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1. Brief Overview of South Africa

- 1.1 South Africa was one of the first countries to accede to the APRM in March 2003 in Abuja, Nigeria and was peer reviewed by the Heads of State and Government in Accra, Ghana on 1st July 2007.
- 1.2 Following the un-banning of the African National Congress (ANC) and the release of Nelson Mandela from prison in February 1990, several events took place that culminated in the first non-racial democratic elections in South Africa in 1994. Consequently, the institutionalised system of racism gave way to majority rule and a system of governance that is non-racial, non-sexist, democratic and fully committed to human rights and human security. Not only has South Africa undergone a profound political transition, but it has also achieved a near miracle in re-energising the inherited apartheid economy that had been badly hurt by sanctions, declining growth rates, a heavy debt burden and perennial economic instability.
- 1.3 The democratization of the country that began in the early 1990s has been accompanied by a mixture of political and economic stability, due largely to the popular legitimacy of the government, prudent macroeconomic management and a supportive international environment. From a human security perspective, the government's success in meeting the basic needs of the people – education, healthcare, piped water, electricity and housing – is unprecedented. No nation has moved with such speed from being for years a pariah state to becoming a much renowned one; for economic isolation to economic integration

With the international community; and from being a global polecat to becoming the global favourite. Indeed, the successful bid to host the FIFA World Cup Soccer event in 2010, the first time on African soil, is testimony to the positive light in which the rest of the world views post-apartheid South Africa. Moreover, in October 2006 the UN General Assembly elected South Africa, together with Belgium, Indonesia and Italy, to serve a non-permanent members of the Security Council for two-year terms starting from 1 January 2007.

- 1.4 It must be acknowledged, however, that contemporary South Africa remains a country of imbalance, disparities, distortions and a number of paradoxes. The legacy of apartheid continues to manifest itself in many fields of human and social endeavor. For example despite the impressive gains achieved in stabilizing the economy and the higher rates of economic growth that, have been consistently realised since 1994, the economy still manifests imbalances, between the rates of savings and investment; between exports and imports, thus becoming heavily dependent on imports for consumption purposes; between economic diversification and self-reliance on the one hand and monoculturalism on the other; and between the wealth and quality of life of the people in South Africa's "first economy" and the poverty and lack of economic empowered of people living in the "second-economy". High level of structural unemployment have brought into focus the lack of balance between people's socio-economic rights and their day-to-day reality.
- 1.5 There are many paradoxes as well, first and foremost being the vicious of fate that, just as the country's first multiracial government was being put in place to redress the evils of apartheid, the HIV pandemic was reaching a critical mass. Ever since, the severity of the epidemic continues to impose a drag on poverty alleviation and puts at risk the virility of emerging South Africa. Indeed, there is widespread demand by stakeholders for the imperative of focusing more strongly, under the leadership of the government, on confronting the challenge posed by HIV and AIDS.
- 1.6 South Africa's 1996 Constitution, which has received universal acclaim, is being challenged. Race relations remain brittle and sensitive in places, as minorities fear that the government is not doing enough to assure the cultural, educational and language rights guaranteed by the Constitution. The Truth and Reconciliation Commission (TRC)

of 1996-2003 was intended to free the country from the accumulated pain spanning three centuries and to fashion innovative ways of managing diversity, yet many people felt let down and disappointed by the outcome, especially in the implementation of its findings. Managing diversities is indeed a challenge that must be accorded priority. There is an asymmetry between legislation and implementation, and between policy formulation and operationalising such policies.

2. SUMMARY OF FINDINGS IN THE FOUR THEMATIC AREAS

Democracy and Political Governance

- 2.1 South Africa has waged a protracted and bloody struggle for democracy. Emerging from the subjugation by colonial and apartheid powers that lasted for 342 years, the country held its first non-racial democratic elections in 1994. This marked the transition from minority white rule to a system of majority democratic governance, with strong emphasis on the sovereignty of the people. The leap was not achieved without compromise. The peaceful transition, always shadowed by the prospect of civil war, was the beginning of a profound process of transformation on the state.
- 2.2 Within only 13 years, South Africans have managed to leap across the deep divide of an oppressive racist state to a modern constitutional democracy. Since 1994, the country has made undeniable progress in a number of critical areas. On the political front, democratic institutions are well established. The “reinvention” of government that is continuing through the creation of new spheres of government, both provincial and local, has changed the environment for governance and service delivery. Nevertheless, five legacies of the apartheid era have persisted: a dualistic polity; pervasive poverty; large-scale structural unemployment; inequitable distribution of wealth and income; and a high incidence of crime.
- 2.3 South Africa has signed, ratified and acceded to most international treaties, most of which have been domesticated in the Constitution. Nonetheless, efforts have to be made to ensure that the codes and standards the country has committed to are effectively implemented.
- 2.4 Unlike most African countries, South Africa has a democratic multi-party political system that is based on proportional representation at national and provincial levels, and a combination of proportional representation and ward representation at local level. Although questions have been raised regarding the effectiveness of proportional representation in the electoral process, it is widely accepted that this is only viable way of institutionalising representative pluralist democracy in the new South Africa. However, the main challenge of proportional representation, as practised in South Africa, related to the manner in which members of parliament (MPs) maintain linkages with the electorate.
- 2.5 Contestations or clarifications on matters relating to the Constitution are formally conducted and resolved in a Constitutional Court. The Independent Electoral Commission (IEC), a constitutionally established independent organ that has been mandated to ensure the conduct of free and fair elections, has so far performed its assigned constitutional role creditably.
- 2.6 The CRM found that the practice of floor-crossing was a major concern to both the electorate and the opposition parties. It is seen as having the potential to undermine democracy and good governance in South Africa. However, the public funding of political parties is less contentious than floor-crossing.

