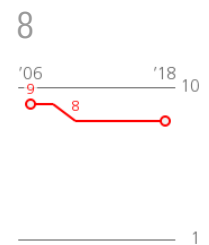
While there has been a rise in anti-Western rhetoric in recent years, particularly pertaining to the perceived prescriptiveness of its financial institutions, relations between the South African Treasury and the World Bank and IMF remained cordial, and their recommendations are being taken seriously by South African policymakers. As a founding member of the New Development Bank, with its BRICS partners, Brazil, Russia, China and India, the country has been clear that it does not see the new entity as a competitor, but rather a compliment to the international financial system.

South Africa remains a credible and reliable partner in its relationship with the international community. It sustains its partnerships with traditional trade partners in the West, with the EU as its largest export destination, but over the past decade it has increasingly sided with emerging economies and the Global South on key international political and economic issues. It participates actively in international bodies, such as the United Nations and the World Trade Organization, and together with other emerging economies, has pushed for more representation in these bodies and others, such as the World Bank (WB) and the International Monetary Fund (IMF). In addition, it continues to pursue a stronger role for itself in Africa as prominently expressed by Thabo Mbeki's African Renaissance concept, the New Partnership for Africa's Development (NEPAD) and his engagement around the transformation of the Organization of African Unity into the African Union. Given the size and sophistication of the country's economy and its well-developed democratic infrastructure, South Africa is an obvious candidate to be a spokesperson for the continent, but the country has to balance such aspirations with suspicions about its hegemonic intentions.

This search to find an equilibrium in relations between historic economic ties with the West and new alliances with the Global South have, however, given rise to controversial positions that frequently seem to contradict its reputation as a global normative actor.

In 2015, while hosting a summit of African leaders, the country refused to arrest Sudanese president, Omar al-Bashir, who is wanted by the International Criminal Court (ICC) on genocide charges. As a signatory to the Rome Statute, which has been ratified in South African law, the country was obliged to apprehend al-Bashir, and a South African court has since ruled that the government contravened its own legislation by allowing the Sudanese president to leave the country. In 2016, the country took the lead among African countries to signal its intention to leave the ICC. As one of the first signatories to the Rome Statute, this move shocked many in the international community. This action was, however, also challenged in South African

Credibility



courts, which ordered the government to revoke its notification, due to improper procedure that excluded proper public consultation.

South Africa, which forms part of the Southern Africa Development Community (SADC), has the largest economy by far in Southern Africa, accounting for 55% of the combined GDP of the 15 member states. Its objective is to promote socioeconomic cooperation, regional integration and political and security cooperation among member states.

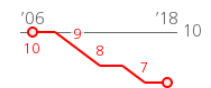
After more than 10 years of negotiations, the SADC Economic Partnership Agreement (EPA) was signed into effect by the European Union and Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa on June 10, 2016. This asymmetrical agreement gives duty- and quota-free access for all exports to Europe from signatory countries, except South Africa, who already had a Trade Development and Cooperation Agreement (TDCA) in place since 2009. The country, however, joined the EPA negotiations in 2007 – three years after it started – in order to ensure that it is aligned with other trade agreements in the region.

The country also forms part of Southern African Customs Union (SACU), one of the oldest existing custom unions, created in 1910. The members include South Africa, Botswana, Lesotho, Namibia and Swaziland (BLNS). SACU provides for a common external import tariff, which enables the more sizable South African economy to support the much smaller BLNS countries by redistributing a disproportionate share of the customs tariffs to these countries. In 2015 to 2016, it was anticipated that total revenue gathering at SACU borders would amount to ZAR 84 billion (\$6.5 bn). South Africa contributes to almost 98% of the revenue pool, but the BLNS countries receive almost 55% thereof. For some countries in the region, the SACU revenue makes a significant contribution to their budgets. In the case of Lesotho, for example, it constitutes one-third of the country's total budget – the single biggest contributor to the national fiscus.

In early 2017, talks among SACU members were underway to negotiate a new distribution formula for the region. In 2011, SACU members agreed on a five-point plan to convert the union from a simple distribution mechanism to an instrument for regional growth and integration. The plan included: a review of the revenue-sharing formula; prioritizing work on regional cross-border industrial development; promoting trade facilitation measures at borders; developing SACU institutions; and strengthening cooperation in external trade negotiations. Inevitably, within South Africa's current economic context of low growth and low revenues, the altered share formula is likely to benefit it at the expense of the BLNS states, which face the prospect of significant holes in their national budgets. As such it can be expected that BLNS countries would seek significant guarantees from South Africa before entering into such an agreement.

