

EXECUTIVE SUMMARY

1. THE APRM PROCESS

1.1 The Evolution of the APRM Process

- 1.1 In recognition of the imperatives of good governance for development, the Sixth Summit of the Heads of State and Government Implementation Committee (HSGIC) of the New Partnership for Africa's Development (NEPAD), held in March 2003 in Abuja, Nigeria, adopted the Memorandum of Understanding (MOU) on the African Peer Review Mechanism (APRM). The Mechanism, which is turning out to be the most innovative aspect of NEPAD, is an instrument voluntarily acceded to by member states of the African Union (AU) as a self-monitoring initiative for good governance.
- 1.2 The mandate of the APRM is to ensure that the policies and practices of participating countries conform to the values, principles, codes and standards enshrined in the Declaration on Democracy, Political, Economic and Corporate Governance. This commonly agreed-to instrument for self-monitoring has at its epicentre the dissemination of best practices and the rectification of underlying deficiencies in governance and socio-economic development processes among AU member states. The framework is aimed at encouraging and building responsible leadership through a self-assessment process, constructive peer dialogue, and sharing of information and common experiences in order to reinforce successful and exemplary practices among African countries.
- 1.3 The APRM is open to all AU member states. Currently, 27 countries have voluntarily acceded to it, representing 652.7 million (about 74 per cent) of the total African population of 886.0 million. Accession entails undertaking to submit to periodic peer reviews and to facilitate such reviews. It includes commitment to implementing the National Programme of Action (NPOA) arising from the peer review, and operationalising the agreed parameters for good governance across the four thematic areas.
- 1.4 Since its inception in 2003, the APR Panel has launched reviews in 14 countries¹ and peer reviews have been finalised for three of these countries (Ghana, Kenya and Rwanda). South Africa and Algeria are the fourth and fifth countries respectively to field a Country Review Mission (CRM).

1.2 South Africa and the APRM

- 1.5 South Africa was one of the first countries to accede to the APRM in March 2003 in Abuja, Nigeria. Subsequently, the country appointed Hon. Geraldine Fraser-Moleketi, the Minister for Public Service and Administration, as the National Focal Point to map out a strategy for managing the APRM process in South Africa.

¹ These are: Algeria, Benin, Burkina Faso, Ghana, Kenya, Lesotho, Mali, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, Tanzania and Uganda.



- 1.6 The APRM National Governing Council (NGC) organised a number of workshops and sensitisation activities to create awareness and outline modalities for participation. This preparatory process for the official launch of the review came to a climax when the first-ever National Consultative Conference on the APRM was held in Gauteng on 28-29 September 2005. About 350 delegates comprising representatives from a cross-section of South Africa's stakeholders and civil society organisations (CSOs) attended. His Excellency President Thabo Mbeki inaugurated a 15-member NGC comprising state and non-state representatives to preside over the APRM process in South Africa.
- 1.7 Several innovations that characterised the official launch of the APRM in South Africa are noteworthy. They included the establishment of Provincial Governing Councils (PGCs) in all of the country's nine provinces, simplification of the questionnaire and its translation into the country's 11 official languages, as well as a wide media and information dissemination strategy that included road shows, newsletters, call-ins and the dedication of a song to the APRM.
- 1.8 An APRM Country Support Mission (CSM) visited South Africa between November and December 2005 to assess the processes and mechanisms established to undertake the country's self-assessment and draft NPOA. One of the key outcomes of the CSM was the expansion of the NGC from 15 members to 29.
- 1.9 In preparation for the self-assessment exercise, the NGC established a research subcommittee comprising seven of its members. In addition, the NGC selected four technical support agencies to facilitate analysis of the self-assessment submissions. The Human Sciences Research Council (HSRC) and the Auditor-General were charged with quality control.
- 1.10 Following the preparation of the draft Country Self-Assessment Report (CSAR), South Africa organised a series of seminars to discuss it. Validation workshops were subsequently held at national and provincial levels.
- 1.11 South Africa submitted its final CSAR and draft NPOA to the APR Secretariat in June 2006 and this paved the way for the fielding of the CRM. In the interim, the APR Secretariat, in consultation with partner institutions, had also prepared background papers on South Africa in the four assessment areas. The three documents – the CSAR, draft NPOA and background papers – were used to develop an Issues Paper.
- 1.12 The CRM was fielded in the period 9-25 July 2006. Its main purpose was to explore further the salient issues identified in the Issues Paper and the CSAR, and to discuss the draft NPOA.

