

3. FINDINGS ON THE IMPACT OF THE STATE

Assessing the impact of policies and programmes over the first 15 years of democratic government requires a two-fold frame of evaluation.

On the one hand, there is the broad framework of objectives with detailed programmes to achieve them that came with the ushering in of a new social order in 1994.

On the other hand, the election mandate of 2004 set specific objectives and priorities for the Second Decade of Freedom. Growing the economy and promoting social and economic inclusion became the central priority. Improving the performance of the state, the fight against crime and our international relations were positioned within the ambit of this overarching framework.

Over a decade and a half, what impact has been made towards the goals outlined in the RDP? Over the past five years, what impact has been made, especially by the major post-2004 initiatives, towards achieving the 2014 goals and in dealing with the challenges identified, among other things, in the *Ten Year Review*. And in what ways has the state transformed itself the better to fulfil its mandate?

The construction of the democratic state is work in progress. The first decade saw major advances in this regard. They included the adoption of a democratic Constitution, unification of the fragmented apartheid state through the merger of separate entities, and restructuring of the Public Service. The policy and legislative framework for reconstruction and development was formalised. A new system of provincial and local government was established. Systems to integrate and coordinate government within and across the three spheres were introduced.

The experience of the past five years, detailed in the thematic overviews, has brought to the fore limitations of, but also the potential to enhance, state capacity to advance the goals of reconstruction and development.

Understanding the performance of the state over the 15 years also requires insight into the environment in which it operates, both, domestic and global.

The thematic overviews indicate that in general government is making progress both with regard to the RDP objectives and the more specific goals of the 2004 mandate.

It has in recent years initiated processes to address weaknesses and ensure more effective and faster implementation but the outcomes are not uniformly successful.

3.1 Governance and administration

Much has been done to transform and democratise the state. South Africa is a thriving democratic society that few would have conceived possible a few years ago, with a strong infrastructure of democratic institutions.


Elections in all spheres of government have been held with regularity and embraced as legitimate. Increased civic protests in recent years have proved to be consistent with high levels of electoral participation. However, they do point to a need to strengthen the innovative platforms of participatory democracy and to foster closer and more regular engagement between citizens and their public representatives.

The structures of governance are fairly stable and functional. At the same time, the desire to create appropriate institutions and improve systems is not always fully matched in the practice.

The review indicates that in general, the challenges of state capacity are less to do with shortage of financial and other resources than with skills and institutional arrangements efficiently and effectively to deploy these resources. Service-delivery improvements are having some impact, but it is clear that local government faces a twin challenge of resources, and skills and systems, a challenge that is sometimes met by filling posts with people who do not have suitable skills.

The quality of service the public receives needs much improvement in many areas, informed by a stronger ethos of public service.

The macro-structure of the state is well established and fairly functional. The experience of working with the new coordinating mechanisms has brought new insights into what is needed to achieve the degree of integration that is necessary to achieve maximum impact. Coordination by consensus among peers does not always counter-vent the imperatives of line-function responsibilities. New questions have arisen about the role, functions and powers of provinces and about the two-tier system of local government.



As a contribution to coordination and more effective deployment of resources, the practice of medium-term planning and systems of monitoring and evaluation have begun to take root, especially in recent years. The work of extending them throughout government and building long-term planning capacity has begun.

In 2004, the *Ten Year Review* and the MTSF identified improved performance of the state as a priority. The past five years saw a number of measures being introduced but still leaving much to be done. At the same time, the experience of this period has helped crystallise thinking about what is needed for more decisive advance, to be further discussed later in connection with the concept of the developmental state.

3.2 Social sector

Substantial progress has been made since 1994 in improving the lives of many poor South Africans. Progress has continued in the past five years. Well-targeted programmes for provision of basic services and social grants have played a critical role in this. Research for this review using 2003 data showed that about 50% of gross social wage value was directed at households in the poorest 40% of the population.

But quality of services in many respects still leaves much to be desired. Despite a comparatively large education budget and high participation rates, the education system performs poorly and produces output that is weak overall.

This has much to do with management and service culture in the actual units (schools and hospitals) where delivery takes place. Where applicable, insufficient maintenance of infrastructure renders services erratic. Long waiting lists for housing and frequency of contestation of allocations point to inadequacies in management of access. The impact of expanded healthcare infrastructure is vitiated by the quality of hospital and clinic management and the handling of patients.

Poverty remains a major challenge even though it has declined. Unemployment, population growth and a rapid increase in the number of households will sustain high demand for basic services and social assistance. The current interventions need therefore to continue, but will not provide a lasting solution without programmes to strengthen human capabilities and promote self-sufficiency. Access to income from economic activity is critical. In turn, this requires that the fight against poverty has at its core, action to reduce inequality. Breaking the cycle of poverty requires special

attention to measures that improve human capabilities, such as education in particular and health, and expand people's chance of entering the labour market.

The MTSF put inclusion of the marginalised among the priorities for the current period. The review shows that progress has been made but not on the scale required. The development of a comprehensive anti-poverty strategy, initiated in 2006, and proposals for an integrated approach to promoting social cohesion, should help address some of these issues.


These challenges help inform the anti-poverty strategy that is taking shape, as one of the major post-2004 initiatives. However, it will not be an easy matter to address the current highly skilled distribution of health. Prominent among implementation challenges are institutional problems underlying the capacity of sub-national governments to spend the available resources and achieve quality outcomes. Relations between the different spheres in the context of concurrent functions need attention, as does horizontal integration within each sphere.

In this context there is a need to look at how mandates are assigned and at the possibilities of "asymmetry", that is for assigning a mandate to a specific authority in a different sphere, where capacity to implement exists.

3.3 Economic sector

In the context of the 2004 injunction to prioritise accelerated growth and inclusion, the review foregrounds the successful evolution of economic policy in the face of a changing environment. The stabilising interventions of GEAR created the space, at the turn of the century, for a growth-oriented and redistributive stance with focus on microeconomic reform. Post-2004, AsgiSA and the NIPF speak of progression towards more integrated implementation.

The impact of these policies in creating an environment for sustained growth and macroeconomic stability, coupled with a big government infrastructure investment programme, helped engage the private sector in growth and employment-creating investment to an extent that had been missing through most of the first 10 years. Some advances in building partnership, another injunction of the 2004 mandate, also contributed as exemplified in Jipsa. Nevertheless, there remain serious gaps in this regard, with the leadership of social partners tethered to narrow self-interest.