Regional
cooperation

7



1

On a continental level, South Africa remains a critical player and has devoted significant financial and human resources to the resolution of conflicts across the continent. Nkosazana Dlamini-Zuma, a former ANC cabinet minister, and ex-wife of President Jacob Zuma, served as African Union Chairperson from 2012 until early 2017. Dlamini-Zuma's election broke a long-standing tradition, dating back from the Organization for African Unity (OAU) that large continental powers do not stand for this position. There were great expectations that Dlamini-Zuma would drive much-needed reform within the AU, but apart from the launch of Agenda 2063, the continent's development blueprint for the next four decades, many were disappointed by her performance.

Strategic Outlook

According to the country's strategic design for 2030, the National Development Plan (NDP), the country has to grow at an annual rate of 5.4% between 2012-2030 in order to address its triple challenge of poverty, inequality and unemployment. Given the strong racial character of these dynamics, it is imperative for the country to deal with these development challenges as quickly as possible, lest the social schisms inherited from apartheid – and the potential for more social conflict – deepen. The economy has been stuck in a low-growth trajectory since the end of the global financial crisis. It has not even come close to the achievement of its growth target since the NDP's inception in 2012. Unemployment is higher than it has been in several years. With inflation outside of the reserve bank's target band of 3% to 6%, the cost of living is increasing and most adversely affects the poor.

At the start of 2017, market observers factored in a 50% possibility that the country's credit rating will be revised downward to sub-investment grade, or junk status as it is more commonly known. This will have far-reaching implications, particularly for state borrowing and highly indebted state-owned enterprises that will now have to repay loans at much higher interest rates. It is worth bearing in mind that the country's debt-to-GDP ratio has almost doubled from 28% in 2007 to 50% in 2017. Debt servicing costs is the fastest-growing line in the South African budget and now accounts for 10% of all expenditure.

Should a ratings downgrade occur, it will have a profound impact on ordinary citizens in terms of rising interest rates and inflation, with a resultant rise in the cost of living. Given that global funds will be precluded from investing in South Africa, the knock-on effect will also be felt in terms of employment.

The material pressures are exerted by these economic forces weigh heavily on society and will continue to do in the coming years. Citizen action against poor service delivery is likely to continue and, in some instances during the period under review, can make certain poor neighborhoods ungovernable. It has also become a significant trigger for latent xenophobic attitudes to manifest as attacks on migrants. Students are likely to continue to disrupt campuses at the expense of higher education and learning, unless tertiary education becomes more affordable or government doubles down on its funding support.

The country's body politic is not in good shape to address these multiple causes and symptoms of the challenges faced. The governing tripartite alliance is deeply fragmented, and the once hegemonic ANC is at war with itself. President Zuma is now vulnerable. At the end of 2017, the ANC will have its five-yearly national elective conference, which includes the election of its top leadership. Given the ANC's electoral majorities to date, the party president typically becomes the national president. This is Zuma's last term as president of the country and after 2019, he will no longer have control over the patronage networks that could keep the law at bay.

For as long as the ANC is occupied with this internal battle, opposition parties will make political hay. Zuma has become a liability for his party, whose support base is slowly eroding. Should current trends continue, the country is likely to see a coalition government by 2019 that could exclude the ANC. However, for the foreseeable future, the country will bear the brunt of a ruling party that appears more obsessed with power than issues of national interest. Its internal battles have spilled over into the state, with several arms of state openly undermining each other.

The following recommendations for the country and especially its political leadership can be made:

- Mechanisms need to be found to mitigate political conflict. Political polarization, within the ruling party, but also between it and opposition parties, is undermining governance processes.
- The country needs consensus on a new growth pact. Fragmentation between the major economic stakeholders, government, business and labor has had a negative impact on collaborative policy processes. With the country facing a possible ratings downgrade, it has become critical for a social compact to be forged, not only to avert this crisis, but also to anticipate and address challenges before they arise.
- The country's higher education funding crisis needs to be addressed as a matter of urgency. The development of new funding models will have to be prioritized in order to balance the priorities of access and excellence in research and learning.
- Commercial agricultural land reforms need to be prioritized. Having missed successive land reform targets, public patience is running thin with the government. It is an emotive issue that needs to be addressed in a constitutional way, balancing the need for justice with long-term food security.
- On the international front, the country will have to clarify its position on international justice to ensure greater consistency. At the beginning of 2017, a high court ordered the government to revoke the notice of its intent to leave the International Criminal Court (ICC) after finding the process procedurally incorrect.