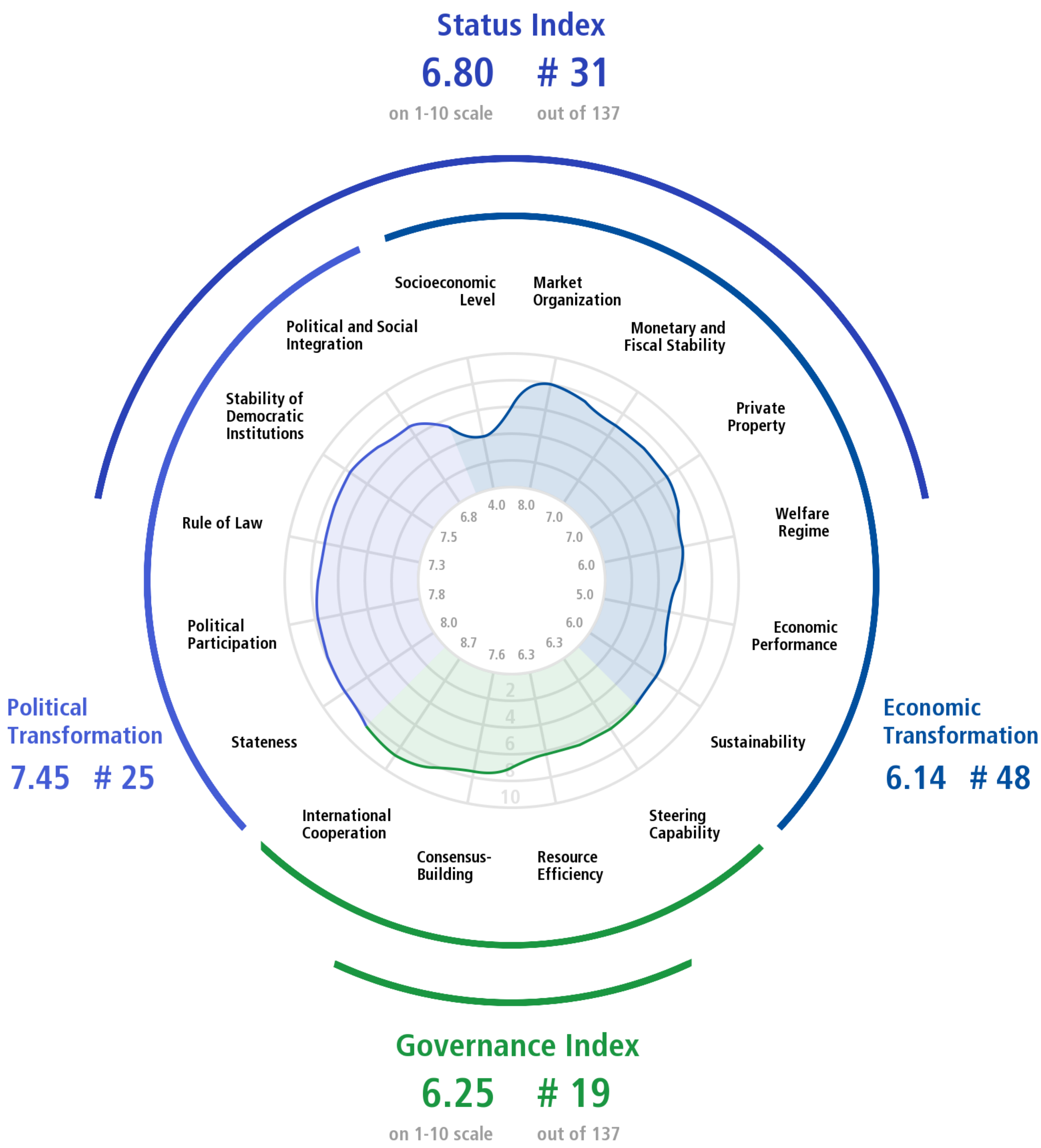
BTI 2020 Country Report

South Africa



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report — South Africa. Gütersloh: Bertelsmann Stiftung, 2020.

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner
Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann
Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz
Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp
Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	57.8	HDI	0.705	GDP p.c., PPP	$	13730
Pop. growth[1]	% p.a.	1.4	HDI rank of 189	113	Gini Index		63.0
Life expectancy	years	63.5	UN Education Index	0.721	Poverty[3]	%	37.6
Urban population	%	66.4	Gender inequality[2]	0.422	Aid per capita	$	17.8

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

For close to a decade, South African democracy has been in a process of gradual decline. Under the leadership of its former president, Jacob Zuma, whose administration became synonymous with poor administration and corruption, key institutions were hollowed out and state-owned enterprises, critical to the functioning of the economy, were brought to their knees. At the heart of this decline was the almost bizarre patronage relationship that developed between Zuma and a few of his acolytes, on the one hand, and the Gupta family, three naturalized Indian brothers, on the other, who leveraged this relationship as power brokers and beneficiaries of massively inflated state tenders. To open the way for their unencumbered looting, Zuma purged top officials in key institutions, such as the National Treasury, the South African Revenue Services, and the management and boards of key state-owned enterprises, and replaced them with compliant, mostly incompetent, loyalists.

The collective impact was disastrous. The subsequent deterioration of the state’s fiscal health, its weakened capacity to spend and collect revenue, rampant corruption, and the impotence of provincial and national legislatures to curb the impunity with which the Zuma administration wreaked havoc, combined to create profound policy uncertainty and ultimately magnified the country’s economic woes, at a time when emerging economies like South Africa’s were generally struggling in the wake of the global economic crisis.

In December 2017, democratic politics returned from the brink, when Cyril Ramaphosa, the country’s reformist deputy president, succeed Zuma as the ruling African National Congress’ (ANC) new leader, after the completion of Zuma’s two terms as party president. In the process, Ramaphosa defeated Zuma’s preferred candidate, his ex-wife, Nkosazana Dlamini-Zuma, thereby dealing a significant blow to the Zuma patronage network. Following his election, a mood of optimism, dubbed by some as “Ramaphoria,” prevailed. But it soon became evident that, despite some key interventions to clean up governance, Ramaphosa would be nevertheless constrained by the presence of key Zuma allies and the influence that Zuma himself still wields within the ANC.

For Ramaphosa to consolidate his influence over the party, he will have to perform strongly in the country's general elections, scheduled for May 2019. In the context of a struggling economy, characterized by rising prices and unemployment, which will be exploited by the radical left-wing Economic Freedom Fighters, this will not be an easy task. The latter have managed to put the question of land expropriation without compensation firmly on the country's political agenda, forcing the ANC's hand into a decision to amend the South African constitution to enable such expropriation. This will place the onus on Ramaphosa to allay fears about the erosion of property rights of domestic and international investors alike. Given the dire state of the country's finances, private investment will be of fundamental importance to direct government resources toward addressing the deeply entrenched structural challenges of racialized poverty, inequality and unemployment.

Failure to create greater policy certainty concerning land reform, in particular, but also more generally in terms of fiscal management will be decisive in the coming years. A credit downgrade by Moody's, the only remaining ratings agency that continued to keep the country at an investment grade, represented a significant setback that will add further to the country's ballooning debt, which has almost doubled from 28% of GDP in 2008 to 55% a decade later in 2018.

History and Characteristics of Transformation

South Africa builds upon a long tradition of statehood: the Union of South Africa came into being in 1910 with the amalgamation of the separate British colonies of the Cape and Natal, with the former Boer republics of the Orange Free State and Transvaal. In 1961, it became a republic after it was ejected from the British Commonwealth. Until 1994, it remained a race-based democracy, where the voting franchise was reserved for white South Africans, while black South Africans remained disenfranchised from voting and the victims of segregation and the denial of basic human rights. The negotiated ("pacted") transition to democracy began in 1989 and led – after a difficult period of immense violence and uncertainty about the country's future – to the founding elections of 1994. The former liberation movement, the African National Congress (ANC), took power with the election of Nelson Mandela as the first non-white president.

Despite South Africa's flaws, it is one of the rare success stories on the African continent. Most notably, since 1994, the country has made huge progress on the path to democratic consolidation. Today's deeply divided and segregated society is the legacy of more than 300 years of years of colonialism (starting in 1652) and apartheid (from 1948 to 1994). Now, to create, or at least foster a new South African nation, the most important remaining task, even after 25 years of democracy, is to mitigate social inequalities – with a focus on the unemployed and on marginalized groups, which make up over a third of the entire population – and find a common identity so that all social groups may overcome their past divisions.

After decades of international isolation, the South African economy was reintegrated into the global economy after the end of apartheid. A shift in foreign relations, especially toward the African continent, occurred, and on the domestic front, policy has converged around efforts to promote a more just and inclusive society. The primary obstacles in this regard remain the deeply entrenched structural challenges of racialized poverty, inequality and unemployment.

Despite efforts by the government to mitigate these disparities, South Africa continues to have highly skewed economic outcomes. Income inequality remains stubbornly high when measured in terms of Gini coefficient, which currently stands at 0.62. It is noteworthy that the Gini coefficient within groups has also increased significantly, and most notably among black Africans. This reflects the emergence of African middle and upper classes that have, together with the traditional white middle class, been the greatest beneficiaries of post-1994 economic policies. Nonetheless, the African middle class is still small: in South Africa, only 16 million people are employed out of a working age population of around 367 million. Of the 16 million working South Africans, only 7.1 million South Africans earn enough to pay taxes, while 17 million received some form government aid. This underscores just how acute income inequality remains in South Africa.

Economic development since 1994 has proceeded through different phases. After a period of relatively modest growth from the mid-1990s through to the early 2000s, the years up to 2008 saw a flourishing economy with growth rates exceeding 5%. However, the nature of this growth, largely due to an international commodity super cycle and heightened consumption, failed to have a substantial and lasting impact on the structurally entrenched nature of poverty and inequality, underpinned by high levels of unemployment.

