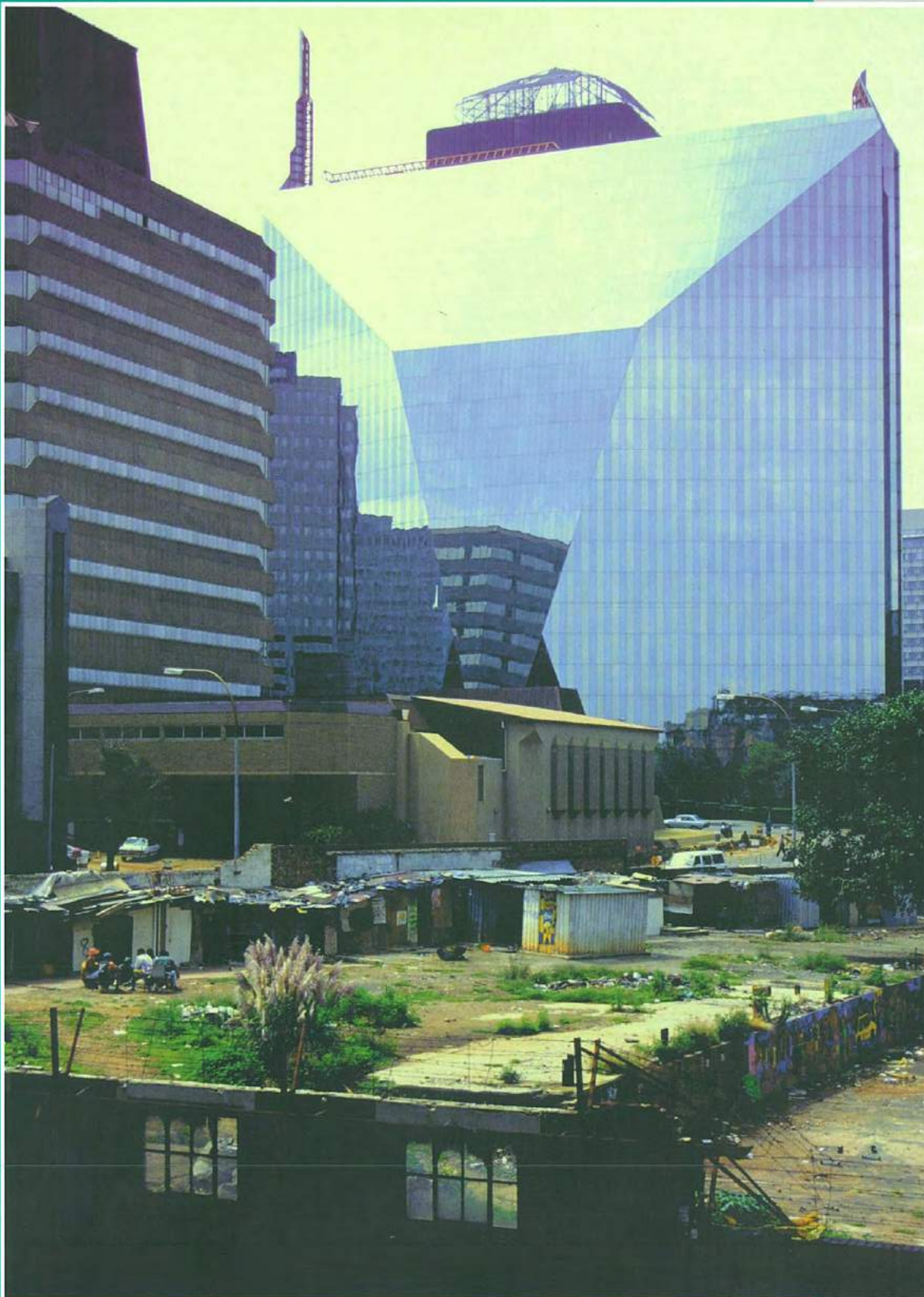


POLICY-MAKING IN A NEW DEMOCRACY

South Africa's challenges for the 21st century

ABRIDGED



THE CENTRE FOR DEVELOPMENT AND ENTERPRISE

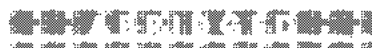
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This reflects an ongoing commitment on the part of the company to support research from a variety of institutions so that policy decisions can be based on reliable data and information.

The SAB respects the professional and editorial independence of the CDE and the other research organisations it may support from time to time. Nevertheless, the views expressed in this study do not in any way purport to be those of the SAB.

CDE RESEARCH
POLICY IN THE MAKING
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**POLICY-MAKING IN
A NEW DEMOCRACY**
South Africa's challenges
for the 21st century



THE **C**ENTRE FOR **D**EVELOPMENT AND **E**NTERPRISE

Johannesburg
August 1999

CDE Research: policy in the making is a vehicle for disseminating the results of research as well as suggested policy options on critical national challenges. Each issue is based on in-depth research, involving numerous specially commissioned papers written by experts in the field.

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The report is based on work done by CDE itself as well as 20 research papers commissioned from experts in chosen fields. In addition, the report is built on more than 140 interviews with senior decision-makers, and a review of more than 30 government green and white papers.