The current confluence of negative macroeconomic indicators emphasises the urgency of dealing with the constraints to higher rates of growth. It emphasises the need to speed up restructuring of the economy in ways that build its capacity to grow faster, absorb more labour, ensure competition and innovation, increase exports and promote emergence and thriving of small and micro-enterprises. Short of this, the economy will run into balance of payments problems, infrastructure limitations, inflation and steep household debt.

Weaknesses in the agencies of economic policy, noted in the *Ten Year Review*, have by and large persisted.

Mechanisms for integration and coordination among the various agents of implementation need attention. One question is whether monetary, fiscal and industrial policies are sufficiently aligned, and whether mechanisms can be found to achieve a competitive and less volatile exchange rate.

The confirmation that growth does not automatically reduce inequality emphasises the need for more effective pursuit of economic inclusion. This requires labour-absorbing diversification of the economy and tapping unexploited potential of primary sectors, especially agriculture. Though small business support has been expanded and consolidated, the uptake has been limited. There is a need to find second-economy programmes with mass impact rather than many small-scale interventions. This includes approaches which do more to link the marginalised into mainstream value chains. It also requires more attention to creating the capacity for expanded production and better productivity in rural areas.

Further reform and strengthening of regulators is needed to improve competitiveness and to enhance the contribution of SOEs to development.

Global trends are likely to make energy and food security long-term challenges, and there is urgent need for more effective incorporation of climate-change issues in economic policy.

3.4 JCPS

The review shows that JCPS cluster polices and priorities remain valid and are having some impact. The past five years, however, indicate that while cluster responses to challenges identified after the first 10 years were in the right direction, the prob-


lems, including those of integrated implementation, were more deep-seated than actually appreciated. Implementation was uneven and some critical goals were not achieved. Police, courts and prisons are grappling with their loads and need not only more resources but optimal use of those resources. At a more detailed level, the persistence of court backlogs, despite fewer cases coming to court; growing undercapacity of prisons; and lagging of crime reduction figures behind targets (e.g. 7% -10% reduction of serious crimes per year) are symptoms of systemic problems. Lack of the required capacity and issues of orientation of the judicial system hinder access to justice.

Pre-eminent challenges are violent and organised crime, more effective operation of each component and truly integrated strategising and implementation across components. While the departments of the criminal justice system were the first to form themselves into a cluster, in practise the components are at best loosely coordinated. Some critical policy vacuums, for example with regard to migration policy, undermine the effectiveness of coordinating structures.

Mobilisation of communities to participate in fighting crime remains a valid premise of government's approach. Although there are several examples of strong cooperation, overall the level of citizen involvement in ensuring safety and security falls short of what is needed to succeed.

These findings are consistent with what emerged from the reflection on the criminal justice system by the two-year joint initiative of the Presidential Big Business Working Group. At the end of 2007, Cabinet approved a seven-point plan based on the review. Implementation of the plan began in mid-2008. The objective is a truly integrated, modernised, properly resourced and well-managed criminal justice system. Key elements include a new coordinating and management structure for the criminal justice system; overhaul of criminal court processes; strengthening the components of the system, from investigation through trial to incarceration; modernising technical systems; integrating information; and boosting civil-society participation.

Crime is impacting on other areas of social endeavour. The high profile of violent crime affects public morale and fosters a climate of fear and vigilantism, weakening the rule of law and stressing the social fabric. The economy is affected, whether at the level of attracting investment or, as a recent study for The Presidency has shown, at the level of small and micro-enterprise.



At the same time, the legitimacy and credibility of some institutions of the criminal justice system are being tested by trends in public discourse and by action taken against senior officials. The worrying increase in violence in pursuit of socio-economic objectives in the past two years or so, the kind of lawlessness seen in the violent action against people from other countries and South Africans in early 2008 and dynamics in the party-political terrain have all played a role in undermining the legitimacy of state institutions.

3.5 International relations, peace and security

Broadly, the Government has continued in the first years of the second decade to make advances towards its foreign-policy objectives.

South Africa has made a significant contribution to Africa's development during this period. It has helped raise the profile of Africa's development needs on the global agenda and through its contribution to the promotion of African peace and development. Achievements in strengthening South-South relations have also been significant.

However, with regard to what were identified as major challenges for the decade – implementation of Nepad and improvement of the regional climate for growth and development – there has been progress, but some way short of objectives.

While it could still be said that South Africa enjoys a status beyond what might be expected of a country of its size, some of the factors that have enhanced its status may be losing their impact. For instance, the country's credentials as a champion of African interests is being questioned and its predominant economic weight on the continent is steadily declining.

Increasing pressures for more meaningful reforms in the global system is creating new challenges for South Africa and its partners in the South. In this context, it will be necessary to achieve a better balance between political and economic diplomacy on the one hand, and between these and public diplomacy on the other. This is an aspect of the larger challenge, shared with other clusters, of alignment and coordination between the departments of the cluster; between national government and the provinces and municipalities; and between public and private sectors.

The review points to weaknesses in public diplomacy and the communication of South Africa's foreign-policy positions, both in the foreign arena and domesti-

cally. This has become especially critical when the advances in national influence have put South Africa at focal points of international contestation, such as the UN Security Council and Zimbabwe. The paucity of South African media capacity to provide informed analysis of the country's international relations exacerbates the problem.

The challenge of managing the narrow self interest of partners in SADC and the power of lobbies of especially strong states has been exemplified in the EPA negotiations and in the southern African dynamics around mediation in Zimbabwe. South Africa needs to develop the agility to take full advantage of the positive outcomes of its contributions to peace and development on the continent.

South Africa also needs to further strengthen South-South relations and institutions.

3.6 Targeted groups

The review shows that democratic government has been instrumental in changing the lives of women, children, persons with disabilities and youth for the better.

As in other areas, this commitment has been formalised in a policy and legislative framework and enabled by the establishment of institutional machinery.

While the machinery has brought about successful collaboration with civil society and other relevant partners, and has earned the country international recognition, recent years have exposed challenges. Among these is the mainstreaming of these issues within the day-to-day work of departments and spheres of government. Some of the national agencies established to promote the interests of targeted groups have experienced difficulties in making their mandated impact.