One of the ANC’s major weaknesses has been its lack of consistency and persistence in the implementation of its macroeconomic policies. Policy change has typically coincided with changes in factional dominance within the party. Since 1994, it has adopted four successive macroeconomic designs. In 2018, the government had to acknowledge that it would miss most of its critical 2030 targets. This can be ascribed to a number of factors, which include policy inconsistency, a global climate that has been unfavorable to emerging economies in the wake of the global economic recession, and importantly, also the growing scourge of corruption, which took root, particularly during the administration of former President Zuma.

The government has maintained a high (but gradually declining) level of support among the electorate.

In 2019, the country will again go to the polls, for its sixth general election. Under conditions of economic decline and growing disillusionment with rampant corruption levels, the ANC is likely to face its strongest opposition to date in a general election. While its biggest threats in the past came from parties to its ideological right, the ANC in the 2019 elections will need to watch out for the impact of the populist left Economic Freedom Fighters (EFF), led by the ANC’s former Youth League leader, Julius Malema.

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

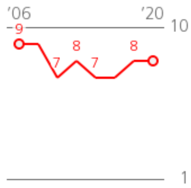
Transformation Status

I. Political Transformation

1 | Stateness

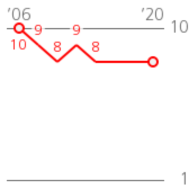
Question
Score

Monopoly on the use of force
8



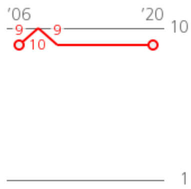
The South African state's control over its territory is unchallenged, although organized crime elements have in recent years managed to exercise influence over the way in which its authority is exercised. At the time of writing, several commissions of inquiry were busy investigating the extent of this influence, which largely overlapped with the rule of former President Jacob Zuma. While factional infighting within the ANC in KwaZulu-Natal has resulted in several deaths in recent years, this conflict has not challenged the legitimacy of the state. There are no guerrilla or secessionist groups challenging the state's authority. Although extremist right-wing movements did threaten political stability during the country's transitional period from authoritarian rule to democracy in the mid-1990s, subsequent attempts to do so by less-organized fringe groups never managed to pose the same threat.

State identity
8



Broad consensus exists regarding the legitimacy of the South African state, and in theory, all individuals can claim the rights of citizenship that are enshrined in the South African constitution. The gap between theory and practice exist in relation to enforcement. Although the country's judiciary is independent, both it and the criminal justice system are overburdened and thus characterized by delays. In addition, quality legal representation is costly and its lack can skew outcomes. Chapter 9 of the South African constitution provides for a number of institutions mandated to support and enhance constitutional democracy.

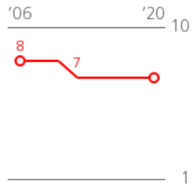
No interference of religious dogmas
9



Although the majority of South Africans profess to be religious, the state is secular, without any religious dogmas interfering in its running. The country's high level of religiosity (around 80% profess to belong to the Christian faith) does, however, mean that its politicians on occasion leverage religion for political reasons. With 2019 being an election year, political parties will once again court major Christian denominations, of which the largest are hybrids of Western denominations and local African beliefs.

Basic administration

7



Administrative structures exist at the national, provincial and local levels of government. Although these structures cover the length and breadth of the country, the quality of the infrastructure and service has shown a marked decline in the period under review.

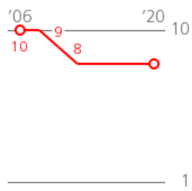
For several years, speculation had been rife regarding the undue influence that a naturalized Indian family, the three Gupta brothers, had on decision-making in former President Zuma's administration. These suspicions were further strengthened by a Public Protector report on state capture in 2017; the so-called Gupta email leaks, which exposed the family's undue influence in national governance that same year; and admissions by ANC politicians of being informed of their impending promotions at the family's residence, prior to any communication from the president or government.

Following the establishment of a number of commissions of investigation, most notably the ones on "state capture" and the management of the South African Revenue Service (SARS), by Zuma's successor, Cyril Ramaphosa, a picture continues to emerge of a state that has been hollowed out by one family's patronage relationship with the former president. Many services were either remiss or nonexistent, while the bulk of their proceeds were repatriated at the expense of South African citizens. In December 2018, the country again started experiencing power outages, which is likely to have a devastating impact on an already-struggling economy, which barely achieves 1% annual GDP growth.

2 | Political Participation

Free and fair elections

8

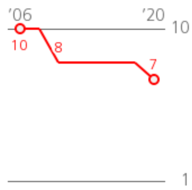


The ANC has won all five democratic elections with comfortable majorities of over 60% of the total vote, though voter participation has declined (since 2004, non-voters outnumber ANC voters). In the period under review, no national elections were conducted. The next national election is scheduled for May 2019. The previous general election was, as before, conducted under the auspices of the Independent Electoral Commission (IEC) in 2014. The 2014 general election marked the fifth general election since the country's democratic transition. The results could be described as free and fair. All parties abided by the results. No major complaints were received with regard to procedure prior to the elections, during the counting of votes or afterwards. Generally, the media had free access to covering all dimensions of the electoral cycle. During this election, the center-left ANC once again obtained a decisive majority when it won 62% of the vote, followed by the center-right Democratic Alliance (DA) with 22% and the more radical, left-wing newcomer, the Economic Freedom Fighters (EFF), led by the charismatic Julius Malema, with 6%. Although substantial, the ANC's winning margin represented a decline from 66% in the 2009 general elections.

In recent years, the IEC has attracted some negative attention. The 2016 BTI reported on the controversy that resulted in the resignation of the previous chairperson of the commission, while the 2018 edition alluded to administrative weaknesses and remedial action prescribed by the Constitutional Court. The latter pertained to the voters roll that emerged in the run-up to the 2016 local government elections. In January 2019, the concerns related to the absence of voters' addresses on the voters' registration roll had not yet been remedied.

Effective power to govern

7



For the most part of South Africa's short democratic history of 25 years, the democratically elected government has had the power to legislate and execute its decisions without undue influence from undemocratic actors. As in most democracies, policy-making and legislative processes were influenced by the counterbalancing forces of organized labor, business and civil society. However, given its large parliamentary majority of 62%, the government could on occasion balance out pressure from these sectors.

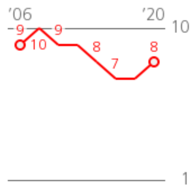
This changed with the advent of the Zuma administration in 2009. During his tenure as president, the state became captured by the narrow interests of the Guptas, a naturalized Indian family, which extended extensive patronage to the president and his family, as well as to other leading ANC politicians. Through their association with politicians, the Guptas obtained lucrative contracts from the country's large state-owned enterprises (SOEs), inter alia, the provision of coal to Eskom, the national energy provider. Such was their alleged destructive influence that major SOEs such as Eskom, South African Airways and the arms manufacturer Denel find themselves on the verge of financial ruin.

Major checks and balances in the governance system, including parliamentary oversight by elected representatives, failed to counter the systematic erosion of the state. As far as parliamentary oversight is concerned, this may largely have to do with the fact that parliamentarians are appointed according to a proportional party list system, which makes them more beholden to the party than to constituents. The Gupta episode, in effect, made clear that sectional undemocratic interests can in practice override parliamentary oversight. This reality was brought to the fore toward the end of 2017, when the Constitutional Court found that parliament, and by implication the ANC majority, had forsaken its duty in holding Zuma accountable in a matter pertaining to unauthorized renovations, paid with taxpayer money, to his rural homestead.

Currently, the subject of an official enquiry into state capture, testimony from current and former politicians and bureaucrats has suggested that appointments of ministers, senior bureaucrats, as well as SOE CEOs and board members, were effectively made outside the government by the Gupta family. Such was their audacity that, according to testimony, individuals were summoned to the family's residence to be told about their imminent appointments. Some alleged that this happened in the presence of the president.

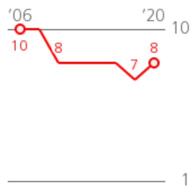
While the administration of his successor has been working to reverse the extensive damage to the system of governance by appointing new principals to key positions, the damage has been significant. Many institutions, including the South African Revenue Service, remain a hollowed-out version of that which preceded the Zuma administration.

Association / assembly rights
8



Articles 17 and 18 of the South African constitution protect the rights of citizens to assemble and protest within the confines of the law. These are generally respected by the authorities. In practice, this right is broadly exercised to show support for civil causes and during industrial strike actions. Given the country's huge economic disparities that manifest in the form of income inequalities and unequal access to basic services, many protests in recent years have originated from a combination of desperation and impatience. Several degenerated into violence, accompanied by damage to public and private property, physical injury and the death of protestors and members of law enforcement agencies. In some instances, the rule of law broke down for the duration of the protests. In 2018, the most significant protests that erupted into violence, related to the allocation of government-provided housing, occurred in a number of coastal towns in Western Cape Province.

Freedom of expression
8



Section 16(1) of the South African constitution guarantees freedom of expression insofar as individuals, the media and academic thought are concerned. Section 16(2) notes that such freedom does not extend to propaganda for war, incitement to violence and advocacy of hatred, or actions meant to cause harm along race, ethnicity, gender and religion lines.

These rights are actively exercised by the South African media, which is robust in its engagement with society at large, as well as with powerful stakeholders in both government and the private sector. It continues to be highly relevant in the exposure of political and private sector corruption, as well as links between the two. Specialist investigative journalist teams, such as amaBhungane and Scorpio, which distribute their news to larger publications, have been instrumental in this regard. Over the past year, however, there have been disconcerting instances of verbal threats and incitement of physical violence by radical left groups, such as the EFF and Black Land First (BLF), against journalists who have exposed alleged corruption among these groups.

The concentrated nature of media ownership still poses an obstacle to the diversity of voices in the public domain. In the period under review, financial pressure forced TNA Media, formerly controlled by the notorious Gupta family, to close its doors, while another media house, Independent Media, which benefited from a controversial investment from the Public Investment Corporation (PIC), struggled to stay afloat. In the sphere of private media, Naspers, with its diversified offerings in print, broadcast and electronically, is the only entity that remains resilient.

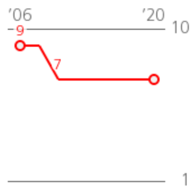
In recent years, there has also been a healthy growth in the online publication sphere, with websites such as the Daily Maverick becoming one of the most visited sources for news and policy analysis.