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ABOUT THIS PUBLICATION

This publication is an abridged version of the CDE report *Policy-making in a new democracy – South Africa's challenges for the 21st century*. This study is the product of a unique two-year research project involving more than 140 interviews and 20 specially commissioned research papers. This abridged version has been prepared in an effort to make the main document (which is longer and more detailed) accessible to a wider audience of decision-makers.

In preparing this abridged version, every effort has been made to present the essential argument as comprehensively as possible, and also to present some of the most relevant research evidence. However, those with a direct interest in the issues raised – or who wish to see precisely how the arguments were developed from the considerable body of research underpinning them – are urged to consult the full-length document, which is available from CDE.

The material in this abridged version is presented in the same order as the main study, thus making it easier to cross-refer between the two documents. As in the main document, sections 1, 2 and 3 contain CDE's key research findings, and section 4 spells out the policy challenges facing the country's new leaders.

INTRODUCTION

The policy challenge



The key issue we are trying to address – in a spirit of constructive analysis and positive proposals – is how well the ANC-led government is dealing with the many challenges that face South Africa as we enter the 21st century

INTRODUCTION

South Africa has come a long way since the first universal adult franchise election of 1994. An interim constitution – negotiated before the election – has been transformed into a final one. The old patchwork of provinces and homelands has been transformed into an integrated nine province system. Semi-chaotic administrative and financial systems are starting to settle down to the task of providing services. Parliamentary practices have been modernised, and the upper echelons of the public service are now far more racially inclusive. The high budget deficits of the early 1990s have been brought down in line with the macro-economic discipline of the Growth, Employment and Redistribution (GEAR) strategy, announced in 1996.

At the output level there have been significant successes in the provision of housing, electricity, water, postal services, and telephones. Transport policy has been updated, using an intelligent combination of public and private sector inputs. The revenue service has been modernised and collection rates have improved. Interestingly, these accomplishments have often been matched with a realistic sense of limitation and unsolved problems on the part of the government. A political and social system that incorporates self-criticism is one in which an active search for progress can be expected.

Few would deny that daunting challenges of institutional and policy development remain. Local authority development – started relatively late – has a considerable distance to go. An appropriate balance has to be struck between demand and supply factors in integrating more South Africans more fairly into the labour market. In this respect, the slow progress in the education and training system must be a cause for concern. Above all, South Africa's economy needs to grow more quickly. Real per capita income increased between 1993 and 1996, but in both 1997 and 1998 the economic growth rate was well below the population growth rate, and most economists predict the same for 1999. It will take further skilful policy development and firm political will to combine public and private sector resources so as to reverse economic stagnation or deterioration. A rapidly growing and dynamic entrepreneurial class will be essential, as will appropriate public institutions and policies.

The prospect for policy success depends on two factors: a realistic assessment of state capacity, and a careful assessment of the full consequences of policy initiatives. These factors are often not fully appreciated: state capacity is often overestimated or (less frequently) underestimated. Too often policies can be thought of either in terms of their symbolic political appeal or in terms of their direct first-order effects only. What pleases crowds now may turn out to be much less satisfactory in the medium or long term.

Why this report?

*'It is not enough to declare markets free or to rely exclusively on the government's developmental efforts. A new strategy is needed – one that recognises the strengths and weaknesses of each. The challenge ... is to make both the market and the state work better.'*¹

As a private sector-funded organisation, CDE is deeply involved in the debates on the role of business in South Africa and its responsibilities in making the country a success. It has recently completed a major study of the role of the private sector in economic development and the consolidation of democracy, particularly in newly democratic societies. It is currently completing a second comprehensive study examining the role of corporate South Africa in the country's transformation. This report will include a critical analysis of large corporations, their contribution to the country, and the difficult challenges that face the private sector in helping to drive South African economic growth and democratic consolidation.

In this report CDE turns its attention to the public sector. Together the two studies will pro-

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'For free market reforms to work, government institutions must also work

vide a unique resource for those interested in South Africa's development in the first years of the new millennium.

We are convinced that, though welcome, the move towards freer markets in developing countries across the globe does not 'magically solve the problems of poverty and under-development'. The state needs to intervene less in the economy, play a facilitating rather than a direct role in many cases, and change its style, but it cannot and should not disappear. The government inevitably remains a principal actor in macro-economic policy-making, infrastructure, development and social programmes – not to mention policing, justice, defence and foreign policy. Successful liberalisation requires highly skilled management of the privatisation process, policies that promote and protect competition, and the sophisticated regulation of newly freed capital markets and banking systems, to name but a few essentials. 'Reinventing government' requires sophisticated internal management, accountability and subcontracting procedures. For free market reforms to work, government institutions must also work.

For most South Africans,
'you stand where you
sit' CDE has deliberately
tried to move beyond
this constraint

Key objective

The key issue addressed in this study is how well the ANC-led government is dealing with the daunting tasks that the government itself would acknowledge to be national priorities. Thus the report is a serious attempt to come to grips with many of the changes, dynamics and challenges that face the country five years into democratic rule. It is written from a perspective that supports democracy, sees an important role for all South Africans in building a society where race does not determine an individual's life chances, and strongly believes that South Africa can become a competitive player in the global economy.

The report is also an attempt to clarify the agenda of issues that faces the new government. In our view, all organisations and leaders (public and private) must be assessed in terms of the contribution they are making to turning South Africa into an African success story.