- 2.7 Internally, South Africa has competently managed potential conflicts since the end of apartheid in 1994 through a spirit of reconciliation and accommodation cultivated in the governance system and civil society. However, deeply entrenched socio-economic inequalities, coupled with competition among the citizenry for state resources, constitute potential sources of social conflict. Also, the issue of ex-combatants who have sunk into poverty needs to be addressed, as the social and security implications of this situation cannot be overemphasized. Access to land possession and usage also remains a potentially explosive issue in South Africa.
- 2.8 At regional level, South Africa has since 1994 played a prominent role in conflict prevention and peace-making operations in African countries such as Burundi, Côte d'Ivoire, the Democratic Republic of Congo and Sudan. It has also acted decisively to combat alleged mercenary activities by its nationals. The security forces operate under rigorous political oversight as provided by the Constitution.
- 2.9 The South African Constitution recognizes traditional leadership and makes provision for the House of Traditional Leaders. A notable practice by the legislature is that of bringing the parliament to the people. This is an initiative whereby the national and provincial MPs meet rural people at grassroots level to discuss their needs and aspirations. However, This is an informal arrangement.
- 2.10 Lack of access to justice was a major issue among stakeholders. They pointed out that the alarming level of crime across South Africa, in both urban and rural areas, is an example of lack of protection of their human and civil rights
- 2.11 To ensure an effective and efficient civil service, South Africa encourages interactions between its public servants and the people they serve and to whom they are accountable, through initiative such as Izimbizo (public participation and interaction), Batho Pele (people first) and multi-purpose community centres. However, the civil service experiences a serious skills shortage, a legacy of the apartheid regime. The phenomenon is exacerbated by disparities in working conditions between the public and private sectors, which leads the latter to attract the best skilled employees at the expense of the former.
- 2.12 South Africa faces challenges of corruption and money laundering. Commendably, it has put in place pieces of legislation and institutions to curb the vice of corruption at all levels. These measures have yielded tangible results, though corruption still remains a problem due to capacity constraints.
- 2.13 In the area of gender, South Africa has made significant strides in promoting the rights of women. Currently the Deputy President is a woman, while constitute 45 per cent of Ministers and Deputy Ministers and 33 per cent of MPs, including the Speaker and the Deputy Speaker. At provincial level, women constitute 35 per cent of the permanent members of the National Council of Provinces (NCOP), 32 per cent of the members of provincial legislatures, and 44 per cent of Premiers. Approximately 40 per cent of all local government councilors, 15 per cent of judges, 35 per cent of magistrates and 53 per cent of public servants are women. The representation of women in the private sector and state-owned enterprises (SOEs) is, however, very low. Female unemployment (31.7 per cent) is also higher than male unemployment (22.6 per cent). Finally, the labour force participation rate for females is 49.9 per cent as against 63.7 per cent of males.
- 2.14 There is also concern about persisting violence against women, which requires immediate action. Estimates of the extent of violence vary as there is widespread underreporting.
- 2.15 Abuses against women are not only sexual in nature, but also psychological and economic. According to numerous official and unofficial reports, violence against women is at the root of the HIV and AIDS pandemic. The breakdown in social structure resulting from the apartheid policies of the past continues to exacerbate discrimination against women.
- 2.16 Although the rights of children and young people are provided for in the Constitution, a great deal still needs to be done to promote and protect these rights. As the CSAR frankly admits and the stakeholders validated during their interactions with the CRM, there are quite a number of defects and gaps in the implementation of these rights.