The national broadcaster, the South African Broadcasting Corporation (SABC), continues to find itself in dire straits following the disastrous tenure of former CEO, Hlaudi Motsoeneng, another Zuma appointee. A new board was appointed in 2018. But following the government's rejection of the SABC's recommendation that large-scale retrenchments would be required to save the broadcaster from bankruptcy, several new board members submitted their resignations. It is speculated that the retrenchment recommendations were rejected largely due to their political unpalatability in 2019, an election year.

As far as individual freedom of speech is concerned, the social media domain has gained increasing importance. In recent years, instances of racism, xenophobia and homophobia on platforms like Twitter and Facebook have contributed to significant social polarization.

3 | Rule of Law

Separation of powers
7



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

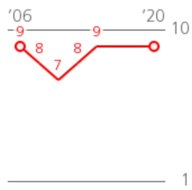
Legislative power is located in the South African parliament, which has a lower house, the National Assembly (NA), and an upper house, the National Council of Provinces (NCOP). The country has a pure proportional representation system at the national level, which means that members of the NA serve at the behest of their parties that nominate their representatives to the 400-member body from party lists. Half are nominated from national party lists, while the other half come from provincial party lists. The NCOP consists of 90 provincial delegates – 10 per province, of which six are permanent delegates and four our special delegates. The permanent delegates are appointed by the province, while the special delegates consist of the provincial premier and three assigned members from the provincial legislature. The South African Local Government Association (SALGA), also with 10 members, is allowed to participate in debates, but cannot vote. With 62% of the votes in 2014, and clear majorities in eight out of the nine provinces, the ANC clearly dominates the NA. Normal legislation is adopted on the basis of simple majorities, while constitutional amendments require the support of two-thirds of the NA.

While the new Ramaphosa government appears to be making a concerted effort to repair the institutional damage done by the Zuma administration through the appointment of new boards and bureaucratic principals, the damage will not be repaired overnight. In addition, factionalism within the ANC, as well as elections looming in 2019, create complications in Ramaphosa's efforts to start afresh.

The South African judiciary, with the Constitutional Court at its apex, remains independent and has on a number of occasions ruled against the government. The Constitutional Court has not shirked in its duty to overturn legislation that has been found to be inconsistent with the constitution, government appointments that do not comply with due requirements, and on occasion has reprimanded parliament for failing in its oversight responsibility. Unfortunately, the weakened capacity of the National Prosecuting Authority (NPA), resulting from poor appointments by the Zuma administration and a general failure by the public to distinguish between it and the judiciary, has had an impact on public perception of the latter.

Independent judiciary

9



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

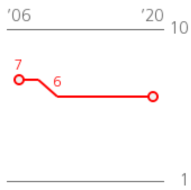
The constitution provides for a Constitutional Court, a Supreme Court of Appeal, High Courts in regions, and Magistrates Courts across cities and towns. While a Magistrates Commission appoints magistrates for the last category, the president of the republic appoints judges for the others upon recommendation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

The South African judiciary has frequently been required to step onto political terrain, exposing it to polarized views regarding its legitimacy. Parliamentary oversight during much of the ANC's tenure has been weak, due to a combination of the of the party's electoral dominance, party control in the proportional party list system and general polarization between it and the major opposition parties. As a result, opposition parties frequently resort to the courts to remedy issues that have been steamrolled through parliament with simple majorities. This has been the case for various pieces of legislation, matters of political accountability and prosecutions of figures associated with the Zuma administration, including the president himself.

Given strongly divergent views on land reform and its emotional nature, it can be expected that any amendments to the constitution to effect expropriation of land without compensation will be challenged by opposition parties through the judiciary. This will affect the trust that certain constituencies have in the judiciary to execute its mandate in a nonpartisan way.

Prosecution of office abuse

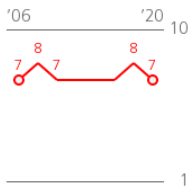
6



Despite efforts by a handful of public institutions, such as the Office of the Auditor-General and the Office of the Public Protector under the leadership of Advocate Thuli Madonsela, the fight against corruption received a significant setback under the Zuma administration (2009-2018). As testimony before parliament and Commissions of Inquiry into Allegations of State Capture and the running of the South Africa in 2018 seems to suggest, a large part of the country's budget was controlled by a shadow government in the form of the Gupta family. Through their patronage relationships with key politicians – the president and his family in particular – the Guptas had authority over the appointment of ministers, bureaucrats, and state-owned enterprise boards, which in turn awarded multibillion-rand contracts to them through rigged tender processes. To accomplish this, the testimony further suggests, the investigative capacities of the National Prosecuting Authority (NPA) and the South African Revenue Services were derailed through the appointment of principals who protected Zuma and his benefactors from prosecution.

Civil rights

7



Given South Africa's long history of racial discrimination and the resulting impact on the distribution of economic resources, the country continues to be afflicted by high levels of discrimination on the basis of race and class. As a conservative, patriarchal society, gender violence is also rife, particularly in poor marginalized communities.

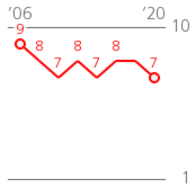
Because of this situation, an extensive Bill of Rights was incorporated into the South African constitution that protects individual rights and liberties and prohibits discrimination on the basis of race, ethnicity, religion, gender, sexual orientation or political preference.

Chapter 9 of the constitution furthermore provides for institutions that are mandated to protect and strengthen these liberties. These include: The South African Human Rights Commission (SAHRC), the Commission for Gender Equality, the Auditor-General, the Public Protector (ombudsman), the Electoral Commission and the Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities.

The efficacy and impact of the Chapter 9 institutions are variable and, with the exception of the Public Protector and, to some extent, the Auditor-General and the Human Rights Commission, they maintain a fairly low profile. Most struggle with insufficient funding. As a result, their reach is often limited to urban parts of the country. As a result, poor citizens in rural areas remain highly vulnerable to abuse.

4 | Stability of Democratic Institutions

Performance of democratic institutions
7



Representative democratic institutions exist at all three levels of government. The country has a system of party-list proportional representation (PR) and members of the national and provincial legislatures owe their positions to party lists. A mixed system operates at the local government level.

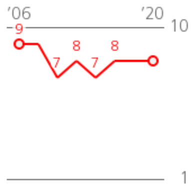
While it is argued that the party list PR system at the national level promotes greater representation of the country's cultural and political diversity, it also has the effect of encouraging party loyalty among members of parliament over loyalty to ordinary constituents. Members of parliament are beholden to the party. Straying from strict party discipline can cost them their livelihoods.

While removing Zuma certainly is a positive development, the practice of blind loyalty to party over citizenry will remain a challenge to effective governance, even under the Ramaphosa administration.

Given the high levels of polarization among parties, the impact of the party list system on the party loyalty of members of parliament and the electoral dominance of the ANC, it has been nearly impossible to find consensus on key policies among the three most dominant parties, the ANC, the DA and the EFF. While the levels of antagonism have subsided under Ramaphosa, party relations remain polarized and plenary debates in parliament often degenerate into crude screaming matches. Often broadcast on public television, the spectacle that has become parliament increasingly alienates South Africans. The most recent round of the Afrobarometer survey, for example, found that only 32% of South Africans trust parliament to execute its mandate. This is 19 percentage points lower than in 2011.

With the exception of the Office of the Auditor-General and the Office of the Public Protector under Advocate Thuli Madonsela, key institutions responsible for keeping a check on government power were hollowed out at the expense of the enforcement of the rights of ordinary citizens. Evidence seem to suggest that Ramaphosa is intent on cleaning up the disappointing legacy of former President Zuma, but the scale of devastation is such that a return to normal may require years. In addition, many of Zuma's close allies still find themselves in the midst of the government and on the ANC's National Executive Committee (NEC)

Commitment to democratic institutions
8

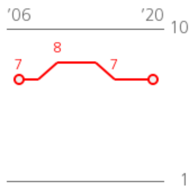


All major actors accept the core democratic institutions as legitimate, respect their authority, and largely abide by their rulings and determinations. Although there are fringe organizations on the left and the right of the political spectrum, which occasionally make pronouncements that violate the democratic spirit of the constitution, they generally abide by the decisions of the courts.

While citizens generally respect the institutions of the democratic state and rule of law, which those institutions are supposed to uphold, public trust in the institutions to execute their respective mandates has declined significantly. In 2011, for example, 13% of Afrobarometer Survey respondents indicated that they do not trust the South African parliament at all. This figure increased almost threefold to 33% or a third of all South Africans in 2018. At the local government level, where interactions between citizens and government institutions is most frequent, citizen disillusionment has also increased significantly. In 2011, 20% of respondents indicated that they do not trust their local council at all. By 2018, this figure had doubled to 40%.

5 | Political and Social Integration

Party system
7



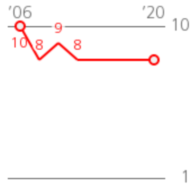
The party system is fairly stable and socially rooted, but since the political transition in 1994, voter participation in general elections declined markedly. In the most recent general election, which occurred in 2014, only 53% of the total voting age population turned out at the polls, compared to the 85% in 1994. In recent years, impatience with the pace of integration, particularly among young South Africans, has led to the emergence of demands for radical reforms. In the period under review, the question of land reform, and particularly the demand for a constitutional amendment to effect expropriation without compensation, featured as central political questions. The issue, forced onto the public agenda by the radical left EFF, has become a source of social polarization and fragmentation, not only between those who support the notion of expropriation and those who do not, but among those who support expropriation but disagree as to whether the constitution should be amended or not (an amendment to the property clause in the Bill of Rights requires a two-thirds majority).

While the polarized question of land reform may not be as extensive in many developed economies, its impact on polarizing views in among the lower- and upper-middle classes has been substantial. An aggravating factor in this sphere has been the use of social media bots (automated fake accounts) that push particular narratives, including that what is now popularly known as "fake news."

Although exposed fairly quickly, the susceptibility of ordinary citizens and politicians to these fabricated narratives is becoming a growing threat to the party system and its ability to articulate and respond to real social issues.