CDE's perspective

For most South Africans, 'you stand where you sit' CDE has deliberately tried to move beyond this constraint.

The work in this report has been influenced by some important understandings: CDE's focus and interest is not party-political or partisan. Our concern is with what works for growth and development.

We believe it is grossly unfair to itemise everything that is wrong with South Africa in 1999 (crime, unemployment, the value of the rand, matric results, etc) and attribute these ills solely or even in some cases at all, to the ANC government. Some commentators are without doubt racists who have prejudged the ANC and, irrespective of the facts, are ready to clock up yet another African failure. Others are probably not racists but are so convinced of the validity of their own vision for South Africa that they can only see the negative developments in society and none of the positive achievements. It is therefore important to try carefully, objectively and fairly to isolate where this country has come from, what has been achieved, and what the government might have done differently.

A reasonable assessment of this government must take into account the appalling legacy of discriminatory 'whites-only' rule. At its core this legacy was marked by three overriding problems: an inefficient and uncompetitive economy; a disastrous education system for black South Africans; and a failed development strategy in both urban and rural areas. In addition, the new government had to deal with 10 bloated homeland governments riddled with corruption, patronage and inefficiency; a national budget in deficit, with all indi-

INTRODUCTION

cafors pointing the wrong way: a police, prisons and justice system in need of dramatic overhaul; and a national security establishment with key components essentially out of control. The depth and seriousness of this negative heritage must be factored into the assessment of government after 1994.

On the other hand, it is equally important to recognise that not everything about the 'old South Africa' did not work or had anti-democratic or racist objectives.

The tasks and challenges of government in the developing world are often more complex than those of post-industrial societies. As Robert Klitgaard reminds us: 'In much of South Asia, Africa and Latin America neither state nor market has lived up to the expectations of its enthusiasts.' This report is written in the belief that South Africa can be different. The issues criticised and highlighted here are written with corrective action rather than blame in mind.

The simple and compelling fact is that government in South Africa faces enormous challenges. It has to deal with mass poverty, great dependence on government support for welfare, deep divisions in social and ethnic identities, a low skills base, concentrations of wealth and wide economic inequalities, a low level of economic self-reliance outside of the formal economy, a modest tax base, one of the highest rates of unemployment in the world, and a legacy of one of the most sectional governments the world has known.

One may add to these challenges the fact that social discipline has been disrupted by the turbulence of the long political struggle against apartheid and the massive scope of the subsequent transition, which also intensified levels of politicisation and aspirations in the population. Sustained development, the steady consolidation of democracy, and the quality of governance that both will require will indeed be unprecedented achievements. Therefore, even if this evaluation is critical it is not unsympathetic.

In assessing the first five years of democratic governance, it is important to appreciate what has not happened. And in many respects that is because of the vision and statesmanship of ANC leadership. Contrary to the fears white leaders held for generations:

black South Africans with power have been remarkably even-handed in their treatment of fellow white South Africans;

bloody ethnic conflict between the different tribes in the African population has not broken out;

radical and populist policies have not been followed or encouraged;

considerable time and effort has been devoted to addressing the concerns of right-wing Afrikaners; and

white South Africans have not been shut out of national politics or policy debates.

In attempting to assess how well the new democratic government has done, it is important to create a context for the answer to become meaningful.

Is it a better government than its predecessor? Without doubt – and by almost every measure. In terms of values, goals, output, ministerial competence, openness to outsiders, transparency and dedication, the individuals in the ANC-led government are at worst no worse than the previous government and in most areas much better.

How does the ANC compare to new governments in other countries in transition? Although this is not an issue CDE has researched, there can be little doubt that the South African leadership team is in the front rank.

How do the ANC's leaders compare with leadership in other countries? Again, the top people in South Africa compare favourably with the most prominent world leaders.

An intensive focus on government and politics can make it seem as if these are the all-powerful forces and determinants in a society. It is important to remember that what happens in individuals' lives is affected and influenced by many other factors as well. Not only do the many and diverse forces of globalisation undermine the power of governments all over the world: South Africans have also probably always had an exaggerated notion of

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A reasonable assessment of the government's performance must take into account the appalling situation it inherited from 'whites only' rule

the centrality of government in any case. So for CDE it has been important to assess and understand government and South Africa's challenges in a wider context of influences. All these issues need to be taken into account in reading what is in many respects a tough and critical report.

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Sustained development, the steady consolidation of democracy and the quality of governance that both will require will indeed be unprecedented achievements. Therefore, even if this evaluation is critical it is not unsympathetic