- 2.17 There is indeed an urgent need for government not only to send robust, unequivocal signals that the society will not accept violence against children, but also to back these up with action. A holistic approach must be adopted to bring about the end of violence against children – not only physical violence, but also psychological abuse, discrimination, maltreatment and neglect.
- 2.18 South Africa also faces the major problem of vulnerable people, such as refugees, displaced and undocumented persons. Xenophobic tendencies towards these groups prevail despite the fact that the country has signed and ratified relevant regional conventions.
- 2.19 It is evident that South Africa has made significant gains in the sphere of democracy and governance. For democracy to become sustainable, however, it must also be pluralistic. Among other things, this requires establishing and strengthening the rules that will sustain multi-partyism in the political system and governance process.
- 2.20 As the dominant political party, the ANC has a specific responsibility to adopt an orientation and put in place the necessary political machinery that will nurture citizens capable of sustaining democracy and political governance through bottom-up decision-making processes.
- 2.21 The APR Panel therefore recommends that the ANC should intensify current initiatives in the direction of bottom-up decision-making processes. The country also needs to review the issue of floor-crossing, which is perceived as undermining the emergence of pluralistic democracy.

Economic Governance and Management

- 2.22 With a gross domestic product (GDP) of US\$239 510 billion in 2005, South Africa has the largest and most sophisticated economy in Africa. The country accounts for about 35 per cent of the total GDP of sub-Saharan Africa, and its economy is three times that of its closest rival, Nigeria. The country exerts major influence on total output, trade and investment flows to the African Continent. South African represents only 3 per cent of the continent's surface area, yet accounts for approximately 40 per cent of all industrial output, over half of all generated electricity and 45 per cent of mineral production in Africa.
- 2.23 By way of background, South Africa had experienced more than two decades of economic stagnation due to, inter alia, global economic sanctions. When the new government took over in 1994, the economy was characterized by negative growth leading to contraction of the economy and wealth of the nation; a reduction in the average income of South Africans since the 1980s due to more than a decade of declining growth in per capita terms; a total of almost R50 billion total net capital outflows in the period from 1985 to mid-1994; a budget deficit equal to 9.5 per cent of the GDP, including the debt of the so-called independent homelands run up by the apartheid government in the fiscal year 1993/94; US\$25 billion in deficit in the net open-forward position of the SARB; and Public sector debt equal to 6 per cent of the GDP.
- 2.24 During the past 13 years, South Africa has made measurable progress in addressing the challenges in economic governance and management. The new government has pursued policies that have restored and maintained macroeconomic stability after decades of isolation and economic sanctions. Inflationary pressures have also been contained, while budget deficits have been reduced through robust measures for mobilizing revenue
- 2.25 Since the new government took over, the macroeconomic situation in South Africa has changed considerably:
- Inflation has been reduced to 4 per cent if one uses the Consumer Price Index excluding interest rates on mortgage bonds (CPIX), or less than 1 per cent if one uses the Consumer Price Index (CPI)
 - The country has experienced the longest period of continuous growth since the GDP was properly recorded in the 1940s

- The net open forward position of the SARB rose to US\$4.7 billion in surplus by the end of 2003 (currently net reserves exceed US\$20 billion)
 - Public sector debt has come down to less than 50 per cent of the GDP.
- 2.26 Improved economic performance, coupled with the advent of democratic, people-centred governance, has enabled hitherto unfathomable improvement in people's material and social conditions. The widespread availability of social services and grants has resulted in the reduction of absolute poverty.
- 2.27 Heightened fiscal discipline has been an integral part of the stabilization effort. The government has sought to maintain a competitive tax regime, increase social spending at a measured and sustainable pace, and introduce greater transparency and accountability into the budget process at all levels of government.
- 2.28 Improved macroeconomic conditions have contributed to a more positive sovereign rating of South Africa. In 2005, three major international agencies – Moody's, Standard & Poor's and Fitch Ratings – upgraded South Africa's sovereign credit ratings. A better performance in economic growth, stronger external balance sheet, entrenched macroeconomic stability, increased public investment and transparent political environment were among the reasons cited for the upgrades
- 2.29 South Africa has also acceded to and ratified all the economic governance and management standards and codes as listed in the APRM Questionnaire. However, the APR Panel could not ascertain the extent of implementation of the compliance with these standards and codes.
- 2.30 South Africa's budgeting process is commendable. It benefits from heavy involvement of the Cabinet and other key stakeholders throughout the process, which is fielded a year in advance. One key result from the highly consultative budgeting process has been the predictability of the budget and policy direction by the government, which is good for investment planning.
- 2.31 Although South Africa has healthy foreign reserves, the limited capacity of the public sector to absorb the revenue build-up has resulted in an accumulated unspent funds. Commendably, the government has established several initiatives and institutions to address the capacity constraints confronting the country.
- 2.32 However, there are several remaining challenges. Despite an impressive economic performance, South Africa is still confronted with sharp asset and income inequalities typified by the dual nature of its economy. Experience has shown that unqualified reliance on market forces and macroeconomic management alone cannot ameliorate poverty and unemployment.
- 2.33 While real economic growth in South Africa has been consistently positive, it has been associated with significant job creation. Notwithstanding improvements in macroeconomic indicator and the positive growth in GDP achieved annually since 1994, the rate has consistently fallen below the 6+ per cent target. Because of this, structural unemployment has persisted and many would be entrants to the labour market remain barred from the workforce. The official unemployment rate stood at 26.7 per cent in September 2005, roughly the same level as in 1994. Recent figures (Stats SA, 2006) show a marginal drop in unemployment of about 0.9 per cent over the past year, which is encouraging. However, more needs to be done in order to reduce the level substantially.
- 2.34 The government has attempted to reduce these inequalities through the broad-based black economic empowerment (B-BBEE) programme and other equity-enhancing initiatives, but even here more needs to be done. While there are several initiatives for improving access to credit, small, medium and micro-enterprises (SMMEs) continue to experience credit