1.3 Country Review Mission

- 1.13 The CRM was led by Prof. Adebayo Adedeji, Commander of the Order of the Federal Republic (CFR) of Nigeria, and comprised 22 members from 13 African nationalities. It

included selected high-level, independent experts in the four APRM thematic areas, experts from the strategic partner institutions – African Development Bank (AfDB), United Nations Economic Commission for Africa (UNECA) and United Nations Development Programme (UNDP) – as well as officials of the APR Secretariat.

- 1.14 The CRM formally began its work on 12 July 2006, with a launch attended by His Excellency President Thabo Mbeki. Thereafter, the CRM interacted with various stakeholders, including the NGC, PGCs, Cabinet Ministers, members of the Executive Councils (MECs), CSOs such as trade unions, women's groups, youth groups, faith-based organisations (FBOs), non-governmental organisations (NGOs), media, academia and political parties. It also held meetings with key government departments, the Auditor-General, South African Reserve Bank (SARB) and the JSE Securities Exchange (JSE).
- 1.15 The CRM further undertook visits to seven of South Africa's provinces, including a site visit of Lindela Repatriation Centre. As the CSM had already visited two provinces in December 2005, all nine provinces of South Africa were therefore duly covered.
- 1.16 The visits and interaction with various stakeholders furnished the CRM with a good understanding of South Africa's performance in the four thematic areas of the APRM. Stakeholders were encouraged to propose viable solutions to the challenges identified, so as to foster and strengthen good governance and sustainable development in the country.

2. THE TRANSITION TO DEMOCRATIC SOUTH AFRICA:

An Overview

- 2.1 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.
- 2.2 The democratisation 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; from 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 as non-permanent members of the Security Council for two-year terms starting from 1 January 2007.

- 2.3 It must be acknowledged, however, that contemporary South Africa remains a country of imbalances, disparities, distortions and a number of paradoxes. The legacy of apartheid continues to manifest itself in many fields of human and social endeavour. For example, despite the impressive gains achieved in stabilising 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 empowerment of people living in the "second economy". High levels of structural unemployment have brought into focus the lack of balance between people's socio-economic rights and their day-to-day reality.
- 2.4 There are many paradoxes as well, first and foremost being the vicious twist 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.
- 2.5 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.
- 2.6 These imbalances and paradoxes are merely illustrative. There are many more in all sectors, all signifying the tremendous challenges that still lie ahead. Fortunately, the achievement over the past 16 years (1990-2006) shows that the people of South Africa and their government are non-conformists and are strongly committed to transformation. If the analyses in this Report throw some light on these imbalances and paradoxes, and

stakeholders led by the government implement the recommendations and the NPOA emerging from the Review, a brighter future awaits South Africa.

3. SUMMARY OF FINDINGS IN KEY THEMATIC AREAS

3.1 Democracy and Political Governance

- 3.1 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. This 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 of the state.
- 3.2 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.
- 3.3 The general consensus is that the oppressive political and governance institutions established by the system of apartheid cannot be reformed but must be transformed. This transformation can only be led by an appropriately activist state dedicated to correcting imbalances and ensuring justice for all. The resurgence of popular participation has made it possible for CSOs, including the media, to play an important role in maintaining the momentum for reform and transformation, as dictated by the Constitution.
- 3.4 The South African Constitution has been hailed as one of the most progressive in the world. Its vision for the country is one of a progressive, non-racist, non-sexist and human rights-based society. The Constitution has thus become the bedrock of the country’s governance and development, supported by well-established democratic institutions and a very vibrant media and civil society. However, the context within which constitutional governance arrangements have been crafted needs to be kept in mind. At the time of its design, it was more of a contract among previously suspicious parties for whom trust was a scarce commodity rather than a covenant born from shared mutual experiences and values. Hence, negotiations on the making of the Constitution were very tense and what eventually emerged was a contract both in the construction of the state and in the forging of a nation.