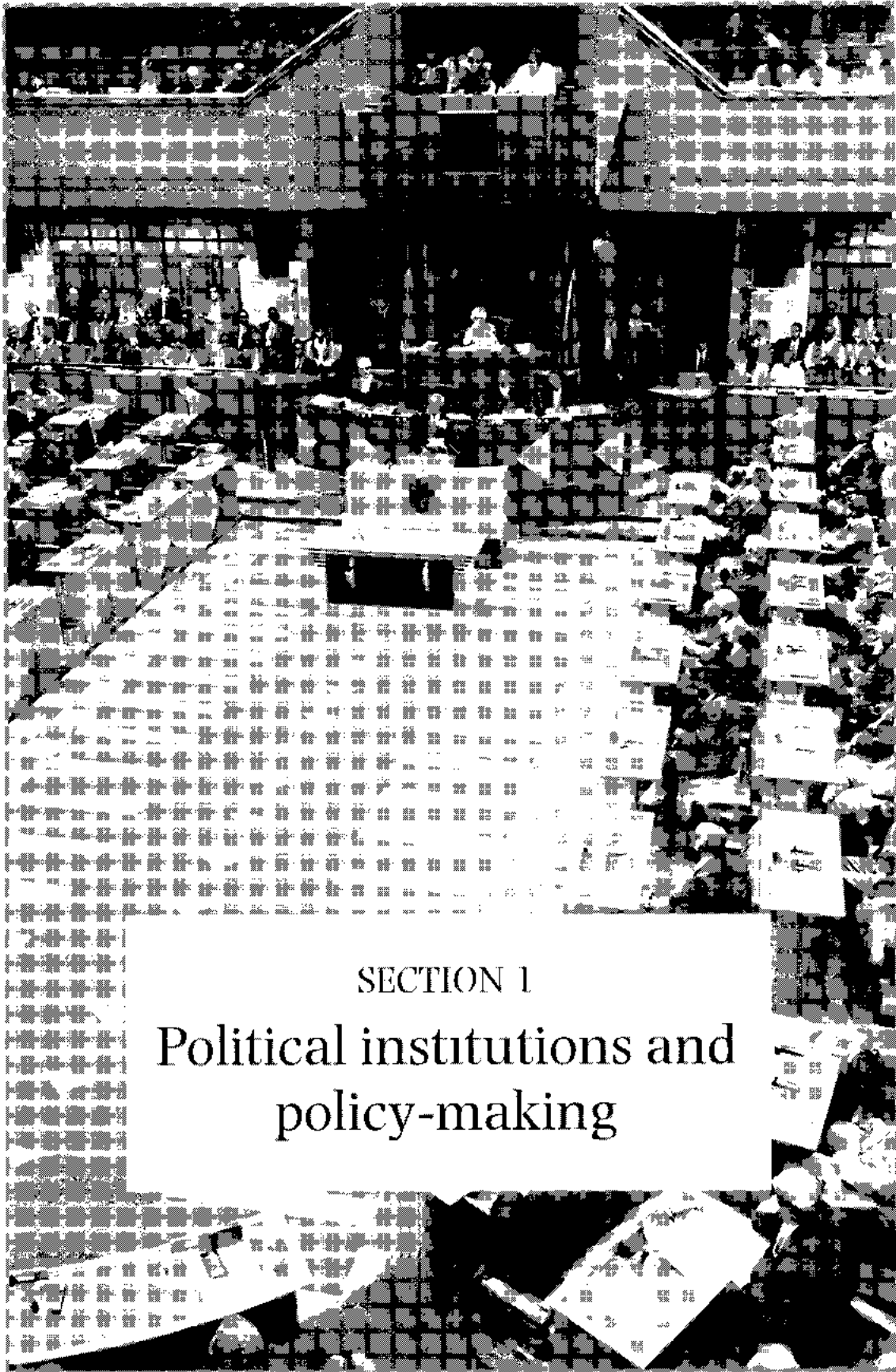
Research method

This study is the result of extensive research and analysis undertaken by CDE itself, and commissioned from the country's leading political, economic and sociological analysts. This involved:

- 20 specialist research papers commissioned from leading experts;
- personal interviews with more than 130 of South Africa's senior decision-makers. These included 12 cabinet ministers, 6 deputy ministers, 6 directors-general, four directors, 32 senior government officials in various departments, 10 key advisers and consultants to government and parliament, 15 other MPs, seven chairs of parliamentary portfolio committees, 10 MECs and MPLs, senior business economists and NEDLAC negotiators, and more than 30 'off the record' sources, primarily key members of the government at the time;
- CDE's analysis of more than 30 white and green papers;
- drawing on numerous other CDE projects involving diverse policy processes – local government, migration policy, urban strategy, small business development, small towns, displaced urbanisation – with government and private sector participation;
- two experienced journalists were contracted to conduct highly focussed interviews with 14 senior people in government, including cabinet ministers and directors-general, senior ANC officials and others;
- and finally, the principal author of this report spent time talking with senior cabinet ministers, MPs and others.

All this research has been combined in this study. Where necessary, additional in-house research was undertaken to supplement the findings. Incremental drafts of this report were then tested outside CDE in six successive rounds of debate and discussion.

The scope of the project has meant that it has not been possible to research every theme as intensively as CDE would have liked. However, we have always tried to find counter-indications and balancing evidence before drawing conclusions.



SECTION 1

Political institutions and
policy-making

'Who is assessing the quality of a minister's work? It is done according to personal relationships rather than output ... How many ministers have been fired for incompetence²¹

In this section we briefly summarise our research findings on some of the key institutions in the South African policy-making process. Before doing so, it is important to place the research and the findings and comments that follow in a proper context.

THE GOVERNMENT'S ACHIEVEMENTS

Any post-apartheid government would have been faced with a long list of essential actions. First and foremost, a new legal and constitutional foundation had to be laid for a non-racial and democratic society. This had to be followed by the amalgamation of previously segregated and racially divided bureaucracies and state institutions. And in the process of doing both, assumptions about government and governance needed to be modernised. In all these areas the government has notched up achievements, and made progress.