- and other constraints. Consequently, South Africa continues to be characterized by sharp economic dualism – a sophisticated industrial economy alongside an underdeveloped, informal, low productivity economy.
- 2.35 Against this backdrop, the government has initiated the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) that seeks to unlock some binding constraints to broad-based economic development. The expectation is that growth will be raised to 6 per cent per annum and above by 2010 and thereby benefit the majority of the citizenry through more employment opportunities and a reduction in poverty.
- 2.36 There is concern that parliamentary oversight over the budgeting process in South Africa has generally been weak. Submissions by the Auditor-General also indicate that a reasonable number of governments (national, provincial and local) do not meet the deadlines for filing required disclosures, financial statements and performance reports, albeit due to capacity constraints.
- 2.37 There is, however, consensus among stakeholders that South Africa has put in place a sound framework for managing public finance and that such management has improved since 1994. The Government has also instituted several initiatives to improve local government capacity, including the establishment of Project Consolidate.
- 2.38 However, the acute shortage of skills, especially financial expertise, is affecting the government's capacity to manage programme spending and social service delivery. The government developed several initiatives and institutions for addressing the capacity constraints confronting the country, including the Joint Initiative on Priority Skills Acquisition (JIPSA). However, the Panel notes that such programmes are not necessarily linked to employment opportunities, resulting in frustration among beneficiaries.
- 2.39 Contractors, charged with implementing leadership programmes tend to abandon them midway, thus leaving participants short of the requisite skills for employment or sustaining small businesses. Moreover, the skills imparted tend to be so narrowly based that beneficiaries are vulnerable to changes in the economic climate.
- 2.40 The perceived effectiveness of the government's HIV and AIDS policies is mixed, even though the CSAR acknowledges that the negative economic impact of HIV and AIDS on South Africa's economic growth is significant.
- 2.41 Challenges in the areas of corruption and money laundering exist in South Africa to varying degrees. Commendably, the government continues to make efforts to curb these malpractices. The Protect Disclosures Act of 2000, the Promotion of Access to Information Act (PAIA) of 2000, the Financial Intelligence Centre Act 2001, and the Prevention and Combating of Corrupt Activities Act of 2004 are some of the pieces of legislations that have recently been enacted to curb corruption.
- 2.42 There are also some challenges in promoting regional integration. Concerns have been raised about rules of the origin of products within the Southern African Development Community (SADC) Trade Protocol that continue to protect South African producers from competitors in other SADC countries. To redress trade imbalances, South Africa has extended tariff preferences to SADC countries since January 2006, so that all imports from SADC countries will have duty-free status. Further concerns have been raised with regard to the residue of exchange controls that have not been lifted.
- 2.43 Ultimately, achieving the national objective of broad-based growth and development will invariably require policy measures for tackling the pervasive distortions in all factor markets. The unfinished agenda of structural reforms leaves South Africa at a disadvantage in an increasingly competitive global environment.
- 2.44 The Panel recommends that South Africa should intensify the process of deconstructing the institutional framework on which apartheid was based, so as to create an environment in which extreme income inequality and pervasive poverty can be reduced. The authorities also need to strengthen parliamentary oversight, particularly over the budgeting process. Immediate and definitive action needs to be taken to increase capacity and skills development in the area of public finance management, particularly at the provincial and municipal levels.