- 3.5 It is therefore not surprising that the South African Constitution entrenches a comprehensive set of inalienable rights. Given the country's bitter and bloody experience, the makers of the Constitution avoided the path of low-intensity democracy and opted for a cooperative state with three spheres of government and separation of powers between the executive, legislature and judiciary. The judiciary is empowered to uphold the Constitution, and both the parliament and the executive are required to uphold the authority of the judiciary. Although the country has introduced an innovative notion of decentralisation, the concept of co-operative government faces a number of challenges, including lack of capacity at local government level.
- 3.6 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.
- 3.7 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 levels. Although questions have been raised regarding the effectiveness of proportional representation in the electoral process, it is widely accepted that this is the 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, relates to the manner in which members of parliament (MPs) maintain linkages with the electorate.
- 3.8 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.
- 3.9 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.
- 3.10 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 overemphasised. Access to land possession and usage also remains a potentially explosive issue in South Africa.
- 3.11 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.

- 3.12 The South African Constitution recognises 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.
- 3.13 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.
- 3.14 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 initiatives 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. This 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.
- 3.15 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.
- 3.16 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 women 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 councillors, 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 for males.
- 3.17 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. However, statistics from the South African Police Service (SAPS) indicate that there were:





- 54 293 rapes in 2001/02;
- 52 425 rapes in 2002/03;
- 52 733 rapes in 2003/04;
- 55 114 rapes in 2004/05; and
- 54 926 rapes in 2005/06.

- 3.18 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.
- 3.19 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, such as:
- Child abuse by parents;
 - Inadequate opportunities for early child development;
 - Non-registration at birth of many children who consequently are likely to lose access to services to which they are constitutionally entitled;
 - Violence against schoolchildren, particularly girls;
 - Child trafficking, child prostitution, drug addiction and sex tourism, especially involving the girl child;
 - Child-headed families who receive no special training and treatment; and
 - Orphans who, though provided some grant, are not assisted in acquiring skills so that they can be gainfully engaged and become self-reliant.
- 3.20 There is indeed an urgent need for the 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.
- 3.21 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.
- 3.22 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.
- 3.23 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.

- 3.24 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.

3.2 Economic Governance and Management

- 3.25 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 Africa 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.

- 3.26 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 characterised by the following:

- 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 64 per cent of the GDP.

- 3.27 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 mobilising revenue.

- 3.28 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.

- 3.29 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.
- 3.30 Heightened fiscal discipline has been an integral part of the stabilisation 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.
- 3.31 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.
- 3.32 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 and compliance with these standards and codes.
- 3.33 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.
- 3.34 Although South Africa has healthy foreign reserves, the limited capacity of the public sector to absorb the revenue build-up has resulted in an accumulation of unspent funds. Commendably, the government has established several initiatives and institutions to address the capacity constraints confronting the country.
- 3.35 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.

- 3.36 While real economic growth in South Africa has been consistently positive, it has not been associated with significant job creation. Notwithstanding improvements in macroeconomic indicators 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 (StatsSA, 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.
- 3.37 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 characterised by sharp economic dualism – a sophisticated industrial economy alongside an underdeveloped, informal, low productivity economy.
- 3.38 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.
- 3.39 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.
- 3.40 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.
- 3.41 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.
- 3.42 Contractors charged with implementing learnership 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.

- 3.43 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.
- 3.44 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 Protected Disclosures Act of 2000, the Promotion of Access to Information Act (PAIA) of 2000, the Financial Intelligence Centre Act of 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.
- 3.45 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.
- 3.46 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.
- 3.47 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.

3.3 Corporate Governance

- 3.48 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 mobilised more than three-quarters of South Africa's domestic savings; allocated and planned 85 per cent of all investment; and currently own and manage three-quarters of the country's capital stock.

- 3.49 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.
- 3.50 The country has made tremendous progress in implementing 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 regulations and the public sector.
- 3.51 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.
- 3.52 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.
- 3.53 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 commercialisation, restructuring, and partial privatisation. Only one SOE, Telkom, is publicly listed.
- 3.54 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; insecurity; and corruption.
- 3.55 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.

- 3.56 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.
- 3.57 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.
- 3.58 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-BBEE strategies, related codes and sectoral charters, and various microfinance schemes. It has been estimated that the thriving black middle class emerging from BEE, and 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 the productive side of the economy still lags behind the demand side, BEE is nevertheless impacting favourably on the growth rate 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.
- 3.59 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.
- 3.60 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.
- 3.61 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.