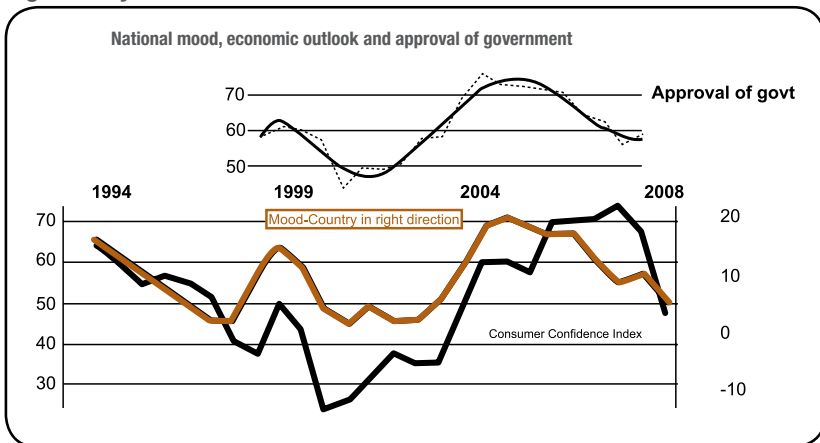
The relationship between the commissions as constitutionally independent bodies and the national machinery of government appears not to be operating optimally.

Coordination and integration among the four programmes established to address the needs of targeted groups has yet to be consolidated.

3.7 Public assessment

Public assessment of government performance ebbs and flows under the influence of various factors. One of the drivers of those perceptions is public experience of, and discourse about, government policies. Foremost, among other things, are the five-year electoral cycle and economic dynamics. Buoyant economic conditions and intense engagement of citizens in public affairs of the kind that happens during election campaigns, lift the national mood and with it the trends in perceptions of government.

Figure 3: Cycles of mood and economic confidence



Source: Bureau for Economic Research *Consumer Confidence Index*; Markinor *Government Performance Barometer*

However, overall, public opinion surveys provide a measure of the impact of government's policies that complements the use of development indicators. They provide insight into how citizen assessments change over time as programmes succeed or fail. They show the differing public ratings for different aspects of government's work. The results are broadly consistent with what the development indicators show.

The *Consumer Confidence Index* reflects citizen experience of economic conditions. The index traces a long cycle from post-1994 euphoria to a low point as the 1997 Asian financial crisis impacted on the South African economy. The upward trend that followed peaked towards the end of 2007. While the high point of the mid-90s was driven by optimism of the poor at the dawn of democracy, countering pessimism of the better off, the post-1999 upward trend engaged all sectors, reacting to real economic developments.

At the end of 2007, confidence faltered under the impact of credit restrictions and rising cost of living, and turned sharply down in 2008. The interplay of this long cycle with the five-year electoral cycle is visible in trends in approval of government performance, both in the overall and with regard to specific themes and areas of governance.

The average of public ratings of government over the five years preceding election periods gives a sense of underlying long-term trends, minimising the impact of cyclical engagement of the public. These five-year averages of ratings reflected in twice-a-year surveys by Markinor tend to be highest with regard to social-sector programmes. Aspects relating to governance follow, then the activities relating to the criminal justice system. Ratings of government's impact on the economy generally come last.

Table 19: Public perceptions of government performance

Average % for preceding five years	1999	2004	2008
Creating jobs	28	21	31
Reducing the crime rate	35	35	42
Controlling the cost of living		32	49
Right appointments to lead govt depts and agencies	51	44	50
Controlling inflation	38	40	52
Maintaining transparency and accountability	55	48	53
Fighting corruption in government	46	45	54
Narrowing the income gap	53	53	56
Managing the economy	49	47	62

Source: Markinor *Government Performance Barometer*

This ranking reflects the fact that the state has the most direct impact on the lives of most South Africans through its social programmes. It is also consistent with the observation that government's progress has been greatest in the areas most directly under its control and less so where progress has depended on others.

Within the broad rankings there are significant sub-trends reflecting changes in perceptions of performance during the current mandate period – in most instances improved perceptions. These trends are consistent with the findings arising out of the theme reviews.

The two tables show the averages for the previous five years, where available, for key areas of government activity. The first lists those which have consistently attracted the lowest ratings.

In almost all categories, the trends improved over the 10 years from 1998 to 2008. The exceptions are two issues relating to the legitimacy of the state, whose ratings did not improve. These are: making the right appointments to lead departments and agencies; and maintaining transparency and accountability. This is consistent with a similar observation in the *Governance theme*. It is discussed further below.

In early 2008, towards the end of the electoral cycle, the figures were naturally lower than these five-year averages. This applied in particular to economic issues, above all with regard to the cost of living, as perceptions reacted to the impact of a sustained rise in inflation and interest rates.

The second table lists areas of government activity that have consistently attracted higher ratings. Some show strong increases from already high levels, most notably the social grants programme.

Table 20: Public perceptions of government performance

Average % for preceding five years	1999	2004	2008
Addressing the problem of HIV and AIDS	61	60	63
Building houses	49	59	63
Bringing police closer to the community	60	61	64
Promoting access to land		62	67
Improving basic health services	68	64	67
Ending political violence	57	64	68
Addressing educational needs of all South Africans	63	64	71
Delivering basic services, e.g. water and electricity		75	73
Promoting equality between men and women	72	75	78
Distributing welfare grants to those who are entitled	69	72	82

Source: Markinor, *Government Performance Barometer*

The buoyant economic outlook of the post-2004 period would have made some contribution to positive trends. However, the trends over the 13 years from 1995 to 2008 point to a cumulative effect of the direct impact that the programmes have

made on the lives of especially the majority, whose welfare has in this period most directly depended on the state.

Other surveys explore the importance that the public attaches to the various challenges faced by government and the nation.

Table 21: The public agenda – most important issues government should address

%	Poverty	Crime	Housing	Health	AIDS	Education	Jobs
1994	9	6	46	2		34	67
1999	9	65	32	18	3		79
2003				10		15	
2004	24	30	27		30		77
2006	27	23	27	10	25	12	63

Source: Idasa, *Afrobarometer*

The numbers indicate a constant concern about employment and housing. Earlier preoccupations with education and crime have been overtaken by increasing concern about poverty. More broadly, apart from the concern about crime, the public agenda is strongly concerned with matters relating to the different dimensions of poverty: income, human capital and asset poverty.

4. CONTEXT

What has happened with regard to the major social and global trends identified after the first 10 years? And what major trends have emerged in the past five years?

4.1 Trends of the first decade revisited

The *Ten Year Review* identified four major trends defining the social transition. Five years later, these trends have modified in some ways and persisted in others.

4.1.1 The demographic change – unbundling of households

Like all societies, South Africa is showing a trend towards smaller households. Compared with other countries, it is happening much faster in South Africa and has its own dynamic. Held back by apartheid, the process happened rapidly in the First Decade of Freedom and has continued since then, probably at a slower pace. Various data sources give slightly different readings of the situation, but agree that there has been a rapid change, from an average household size in 1996 of around four and a half to around four in 2007.