Corporate Governance

- 2.45 The corporate sector has been crucial in the development of South Africa, particularly in the light of the political transformation that has been taking place since 1994. Private and state-owned corporations produce the bulk of South Africa's output and exports; manage most of its capital stock; are central to the allocation of investment; and are responsible for virtually all of the country's savings. Over the last 13 years, corporations have mobilized more than three-quarters of South Africa's domestic savings; allocated and planned 85 per cent of all investments; and currently own and manage three-quarters of the country's capital stock.
- 2.46 South Africa has a high-quality physical and economic infrastructure, a growing manufacturing sector, and growth potential in tourism and the service industry. It also has a highly sophisticated banking system that ranks with the best in the world, having been rated tenth globally.
- 2.47 The country has made tremendous progress in implanting corporate governance standards and codes. Amongst others, it has adopted the Principles of Corporate Governance designed by the Organisation for Economic Cooperation and Development (OECD) and Commonwealth associations. A key development in corporate governance in South Africa has been the promulgation of the King I and II Reports. The King II Report, in particular, has played a pivotal role in promoting corporate integrity through its influence on legislative reforms and regulatory measures, JSE listing requirements, banking sector regulation and the public sector.
- 2.48 The regulatory framework for economic activity in the country is adequate and supported by a wide variety of regulatory oversight institutions and professional bodies. Many stakeholders, however, agree that the Companies Act of 1973 is outdated and in need of amendment. Concerns have also been raised about delays in business registration and commercial dispute resolution.
- 2.49 Changes have been made to legislation, regulations, listing rules and accounting standards to bring them in line with international norms. As a result, South Africa currently rates among the best performers in corporate governance in emerging markets. There are, however, mixed views on the adequacy of the labour regime and its impact on production and the creation of jobs. The private sector stated that the labour laws were restrictive and constrained job creation, while the labour unions viewed them as ideal when measured against the historical legacy of South Africa.
- 2.50 The state owns a number of enterprises, some of which are doing very well and leading the drive in investments in the rest of Africa. The government's strategy for SOEs includes commercialization, restructuring, and partial privatization. Only one SOE, Telkom, is publicly listed.
- 2.51 Constraints to growth cited by the corporate sector include: the complex regulatory environment; inflexible labour laws; red tape; capacity and skills shortages; the high rate of mortality due principally to HIV and AIDS; crime; and corruption.
- 2.52 South Africa has a good framework for the protection of human and labour rights. Most businesses adhere to human rights and other labour codes, although some stakeholders allege instances of abuse in labour-intensive industries such as textiles and farms. The growing practice of casualisation in sectors such as retailing and mining is also of concern.
- 2.53 Corporate social responsibility (CSR) projects in communities are driven by legislation for black economic empowerment (BEE) and skills development, as well as by voluntary projects in the area of HIV and AIDS. Triple bottom line (TBL) reporting, as championed by the King II Report and Global Reporting Initiative (GRI), has transformed the way non-financial information is being disclosed by both private and public sector enterprises.
- 2.54 The government has also provided an appropriate legislative framework for environmental protection. Current challenges to the environment include rapid urbanisation, congestion of roads, air pollution and spillages of untreated sewerage. Nevertheless, there are few accountability mechanisms for non-financial reporting and readership of sustainability reports is low. Concerns have also been raised about the level of adherence to the King II Report by some South African companies operating in the rest of Africa.
- 2.55 South Africa has taken steps to reform its laws to ensure full participation of historically disadvantaged groups in business. Most notable of these reforms are the B-BEE strategies related codes and sectoral charters, and various microfinance schemes. It has been estimated that the thriving black middle class emerging from BEE, are particularly those who earn at least R154 000 a year, has grown by 368 per cent between 1998 and 2004. Although the numbers benefiting from the BEE programme are still relatively small and productive side of the economy still lags behind the demand side, BEE is nevertheless impacting favourably on the growth of the economy. The most fundamental challenge faced by South

Africa is how to design a corporate governance system that works for its dual economy and, in the long run, succeeds in bridging the gap between the first and second economies.

- 2.56 South Africa is generally an open economy that is resistant to insider trading. However, it has experienced a few notable scandals that have been attributed to self-dealing and poor oversight by corporate boards. Successful prosecution for insider trading remains low.
- 2.57 South Africa recently passed the Auditing Profession Act of 2005 that seeks to improve the integrity of financial reporting. Public sector accountability has been enhanced by the strengthening of financial reporting and accountability through the Public Finance Management Act of 1999, the Municipal Finance Management Act of 2003, and Treasury Regulations.
- 2.58 The legislative framework protecting shareholder rights in South Africa is adequate in many respects. There is, however, a palpable lack of shareholder activism and adequate monitoring of companies by asset managers on behalf of minority shareholders. Mechanisms for protecting the rights of other stakeholders exist, such as constitutionally protected access to information and the Consumer Protection Bill.
- 2.59 The legislative framework requires disclosure of material information that would enable investors to make informed decisions under the PAIA. The Companies Act of 1973 provides for disclosure of information by directors. Despite such commendable legislation, there are some concerns regarding government agencies' compliance with the disclosure provisions of the PAIA.
- 2.60 Accounting and auditing standards followed in the country are consistent with international standards. Through its highly developed professional bodies and firms, South Africa also plays an important role in international standard-setting bodies.
- 2.61 Some stakeholders are concerned that the plethora of oversight institutions, particularly in financial service supervision, may lead to compliance and enforcement pitfalls due to multiple reporting obligations. There may be a need to consolidate some of the reporting obligations.
- 2.62 The following were cited as constraints to growth in South Africa: access to infrastructure in rural areas, including water and sanitation, red tape, trade liberalisation policies, skills shortages, HIV and AIDS; crime; corruption; and high costs of certain inputs such as telecommunications and logistics
- 2.63 In the recent past, South Africa has not attracted as much foreign direct investment (FDI) as anticipated, although it is an outward investor. Heightened FDI flows will facilitate the country's attainment of an economic growth rate of 6 per cent or more that is needed to reduce unemployment and poverty. Also, some have argued that further liberalization of foreign exchange controls will send a positive signal to foreign investors about the growing robustness of South Africa's economy.
- 2.64 The APR Panel recommends that the government of South Africa, in consultation with stakeholders, should continue to process of reforming the corporate governance sector in order to promote accelerated growth for employment creation and poverty reduction.