- 3.62 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.
- 3.63 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.
- 3.64 Some stakeholders are concerned that the plethora of oversight institutions, particularly in financial services 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.
- 3.65 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.
- 3.66 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 liberalisation of foreign exchange controls will send a positive signal to foreign investors about the growing robustness of South Africa's economy.
- 3.67 The APR Panel recommends that the government of South Africa, in consultation with stakeholders, should continue the process of reforming the corporate governance sector in order to promote accelerated growth for employment creation and poverty reduction.

3.4 Socio-Economic Development

- 3.68 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. These challenges included the following:
- The housing backlog was estimated between 1.4 and 3 million.
 - People living in shacks numbered between 5 and 7.7 million.
 - Sixty per cent of the population had no access to clean water.
 - Some 20 million people did not have access to adequate sanitation.





- There were 17 fragmented Departments of Education, with a disproportionately high allocation of resources to white schools.
- There was only 70 per cent secondary school enrolment.

3.69 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.

3.70 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.

3.71 Of 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.

3.72 To face squarely the challenges of poverty, structural unemployment, and skewed income and wealth distribution, a new national development framework – AsgiSA – has been designed ten years after the adoption of GEAR. It improves on GEAR by focusing on identified development sectors and eliminating binding constraints to growth and development.

3.73 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. By 2005:

- Approximately 2.4 million housing subsidies had been approved.
- Some 1.74 million housing units had been built for the poor.
- About 3.5 million homes had been electrified, which translates into over 435 000 homes per annum.
- About 91 per cent of the entire population had access to an improved water supply.
- Basic sanitation infrastructure had been provided to over 8.2 million people.
- An integrated education system had been created, even though there is a clear need for greater resource allocation and capacity building in poor areas.
- Nutrition programmes had been established to improve the wellbeing of children from poor backgrounds.
- Secondary school enrolment had reached 89 per cent, while primary school enrolment was estimated at 104 per cent.
- More than 10.5 million people had access to social assistance grants.
- The cumulative total of land claims settled as at 31 December 2005 stood at 68 719.

The cumulative total for the beneficiaries for the same period was 939 737. Land restored totalled 1 006 959 hectares.

- The overall routine immunisation coverage for South Africa stood at 82 per cent.
- A total of over 1200 new clinics were built. A further 252 clinics benefited from major upgrading, such as the building of new maternity units, and 2298 received new equipment and/or had minor upgrading. Over 113 visiting points were built. Altogether 7200 new permanent posts for nursing staff, 3800 cleaning staff and security posts, and 19 900 temporary construction jobs were created.

- 3.74 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.
- 3.75 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.
- 3.76 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 recognised 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.
- 3.77 The APR Panel believes that there is a real danger of a large 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.
- 3.78 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 harmonisation 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.
- 3.79 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.





- 3.80 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.
- 3.81 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 the 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.
- 3.82 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.
- 3.83 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.
- 3.84 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.
- 3.85 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.
- 3.86 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

- 3.87 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.

These challenges are briefly elucidated below.

3.5.1 Unemployment

- 3.88 At the root of poverty lies large-scale structural unemployment. The personal, social and political costs of unemployment are huge, with the impact magnifying with the duration of unemployment. While cyclical unemployment causes tremendous hardship, this is manageable as it is a short-run phenomenon. Structural unemployment, however, has a devastating impact over the long term, which can lead to systemic collapse if allowed to get out of control and last for too long. Consequences at household level include: severe financial hardship; deepening poverty; unbearable level of indebtedness; homelessness; housing stress; family tensions and breakdown; boredom; alienation; shame and stigma; increased social isolation; crime; erosion of confidence and self-esteem; atrophy of work skills; and ill-health.
- 3.89 Large “armies” of unemployed people pose a danger to political stability and democracy. This is why even the most developed countries are ultrasensitive about unemployment and will do anything to put their citizens to work once the threshold is reached.
- 3.90 Despite the government’s efforts to provide employment opportunities, South Africa still has an unsustainably high level of structural unemployment. Paradoxical as it may seem, there has been a steady increase in the levels of unemployment in the country despite a modest increase in job creation during the past decade. Unemployment has climbed inexorably, reaching 28.2 per cent of the country’s economically active population by September 2005. The likelihood of being employed in South Africa is still heavily influenced by a person’s race, geographic location, gender, and levels of skill.