Table 22: Demographic trends

	1996	2007	96-07
Population	40,58	48,50	20%
Households	9,06	12,50	38%
Average household size	4,6	3,9	-15%

Source: Statistics SA - Census 1996; *Community Survey 2007*; HSRC 2008, paper commissioned for the *Fifteen Year Review*

From 1996 to 2007, according to Statistics SA surveys, the country's population grew by 20% and the number of households at double that rate, by 39%. Several factors are driving the unbundling of households, among them the impact of changing social values in a democratic society; urbanisation; falling fertility; new choices created by availability of housing (and its size) and sources of income, especially among women and young people, who were previously more dependent on families.

The decline in the size of households and the consequent increase in their number have big implications for policy. The scale of new housing and infrastructure need-

ed is greatly increased beyond what would have sufficed to redress the neglect of apartheid and population growth. There are also profound changes in the structure of households, especially in age structure as young people take advantage of the new opportunities and options. Among the consequences is also an increase in very small households located far from work opportunities. At the same time, some pressures lead to the formation or continuation of larger households, particularly for survivalist reasons in times of economic hardship. Recent qualitative research suggests there is a significant number of such households which may unbundle in the coming years.

4.1.2 Growth in the economically active population

The exceptionally fast growth in the labour force of the first decade has slowed in the past five years to, more or less, keep pace with population growth. Measured in terms of the number of people either employed or who have recently been seeking employment (the unemployed), the labour force grew at a (compound) annual rate of nearly 4% from 1995-2003, compared with a 2% rate of growth in both the population and employment. The 1,6 million net new jobs created up to 2003 fell well short of the growth in the labour force of four million as many, in particular rural women, took advantage of the new freedom to enter the labour market. Unemployment rose from 15% in 1995 to a peak of 31% in 2001.

From 2003 to 2007, however, the growth of the labour force slowed to 2% per annum. During that period, employment was growing at an average of 3,7% a year. Unemployment, therefore fell both in numbers and as a proportion of the labour force to 23% in 2007.

In September 2008, Statistics South Africa introduced a new *Quarterly Labour Force Survey* and revised the previous half-yearly *Labour Force Survey* on which this review is based. The new series and the old agree on an unemployment rate of about 23% in March 2008. However, the implications for historical trends require further interrogation. The new series excludes subsistence farming and other “non-market production activities” from the definition of employment. In this regard, an analyst noted that the new series further narrows South Africa’s definition of employment, and commented: “If South Africa defined employment the way some developing countries do, our unemployment rate could be as low as 13%” (Joffe, H. *Business Day*, 2 September 2008).

Table 23: Labour-market trends

(Thousands)	1995	2003	2007	Change 95-03	Change 03-07	Change 95-07
Employment	9 852	11 424	13 234	1 572	1 810	3 382
Unemployment (strict definition)	2 038	4 434	3 945	2 396	-489	1 907
Labour force (strict definition)	11 890	15 858	17 178	3 968	1 320	5 288

Source: Statistics SA, derived from *October Household Survey*, 1995 (re-weighted after the 2001 Census); and *Labour Force Survey*, September 2003, 2007

For unemployment more broadly defined (to include those who have not recently sought work), the numbers differ but trend in the same direction.

The initial impact of the democratic transition on the size of the labour force would, therefore, seem to have largely worked itself out. However, the large difference between the narrow and broad definitions of unemployment and the labour force reflects South Africa's very low labour participation rate. As noted in the *Economic Theme*, it is 56,5% compared with 65% in comparable countries. Able-bodied people who feel discouraged from seeking employment constituted some 2,2 million men and women in 2007.

4.1.3 Changing structure of the economy

The linkages have become clearer between two trends in the structure of the economy that stood out 10 years after 1994.

One trend consisted of shifts in the sectoral composition of employment. The finance and business-services sectors grew in relation to agriculture, mining and manufacturing.

Table 24: Reduction in employment 1994-2004

	Jobs	% reduction
Mining	177 000	-29%
Agriculture	112 000	-12,1%
Manufacturing	165 000	-11,7%

Source: Haussmann, R, 2008 *Final Recommendations of the International Panel on Growth*

In 2004, mining employment was 29% lower than in 1994, a loss of 177 261 jobs. Agriculture shed 112 352 jobs between 1994 and 2004. In contrast with other high-

growth countries, the decline in primary-sector jobs (mining and agriculture) was not compensated with increased employment in manufacturing, which also declined, by 11,7% or 165 448 jobs. Public-service jobs underwent a comparable decline as government rationalised and restructured the fragmented apartheid state machinery.

The second trend noted was how the changing structure of the economy helped perpetuate the exclusion of a large proportion of people from mainstream economic activity. Lack of skills needed in the fastest growing sectors trapped them in the “Second Economy”. Whereas the fastest growing sectors, except in construction and tourism, are generally more skill-intensive, the ones that declined during that period – agriculture, mining and manufacturing – had been the most intensive employers of unskilled labour. Persistently high concentration in the economy and the dominance of larger firms at the expense of SMEs, reinforce the trends towards capital intensity at the core of the economy.


4.1.4 Migration

The fourth macro-social trend noted in the *Ten Year Review* was migration within South Africa. It contributed to changing household structure. It had particular differential impacts on the provinces in terms of service-delivery requirements and the dynamics of social cohesion.

Table 25: Provincial population trends 1996-2007

	Share of SA population		Prov. pop growth
	1996	2007	1996/2007
Gauteng	18,8	21,5	34,3%
Western Cape	9,7	10,9	31,2%
KwaZulu-Natal	21,1	21,2	18,9%
Mpumalanga	7,7	7,5	16%
Limpopo	11,3	10,8	14,2%
North West	7,2	6,7	11,3%
Eastern Cape	15,1	13,5	6,1%
Free State	6,5	5,7	5,2%
Northern Cape	2,5	2,2	4,8%
South Africa	100	100	20%

Source: Statistics SA, Census 1996; Census 2001, *Community Survey, 2007*



Four provinces – Eastern Cape, Free State, Limpopo and North West – experienced a steady decline in their share of population since 1996. Mpumalanga and Northern Cape lost a share of population from 1996 to 2001, but remained constant since then. KwaZulu-Natal's share remained constant. Population in the two main centres of economic activity increased throughout the period, substantially faster than the 20% growth in national population, namely Western Cape by 31% and Gauteng by 34%. Much of the additional Gauteng population has been accommodated in big informal settlements, with a high proportion of small households and mostly far from economic opportunities (as are many of the formal settlements). The number of Gauteng households grew by 56% and the average household size declined to 3,3, substantially below the national average and largely due to the smaller household size of migrants, 60% of whom in 2001 were aged 20-34.