Socio-Economic Development

- 2.65 The new democratic South Africa faced daunting socio-economic development challenges in the early 1990s as a result of decades of oppression and severe social deprivation by the minority white-dominated, apartheid government.
- 2.66 In order to enhance socio-economic development, the new administration had to embark on numerous governance reforms; undertake measures for redistributing wealth; and enact various policies that would ultimately serve to enhance the standard of living of all South Africans.
- 2.67 In the early 1990s, the ANC designed the Reconstruction and Development Programme (RDP) to address the socio-economic needs of the majority of South Africans. The RDP addressed the structural inheritances of the past, including

mass poverty, a high unemployment rate, huge social service backlogs, economic stagnation and severe socio-economic inequalities.

- 2.68 Or more immediate concern, however, was the macroeconomic instability and the government adopted the Growth, Employment and Redistribution (GEAR) Strategy. It achieved notable success in terms of reducing fiscal deficit and controlling inflation, but targets for job growth and investments were not met. Moreover, widespread poverty and inequality persisted despite the growing economy.
- 2.69 To face squarely the challenges of poverty, structural unemployment, a skewed income and wealth distribution, a new national development framework – AsgiSA – has been designed ten years after the adoption of GEAR. It proves on GEAR by focusing on identified development sectors and eliminating binding constraints to growth and development.
- 2.70 Although the outcomes of South Africa's socio-economic policies have been mixed, there is no doubt that significant improvements have been made in the provision of basic services.
- 2.71 South Africa has adopted and/or ratified nearly all the prescribed codes for socio-economic development in the APRM Questionnaire. Notwithstanding capacity challenges, the country is making an effort to implement them fully. The principle of adopting a rights-based development approach, as enshrined in the Constitution, is perceived by South Africans as critical to meeting their socio-economic development goals.
- 2.72 The country should be commended for being financially self-reliant in that it funds 99.6 per cent of its development expenditures. However, self-reliance in development and self-sustaining development also rely on institutional capacity (in terms of, for instance, coordination, mentoring, monitoring and execution) and human capacity (in terms of the required development management and technical skills). South Africa is lacking in these areas.
- 2.73 South Africa's policies for meeting socio-economic development objectives include a social security system and some social assistance grants. According to the Development Bank of Southern Africa (DBSA), over 10 million impoverished people received social grants as of 2006. While the social assistance programme is recognized as an effective redistributive measure, there are serious concerns about its sustainability in the context of the rapidly growing number of recipients over the past five years.
- 2.74 The APR Panel believes that there is a real danger of a larger percentage of the South African population becoming dependent on grants. Other concerns include the lack of proper targeting, sound administration of grants and long-term impact.
- 2.75 Despite tremendous progress, many inherited socio-economic inequalities have remained. Moreover, there is no nationally accepted definition of poverty. South Africa has not built the Millennium Development Goals (MDGs) explicitly into its planning framework in terms of the alignment and harmonization of programmes. This is evident in the 2005 MDG Progress Report of South Africa, which admits its shortcoming in terms of lacking coherent time-series data to show progress in achieving the goals.
- 2.76 The government has put in a great deal of effort in delivering social services in education and health, including HIV and AIDS. However, in most cases, challenges still remain and are even growing, which makes it difficult for the country to tackle the critical mass of social development issues with the needed level of effectiveness and efficiency.
- 2.77 Although South Africa has made great strides in widening educational opportunities to previously disadvantaged groups, mainly black South Africans, there are some concerns. The Constitution provides a right to education, while the South African Schools Act of 1996 provides for compulsory attendance of all primary learners 7 to 15 years of age. However, more effort is needed in the implementation of the Act to improve education in the country. Although HIV and AIDS are emerging as a major cause of mortality and morbidity, some role-players feel there is an ambivalent attitude towards the pandemic among politicians and policy-makers.