- 3.91 If the unemployment problem had been mainly cyclical, macroeconomic policies would have provided a relief during these past 12 years. Because it is structural, however, it requires a totally different approach to reorientate South Africa progressively into a development state. As discussed in this report, AsgiSA provides a way out as a first step, provided of course, that the Treasury and the SARB create the necessary enabling environment for the effective and efficient operationalisation of the new paradigm. As AsgiSA's focus is on the micro-economy, it is imperative that the macroeconomic policy framework be orientated to provide the required enabling environment for its successful take-off.
- 3.92 Social security in South Africa is also based on European post-World War II models, where unemployment is primarily short term and therefore cyclical. In South Africa, unemployment is not cyclical but structural and constitutes a long-term challenge calling for the deconstruction of the inherited apartheid economy and the democratisation of the development process.
- 3.93 Pervasive poverty is the inevitable outcome of pervasive unemployment. Eliminating the current nexus of poverty and unemployment therefore requires a refocus on a holistic, human-centred development paradigm. A country cannot become eligible to join the league of rich nations on the basis of having a monocultural economy and the capacity to do more of the same. Rather, a country's qualification for eligibility must be its continuous move into ever higher value-added and diversified production systems that have high productivity and more competitiveness. They should engage all people, particularly the labour force, through the process of democratising development and popular participation.

3.5.2 Capacity Constraints and Poor Service Delivery

- 3.94 A recurrent theme in meetings with stakeholders and in the CSAR is the problem of capacity, especially at provincial and local levels. South Africa also suffers from skills shortages. There is a dearth of versatile and experienced managers and professionals across all sectors of the economy.
- 3.95 Lack of capacity is a major constraint on ongoing efforts to improve the quality of governance in all spheres and deliver services at optimal levels in the light of the socio-economic challenges.
- 3.96 The situation is further compounded by the uncomfortably large emigration of experienced skilled professionals and the historical context of South Africa. Efforts to mainstream historically disadvantaged populations must be accompanied by aggressive skills development programmes for previously marginalised populations. The country may consider innovative approaches to ensure the availability of appropriate capacity, especially in municipalities. The authorities are urged to consider developing a unified civil service, hiring outside expertise and encouraging the return of erstwhile skilled workers (especially in municipalities) who have emigrated.

3.5.3 Poverty and Inequality

- 3.97 With the demise of apartheid in 1994, the expectations of and aspirations for improvements in livelihoods among ordinary South Africans have risen phenomenally. However, despite South Africa's status as a middle-income country, poverty and inequality are still widespread and manifest themselves in high rates of unemployment, land hunger and lack of access to basic human needs. In both urban and rural areas, the majority of the population continues to experience conditions of severe deprivation and squalor.
- 3.98 A significant number of South African households continue to be poor, or are vulnerable to being poor. Poverty is perceived by poor South Africans to include: alienation from the community; food insecurity; crowded homes; use of unsafe and inefficient forms of energy; lack of jobs that are adequately paid and/or secure; and fragmentation of the family. Women, children, the elderly and persons with disabilities bear the brunt of poverty.
- 3.99 In addition, the distribution of income and wealth in South Africa is among the most unequal in the world and many households still have insufficient access to education, healthcare, energy and clean water despite concrete progress made in redressing the inherited backlog since 1994. Furthermore, fuelled by high levels of unemployment, poverty provides the bedrock for HIV and AIDS. It also poses a threat to democracy.
- 3.100 South Africa still has a long distance to traverse on the transformation front, but the vision, will and resources are there to move the process forward. Poverty is not just about the income poor. It is about people's lost creativity and potential to contribute to society. It is about the denial of access to opportunities and choices to lead a decent life, achieve a better standard of living, greater freedom, dignity and self-respect – things that matter most for human existence. While a great deal has been achieved in the first decade of freedom, the next decade should begin to make an all-round difference in the quality of life of the country's majority.
- 3.101 Addressing the challenges posed by poverty alleviation and eradication goes beyond slogans and mere wishing, to setting actual target dates nationally or internationally. It will come about only through fully implementing concrete policies and programmes that are basically transformative and developmental. It is only these kinds of programmes that will ensure the elimination of the economic, political and social structures that reproduce poverty, and will secure the fundamental objectives of democratising the development process and mobilisation of the people.