The patterns of internal migration observed in the first decade have therefore continued into the beginning of the second, as people move towards areas of greater economic activity. With the differing provincial trends come differential demands for social services, continuing loss of able-bodied and relatively more skilled people from the more rural provinces and weakening of social organisation and cohesion in both rural and urban areas. Migration in search of opportunity tends also to contribute to the spatial spread of poverty.

There is also evidence of a reverse process, in which those who have moved to an area of economic activity to support a rural family through remittances, find the cost of urban living eroding their capacity to remit.

The relatively fast shifts in the spatial distribution of population create difficulties in planning. They impact on resource allocation between provinces. They affect the achievement of set targets. For example, plans for dealing with informal settlements presuppose that when residents move to better accommodation, they will not be replaced by others in the same informal settlements.

Adding further impetus to this dynamic of social and economic stress in areas of domestic in-migration is the increased migration in recent years from across the borders of South Africa. This was not a significant feature of the first decade. There is no adequate data on the scale of immigration and estimates vary wildly, but it is evident that the number of people from other countries in Africa has increased significantly. The lack of a migration strategy and policy has also meant insufficient

state influence on attitudes towards immigrants – many of whom move to the same stressed areas as internal migrants.

4.2 New dynamics

While the broad trends of the first 10 years have continued, in some respects working themselves out or slowing down, there are also new dynamics which will need to inform the strategic posture going forward.

4.2.1 Macro trends in the economy

Five years of faster growth have sharply exposed structural weaknesses in the South African economy. Most had been identified for attention within AsgiSA as binding constraints on the country's capacity for sustained faster growth. But much more has to be done to eliminate them and to increase the speed with which they are eliminated.

The urgency of doing so was underscored by the impact of a deteriorating global environment that combined a financial crisis with strong inflation of food, energy and commodity prices.

Though the past few years have seen jobs growing faster than the labour force, the country's labour participation rate remains very low. Sectoral shifts have sustained structural unemployment of the low-skilled. Those whose jobs have been shed in primary sectors and manufacturing do not have the skills required in the fastest growing sectors, with the possible exception of tourism-related services and construction.

The consequences of shortage of electricity-generating capacity are the most visible aspect of infrastructural constraints on accelerating growth. The extent to which growth has outpaced economic infrastructure speaks of shortcoming, in infrastructure planning over some years. This applies to construction and maintenance, to electricity generation and distribution, to water reticulation and the country's logistic system. In the case of municipal services infrastructure, such as water reticulation, the problems are compounded by failures to recruit or retain the required skills. The underspending of the Municipal Infrastructure Grant during 2004-07 reflects more general weakness in the local sphere. The challenges of infrastructure planning, investment and maintenance also highlight issues in the relationship between government and the SOEs it regulates.

At a time of burgeoning domestic demand and openings in global traditional and non-traditional markets, the response of the country's private sector lagged. As a consequence, the needs generated by growing employment, an expanding middle class and a very big infrastructure programme, produced domestic shortages and an unsustainable balance of payments deficit. Broadly, the South African economy has retained most of the dependent colonial characteristics, with high levels of concentration of ownership and related barriers to entry. A number of the largest companies have shifted their headquarters or have been partly acquired by foreign companies, opening up possibilities for worsening the outflow of resources through transfer pricing or movement of dividends. Related to this is the underdevelopment of SMEs compared to other developing countries. Compounding export weakness is the fact that the fastest growth sectors have been mainly in non-tradable sectors.

4.2.2 Macro-social trends

Two broad social trends have emerged in the past five years as requiring attention. They concern inequality and social cohesion.

Inequality

Despite declining poverty levels and sustained growth reaching 5% in recent years, national income inequalities did not reduce over the period 1995-2005. Overall and in some sectors, the inequalities increased.

National income inequality as measured by the Gini coefficient increased from 0,64 to 0,69 between 1995 and 2005, and continued to do so from 2006 to 2007. Although the two data sources below give slightly different levels of the Gini coefficient, they agree on a trend of widening income inequality over the period 1995 to 2007.

Table 26: Income inequality

		Gini Coefficient
Stats SA, analysed in Borhat, H. 2008	1995 to 2005	0,64 to 0,69
Unisa Bureau for Market Research	2006 to 2007	0,63 to 0,65
Manufacturing	165 000	-11,7%

Source: Borhat, H., 2008. Paper commissioned for the *Fifteen Year Review*, using Stats SA *Income and Expenditure Survey* data; Unisa Bureau for Market Research

It should be noted that this relates strictly to income inequality, and does not include the value of the social wage resulting from the substantial expenditure on social services, including the value of the social wage, which has been well targeted towards the poor, would improve the picture.

There was no significant change in inequality among Africans from 1995 to 2005 (although inequality within the group remains high). Earlier research showed that inequality among Africans increased from 1995 to 2000 – it fell back to 1995 levels by 2005.

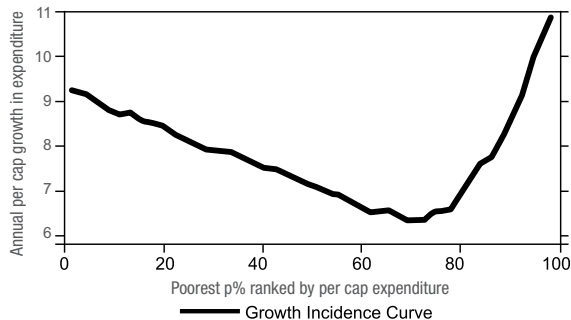
Table 27: Inequality within race groups

	1995	2005
African	0,55	0,56
Coloured	0,49	0,58
Asian	0,45	0,53
White	0,39	0,45
Total	0,64	0,69


Source: Borat, H., 2008. Paper commissioned for the *Fifteen Year Review*, using Stats SA Income and Expenditure Survey data

While inequality between race groups decreased in the earlier years, it has tended to increase during the recent period of high economic growth. In other words, after the base changes with the elimination of apartheid, it seems that those historically well-off, in terms of income and assets, have taken better advantage of the benefits of growth.