A broad range of interest groups in business, labor and civil society exists. Over the past two decades, there has been significant fluidity in terms of their relative power and influence vis-a-vis the government and each other. Much of this, however, reflects broader social divisions that manifest along class and race lines, thereby diminishing potential impact in terms of shaping the national agenda and influencing particular policies. This lack of cohesion, both within and between major stakeholders, comprises a central reason for the country not yet reaching a lasting social compact that would outline the country's major challenges, what needs to be done to solve them and how this would be achieved. In the last 25 years, the government has launched a number of weakly implemented macroeconomic designs, which faltered largely due to entrenched stakeholders' interests that prioritized their own needs over that of that of the national collective.

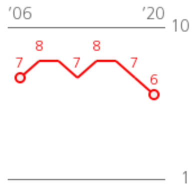
Interest groups
8



An exception to this general rule has been the cooperation across constituencies to counter the corrosive effect that the Zuma administration has had on the quality of governance. Zuma's resignation as president at the beginning of 2018 was largely the product of sustained pressure from business, civil society, labor and the religious sector.

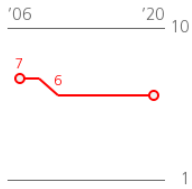
There has been a decrease in support for democratic processes in the period under review. According to the Afrobarometer Survey, which was conducted in August and September 2018, 54% of respondents indicated that democracy is a preferable form of government. This is ten percentage points lower than the 64% recorded in 2015 and down almost 20% from 72% in 2011. Moreover, the percentage of respondents indicating that it does not matter what kind of governance system the country has, increased ten percentage points from 15% to 25% between 2015 and 2018.

Approval of democracy
6



While South Africa is internationally heralded for its nonviolent political transition, which in 1994 ended centuries of legislated social, political and economic discrimination, the country remains deeply divided. It has a great diversity of self-organized associations and organizations, but very few of those are integrated and reflective of the country's diversity. While racial discrimination was formally abolished, poverty and inequality, which cut along racial lines, continue to establish apartheid-era patterns of settlement and socialization. Given the country's history of segregation, reconciliation and social cohesion remain some of its greatest challenges. According to the 2017 round of the Institute for Justice and Reconciliation's South African Barometer, 53% of respondents indicated that the country has made progress on the road to reconciliation, compared to the 61% that held this view in 2013.

Social capital
6



In light of persisting patterns of distribution of wealth and privilege, almost a third of South Africans (30%) indicated that they have little or no trust in South Africans from racial groups other than their own.

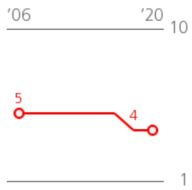
II. Economic Transformation

6 | Level of Socioeconomic Development

Question Score

Socioeconomic barriers

4



The country uses three means to measure poverty. The Food Poverty Line (FPL) refers to the amount of monthly income below which an individual is not able to obtain the minimum per capita amount of energy per day to live a healthy life. The Lower-bound Poverty Line (LBPL) refers to the category of people forced to make trade-offs between food expenditures and other forms of expenditure in order to obtain sufficient nutrition. Those over the Upper-bound Poverty Line (UBPL) can buy both adequate food and non-foodstuffs. While significant improvements have been recorded in the reduction of the country's poverty headcount ratio according to all three measurements between 2006 and 2011, poverty rates once again started to increase between 2011 and 2015. In this year, a quarter (24.5%) of South Africans lived under the FPL, 40% under the LBPL, and 56% under the UBPL. In terms of racial categories, which are still used to measure developmental progress in South Africa, 49% of all black South Africans live under the UBPL, 23% of so-called coloreds, 0.9% of so-called Indians and 0.4% of whites. Nationally and within each poverty line category, poverty among females was more prevalent than among males.

Following the end of South Africa's economic isolation of the 1980s, levels of inequality rapidly increased during the early nineties, stabilized in the early 2000s, and again showed a marginal decline between 2006 and 2015. In 2006, the country Gini coefficient in terms of per capita income stood at 0.72, but declined to 0.68 in 2015. Despite these declines, such figures continue to underscore the country's status as one of the most unequal societies in the world.

A look at the country's Human Development Index score shows that progress has been made. In 2006, the country had an HDI score of 0.62, but this increased to 0.699 in 2017, largely as a result of an increase in life expectancy, following the end of a disastrous government policy to withhold prescriptions of anti-retroviral drugs in government hospitals. However, if the country's social inequality is considered, its inequality-adjusted HDI is 0.33 points lower than its overall HDI score.

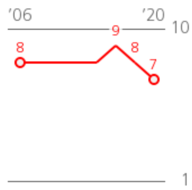
Economic indicators		2015	2016	2017	2018
GDP	$ M	317415.6	296340.9	349268.1	**368288.2**
GDP growth	%	1.2	0.4	1.4	**0.8**
Inflation (CPI)	%	4.5	6.6	5.2	**4.5**
Unemployment	%	25.2	26.6	27.3	**27.0**
Foreign direct investment	% of GDP	0.5	0.7	0.6	**1.5**
Export growth	%	2.9	0.4	-0.7	**2.6**
Import growth	%	5.4	-3.9	1.0	**3.3**
Current account balance	$ M	-14567.8	-8353.4	-8908.1	**-13381.0**
Public debt	% of GDP	49.3	51.5	53.0	**56.7**
External debt	$ M	138077.5	146041.0	180496.8	**179306.4**
Total debt service	$ M	9180.1	13921.1	14704.7	**23383.1**
Net lending/borrowing	% of GDP	-4.8	-3.6	-4.2	**-**
Tax revenue	% of GDP	27.3	27.1	27.0	**-**
Government consumption	% of GDP	20.5	20.8	20.8	**21.3**
Public education spending	% of GDP	6.0	5.9	6.1	**6.2**
Public health spending	% of GDP	4.4	4.4	-	**-**
R&D expenditure	% of GDP	0.8	0.8	-	**-**
Military expenditure	% of GDP	1.1	1.1	1.0	**1.0**

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market organization

7



The underlying rationale for South Africa's legislative and institutional infrastructure is to promote a market-based economy that allows equal access and opportunity to those who would like to participate in the market.

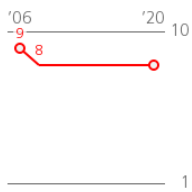
According to the World Bank's Ease of Doing Business, ease of access to the market is imperative, not only to broaden access to the market among domestic participants, but also to promote foreign investment in a country, which for most of the past two decades ran current account deficits.

During this same period, in which the Zuma administration ironically also created a Ministry for Small Business Development, the country experienced a precipitous decline in its international ranking on the World Bank's Ease of Doing Business Index. In 2018, the country was ranked 82 out of 190 countries globally, compared to 32nd place in 2008. In terms of the most recent ratings, it has ranked particularly weakly in terms of trading across borders (143rd), the ability to start a new business (134th) and enforcing contracts (115th). It has however continued to score well in areas such as the protection of minority investor (23rd) and the payment of taxes (46th).

While the imperative is to create open market competition, given the country's historical legacy of exclusion, specific interventions to secure this, with some exceptions, have not been entirely successful. On the one hand, this has given rise the creation of an extensive patronage system, which distorted market competition and, on the other, the inability to manage prospective investor perception about the intention of these measures may have deterred further investment.

Competition policy

8



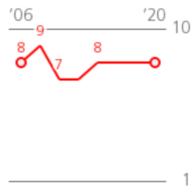
At the time of the country's political transition, the country's private sector was heavily monopolized, with around five conglomerates dominating the South African economy through direct and indirect shareholding. Apart from its monopolistic nature, the formal economy was also highly racialized with shareholders, management and employees being almost entirely white.

Since then, there has been a major unbundling of monopolies. In 2015, almost half the companies listed on the Johannesburg Stock Exchange (JSE) were majority foreign-owned. In addition, Broad-Based Black Economic Empowerment (BBB-EE) legislation has brought about a change in the racialized character of company shareholders, management and staff. Nevertheless, the lack of access to credit still makes it difficult for entrepreneurs from previously disadvantaged communities to scale up their businesses. According to a 2018 report by the BBB-EE Commission, only 38% of directors of JSE-listed companies are black and only 27% these companies are black-owned.

A competition commission exists to prevent the abuse of dominant positions and mergers in the economy. Commanding limited resources, its approach has been to pursue high-profile cases in influential industries. Its most high-profile cases thus far relate to collusion in the fields of bread pricing and the construction industry. In 2018, it began an inquiry into data-pricing by mobile operators. Data prices in South Africa far outstrip those of emerging-economy peers, like India, China, Brazil and Russia, as well as many other countries on the African continent.

Liberalization of foreign trade

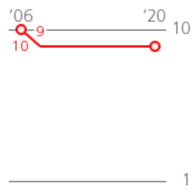
8



The South African economy is largely reliant on international trade and is thus open. Following readmittance into the international fold in 1994, the country embarked on a process of liberalization by opening up its markets to the rest of the world. Today it adheres to WTO rules. Import quotas have been removed and tariffs lowered, with some exceptions in the textile and automotive industries. At the same time, it is also a strong campaigner for a fairer international trade regime for itself and as part of the BRICS (Brazil, Russia, India, China and South Africa) group, arguing for an international dispensation that gives greater recognition to the size and role of emerging economies.

Banking system

9



The country has a sophisticated banking system, which is strongly aligned to international banking best practice.

The South African Reserve Bank, the country's central bank, plays a key regulatory role in ensuring compliance with international banking best practice, and continues to oversee the implementation of the Basel III agreement in the South African financial system.

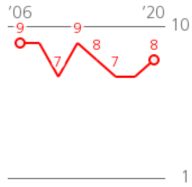
Toward the end of 2017, the Financial Sector Regulation Act 9 of 2017 (FSR Act) was signed into law. The act prioritizes three key areas: (1) an exclusive mandate to the South African Reserve Bank to maintain and enhance financial stability; (2) providing for a Prudential Authority that will be responsible for regulating banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructures and (3) creating a market conduct regulator, the Financial Sector Conduct Authority (FSCA), which will be located outside the South African Reserve Bank (SARB).