In the economic arena the democratic government has set South Africa on a more decisive, potentially successful and globally competitive course than its predecessor. With respect to delivery, the government and parastatals have provided essential new services to millions of South Africans. In the fields of housing, electricity, water provision, telecommunications and welfare, actions on an impressive scale have transformed the quality of life for large numbers of neglected and deprived South Africans. In the first five years of ANC rule the government has managed the complex politics of a diverse and divided society with great skill. It has opened up new opportunities for many South Africans, both black and white. Its second and increased election mandate of 1999 is confirmation of an adroit domination of South African politics, and the faith of voters in its ability to lead the country and build a better future for all citizens.

No one could expect a perfect record, and mistakes have been made. Nonetheless, the first five years of 'majority rule' have been impressive, and better than very many expected (see box: **The need for balance**, page 16).

Criticism in the context of achievement

CDE's report must be placed in this context of recognition of the government's achievements. Our aim has been to understand and document selected areas of change, and look to the additional challenges that face the country's government. Now that we are – thanks in large part to the ANC's efforts – a non-racial and integrated country, how do we build on these achievements? How do we consolidate our democracy, which depends on decisive leaders, a growing economy, and an effective state? How do we move as rapidly as possible to create an economy that will provide jobs, opportunities, and a better life for an expanding population? How do we ensure that the provision of water, electricity and other services is sustainable and affordable to those who have it, and that provision is expanded to the many millions still without? This study recognises what has been achieved thus far, and then goes further.

The nature of policy analysis is necessarily evaluative. The role of independent institutions is to raise the difficult questions, and to look at the bigger picture. CDE would be failing in its obligations as a responsible institution funded by national resources if we were anything but honest on how we see the areas of weakness in the country. Our primary area of work has hitherto been in development, and what urban and rural strategies are required to improve the quality of life of poorer South Africans. We have moved beyond that in this study because we are convinced that the ingredient that is absolutely essential for South Africa to deal with poverty is economic growth. And that, in turn, requires a more effective state.

Because the ANC is a democratic and open government, we are confident that our work will be read in the constructive 'nation-building' spirit in which it has been undertaken, and its findings and implications fully debated

The cabinet has generally not functioned as an efficient and cohesive instrument of government

This report should be seen as a positive contribution written in the spirit of democratic participation. Because CDE is committed to the president's goal of building a truly great African nation, we are concerned about the challenges that face the country. It is because CDE is impressed with the ANC government's achievements thus far and its resilience as a movement with capacity for growth and change that we have invested the effort and resources in this extensive study. And finally, it is because the ANC is a democratic and open government and movement that we are confident our work will be read in the constructive 'nation-building' spirit in which it has been undertaken, and its findings and implications fully debated.

KEY INSTITUTIONS

We now turn to the country's key political and policy-making institutions. Here we are going to be candid and critical, engaging with the issues in a spirit of robust debate. This examination is not comprehensive – for example, we do not deal with the constitutional court or the Reserve Bank – nor is it exhaustive. Nonetheless, this section covers some of the most important institutions and processes at work in our new democracy.

The cabinet

In broad terms, our research indicated that the cabinet has generally not functioned as an efficient and cohesive instrument of government. There is a view in some quarters of government that cabinet and overall policy co-ordination could be much more effective. Alan Fine, the experienced journalist who undertook a series of interviews with more than a dozen senior members of the government, concluded in late 1998 that: 'Many challenges

The need for balance

In reading CDE's critical (and necessarily not exhaustive) analysis, it is important to bear in mind the government's signal achievements in the first five years of democratic rule. Among other achievements it has:

- laid the legal and constitutional foundations for a non-racial and democratic society, and entrenched a culture of fundamental human rights;
- restored the dignity of millions of South Africans;
- amalgamated the previously segregated and racially divided bureaucracies and state institutions;
- started the far-reaching process of modernising South Africa's system of government – displaying a sophisticated awareness of global trends, and the need for South Africa to catch up with international best practice;
- by promptly addressing critical problems among minorities, the government has prevented the instability many predicted with remarkable gestures of reconciliation being made time and time again;
- overseen the opening up of institutions to public scrutiny and participation;
- removed race (and often gender) discrimination from the provision of housing, health, welfare, education and services;
- set inclusive and commendable goals in almost all critical areas of national life;
- facilitated the emergence of a new middle class;
- achieved the transformation of public institutions more rapidly than anyone had expected;
- placed national issues that had been neglected for so many years firmly on the public agenda;
- recognised the importance of sound urban development for the national economy;
- successfully overseen nation-wide local government elections and the country's second 'free and fair' general election; and
- displayed a strategic sophistication other sectors in our society (components of business and sectors of the media, for example) have not.

SECTION 1: POLITICAL INSTITUTIONS AND POLICY-MAKING

are dealt with on an ad hoc basis, and consensus on even the most basic concepts and practices is far from settled.