3.5.4 Land Reform

- 3.102 Land is crucial to the pursuit of development strategy in Africa. It can play a major role in addressing issues of unemployment and poverty. It is the single most important factor in social, political and economic empowerment. Above all, it has a central role to play in wealth and income redistribution. The linkages with conflict can also not be ignored





– although curiously so – given the long history of land grievances in virtually every modern revolution.

- 3.103 The South African government has committed itself to land reform. However, distributing 30 per cent of commercial farmland by 2014 is a huge task. This is especially so because the state is not playing a proactive role in land redistribution. At present, it remains unclear whether current policies (especially the principle of “willing seller, willing buyer”) will enable the government to meet its targets. A year after the 2005 Land Summit, the land issue presents a mixed picture of progress and stagnation.
- 3.104 Current attempts at reform have so far distributed only 3 to 4 per cent of the targeted 30 per cent. Thus far, delivery has averaged 0.38 million hectares a year. If the current pace is maintained, the 30 per cent target will be reached in 54 years’ time. Delivery would have to be increased fivefold to meet the 2014 target.
- 3.105 There are signs of growing impatience and calls for the matter to be tackled more expeditiously. Current land reform has been criticised both by farmers’ groups and by landless workers. The latter allege that the pace of change has not been fast enough, while the former allege racist treatment and express concerns that a situation similar to what has happened in Zimbabwe may develop. During the CRM’s interactions with stakeholders, most were uncomfortable with the “willing seller, willing buyer” principle.
- 3.106 What also appears to be missing from the current land reform is a realignment of land policy with agricultural policy. The government seems not to have taken seriously the importance of post-settlement support for people moving back onto land, who often lack skills, capital and access to markets. It is highly unlikely that private sector-led initiatives (e.g. reliance on the benevolence of white farmers to teach black farmers) can address this problem.
- 3.107 A major predicament is that the economic environment in which land reform beneficiaries have to work remains difficult. The new South African government has not done much to promote rural development. In particular, infrastructure is a serious problem, alongside the provision of extension services and research advice. Not surprisingly, many commercial farms that have been handed over have failed.
- 3.108 However, it should be noted that land reform is complicated. While the government intends to achieve success in land redistribution, it is also keen to maintain continuity in production. This is particularly the case in provinces like Limpopo, which are heavily dependent on agriculture. Following liberalisation in the mid-1990s, productivity in the agricultural sector rose substantially. Though primary agriculture contributed only 2.6 per cent of South Africa’s GDP in 2005, it accounted for 8 per cent of the country’s exports and employed 9 per cent of all formal employees. The Panel is of the view that greater flexibility in land acquisition options and decentralised community-driven initiatives will be positive steps in land reform in South Africa.

3.5.5 Violence Against Women

- 3.109 Violence against women is a serious human rights issue with significant social and economic implications for fighting poverty. It continues to be one of the most prominent features of post-apartheid South Africa and is currently deep-rooted in South African society. It encompasses a wide range of abuses, ranging from physical, sexual and psychological violence occurring in the family and general community.
- 3.110 Estimates of the extent of violence vary and statistics for women abuse are notoriously difficult to establish largely because of underreporting.
- 3.111 The South African government has expressed a commitment to eradicate gender violence. A more proactive, coordinated and system-wide response is urgently needed to address this problem.

3.5.6 Violence Against Children

- 3.112 Violence against children in South Africa is relatively high. The available evidence indicates that children suffer mostly from poverty, hunger, lack of decent shelter, destitution, illiteracy and exposure to numerous diseases. They also suffer many forms of abuse. The commonest forms of child abuse in South Africa include: economic exploitation, especially child labour; drug abuse; child sale, trafficking and abduction; sexual exploitation; and sexual abuse.
- 3.113 Violence against children, especially girls, is a major challenge in some schools. South African girls continue to be raped, sexually abused, sexually harassed and assaulted at school by male classmates and teachers. For many girls, violence and abuse are an inevitable part of the school environment. Although girls in South Africa have better access to school than many of their counterparts in other sub-Saharan African states, they are confronted with sexual violence and harassment in schools. Although some schools try hard to respond to the problem of violence, too often school officials have concealed sexual violence and delayed disciplinary action against the perpetrators of such violence at great cost to the victims.
- 3.114 The situation of children in South Africa has been worsened by the apparent decline of social support institutions, such as the family. Through interactions with stakeholders in the areas visited, the CRM noted that social support institutions for children were under serious stress, with serious consequences for the proper development of young people. The CRM was informed that many families were increasingly characterised by the inability of parents to fend for their children. This often leads to various psychological pressures and, increasingly, domestic violence, drunkenness and child abuse. The pervasive violent behaviour of adults has aggravated violence among children and youth. Not only has parental leadership failed, the overall societal leadership is also far from being inspiring to children.