The country's five largest banks (Standard Bank, FirstRand, Absa, Nedbank and Investec) together hold close to 90% of the South African banking market share, while the local branches of international banks have a joint market share of 7.3%.

Overall, the position of non-performing loans as a percentage of the total loan portfolio has systematically improved from 5.9% in 2009 to 2.8% in 2017. Over the same period, the bank capital to assets ratio has improved from 5.7% to 8.8%.

8 | Monetary and fiscal stability

Monetary stability
8



Monetary policy is set by the South African Reserve Bank (SARB), the country's independent central bank. Its primary mandate is to ensure price stability so as to allow for economic growth and development in equal measure. CPI inflation for 2018, according to Statistics South Africa, was 4.78%.

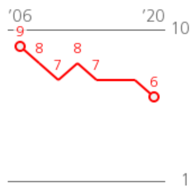
The repurchase rate – the rate at which the bank lends money to commercial banks – is its primary policy instrument. In effect, variance in the repossession rate is passed on by commercial banks to lenders, through the interest rates that these banks charge clients. This, in turn, affects the spending capacity of South Africans.

Between 2016 and August 2018, the bank reduced the rate twice to 6.5%, before it was raised again to its current 6.75%.

At the end of 2018, the SARB's major challenges have been to counter sluggish GDP growth, which is unlikely to surpass the 1% mark in 2019. At the same, the rand's exchange rate against the currencies of the country's major trading partners remains weak, which poses inflationary dangers. The SARB finds itself in a challenging position. It cannot drop interest rates to stimulate much-need growth because that would create inflationary pressures. In a note, following the bank's 2018 repossession rate increase, its governor, Lesetja Kganyago, who was also voted "international central banker of the year," noted that the country's growth problems are of a structural nature and at this point, monetary policy will have limited effect in addressing this. The bank therefore opted to address inflation pressures.

The rand remains notorious for its volatility. By the end of 2017, its real effective exchange rate index score stood at 82.1. In 2018, in line with the performance of many other emerging economies, the rand lost around 20% of its value against the U.S. dollar. In addition, domestic factors have contributed to the currency's decline. Several of its large, state-owned enterprises are in precarious financial situations, largely dependent on government bailouts and guarantees. The most concerning of these is the country's energy behemoth, ESKOM, which amid recurring power failures, is struggling to pay interest on massive loans.

Fiscal stability
6



The South African economy is characterized by three structural weaknesses, namely poverty, inequality and unemployment, which impede the country's prospects for sustainable long-term growth and, as a result, also the leverage to undo these weaknesses.

During much of the previous decade, the country's economy was boosted by the global commodities boom, driven by demand from the Chinese economy and domestic consumption. This coincided with a restoration of the country's fiscal management practices under a National Treasury, led by former finance manager, Trevor Manuel, a dynamic and innovative South African Revenue Service under Pravin Gordhan, which improved the country's revenue collection, and an independent South African Reserve Bank under its former Governor Tito Mboweni. These fortuitous circumstances allowed the treasury to implement countercyclical budgeting, and importantly enabled the state to rapidly improve its Gini coefficient of 0.68, still one of the highest in the world. In effect, the expansion of the social welfare system buffered the impact of these problems, but did not contribute to remedying them.

The period from Zuma´s election as president to his resignation in early 2018 was marked by a hollowing of the capacity of key state institutions. This included the fiscal management capacity of the National Treasury, a deterioration of the collection capacity of the South African Revenue Service and disastrous management of the largest state-owned enterprises, which are critical to functioning of the South African economy.

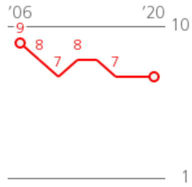
Given weak GDP growth and unemployment levels in excess of 27%, the country's social welfare system will be pressured to broaden its scope and deepen its impact, while the government is unlikely to curb its excessively high public service salaries, which constitute 35% of government expenditure, in an election year. With its debt burden ballooning – the current debt-to-GDP ratio of 55% is almost double that of a decade ago – interest on government debt represented the fastest-growing budget item in the period under review. Given the precarious financial situation of major SOEs, like Eskom, the state energy utility, the national airline (SAA) and Denel, more borrowing will have to occur to keep them afloat. In this context, it will be a major setback if Moody's, the last ratings agency to rate the country's investment grade, also decides to downgrade the South African sovereign.

In the period under review, the government had very limited fiscal space to maneuver. Its personal income tax base – the largest single source of revenue – is small. Only 7.2m out of a population of 56m pay income tax. Of this number, 1.2m is responsible for almost 80% of total personal income revenue. Given the state's dire finances, personal income tax for top earners was increased from 41% to 45% in 2017, and in 2018 value added tax (VAT) was increased by one percentage point to 15%. These increases, combined with rising inflation and interest rates, have put ordinary consumers under pressure. But in order to remain under its self-imposed expenditure ceiling, the government has few options at its disposal.

9 | Private Property

Property rights

7



Although private property is protected, protracted uncertainty about the future of private property rights has had an adverse impact on investment, in particular in the agricultural sector. Developments in the period under review, which include a parliamentary decision to amend the constitution to allow for expropriation without compensation, have done little to remedy this situation.

In its present form, Section 25 of the South African constitution protects private property from arbitrary state interference. Expropriation can, however, occur in instances when it is performed for a public cause or in the public interest, provided that just and equitable compensation is agreed upon by the relevant parties, or, in the absence of this, determined by a court.

The issue is highly emotional and continues to have an impact on economic and social relations to this day.

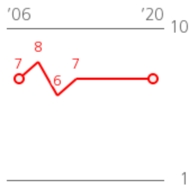
Government policy to date has failed to resolve the question. At the time of the transition, a target was set to transfer of 30% of agricultural land to black farmers by 1999. After being missed, this target was shifted to 2014. When this target was also missed, the Restitution of Land Rights Amendment Act was passed, which reopened the period for land claims that had originally closed in 1998 and extended it until 2018.

In 2017, the Economic Freedom Fighters (EFF), with their charismatic leader, Julius Malema, made land reform, and particularly the call for expropriation without compensation, the central focus of their political agenda. Through clever campaigning, this party with 6% of the popular vote forced the land reform question to the top of the public agenda. This forced the ANC at its 2017 Policy Conference in Johannesburg to adopt a motion in favor of the expropriation of land without compensation.

From this point onwards, the central question became whether it was necessary for Section 25 of the constitution to be amended in order for land to be expropriated. In November 2018, parliament adopted a recommendation, supported by the ANC and the EFF, to amend the constitution to effect expropriation without compensation.

Private enterprise

7



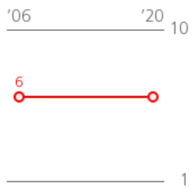
South Africa has a vibrant private sector that is protected by legal safeguards and, at least notionally, its expansion is encouraged by the government. However, entrepreneurs and small businesses still struggle to enter a market that has been dominated by corporate monopolies in the past. In practice, therefore, new entities struggle and, judged by South Africa's rating of 82nd on the World Bank's 2018 Ease of Doing Business Index, compared to its 32nd ranking in 2008, the situation has not improved much over the past decade.

There are a number of reasons for this. One is substantial red tape. According to the World Bank's index, it takes on average 45 days to start a new business – much longer than in most of the other emerging economies and African peers.

10 | Welfare Regime

Social safety nets

6

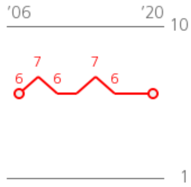


South African society is characterized by high levels of poverty, with 55% of its population living below the upper-bound poverty line and 25% living below the lower-bound food poverty line. Income inequality, as measured by the Gini coefficient, is 0.68, among the highest in the world. Unemployment is a major driver of both poverty and inequality patterns. The country's conservative measure of unemployment, including those who are seeking work but unable to find it, is 27.5%. The expanded figure, which includes discouraged job-seekers, reached 37% of the labor force in 2018.

In the absence of successful policies to dismantle the structural nature of poverty, inequality and unemployment, many depend on the South Africa social welfare net for material well-being and, more broadly, social stability. Between 2006 and 2018, the country managed to expand its coverage in terms of a range of grants and pensions from 4m to around 18m. However, with a sluggish economy trapped in a low-growth spiral, the sustainability of this rate of expansion has come under pressure.

In the period under review, the South African Social Security Agency (SASSA), which is responsible for grant and pension distribution across the country, has been the subject of great controversy. It failed to put in place a new private service provider by the allocated deadline, following a previous Constitutional Court ruling stating that the procurement process for awarding the existing tender was flawed. This state of affairs could have resulted in the temporary collapse of a system on which almost a third of the population is highly dependent.

Equal opportunity
6



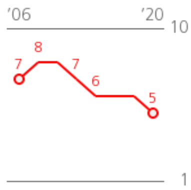
South African society is characterized by high levels of structural exclusion, which has been inherited from apartheid. This makes entry to the economy particularly difficult for black South Africans, who were marginalized under apartheid, and particularly so for women from these communities. The structural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

Poverty and inequality are largely racialized and underpinned by high levels of unemployment among black South Africans. These have been entrenched by unequal access to quality education in a modern economy with an oversupply of low and unskilled labor and a deficit of high-level skills. Unfortunately, one of the greatest failures of the post-apartheid government has been not radically changing educational outcomes that could alter the trajectories of young people from disadvantaged households.

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

11 | Economic Performance

Output strength
5



South Africa's economic performance falls far short of what the country requires to undo its high levels of entrenched poverty, inequality and unemployment. According to the government's National Development Plan, which was launched in 2012, the country has to grow at an annual rate of 6% in order to undo these historical legacies. In 2018, the government acknowledged that the achievement of these targets may now be out of reach.

In 2017, South Africa's total GDP at purchaser's prices totaled $349,419 billion. This is almost $54 billion higher than in 2016, but still around $68 billion lower than the $416,878 billion recorded in 2014.