Figure 4: Per Capita Expenditure Growth Incidence Curve for South Africa, 1995-2005



Source: Borat, H., 2008. Paper commissioned for the *Fifteen Year Review*, using Stats SA Income and Expenditure Survey data



The chart shows how much growth in expenditure people at different income levels on average experienced over the 10 years, from the poorest 1% on the left to the richest 1% on the right. The fastest growth in per capita expenditure from 1995 to 2005 occurred on the one hand in the poorest 30%, where social grants had their biggest impact, and the top 15%. In between the benefits were less than the national average. In particular those between the 60th and 70th percentile experienced the least benefit from the overall growth. These are individuals spending between R400 and R1 000 a month, who were less eligible for grants than those poorer than themselves. A perception of seeming to stand still relative to their fellow citizens who had more and those who had less, may have contributed to some of the anger manifested in the bitter and sometimes violent strikes of 2006 and 2007.

This trend carries the message that growth and poverty reduction do not necessarily reduce inequality. Distribution of the benefits of growth is affected by existing disparities in wealth and social capital and in particular by access to the labour market. Inequality reduces the impact of growth on poverty reduction and in turn acts as a constraint on growth. It has the potential to foster social tension.

Lasting and sustainable reduction of income inequality requires greater access of the poor to the labour market. The period under review has experienced trends that inhibit this access as much as enhancing it. Some, such as the economy's sectoral shift, have been noted. Others include the failure of the education system to enhance human capital sufficiently for it to serve as the key to breaking the cycle of poverty and inequality. What is required is therefore both a restructuring of the economy and improvement in the quality of education, especially in poorer areas. The fact that rising inequality is a global phenomenon to which a mere handful of countries are exceptions, underlines the scale of the challenge South Africa faces in seeking to reduce it.

Social cohesion

Social cohesion broadly refers to what gives a society the capacity to cooperate in a way that creates the possibility for positive change. It is vital for effective state action in conditions which might require trade-offs. Across the three terms of government since 1994, the consistent call for unity of all of society in practical action for development reflects the importance of social cohesion to democratic government in South Africa.

The different indicators of social cohesion paint a complex dynamic. In some ways, past divisions have lessened. In others, fault lines of the past persist or show signs of reappearing. National measures tend to show overall progress, while problems tend to concentrate in particular areas. There is reason to conclude that social cohesion is under more stress than a few years back.

One set of indicators measures the strength of our democratic institutions and the extent to which the public has opportunity to keep abreast of and get involved in public affairs.

There is a high level of participation in elections. Public access to the means of communication and information about public affairs has grown steadily, no doubt reinforced by an unforeseen advance in access to telecommunications.

Table 28: Access to means of communication

Percentage	1995	1996	2003	2007
Radio (past 7 days)	83,6		92	94
TV (past 7 days)	63,7		79,2	83,4
Newspaper	33,2		39,5	46,8
Have a fixed line or cellphone		30	44	63

Source: *All Media Products Survey (AMPS)*, Hodge, J. 2008. Paper commissioned for the *Fifteen Year Review*

Confidence in public institutions is critical to social cohesion and legitimacy of the polity. As discussed elsewhere, public approval of the state's performance and trust in public institutions have improved over the long term, though there are signs of some erosion in the recent period.

Consensus around values is a further condition of cohesion. There has been growing consensus around the evolution of South African society and the core values of the Constitution. While this has ebbed and flowed in the five-year electoral cycle, the trend has been towards a higher trajectory with each cycle, or stability at a high level. The table shows five-year averages that smooth the cycles.

Table 29: Public opinion on the evolution of South African society

Average for previous five years	1999	2001	2003	2005	2007	2008
Confident of a happy future for all races	74%	74%	74%	76%	81%	80%
Race relations have improved	47%	49%	46%	49%	56%	57%
Country going in the right direction	52%	53%	52%	59%	61%	61%
Government uniting South Africans	69%	68%	66%	67%	69%	69%

Source: Markinor, *Socio-Political Trends and Government Performance Barometer*

Equally important to cohesion is a strong civil society, measured in terms of the vitality of civil organisation and trust and tolerance among citizens.

Although the participation of South Africans in civil-society organisations compares quite well with comparable countries, it declined in the period from 1995 to 2006, according to the *World Values Survey*. Except for a residual category of “other voluntary organisations”, the observed trend applied to the whole range of civil-society organisations: religious, recreational, cultural, labour, political, environmental, professional and charitable.

Trust in others, outside the family, has remained at around 20%, a low level compared with other countries, throughout the period of tracking by the *World Values Survey*.

How citizens identify themselves has relevance for cohesion. Some evidence, though not yet enough for definite conclusions, suggests a shift in recent years. Race has receded as a primary form of self-identification. But whereas some years back, “South African” seemed to be becoming a primary identification, as more people identified themselves that way, some recent research suggests that more people are choosing language/ethnicity (*Future Fact Survey* cited in *Development Indicators, 2008*). By itself, this need not detract from cohesion, but in the absence of countervailing public discourse valuing unity in diversity and tolerance, it has the potential to do so.

In this context, there may be significance in a recent fall in confidence in a non-racial future measured in a Markinor survey – to 62% in April 2008, compared to 77% six months before. When a sentiment that has remained strong for years weakens so much in a short time, it suggests some worrying trend, even if temporary. This happened after a period with a number of high-profile racial incidents and violence

against people from other countries, and not long before the outbreak of this violence in May 2008. The violence, in its appeal to ethnic mobilisation, and in its challenge to the rule of law, represented a setback on the path to social cohesion. On the other hand, and testifying to the complex dynamics in our society, there were also examples of communities responding to defend the victims of attacks and affirm their rights in practical ways

Pressures testing the social fabric come in a variety of forms. Among the most corrosive is inequality. It sharpens the tension between the values of a caring society and those generated by an economic system that rewards competitive behaviour. There is evidence from elsewhere in the world that extensive inequality tends to increase crime and social conflict. Even if offset by the impact of the social wage, the persistence of income inequality is cause for concern.

As noted in earlier sections, large-scale migration along with other pressures are leading to the growth of settlements with a high proportion of people detached from their original communities and family structures. Recent research by the HSRC documents how competition for livelihoods and resources, particularly housing, tends to generate tensions in such areas and that it has the potential to develop into hostility towards those identified as outsiders, whether from other countries or from inside South Africa. In the absence of strong community and state authority, such situations can develop into violence and be exploited for more general criminal ends.

Overall, there has been progress towards a united and cohesive society taken in a context of visible improvement in the socio-economic conditions of millions of people, though challenges remain.

4.2.3 Governance and macro-organisation of the state

A major lesson of the first 10 years of democratic government was the need to improve the performance of the state. While this need was acted on in many ways in the current mandate period, major trends requiring strategic attention have manifested themselves. They relate to matters critical to the capacity of the country to harness the commitment, energy and resources of society in joint action to advance towards the goals of democracy and development.