With a few notable exceptions, cabinet members have not performed at the level required to meet the challenges facing the country in critical areas of delivery. Our interviewees reveal that the cabinet has lacked focus and leadership, a finding confirmed by the Presidential Review Commission in its report in 1998. In general, ministers have not been held accountable for their performance against strict criteria, and as one of our interviewees pointed out ... there are not many clear, critical self-assessments by ministers of their progress'

Relationships between ministers and senior public servants have not been easy. In many departments, ministers and officials – old and new – have not worked as a team. Many newly appointed public servants in senior positions will readily admit to their own lack of experience in running large and complex administrative systems. There have been some impressive exceptions, but even the politicians will readily acknowledge this reality. Surviving officials of the old order, some of whom had competence and experience to offer have – according to one close observer – generally been made totally ineffective. Although the ANC government brought considerable new talent into the higher echelons of government, many of the most experienced individuals had been lost to government by the close of the five-year period.

According to some cabinet ministers and senior officials there are indications that race could once again become the most important criterion for promotion and appointment in the public service.⁴ This raises serious questions for the government's realisation of its commitment to a non-racial country, its desire to enhance delivery and achieve global competitiveness. All these objectives will require merit appointments in a country already short of skills (see box: **The South African cabinet and policy making – insider perspectives**, page 18).

Many in government believed their own propoganda and never did the detailed systematic analysis essential for good policy-making

Policy-making

Although it is difficult to generalise about the details of processes across the country's 27 different government departments and the associated provincial governments as well, it is nonetheless possible to make some general comments. With some exceptions – notably the departments of finance, transport, trade and industry, welfare, housing – performance with respect to policy design and implementation has been enthusiastic but weak.

In the enormous effort that has gone into reviewing old policies and formulating new ones since 1994, each department has done this using different methods, styles and people. Many of the new policy players in government did not have the requisite skills or experience to bring to bear on the policy analysis and policy making process. According to Job Mokgoro, current director-general of North West province and former professor of government at the University of the Western Cape, speaking in late 1998: 'There is a glaring absence of policy analysis skills as well as policy analysis practice ... (this) strongly emphasises the need to introduce policy analysis skills in government as a matter of urgency.'¹³

With hindsight it is possible to identify a number of critical problems and flaws across the broad spectrum of government policy. The process of white paper production, other policy documents and attempts to actually implement these policies exhibit worrying characteristics. These include:

An inadequate distinction between policy advocacy and policy analysis with the result that many in government believed their own propoganda and never did the detailed systematic analysis essential for good policy making.

Inappropriate models: many of the policies that influenced new politicians and officials

were models and ideas derived from highly industrialised, rich countries. How these would be applied, implemented and sustained in a middle income developing country had not generally been thought through. Conversely in some departments the models most influencing policy makers were other countries in Africa and the rest of the developing world. The differences between South Africa and these societies had also not been fully considered.

A number of policies have been initiated by national government, apparently with no consideration given to the enormous financial implications associated with these reforms

A failure to apply the key components of policy analysis and how these analytic steps help policy makers to make sound judgements about responsible policy interventions. Policy analysis is a structured way of thinking about choices before deciding on a particular course of action. When this has occurred it has generally been a rare phenomenon in government. The reason for undertaking such policy analysis is that it provides for the use of tools which enable rational and informed choices about the best course of action, given a number of alternatives: it helps policy makers to identify clear reasons why one course of action is preferable to another: it enables officials to assess the strengths and weaknesses in a policy – before implementing them – and therefore whether to support them or not. In the words of the director-general of North West province: 'The gaps between multiple policy reform initiatives introduced since 1994 and implementation of these policies seems to be due to policy management capacity shortcomings in government.'¹⁴

Inadequate linkage between policies and budgetary constraints: A number of policies have been initiated by national government, apparently with no consideration given to the enormous financial implications associated with these reforms. There are many examples of this. The most recent one is the Basic Conditions of Employment Act which has

The South African cabinet and policy-making – insider perspectives

- A senior cabinet minister criticised the 'knee-jerk tendency' to defend any minister who comes under public attack. He felt it was essential to separate the merits of the case from unnecessary racial sensitivity. 'This spirited defence of ministers (education, health) means that it is difficult to re-examine what has gone wrong.'⁵
- The RDP, later complemented by GEAR, is the closest government has to an overall policy. But neither is perceived to offer the answers to key questions about strategy or implementation and the priorities required if policy is to push in the same broad direction. One senior official points to the 'very different quality, grades and approaches of white papers. Put them together and you wouldn't think they come from the same government.'⁶
- One official suggests that what is needed is a performance contract between the president and each minister, similar to those that have developed between many directors-general and ministers, which specify in great detail what is required of them.⁷
- In the view of the director-general of North West province, 'because of the need to speed up transformation a plethora of white papers have been produced, and yet best practice principles require prioritisation, focus, and identification of small wins.'⁸
- The outcomes of the policy process have been variable. Overall, though, it is fair to argue, as many of our interviewees did in different ways:
 - 'White papers reflect the lack of any real analysis. Typically what they say is: This is where we need to get to, but there is no thought about how to do it. The gap between policy and reality was filled by legislation, often with unintended and contrary outcomes'⁹;
 - 'There is a tendency to put out policy documents which are aspirational or semi-speculative in nature, generating unrealistic expectations'¹⁰;
 - 'Cabinet committees increasingly deal with legislation which has become a surrogate for policy'¹¹
 - 'Ministers failed to set policy priorities, and subjected departments to a constant stream of new demands. Objectives are not matched with capacity, and energies are dissipated. There is generally a lack of strategic focus.'¹²

See main report, section 1

now had fundamental questions of affordability raised by at least the North West province, Transnet and the Chamber of Mines.