The country lost its growth momentum in the wake of the global economic crisis at the end of the last decade. Since 2010, it has only managed once to exceed the 3% GDP growth mark. In 2016, GDP growth stood at 0.5%, but then increased marginally to 1.7%. While the final figure for 2018 was not available at the time of writing in January 2019, the South African Reserve Bank's most recent estimate for the year stood at 0.7%, down from its earlier estimate of 1%. In October 2018, the World Bank revised its forecast downward from 1.4% to 1%.

South Africa's debt-to-GDP ratio of 53% was almost double that of a decade earlier.

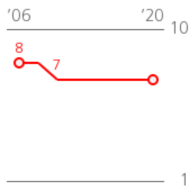
A number of key state-owned enterprises, critical to the functioning of the South African economy, are highly indebted and have been brought to the verge of collapse.

Entities like Eskom, the state energy utility, and the national airline (SAA) are being kept afloat by government bailouts and loan guarantees. Eskom's aging infrastructure is beginning to buckle. At the end of 2018, the country was again experiencing rolling blackouts as the result of maintenance that could not be performed without affecting the power supply of households and industry.

12 | Sustainability

Environmental policy

7



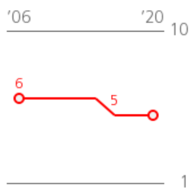
Emerging economies have to strike a delicate balance between economic growth to ensure greater prosperity for their citizens, on the one hand, and sustainable use of their resources, on the other. South Africa is a middle-income economy with high levels of poverty (around 55% of citizens find themselves below the country's upper-bound poverty line) and inequality (its income Gini coefficient is 0.68). It is rich in natural resources, including coal, which constitutes the lion's share of its energy mix and has provided the impetus for growth over many decades. Although it is the 34th largest economy in the world in terms of GDP, it is the 16th largest emitter of carbon dioxide into the atmosphere.

Political responsibility for environmental issues lies in the Department for Environmental Affairs and Tourism.

The water crisis has illustrated how prioritization of efficient and capable environmental management and adoption of a cleaner, more affordable energy mix have become of immediate and critical importance to the country's environmental, economic and also social sustainability.

Education policy / R&D

5



South Africa has an adult literacy rate of 94%, with 81% of the population over 15 having completed primary education, 64% having completed secondary (high school) education and 15% having obtained a post-secondary qualification. Schooling is compulsory until the completion of grade nine. In the U.N.'s Education Index for 2017, South Africa received a score of 0.708 out of 1, which marks an improvement over its 0.660 score of 10 years earlier in 2007.

The latest Research and Development (R&D) Survey that was released by the country's Human Sciences Research Council (HSRC) in December 2014, showed that although R&D expenditure increased by 7.5% in nominal terms from 2012/13 to 2013/14, such expenditure constituted only 0.76 of the country's total GDP. This is below the international benchmark of 1%.

Two government departments are responsible for education in South Africa. The Department of Basic Education (DBE) ensures the provision of preschool, primary and secondary schooling, while the Department of Higher Education oversees tertiary education. Combined spending for the two departments accounts for 6% of GDP and 19% of total government expenditure.

Even though the country's budgetary allocation for education of close to 20% of government expenditure is high, the returns on this investment continue to be unsatisfactory. While school enrollment levels at 94% may be high at the entry point in the education system (grade one), the dropout rate of around 60% before the final year of primary school is also exceptionally high.

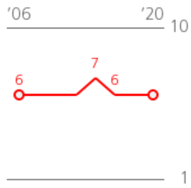
In the period under review, tertiary education continued to be in the spotlight. At the beginning of 2018, the government indicated its intention to phase in free tertiary education over a period of eight years. In the 2018 budget, the Tertiary Education Department received an additional ZAR56 billion ($3.7 billion) to release students from households with a combined annual income of less than ZAR350,000 ($24,000) from student fees. Many economists have, however, expressed their concerns about the affordability of this policy.

Governance

I. Level of Difficulty

Structural constraints

6



Poverty, inequality and unemployment, three legacies of the apartheid era, continue to be the major structural obstacles that constrain government performance and, consequently, broader efforts to promote human development in South Africa.

During apartheid, a number of policies and interventions stripped the black majority of their ability to accumulate intergenerational wealth. The Land Act of 1913 resulted in the unilateral expropriation of land without compensation from millions of black families.

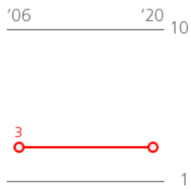
Today poverty and inequality levels continue to be determined by high levels of unemployment among black South Africans. Just over 55% of South Africans live under the country's upper-bound poverty line. At 0.62, the country's income Gini coefficient is one of the highest in the world. The country's expanded unemployment statistic, which includes discouraged job seekers, is just above 37%.

The system's dropout rate between the first year of schooling and the final grade of secondary education (60%) is exceptionally high. Schools that perform well are typically privately run or high-fee public schools in white neighborhoods.

The structural nature of poverty, in particular, was underscored in the wake of the global economic recession, which decimated employment in low-skilled industries. While recent poverty trends show a sustained downward trajectory from 2006 to 2011, this trajectory edged upwards again since 2012.

Civil society traditions

3

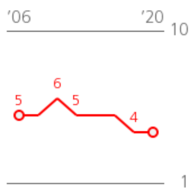


According to a 2017 report from Statistics South Africa, the country has around 121,000 registered nonprofit organizations that operate in the civil society sphere.

The sector is assertive and participates actively in delivering essential community services and shaping policy at various levels of government. In the period under review, the sector was particularly vocal in its opposition against corruption and maladministration, which, arguably contributed to the early resignation of former President Zuma.

While there are a handful of large CSOs with a national profile, most organizations operate locally, are poorly funded and often function on a survival basis. The organized NGO and thinktank sector is mostly urban and better resourced to execute their respective mandates than organizations located in rural areas. These urban organizations, which are endowed with international donor funding, focus on national and frequently continental questions. In the wake of the international financial crisis of the previous decade, funding from traditional donors has, however, shrunk forcing many to develop alternative funding and organizational models.

Conflict intensity
4



South Africa remains a fragmented society, characterized by substantial social tension that affects all spheres of society, including politics, the economy, cultural life, sports and social interactions in general. While this may not manifest in civil war or widespread violent conflict, its persistent presence, accompanied by high levels of distrust, represents a major obstacle to creating consensus in both mundane communal activities and high-level national policy.

Although a degree of social integration has occurred in the upper-middle class and wealthy elites, class difference is still largely punctuated by race. According to Statistics South Africa's Poverty Trends Report, which was published in 2017, 64% of black Africans lived under the country's upper-bound poverty line in 2015, compared to 41% of "coloreds, 6% of "Indians" and 1% of whites. As a result, economic fluctuations affect different groups of South Africans differently and often in ways that contribute to polarization along racial lines.

Social polarization has increased in the wake of global economic crisis, which was accompanied by a renewed rise in poverty and unemployment levels, disproportionately affecting South Africans from historically disadvantaged communities. Slogans like "radical economic transformation" and "land expropriation without compensation" have become part of the mainstream public discourse and elicit highly divergent and emotional responses.

Depressed economic performance has also provided fertile ground for public manifestations of xenophobia in the form of violent attacks against migrants, and traders in particular, from Asia and elsewhere on the African continent.

Social media with its multiplication effect has further exacerbated tensions among South Africans and between South Africans and migrant communities. The anonymity of the medium has resulted in online engagements characterized by vile racism, xenophobia and threats of physical violence.

Polarization has, however, not only increased in terms of relations between people, but also between people (poor citizens, in particular) and the state. In 2015, 25% of respondents to the Institute for Justice and Reconciliation's (IJR) national South African Reconciliation Barometer Survey indicated that they have used violence or are willing to use violence for political ends. This figure increased to 31% in the most recent round of the survey in 2017. A comparison of statistics on protest-related fatalities in the first and second decades of the 2000s points to a significant rise in the number of people who have lost their lives in protests. According to the Armed

Conflict Location & Event Data Project (ACLED) database, 4,360 people died during protests during the first decade of the millennium. By 2018, the comparative figure was already 6,557 for the second decade.

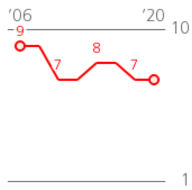
While political intimidation continues to be prevalent among ANC factions, which jockey for power at different levels of government, physical violence is largely limited to the province of KwaZulu-Natal, where several high-profile party members have been slain in recent years.

II. Governance Performance

14 | Steering Capability

Question
Score

Prioritization
7



For most of its 25 years in power, the ANC enjoyed significant electoral majorities in excess of 60%, and substantial social capital. Both are essential attributes for a political party that needed to make substantial – often unpopular – policy interventions that are critical to long-term prosperity, but unlikely to bear fruit in the short-term. Despite these advantages, that had the ability to cushion the impact of "strong medicine," the party has behaved in a remarkably short-term fashion, particularly in terms of macroeconomic policy.

Indeed, there is not a macroeconomic strategy per se. The National Development Plan (NDP), which was adopted by the government in 2012, outlined South Africa's developmental targets for 2030 as well as the strategies to achieve them.

Rather than responding to global economic dynamics or modifying existing domestic policy based on proper monitoring and evaluation, these policies largely reflected factional power shifts in the governing party.

This largely had to do with the organization's internal diversity, which necessitated the development of policies that required buy-in across the ideological spectrum. As internal competition for influence over these economic policy-making processes shifted, so did the targets and the strategies.

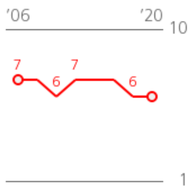
Cyril Ramaphosa, who succeeded Zuma in early 2018, has articulated his commitment to clean up the government. He has taken concomitant action in this regard by instituting several commissions of inquiry into alleged government corruption, appointing new boards to struggling state-owned enterprises and a new head to the National Prosecuting Authority (NPA). His room to maneuver, however, remains constrained by a number of influential Zuma acolytes, who continue to occupy senior positions in the party. While the country does not elect its presidents directly, the ANC's performance in the 2019 general elections will be viewed by many as a barometer of Ramaphosa's support. If the party performs better than expected, it will be seen by many as a mandate for Ramaphosa's reform agenda. Ironically, the vote will be informed by a weak economy and material fears, both largely created by the same people who seek to undermine him.