Legitimacy

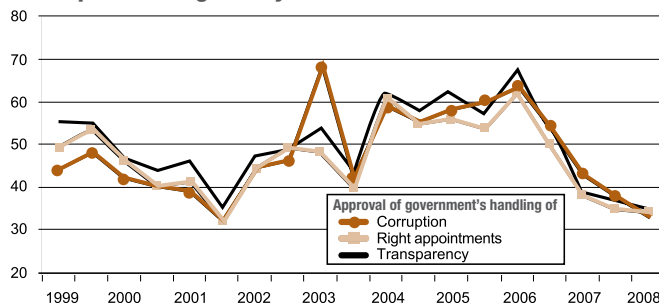
The legitimacy of public institutions has been tested in a number of ways in the recent period.

Noted above is how the legitimacy of some institutions of the criminal justice system has been contested in public discourse or said to be wanting in cases perceived to have either political or racial dimensions. Action against senior officers in all the branches of the system – intelligence, police, corrections and the judiciary – has had the effect both of bringing the system into a negative public light and in some cases of enabling perceptions that independent institutions have been impacted on by party-political dynamics.

The weakness of the interface of government with the public in the local sphere – and often of political-party organisation with communities – has allowed local concerns and grievances as well as local political dynamics to assume the form of protests which impact on the legitimacy and authority of the state. Linked to this has been the need to deploy the police force to maintain order, in some instances with difficulty and not before there has been destruction of property and harm to members of the public. Slower than hoped for progress in improving the performance of the criminal justice system, detailed in the theme chapter, likewise impacts on legitimacy, since capacity to maintain law and order and to ensure the safety and security of citizens is among the conditions of legitimacy.

What the impact of such developments has been on legitimacy in the minds of the public broadly is as yet unclear. Local protest has not been the expression of disillusion with electoral representation, confirmed by the level of participation in elections, in particular in areas affected by protest in pre-election periods.

Figure 5: Perceptions of legitimacy



Source: Markinor, *Government Performance Barometer*

However, a negative trend in key indicators of trust in public institutions has been noted in various recent surveys. This would in part be a cyclical downturn towards the end of the five-year cycle of governance, as has happened before. However, the movement has been from what was a high point since the tracking began in 1999, back to the previous low point. This suggests that the various surveys do indeed point to a faltering of trust in government, Parliament, political parties and the justice system after some years of growing confidence.


National leadership

Government has since 1994 placed emphasis on uniting all of society in practical action towards shared goals. Social partnership for the achievement of common goals has therefore been a consistent priority.

Various forums have been established to develop joint programmes in pursuit of objectives shared by the constituent sectors. These have included Nedlac, the Presidential Working Groups, the South African National AIDS Council (SANAC) and the Setas for skills development. The 1998 Jobs Summit, the 2003 Growth and Development Summit and the 2008 Energy Summit have served as platforms for government and its social partners to seek commitment to broad shared programmes. At another level, PGDS, integrated development plans and izimbizo have been fashioned so as to promote partnerships for development.

The experience of the first decade led to the observation that success in the work of government was greatest in areas directly under the state's control, and less so where success depended also on the actions of others. This reinforced the imperative of partnership and the MTSF for 2004-09 called for "a new culture in the operation of government, informed by the concept of the People's Contract".

The forums previously established continued to operate. New, post-2004 initiatives involving significant levels of partnership include AsgiSA, Jipsa, a reformed SANAC, and the joint review of the criminal justice system by government and the Big Business Working Group. Much has been achieved through this approach, but in many ways moments of shared commitment have not led to joint action. Points of consensus have often remained islands in a sea of contestation. The challenges facing government and the nation as a whole, highlighted in this review, will require the forging of working partnerships with more practical consequences.



The challenge of national leadership and social partnership is not a one-sided one in which responsibility devolves solely on the state. Reduced participation and activism on the part of civil-society organisations – non-governmental organisations (NGOs) and community-based organisations (CBOs) – reduces the possibilities of strong partnerships for development. How effective have NGOs and trade unions been in taking advantage in the interest of those they represent of the opportunities brought by democracy? Pension fund boards, workplace forums and Setas are just some of the points at which such opportunities have not been taken up to the full extent. The evidence of declining participation in civil-society organisations cited earlier has implications for the desired people-driven process of change. Then there is the question of whether individuals and communities have shown sufficient initiative in tackling community challenges such as domestic violence and teenage pregnancies, rather than an inclination to delegate the solution of all such challenges to government. The Letsema Campaign gave evidence of the potential for volunteerism as selfless cooperation with government to promote development – why did it not grow beyond its beginnings?

The take-up of government programmes for small enterprise support is disappointing. The Global Entrepreneurship Monitor concludes in its *2007 Executive Report*, on the basis of international surveys, that South Africa has consistently low rates of “early-stage”, that is, initiating, entrepreneurial activity compared with most other middle- and low-income countries. Our own review provides instances of where a more effective response by business to challenges of growth and development would have meant faster and further progress. Examples include: gender parity at executive levels, training and response to the opportunities offered by burgeoning aggregate demand.

With regard to government’s own performance, the critical thrust has been towards integration in policy development and implementation. From 1999, in particular, a more integrated state machinery took shape, outlined in the *Governance Theme*. It included both a reshaping of machinery and the introduction of a MTSF as a medium-term guide for the implementation of the electoral mandate.

Broadly speaking, the ethos of the new system was to favour general, permanent and coordinating mechanisms over specialised and ad hoc ones. Clusters of departments, at the level of both the executive and heads of department, became the predominant mechanism, accompanied by intergovernmental structures to promote integration across spheres. The introduction of this approach at national level was replicated across provinces and in departments where relevant.

Coordination of implementation is managed by means of the annual Programme of Action (PoA), which sets out the priorities and targets for each cluster as a plan for the year to implement the five-year MTSF. The DG clusters establish joint interdepartmental project teams to manage implementation of particular PoA activities. Monitoring of implementation is managed through bimonthly reports from DG clusters to Cabinet committees and in turn to Cabinet. Publication of the PoA and updating of progress in line with the cycle of two-monthly reporting to Cabinet serves both to keep the public informed of progress and as a pressure on government to implement.