*A lack of appreciation of the system of government that had grown up in South Africa over decades, with a tendency 'to destroy everything that came from the past, whether it was good or bad.'*¹⁷

A tendency to govern by legislation rather than sound administration. The ANC in government has been characterised by an increasing volume of legislation – well over 300 pieces of legislation, many of which have yet to be implemented. A good example is the justice ministry which has promulgated numerous pieces of legislation with the purpose of combating crime. Most of it unnecessary. Crime is rampant not because of a lack of legislation but because a badly administered criminal justice system cannot properly apply the laws at its disposal.¹⁸

The assumption that good intentions will automatically result in good policies. Although significant progress has been made in a number of sectors, it is hard to see how much of this will be sustained or many of the projects maintained (see box: **Can the government's delivery successes be sustained?** page 20).

Although significant progress has been made in a number of delivery sectors, it is hard to see how many of the projects will be maintained

Government has been characterised by an abundance of policies on almost every possible issue. Many of these (not all) have not been sensibly thought through, nor budgeted properly or the consequences of their implementation and effect actually anticipated. Effective policies need people specifically charged with implementing them, with clear targets and accountabilities. Where delivery has occurred it will often not be sustainable in future years. In some areas irreversible damage has been done to state capacity and skills which will be hard to replace. Frequently policy actions have failed to capitalise on the strengths of the society with grand, often well intentioned ambitions resulting in little that is durable.

By contrast, the areas of real achievement stand out by comparison. One such example is the South African Revenue Service, whose operations have been transformed in a 'quiet revolution' since late 1997 when the service became an autonomous institution. In line with international best practice the country's tax base has been broadened; VAT administration improved; additional revenue generated through 'concerted in-house forensic investigations'; tax recouped through the recent mutualisation of the large insurance companies; and progress made in the ongoing review of the country's tax system. The result is that in 1998/9 all expectations were exceeded when R 183.6 billion was collected, R4.4 billion more than the original budget of R 179.2 billion (see main report, section 2).

Parliament

South Africa's parliament has started the process of modernisation. For the first time all the country's citizens are represented in its chambers. The representative nature of MPs is hampered by the form of proportional representation, with MPs having no direct link to voters and constituencies. The simple PR list system of electing MPs in South Africa has severe negative consequences. Without constituencies to represent, or constituency voters to elect MPs or throw them out, a critical component of representative democracy is missing. There is too little incentive for public representatives to really make the effort to listen to ordinary voters, and then in turn to infuse this knowledge and concern back into parliamentary work and debates.

Parliament is strengthened when MPs have a greater connection with and knowledge of how the work of parliament affects ordinary people's lives. Constituency MPs are also liable to be more independent of party bosses, as they have to worry about being elected by voters and not just selected by head office and other activists. The ANC (and other parties) in parliament are not close enough to the voters, and this weakens both the institution and the

party. In the absence of urgently needed constitutional change there are immediate practical steps the ANC could take to ensure greater connection and accountability of MPs to voters. CDE's main report has detailed suggestions of how this might be done. (See main report, section 3) In addition to these immediate practical steps to make MPs more accountable and available to voters, serious and urgent thought must go into the feasibility and mechanics of a mixed PR and constituency system for South Africa.

The powers of the parties and their leadership are reinforced by the provision preventing MPs from changing parties without losing their seat. 'Many MPs are simply voting fodder as the whips become increasingly effective and organised'¹⁷ The result of these provisions

Can the government's delivery successes be sustained?

Although significant progress has been made in a number of delivery sectors, it is hard to see how many of the projects will be maintained. Development has to be sustainable. One cannot arrive in a community and provide it with electricity, water or a clinic without thinking hard about the following questions:

- Who will maintain the facility when the department, utility or aid agency moves on?
 - Who will pay for the staff needed to maintain the facility?
 - Was this project a priority for the community in question, and does it feel it owns the project?
 - Were the incomes of local households taken into account when the project was designed and repayment costs determined?
 - What is the impact of development on the relationship and distribution of power within a community or among men and women, and the impact of this on the project?
- These questions are now being asked about numerous areas – including water, electricity and health clinics – in which the government has achieved some success.

A 1999 report by Mvula Trust, South Africa's largest water NGO, notes that 'despite well-publicised successes of the water and environmental sanitation sector, unease among practitioners about the sustainability of recently completed projects grows'.¹⁸ A detailed evaluation of 77 projects concludes:

- 'It is dishonest to blame communities for non-payment when so many schemes are clearly unaffordable.'¹⁹
- 'Cost recovery is very low throughout the country.'²⁰
- 'Most projects have survived because of considerable subsidies from government.'²⁰
- 'The health impact of evaluated water supply projects has been negligible.'²¹
- 'The sector's almost total lack of monitoring and evaluation has proven to be crippling.'²²
- 'The transfer of responsibility [for future sector management and infrastructure development] from the

department of water affairs to local government is problematic, especially if local government is going to have to take responsibility for the unsustainable projects that plague the sector.'²⁴

- 'It is better to have a working scheme that does not meet current departmental guidelines than a high tech scheme that collapses once external support is withdrawn.'²⁴

The Mvula report concludes that 'a paradigm shift is clearly required within [the department] ... good practice should not be judged on who builds the most impressive technically sound scheme but rather on who implements a scheme that is affordable and operational over time.'²⁵ In response, the minister of water affairs, Kader Asmal, acknowledged that one of the problems facing the department was 'understanding the challenges faced in keeping water schemes running effectively once they are built'.²⁶

The developing world is littered with projects funded by outside agencies – 'parachute development' – which intervene, provide a poor community with a relatively sophisticated facility, and then leave. Almost without fail, observers report within a year or two that the project no longer works. Why? The outside agency never considered whether the community had the skills to maintain the water pump, sewerage system or whatever; whether the community had the financial or technical resources or management capacity to staff or maintain the facility; and whether individual households or the community as a whole could afford the service delivered; or whether the outsider's priority was also that of the community's.