Given the government's limited fiscal options for stimulating growth, the Ramaphosa administration has limited means at its disposal to create temporary relief. These circumstances may potentially be exploited by populist impulses, both within the ANC and the radical left-wing EFF.

From a policy-consistency perspective, the period under review has been highly unpredictable. Under Ramaphosa, the impetus is toward greater predictability, but he continues to face significant resistance in this regard.

Implementation

6

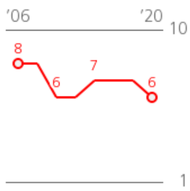


Policy implementation in the period under review has been weak. As has become evident from testimony both in parliament and before the Commissions of Inquiry into State Capture, governance under the Zuma administration largely occurred on ad-hoc basis. Governance depended on the interests of those who provided patronage to a number of influential politicians, including the president himself. Key appointments in both cabinet and the public service were made on the basis of loyalty rather than competence. In light of this, the policy environment, particularly as it related to key sectors, such as mining and energy, became highly predictable. In their decisions to downgrade the credit rating of the South African sovereign to sub-investment grade, both Fitch and Standard & Poor's noted political uncertainty and the related fiscal slippage as major drivers for their decisions.

While Zuma's successor, Cyril Ramaphosa, has indicated his commitment to clean up the government, he remains constrained by the presence of key Zuma allies, both within the cabinet and the ANC's National Executive Committee. Given the deterioration in the country's public finances, he also has limited means at his disposal to undo the damage done under the Zuma administration.

Policy learning

6



Although policy development had been a strength of the South African government in the past, it performed poorly in this regard in the period under review.

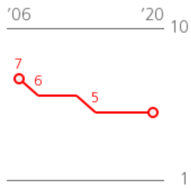
The Department for Performance Monitoring and Evaluation (DPME), located within the Presidency, is the government's main policy monitoring and learning institution. It also houses the National Planning Commission (NPC) Secretariat, which previously functioned as a separate entity within the Presidency. The NPC, consisting of eminent scholars, strategists and business leaders, is responsible for the development of the country's long-term strategic vision and objectives. It draws upon their local expertise and knowledge of international best practice. The country's current long-term strategy document, the National Development Plan (NDP) 2030, was crafted by the NPC. The DPME measures the impact of policies that have been crafted toward the achievement of the NDP's goals.

Given the sectional interests that underpinned the state capture project under the Zuma administration, scant attention was paid to policy-making and impact. Several top officials in key institutions, such as the National Treasury and the South African Revenue Service, were pressured into leaving their positions, thereby resulting in a substantial loss of expertise and institutional knowledge. These institutions were largely marginalized and ignored. In his previous role as deputy president, Cyril Ramaphosa, the current president, oversaw the work of the NPC. There is therefore some hope that he will revive the influence that this body previously had.

15 | Resource Efficiency

Efficient use of assets

5



In the period under review, the Commission of Inquiry Into Allegations of State Capture, appointed by President Cyril Ramaphosa, continued its hearings into allegations of patronage and corruption, involving a cabinet minister, senior government officials and board members of the country's largest state-owned enterprises (SOEs), as well as the businesses of the Guptas, a naturalized Indian family.

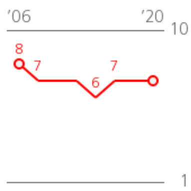
Testimony before the commission seems to suggest that fiscal prudence was grossly disregarded at the expense of personal gain by the relevant ministers, officials and board members, who favored the Guptas when awarding massive government contracts that rarely produced returns to taxpayers.

SOEs suffered massively. Some, such as the energy behemoth, Eskom, and the national airline, South African Airlines are being kept afloat artificially by government guarantees and bailouts. It is estimated that, should all the government guarantees for SOEs end up on the government's balance sheet, they will increase the country's debt-to-GDP ratio from its current 55% to 70%. In this instance, interest on loans will further crowd out social and infrastructure spending at a time when that is desperately needed.

Corruption and state capture not only debilitated the state on the expenditure side of the equation, they also had a profound impact on its revenue collection capacity.

Policy coordination

7



Policy coordination presents a significant governance weakness. According to the country's National Development Plan (NDP), "[c]oordination failures, split accountability and overlapping mandates hinder the implementation of existing policies." In the period under review, little has happened to rectify the state's coordination capacity. A lack of policy clarity and certainty were highlighted as the primary driving factors resulting in the country's sovereign losing its investment rating from international ratings agencies Standard and Poor's and Fitch.

The Department for Performance Monitoring and Evaluation (DPME), which includes the National Planning Commission (NPC) Secretariat, takes primary responsibility for policy coordination. The DPME provides government-wide systems for performance management and evaluation, while the NPC Secretariat focuses on policy alignment with the country's National Development Plan. The Department for Economic Development (DED) oversees the coordination and implementation of the government's official macroeconomic growth strategy, New Growth Path (NGP) Strategy, and its alignment with the NDP. Recently, however, mention of the NGP has become increasingly rare and economic policy articulation is mostly done in reference to the NDP, which was not originally intended to be a growth strategy.

Apart from the structural obstacles, factionalism within the government remains a significant impediment to seamless coordination of government affairs. During the first half of the period under review, the ruling ANC was torn between those who supported former President Zuma and those that backed his eventual successor, Cyril Ramaphosa. This was not only a battle between alternative policy directions, but one that pitted patronage politics against a return of the ANC to its origins as a people's movement and a moral force. Appointments were made by the Zuma administration that entrenched his patronage network. He faced criminal corruption charges and hence needed to retain control over the National Prosecuting Authority (NPA) and the South African Revenue Service (SARS).

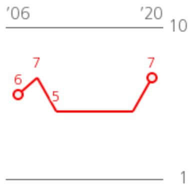
Zuma's eventual ouster represented a major step forward in returning integrity to many arms of the state. Tom Moyane, the former SARS commissioner, was dismissed by Ramaphosa, while a Constitutional Court ruling ordered Adv. Shaun Abrahams, the former NPA head, to vacate his office, due to the irregularity of his appointment by Zuma.

However, while Ramaphosa has taken a number of important steps toward restoring good governance, his hands, to some extent, remain tied by the presence of Zuma acolytes within the senior leadership of the ANC. He was also forced to appoint David Mabuza, the former premier of the Mpumalanga province, with questionable anti-corruption credentials, as his deputy.

Although the South Africans do not directly vote for their presidents, Ramaphosa will require a strong ANC performance in the 2019 general elections to strengthen his reform mandate. Until then, policy coordination and certainty regarding a number of important issues, such as land reform and mining, may be lacking.

Anti-corruption policy

7



The period under review, which included the succession of Zuma by Ramaphosa, witnessed important revelations about the scale of corruption under the administration of the former.

Since the succession, which followed Zuma's resignation in early 2018, parliamentary committees have reasserted their vigilance in interrogating ministers, former ministers and public officials implicated in state capture. Ramaphosa also appointed several commissions of inquiry, including the Commission of Inquiry into Allegations of State Capture, as well as the Nugent Commission of Inquiry into the South African Revenue Service (SARS).

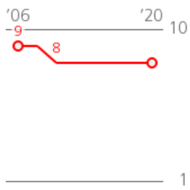
During the same period, boards of key SOEs were cleansed of confidants of the Gupta family, which is suspected to be at the heart of the state capture project. It also saw the dismissal of key Zuma allies, such as former SARS Commissioner Tom Moyane, the head of the National Prosecuting Authority, Shaun Abrahams, and the head of the Directorate for Priority Crime Investigation, Berning Ntlemeza. Likewise important, corruption charges dating back more than 10 years were reinstated against Zuma.

Given the balance of power within the ANC leadership, Ramaphosa is, however, not able to execute a complete purge of Zuma acolytes, who still occupy key positions in the ANC's leadership. These circumstances have, for example, forced him to work alongside ANC Secretary-General Ace Magashule, whose family is implicated in dealings with the Gupta family, his deputy president, David Mabuza, a person with questionable anti-corruption credentials in his home province Mpumalanga, and Minister of Women Bathabile Dlamini, who previously presided over the poorly run Department of Social Development.

16 | Consensus-Building

Consensus on goals

8

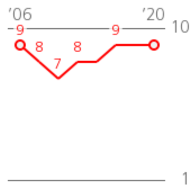


A general consensus exists among the major political actors that democratic governance is a core attribute of the state. This is a sentiment held by elites in the government, business, labor, civil society, the religious sector and academia. However, according to the Afrobarometer Survey, broad public support for democratic governance is waning. In South Africa, public support for democracy peaked in 2012, when 72% of respondents indicated that democracy is preferable to any other kind of government. In the most recent survey, conducted in during the third quarter of 2018, this figure had declined to 54%.

Although elites in the government, labor, business and civil society may disagree about the degree to which the market must be given free rein to determine economic outcomes, a broad consensus exists that it is the platform for economic engagement and the framework within which to address major structural developmental challenges, namely poverty, inequality and unemployment. The ruling ANC, which has governed since the country's democratic transition in 1994, is a center-left, social democratic party and forms part of a broader alliance that includes the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP). Growing pressure, particularly from young South Africans, is being exerted with demands to forcefully intervene in the economy to ensure greater inclusion and changes to historical distribution patterns.

The pressure for rapid change, however, still remains. The policy of land expropriation without compensation, an issue that has been driven forcefully by the radical left Economic Freedom Fighters (EFF) and won it much support among young South Africans, has now also been adopted by the ANC. During the fourth quarter of 2018, the party announced its support for a constitutional amendment regarding this matter. With the support of the EFF, parliament voted to appoint a committee that will be responsible for the wording of such an amendment. President Ramaphosa, an astute businessman, has however argued that a constitutional amendment will provide greater clarity, after years of uncertainty, about the conditions under which the state can expropriate land without compensation.

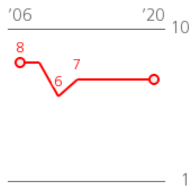
Anti-democratic actors
9



Parliament is the main arena for political contestation in the country and political engagement is contained within this framework. There are no clearly defined anti-democratic actors, outside of parliament, with a substantial support base that requires co-optation by major actors.