- 3.115 At present, it appears that little or nothing is being done to rebuild disintegrating social support institutions in South Africa, including the family, school, kinship structures and public institutions, by introducing new forms of effective socialisation and social control. In the absence of such control, children and young people are generally alienated from mainstream society and tend to end up in the streets where they create their own social worlds and fashion new social orders and identities. This situation points to the growing problematic transition of children to youth in South Africa, which is an indication of the poor socialisation of South African youth.
- 3.116 The issues of children and youth are complex and dealt with in different focus areas by a multiplicity of government institutions, NGOs, faith-based organisations (FBOs) and cooperating partners. The government has recognised the need for developing a comprehensive legislative and regulatory framework so that all institutions dealing with child and youth issues relate their programmes and activities to the government's overall intentions for child and youth development, as contained in its policy documents.
- 3.117 At present, however, there is a lack of comprehensive and disaggregated data on children in South Africa, making it difficult to design appropriate interventions. Moreover, some legal and policy gaps still exist.
- 3.118 Concerted efforts need to be made to prevent schools from becoming “turfs” for gangs and places for drug trafficking. Parents must work closely with schools and the police to reinstate discipline and turn these institutions into places where boys and girls feel protected.

3.5.7 HIV and AIDS Pandemic

- 3.119 South Africa is currently experiencing one of the most severe HIV epidemics in the world. By the end of 2005, according to UNAIDS estimates, there were 5.3 million people living with HIV in South Africa. This puts South Africa in second place after India in the number of people infected with HIV in the world.
- 3.120 Much of the reporting on AIDS in South Africa has centred on the perceived ambivalent attitude of politicians towards the pandemic. Far less has been said about the tremendous efforts being made by local, provincial and national government agencies and a myriad NGOs to combat AIDS by creating awareness around the disease, promoting behavioural change and providing medical, social and economic assistance to those affected and/or infected by the epidemic.
- 3.121 It is welcome news that appropriate steps are being taken to introduce renewed vigour in the response to HIV and AIDS prevention and treatment in South Africa by redressing prevailing dysfunctions, scaling up national response and strengthening communication.

- 3.122 In the meeting with the Deputy President, the CRM was assured that as part of enhanced government policy:
- Antiretroviral drugs will henceforth constitute the centrepiece of the government's treatment response to HIV and AIDS.
 - Targets will be set for dramatically expanding the availability of the drugs through the public health system.
 - The cooperation between the government and AIDS activist groups will be strengthened.
- 3.123 This shift will no doubt reassure not only South Africans generally, but also the international community. The Panel welcomes this development and hopes it will be extended to cover expansion in HIV testing and cut the rate of new infections.
- 3.124 Efforts to mitigate the impact of this pandemic should also reinforce other health initiatives, including the curtailment of malaria and the spread of other infectious diseases such as drug-resistant tuberculosis, which is linked to HIV and AIDS and afflicts coastal provinces with a higher humidity.

3.5.8 Corruption

- 3.125 Compared with other African countries, South Africa is at a lower rung of the corruption ladder. There is, however, growing concern about increasing levels of corruption, especially in provinces and municipalities, and the debilitating effects this could have on service delivery and poverty. Moreover, Transparency International's 2006 Bribe Payers Index (BPI), the most comprehensive survey of its kind looking at perceptions about the propensity of companies (from 30 leading exporting countries) to bribe abroad, ranked South Africa in 24th place or the seventh-most corrupt. In this survey, more than 11 000 businesspeople in 125 countries were asked to share their perceptions of how companies headquartered in 30 of the world's leading exporting countries conduct their businesses overseas.
- 3.126 The presence in South Africa of no fewer than 12 agencies that have anticorruption as part of their mandate is proof that there is strong political will to tackle corruption. Nonetheless, the sheer number of agencies makes an integrated national approach to the problem difficult. Top anticorruption bodies such as the Public Protector, the Auditor-General and the National Prosecuting Authority are perceived by some stakeholders as being not impartial. Many anticorruption bodies also face capacity constraints. These include the Public Protector, the Commercial Crime Unit and the parliament's Ethics Committee, which are saddled with critical oversight and anticorruption roles.
- 3.127 The authorities may consider requiring local companies operating elsewhere on the continent to observe South Africa's corporate governance standards in their operations.