- 2.78 The government of South Africa has done very well in social service delivery (water, electricity and housing) and in some cases has exceeded the set targets during the past 12 years. Stakeholders stressed that government has the right policies and programmes in place. In particular, they applauded the “indigent policy” that has allowed mass access to basic services within such a short period. However, much more needs to be done to ensure effective service delivery, particularly in sanitation and rural electrification. In addition women and youth lack access to credit in spite of the microfinance schemes currently in existence.
- 2.79 Access to land remains a major problem, as restitution and redistribution of land have been slow in taking off and have thus far minimally contributed to building the assets or capabilities of the poor, especially in rural areas where effective land use could contribute to sustainable livelihoods.
- 2.80 South Africa has made significant progress in terms of promoting gender equality and the participation of women in decision-making positions, except in the private sector where women are still underrepresented. However, there is a very high level of gender-based violence against women in South African society.
- 2.81 There have been concerted efforts to promote participation by all stakeholders in the socio-economic development process. The mechanisms that have been put in place are adequate for addressing the issue of broad-based participation of all stakeholders in this process
- 2.82 There is concern about some constraints to broad-based participation in decision making in South Africa. Despite the government’s efforts, a number of critical segments of the society are still unable, or are less able, to participate fully in the development process. These segments include rural communities, women, youth, and persons with disabilities.
- 2.83 Collaborative and constructive partnerships between the government at all levels and critical segments of civil society appear to be characterised by mutual suspicion in South Africa, the media in particular. The APR Panel recommends that South Africa should embark on a rigorous transformation process to accelerate socio-economic development in order to achieve sustainable development and the alleviation of poverty.

3.5 Cross-Cutting Issues

- 2.84 Some areas with deficiencies or shortcomings in the South African system are recurrent and/or interrelated. They necessitate a holistic approach because of the wider impact they have on the quality of governance in all areas. These include the following:
- Unemployment;
 - Capacity constraints and poor service delivery;
 - Poverty and inequality;
 - Land reform;
 - Violence against women;
 - Violence against children;
 - HIV and AIDS pandemic;
 - Corruption;
 - Crime;
 - Racism and xenophobia; and
 - Managing diversity.

3.6 Best Practices

- 2.85 The APR Panel recognized some of the remarkable feats by South Africans on the global stage. For example, a total of six South Africans have been awarded Nobel prizes in various categories, the highest number on the continent. A South African was the first person to perform a human heart transplant, a South African actress was also the first from the continent to win an Oscar, and a South African motion picture recently achieved the same feat. The TRC achieved great success and has been emulated by a number of countries on the continent and worldwide.
- 2.86 More significantly, the APR Panel identified 18 best practices worthy of emulation. They are highlighted below for peer learning.

Democracy and Political Governance

- i. Co-operative government, a process of institutionalised contestation to be undertaken sympathetically and productively as a generalized means of first resort in resolving conflicts, especially those of a jurisdictional nature.
- ii. Popular participatory governance through Imbizo, which constitutes face-to-face interaction and engagement between senior government officials from all spheres (national, provincial and local) and the public;
- iii. "Taking the Parliament to the People", an outreach programme whereby the parliament and provincial legislatures interact at grassroots level with members of communities and listen to their concerns, needs and aspirations.
- iv. Batho Pele, which essentially a Citizen's Charter based on the traditional Sesotho adage meaning "People First". It ensures that people are sufficiently informed about governance processes, the functions of various ministries and departments, those in charge, and what to expect from them; and
- v. Multi-purpose community centres as one-stop, integrated community development centres designed to provide information and a wide range of services to communities in an integrated and coordinated way.

Economic Governance and Management

- vi. The budget formulation process, which is highly consultative and ensures that the budget and, therefore, policy are highly predictable. The government has consistently maintained strong budget discipline; and
- vii. The South African Revenue Service (SARS) which, over time, has been able to implement fundamental tax policy reforms that have improved the culture of tax compliance and contributed to SAR's success in consistently exceeding its revenue target. Consequently, South Africa has an impressive tax revenue to GDP ratio of over 26 per cent.

Corporate Governance

- viii. The JSE, a world-class exchange ranked 16th in the world in terms of market capitalisation;
- ix. A number of the country's SOEs are very competitive and receive no fiscal transfers from the government. On the contrary, they pay taxes and offer dividends;
- x. The JSE and triple bottom line reporting, a Socially Responsible Investment Index inspired by the Dow Jones Sustainable Group Index and the FTSE4Good Index in the UK, launched by the JSE in 2004;
- xi. The Mzansi Account for the un-banked, which represents the first major initiative to cater for the under-banked and un-banked populations of South Africa. Mzansi customer care also set up debit orders and do third-party payments on their cellphones;
- xii. The Financial Sector Charter, the response of the financial sector to the imperatives of BEE. Under the Charter, financial institutions have committed themselves to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa and contributes to the establishment of an equitable society by

effectively providing accessible financial services to black people and directing investment to targeted sectors of the economy;

- xiii. The King I and II Reports, which are home grown to South Africa and have been accepted by many countries in Africa and worldwide as being very comprehensive; and
- xiv. Regulation of the auditing profession