It can, however, be argued that the current balance of power within the ruling ANC represents an outcome that is the product of political co-optation. Although the constitutionalists triumphed at the party's National Conference in 2017, with Cyril Ramaphosa's election as party president, the influence of Zuma and his acolytes, widely suspected of benefiting from abuse of state resources for personal gain, remains substantial within the party. Their presence in government structures, including that of Ramaphosa's deputy, David Mabuza, a former provincial premier with questionable anti-corruption credentials, limits the scope of Ramaphosa reform program.

Cleavage / conflict management
7



In a society characterized by high levels of poverty, inequality and unemployment, racial divisions, a legacy of the country's apartheid system, largely continue to determine who lives well and who does not.

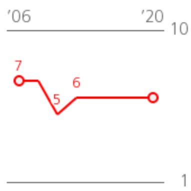
Despite the country's political transition in 1994, the general composition of the country's distributional patterns continues to resemble that of its apartheid past. While these patterns are no longer determined by the country's statutes, access to capital and entrenched networks in the business sector bar many black South Africans from taking their rightful place in the economy.

Government policies over the last 25 years have been largely unsuccessful in addressing the root causes that sustain the structural drivers of these outcomes. As a result, mounting frustration, particularly among young South Africans, has in recent years resulted in growing levels of racial polarization. This has further been exacerbated by the multiplying effect of social media.

Political parties have generally failed to address these growing schisms within society, not only in terms of policies, but also with regard to their rhetoric. In some instances, blatant and opportunistic exploitation of these schisms has occurred. But such exploitation does not only relate to social schisms between groups of South Africans, but also those between South Africans and residents of other nationalities. Growing levels of xenophobia have exposed social cleavages between South Africans and migrants, particularly those from other countries in Africa.

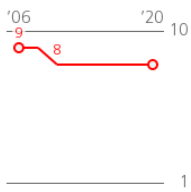
In the period under review, senior political figures across the political divide have been guilty of scapegoating residents from other countries for social ills, such as crime, and the economic exploitation of locals. These damaging comments have been made in the context of a weak economy, growing levels of unemployment and an approaching general election in 2019.

Civil society participation
6



South Africa has a large and diverse civil society, consisting of around 121,000 civil society organizations. Most are, however, poorly resourced and operate at a subsistence level. Not many possess the means and capacity to participate in and influence national policy processes. Although funding has become increasingly scarce, the past decade has seen the emergence of dynamic social movement activism in a number of areas that affect ordinary South Africans, such as preventing corruption, the provision of quality education, access to justice and the prevention and treatment of HIV/AIDS. Funding remains a perennial challenge. Continued dependency on donor funding from Western democracies makes these organizations vulnerable to the abovementioned accusations.

Reconciliation
8



The South African Truth and Reconciliation Commission (TRC) was created in the wake of apartheid to unearth the truth about the country’s apartheid past and to promote national reconciliation in a post-apartheid South Africa. The TRC, which held public hearings from 1996 to 1998, was mandated to investigate politically motivated human rights abuses that occurred between 1960 and 1994 by both the beneficiaries and the victims of apartheid. Although it recommended compensation to the families of victims of human rights abuses, it largely ignored their broader humiliation and sense of loss created by economic dispossession.

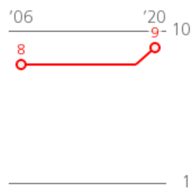
Over the past two-and-a-half decades, the government has implemented four macroeconomic strategies, coupled with restorative and redistributive policies, to provide redress and narrow the developmental gaps between the country’s different communities. These efforts have, however, produced limited results. As a result, the character of apartheid era distributive patterns remains largely unchanged. Whereas segregation had been enforced by statutory means under apartheid, it is today entrenched by race-based class formation.

Growing impatience with the slow pace of social change, particularly among young people, combined with the limited opportunities offered by a sluggish economy, has in recent years lead to high levels of social polarization along racial lines. In the period under review, the prospects for inclusive growth remained muted.

17 | International Cooperation

Effective use of support

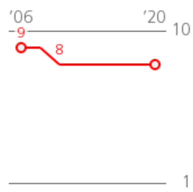
9



South Africa is a middle-income country with minimal dependency on official development assistance (ODA). In 2016, total ODA amounted to $1.81 billion, which represented 0.3% of the country's total GDP. Over half of this amount (around $599 million), came from the United States, while Germany, with $134 million, was the second largest donor. In recent years, China has also emerged as an important development cooperation partner. Accurate data regarding its assistance to South Africa is, however, difficult to obtain. Around $700 billion of total ODA received has gone to social infrastructure projects, while the second largest item, economic infrastructure, received around $180 billion. Foreign assistance is generally used in a productive way and in line with the country's national priorities.

Credibility

8

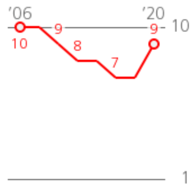


Although its international reputation was substantially tarnished by the Zuma administration with its lack of foreign policy direction and diplomatic cover for oppressive regimes, South Africa remains a credible player in the international community. In 2018, it was, for example, elected for the second time to serve a two-year term for 2019/20 as a non-permanent member of the U.N. Security Council.

Given the size and sophistication of the country's economy and its well-developed democratic infrastructure, South Africa is an obvious candidate for spokesperson for the continent. Yet, with significant growth on other parts of the continent, together with growing interest and investment in infrastructure by other states, such as China and India, the country can no longer rely on its status as the "gateway to Africa." In the period under review, following the departure of Nkosazana Dlamini-Zuma as AU president, its profile also diminished.

In 2018, the country's new foreign minister, Lindiwe Zulu, ordered a review of the country's foreign policy, following the Ramaphosa administration's ascendance to power and also significant shifts that have occurred in the international arena. The rise of nationalism and protectionism at the expense of multilateralism will have far-reaching consequences for the way that the country engages in the international community of nations.

Regional cooperation
9



South Africa forms part of the Southern Africa Development Community (SADC), which is headquartered in Gaborone, Botswana. Its economy constitutes around 55% of the combined GDP of the body's 15 member states and thus the region is vulnerable to the performance of the South African economy.

It is a strong proponent of regional integration toward the creation of a regional market and hence it pursues relations with its neighbors in an inclusive way that seeks mutual benefits.

In addition to SADC, the country also belongs to the Southern African Customs Union (SACU), which was created in 1910. Members include South Africa, Botswana, Eswatini, Lesotho and Namibia. The SACU provides a common external import tariff. Given its sheer size in comparison to other member states, South Africa consistently receives the highest revenue share. According to the think tank Tralac, South Africa received 47% of SACU revenues in 2018/19, followed by Botswana (21%), Namibia (19%), Eswatini (7%) and Lesotho (6%).

After more than 10 years of negotiations, a SADC Economic Partnership Agreement (EPA) was signed between the EU and Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa on June 10, 2016. This asymmetric agreement gives duty- and quota-free access to all exports to Europe from signatory countries and, in the case of South Africa, replaces the Trade Development and Cooperation Agreement (TDCA) that formerly governed its trade relations with the EU.

Strategic Outlook

South Africa's future prosperity hinges on solving three stubborn structural problems, namely poverty, inequality and unemployment. With all of these being legacies of the country's apartheid past, each has a distinctly racialized character. Thus, inclusive growth and social cohesion are mutually reinforcing dynamics within South African society. Economic decline, or growth with limited impact beyond sectional interests, therefore also has the effect of polarizing society, inhibiting prospects for consensus on the goals and steps that need to be taken to create a just, equitable and reconciled country. It will therefore be critical in the medium to long term for the country's economy to grow in ways that undo its current structural and social barriers. As was the case in the mid-1990s, when the country made its transition from authoritarian to democratic rule, much will depend on the quality of political leadership.

However, although poverty, inequality and unemployment remain racialized, these ills have now also taken on a generational dimension. Young black South Africans, most adversely affected by the slow pace of social transformation, are increasingly losing their patience with the pace of social change.

The populist EFF, which frequently flirts with narrow African racial nationalism, offers a case in point.

In light of the above, the country's economy requires an urgent reboot. Some factors, such as current investors' skepticism of emerging markets and interest rate hikes by the U.S. Federal Reserve are, however, beyond the government's influence. But much of its current disposition has also been of its own making. In the period under review, former President Zuma resigned and was replaced by his former deputy, Ramaphosa, who also succeeded him as party president in December 2018. Forced by his party to resign in January 2018, Zuma is central to allegations that state capture was attempted during his administration.

When two of the three major international ratings agencies, S&P and Fitch, announced their decision to revoke the country's investment status, both highlighted the state's weakening financial position, as well as policy uncertainty as major grounds for their decisions. Moody's, the remaining agency that retained the country's investment grade, has noted that its future decisions in this regard will hinge on the steps the government takes to restore the former.

In light of this, it will be the central task of the Ramaphosa government to restore the credibility of its critical institutions and to guarantee policy certainty on key issues. In the course of 2018, a number of positive steps were taken in this regard, which include the retrenchment of senior managers and boards implicated in state capture, the firing of the Zuma-appointed commissioner of the SARS and the appointment of a new director of public prosecutions after the Constitutional Court found that the prior appointment by Zuma was made irregularly. But until the 2019 general elections, Ramaphosa will not be able to implement his reforms without contestation. Zuma acolytes still occupy senior positions in the party and government, waiting to pounce on Ramaphosa's perceived failure. Although South Africans do not directly elect their presidents, many, however, will look at the 2019 elections as a proxy of Ramaphosa's public mandate.

The ANC risks losing electoral support to the populist EFF, which has made the topic of land expropriation without compensation its major campaign topic. Under pressure from the momentum that the EFF created regarding this issue, the ANC has been pressured to agree in principle to an amendment to the South African constitution for the purpose of expropriation. It will be critical for Ramaphosa to navigate this issue with great sensitivity, given the impact that a perceived erosion of property rights may have on international investors. It will be vital for Ramaphosa and his allies in the ANC to manage this process in a way that eventually results in greater certainty about the question of land ownership. If the process fails, the consequences could be disastrous. If it succeeds, it could remove a source of uncertainty that has inhibited both investment and appropriate land reform.