3.5.9 Crime

3.128 Crime is one of the most difficult of the many challenges facing South Africa in the post-apartheid era. The country's crime rates are among the highest in the world among countries submitting reliable statistics to Interpol. No South African is insulated from the effects of crime. Apart from the pain and loss suffered by victims, there are also direct costs, such as resources diverted to protection efforts, insurance, health and medical costs. Crime generally creates an environment non-conducive to productive activities. The widespread emigration of South African professionals in recent years is partly attributable to their desire to escape a high crime environment. All of these factors could discourage investment and stifle long-term growth in South Africa.

3.129 Though declining somewhat according to recent crime statistics released in September 2006, levels of violent crime in South Africa are still very high. Despite the recorded reduction in rapes (1.4 per cent), murder (0.3 per cent) and robbery with aggravating circumstances (5.6 per cent), estimates of the average daily crime rate are as follows:

- Murder 50 per day;
- Rape 150 per day;
- Robbery 204 per day;
- Burglary 719 per day;
- Theft of motor vehicles 235 per day; and
- Cash in transit heists 1 per day.

3.130 There are several explanations for the high level of crime, including poverty, unemployment, increased consumerism and related expectations, the operation of syndicates and gangs, and drug abuse.

3.131 There also appears to be a link between South Africa's political history and high levels of crime. For decades, families suffered "institutional violence" by mass removals and the migrant labour policies of apartheid. Political violence compounded the disruption of family life and the resultant weakening of the family unit and thus parental control. This may have exacerbated crime, especially among the youth.

3.132 The problem of crime demands an integrated approach that tackles both the criminal justice system and economic, human and moral development simultaneously.

3.5.10 Racism and Xenophobia

3.133 Vestiges of racism still remain in South African society as a legacy of several decades of apartheid rule. Without a doubt, racism was the hallmark of the system of governance and the defining feature in the social relationships between the government of the day and the people, as well as among the people themselves during apartheid. Twelve years on, a number of South Africans are still being reminded of the legacy of that past through

the ongoing manifestation of thoughts and deeds premised on the belief that one race is inherently superior to another.

- 3.134 This legacy has also impacted on how South Africans view and treat foreign immigrants within their borders. Xenophobia against other Africans is of serious concern and should be nipped in the bud.

3.5.11 Managing Diversity

- 3.135 An enduring characteristic of South African society is its ethnic and racial diversity. Diversity offers both challenges and opportunities for South Africa's development process. Vibrant economies such as the USA have thrived on the diverse racial and cultural strengths and capacities of their immigrants. However, diversity can also be a source of racial and ethnic tensions which, if not appropriately managed, can explode into conflict, social unrest and economic decline.

- 3.136 Exploiting the full potential of diversity requires effective management at several levels. The Constitution of South Africa provides a comprehensive legal framework for securing and protecting the political, economic and sociocultural rights of the country's diverse citizenry. It is on this framework that institutions for promoting and safeguarding diversity must be built. These institutions must be anchored on the goal of nurturing and celebrating diversity, while at the same time attenuating and pre-empting the antagonisms and conflicts that tend to follow in its wake.

- 3.137 The widespread acceptance of the results of the 1994 elections and the Constitution in 1996 are two instances where the country has successfully managed diversity. South Africa must accord high priority to improving its race and ethnic relations by shaping the attitudes and values of its citizenry, especially through the educational system. Beyond this, existing measures for addressing inequalities in social services and economic assets (particularly land) must be underpinned by the overriding objective of securing and sustaining the peaceful cohabitation of diverse races and ethnic groups.

3.6 Best Practices

- 3.138 The APR Panel recognised 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.

- 3.139 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 generalised 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 is 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 SARS’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 customers can 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 realised through rights-based provision; 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 councillors 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

- 3.140 A holistic package of strategies, 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;





- 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 rights;
- 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 in 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 businesspeople 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 disenabling, 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.

- 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 unacceptably 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.

3.141 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.