Socio-Economic Development

- xv. As regards self-reliance in funding development programmes, South Africa's self-funding amounts to 99.6 per cent of its development expenditures;
- xvi. South Africa has made tremendous progress in supplying electricity to a large segment of the population who previously had no access. The government has far exceeded its target of providing 2.5 million homes with electricity by 2000, reaching over 4 million households.
- xvii. The Constitution of South Africa seeks to protect socio-economic rights. This constitutional guarantee means that the country has a progressive social agenda that is being realized through rights-based provisions; and
- xviii. In 2005, the first woman Deputy President was appointed in South Africa. Women constitute 45 per cent of Ministers and Deputy Ministers and 33 per cent of MPs, including the Speaker and Deputy Speaker. At the provincial level, women constitute 35 per cent of the permanent members of the NCOP, 32 per cent of members of provincial legislatures and 44 per cent of Premiers. Some 40 per cent of all local government councilors are women, as well as 14 per cent of judges, 35 per cent of magistrates and 53 per cent of public servants. In the Foreign Service, 24 per cent of ambassadors and high commissioners are women. Some 24 per cent of SOEs' board members are women and they also comprise 25 per cent of senior management.

3.1 Conclusion

- 2.87 A holistic package of strategic, policies, programmes and plans, if fully targeted at the major strengths and challenges identified in the review process, will help embed governance and development in South Africa. These strengths and weaknesses are highlighted below.

Strengths

- One of the most progressive Constitutions in the world, which guarantees both civil and socio-economic rights;
 - Existence of a political environment conducive to political debate, dialogue and contestation;
 - Significant progress made in signing, ratifying and implementing international standards and codes;
 - First-world economic and physical infrastructure;
 - The largest and most sophisticated economy in Africa;
 - Sound, transparent and predictable economic policies;
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- Strong public financial management system;
 - Being well-positioned technologically to be able to compete in the global market;
 - Ranking among the best performers in corporate governance in emerging markets;
 - A robust legal system that ensures lawful protection of property rights and intellectual property rights;
 - An adequate regulatory framework for economic activity in the country, supported by a wide variety of regulatory institutions;

- A good framework for the protection of human rights and labour right;
- Existence of credible institutions such as the Public Investment Corporation , the Industrial Development Corporation (IDC), a number of well-known multinational institutions and world-class universities
- Self-sufficiency in development financing; and
- Strong representation of women in the public sector.

Key Challenges

- Race relations remain brittle and sensitive. South Africans from different racial groups still hold widely divergent views on key policy questions and the nature of problems confronting the country.
 - Minorities fear that the government is not doing enough to assure the cultural, education and language rights guaranteed by the Constitution
 - Current trends BEE are a cause for concern. While South Africa also needed black billionaire role models, BEE has to be broadened and deepened beyond the enrichment of a few individuals. Moreover, the speed with which politicians transform themselves into business people is a matter of concern.
 - While expenditure on education has risen significantly, currently standing at about 6 per cent of GDP, this is not mirrored in the results. The education system is failing to provide school-leavers adequately with the skills and competencies they need to contribute more constructively to the economy
 - The environment in some schools is quite disabling, given their high levels of indiscipline and criminality. At the tertiary level, drop-out rates are unsustainable, ranging from 26 to 61 per cent at some universities in 2004.
 - The conversion of democratic ideals into practice still constitutes a problem. Ordinary South Africans have insufficient contact with their political representatives, which points in part to the shortcomings of unbridled proportional representation at national and provincial levels.
 - The legacy and distortions of apartheid are still pervasive and costly, as reflected in entrenched socio-economic inequalities, pervasive poverty and high unemployment levels. Discrimination in the provision of education and training opportunities in the past meant that generations of black South Africans were prevented from acquiring the skills that would enable them to pursue productive employment opportunities. Manifold imbalances, disparities, distortions and paradoxes still persist.
 - A critical shortage of skills exists, resulting in weak implementation capacity, especially at local government level.
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- South Africa has the second highest HIV infection rate in the world.
 - Women are underrepresented in the private sector.
 - The levels of violent crime are unacceptable high.
 - Levels of gender-based violence and violence against children are high.
 - High levels of xenophobic tendencies, especially against foreigners from other African countries, exist
 - Some beneficiaries of the apartheid policy are reluctant to contribute to reconstruction and development.

2.88 South Africa needs transformation of both the economic base and social structure of society by maximising its strengths and taking necessary correction measures to remove or ameliorate its weaknesses. This will create an environment in which the majority of people will participate fully in development and benefit correspondingly and equitably from the dividends of development. This is the only way in which the country can truly emerge as a Rainbow Nation. All stakeholders, led by the government, are urged to work together in implementing the recommendations and the National Programme of Action that have emerged from this review,