Introduction of this system has improved accountability and coordination. But coordination and the organisation of the state are ongoing challenges, requiring measures to deal with problems as they emerge. The factors militating against effective integration in government are more deeply rooted and more difficult to overcome than initially recognised. Some of these tilt the balance towards individual rather than collective responsibility. This includes statutory provisions which make officials accountable in the first instance for line-function responsibilities. A system of effectively voluntary coordination based on consensus has insufficient countervailing force to overcome such factors. DG and ministerial cluster meetings lack powers which genuine oversight would require; to take corrective or integrative action when required.

Related difficulties are found in some of the other mechanisms established to integrate government policy and implementation. For example, provinces, in a self-assessment regarding the development of provincial growth and development strategies, identified areas that needed improvement. Some said that strategising leaned towards a collation of programmes rather than an integrated strategy, or were less integrated with national and local programmes and priorities than they should be. These problems, which have as much to do with national as with provincial government, are being addressed in part through the roll-out of the National Spatial Development Perspective (NSDP). The NSDP brings a framework and mechanisms that harmonise national priorities, provincial growth and development strategies and municipal integrated development plans. By mid-2008, the roll-out of the NSDP was completed or in progress in 23 districts, with 15 more being enrolled.

Recognition of these problems, as well as the need to assess what was required to meet the challenges of the 2004 mandate, led in 2005 to the Cabinet initiative to make recommendations regarding the organisation and capacity of the state. While

some of the resulting proposals have been implemented, issues relating to government's central machinery are still to be attended to.

The experience of the cluster system suggests a need for fewer nodes of coordination. There have been advances in coordination, as well as weaknesses. The formation of cluster focus groups bringing together projects in common functional areas has improved policy alignment and coordination of service delivery, and, in the economic sector, seen the beginning of an integrated infrastructure investment plan. However, the question arises, whether this takes the clusters as presently configured to their coordination limits. The challenge will be to shift from joint planning and reporting to joint implementation with emphasis on improved monitoring and evaluation, and with effective powers of oversight and stronger accountability.

Does this require a change in the architecture of the executive? Steps that have been broached in this regard include the introduction of two tiers within the executive. One option would see senior ministers exercising oversight of clusters of ministries as their core function. (In the current arrangement that would mean giving authority of oversight to the coordinating ministers, rather than just that of convening meetings). Correspondingly, chairs of DG clusters, which make up FOSAD's MANCO, would oversee the work of their clusters. Other proposals include having fewer ministers and more deputies, which, if any, of these arrangements would improve coordination and effective implementation, would need further examination. Or is it rather a matter of improving the functioning of the present system in ways that strengthen Cabinet's capacity to oversee implementation?

What about the clusters? Both the advances and the weaknesses point to a need for review. Given the general failure to translate their work into effective project teams, the question arises of whether it may be more appropriate to prioritise the project approach and make the clusters groupings of projects with interlinkages (e.g. clusters on infrastructure, second economy), rather than of departments.

At present, the formation and effective supervision of such project-oriented teams falls outside the cluster system. For example, coordination and supervision of AsgiSA, the anti-poverty strategy, and HIV and AIDS, to name some, are assigned to the Deputy President. Alternatively, major areas of focus during a particular mandate period may justify the setting up of formal Cabinet committees (or standing items in existing committees) to deal with such matters.

Further, there is a case for assessing how well executive and departmental permutations (the number and configuration of ministries and departments) match the strategic priorities of the present.

The policy context

Fourteen years into democracy, the global and domestic policy context has changed to an extent that may require re-examination of some of the policy choices made. In some instances, indeed such review has already begun.


The farming sector may be an example. State support for the sector has been minimal relative to both developing and developed economies. Consequently, agriculture's contribution to GDP has declined substantially relative to other sectors and the country has become a net importer of agricultural goods. Agriculture's potential to create jobs and address rural poverty and landlessness, has not been realised. In the light of the global food crisis and escalating prices, government may need to provide stronger support to the farming sector as a deliberate strategy.

Our choice of coal-based energy sources may require adjustment in the light of international concern about climate change and global warming, requiring that we may have to introduce costly technologies to limit carbon emissions.

Policy decisions about training and skills development, including in SOEs, had the result, a decade or more later, that the economy faces an acute shortage of artisan skills.

While ICT policy of managed liberalisation may have increased access for the poor, there has been little progress in terms of price competition. High telecommunication costs for business impact on competitiveness, and many of the poor who have gained access find usage unaffordable. The recent bout of load-shedding to manage an electricity-generating system with insufficient margin and aging equipment brought harsh focus on the consequences of a policy choice premised, among other things, on cheap abundant electricity and a view that the private sector would want to invest in the sector configured as it then was.

Current conditions would seem to pose the question whether the emphasis that "Moving South Africa", the 20-year plan for the country's transport, put on road transport did not lead to insufficient attention to rail.



These examples bring various messages. Not only can the environment change in ways that require policy review, or policies have unintended consequence, but our policy environment is also a global one. On the one hand, that means that we can benefit from the best practice of others. But it also requires a capacity in the state to discern when prevailing international consensus around policy applies to our conditions and when it does not.

4.2.4 The global context

Five years ago, the world was entering a period of increased tension with regard to the institutions and trends of global governance. Slow but steady advance towards multilateralism contended with the unilateral impulses of a newly unipolar world. Uncertainty around global terrorism and the response to it combined with unresolved differences over trade issues to make for a fragile international outlook. At the same time, opportunities to advance the developmental agenda in global discourse, and in particular the African Agenda, were being taken.

Today, many of the same tensions and uncertainties and unresolved issues remain, as do the opportunities for African advancement. The reform of the institutions of global governance remains work in progress, though the need is now more universally recognised. While it has proved easier to win international commitments to positions favouring development than to secure action to fulfil them, the advances made are real.

In the past five years, global economic developments have come to assume a new prominence.

The prospect of more than half the world's economic activity being in Asia by 2025 suggests the impact of the development of China and India, in particular, on the global balance of economic power. More broadly, the countries of the South will assume a new collective weight which favours development. Africa's own long-term development will give it greater possibility to assert its interest through strategic relationships. In this context, the advances made in strengthening South-South relations and in establishing IBSA will be of strategic advantage.

Within Africa, the likelihood is that there will be shifts in the economic weight of different countries.

While the specific causes may in future differ from the current combination of a financial crisis and an inflationary trend in commodity prices, periods of global economic turbulence can be expected from time to time. In particular energy, food and commodities threaten to constrain global growth and poverty reduction. But contained in each challenge is an opportunity for the world, and South Africa, to chart out a new paradigm of development premised on environmental sustainability and more productive use of land.

Related to these factors, the issue of climate change can be expected to have prominence in global affairs and to require also the attention of the developing world.