So the sustainability of any development programme is a complex question but one that has to be thought about before designing the programme. Development programmes must be viable in very poor communities over a long period of time. Anything else will fail.

See main report, section 1

SECTION 1. POLITICAL INSTITUTIONS AND POLICY MAKING

and the balance of party-political forces is that the South African parliament is not as close to ordinary voters – their aspirations, priorities and complaints – as it should be. In practice the legislature tends to be weak when compared with the executive arm of government, but this consideration should not minimise its potential ability to influence policy-making in more subtle and nuanced ways. Parliament has begun to carve out an important role in terms of law-making and acting as a public watchdog over the executive in the areas where the portfolio committees are strong.

This raises the question of whether the ANC caucus will start to operate as a more independent entity, with internal party debates spilling over into the public arena. Close observers report that many ANC MPs are hesitant to use their influence and power to critically evaluate the performance of the executive.²⁸ 'We are still coming to grips with how parliamentary oversight corresponds or co-ordinates itself with executive authority.'²⁹ Will the ANC in particular put more pressure on its MPs to play a real constituency role so that the impact of legislation on ordinary citizens and communities feeds into parliamentary debates? This issue is of course not unrelated to the space for internal democracy within the ANC and in parliament.

Will the ANC continue to allow and expand the role that opposition parties and outside interests can play in influencing government policy and legislation? Will the ANC government allow more scope and power to parliament in holding ministers and senior public servants accountable to parliament (and through them the voters) for their actions? Will the race of critics become a bigger barrier to open discussion of issues and different approaches to meeting South Africa's challenges? One parliamentary observer has noted: 'While the ANC ostensibly welcomes opposition politics and rigorous parliamentary debate, there appears to be disconcerting limits to its tolerance. Its MPs have on occasion resorted to labelling opposition politicians as racists if they disagree with their viewpoints. This has had the unfortunate consequence of emphasising the protagonists' racial backgrounds instead of the real issues in the debate.'³⁰

The provinces

In assessing the state of South Africa's provinces it is important to bear in mind that this level of government has borne the brunt of both the institutional reincorporation of the bantustans and the legacy of deprivation, neglect, patronage and corruption at the heart of that unjust and unworkable system. Insufficient thought and attention was paid to this burden in the design of the nine provinces, especially in the first few years of the new government.

South Africa's negotiated constitution resulted in an uneasy compromise between federalism and a unitary state. There is a lack of clarity over the precise function of provinces in the South African system of government and policy-making. This debate has been obscured by the significant lack of governing capacity in the provincial tier. The provinces have not been meaningful participants in the policy-making process. They have acted primarily as implementing agencies for central government departments, with very uneven results. Many senior people in the provinces felt that they were wrongly portrayed by the 1997 Ncholo report as abject 'failures' rather than as people in an extremely difficult position 'struggling to come to terms with an enormous set of challenges'³¹ In many respects, central government has formulated broad policies on its own and then expected the provinces to implement these – an unsatisfactory situation, with mainly negative consequences for democracy and delivery.

There can surely be little justification in the expense of a full-blown elected second tier of government in a country such as South Africa unless there is real space for the provinces

.....
In addition to these immediate practical steps to make MPs more accountable and available to voters, serious and urgent thought must go into the feasibility and mechanics of a mixed PR and constituency system for South Africa

to play a meaningful part in policy-making and to provide useful places for experimentation with different policy options and implementation methods. It remains to be seen whether provinces can develop this role and function.

It should be noted here that often central government is judged by the actions of the other spheres of government – provincial or local. Although not part of the areas examined by CDE in this report the importance of successful local government in achieving a better quality of life for all South African cannot be overstated. (See other CDE publications on local government issues and challenges)

The capacity that the interests in NEDLAC have to block each other has resulted in fudged compromises at a time when the economy needs dynamic initiatives

The National Economic, Development and Labour Council (NEDLAC)

One of the key institutional policy-making innovations of the new government has been the establishment of NEDLAC as a forum for 'the big three' – central government, organised labour and (predominantly) big business – to negotiate selected areas of national policy. This has proved to be a more complicated exercise than perhaps its initiators originally imagined. Some agreements and initiatives have come out of the NEDLAC process, and there is no doubt that considerable networking and relationship-building has taken place under its auspices. However, NEDLAC has not been able to provide the country with an accord on economic growth, and it looks unlikely that it will be able to do so.

Circumstances in the country have changed radically since the corporatist ideas behind NEDLAC took shape. The most important changes relate to the power and authority of the

Some strategic questions about NEDLAC

- In their research report for CDE, two union-aligned authors conclude that NEDLAC 'provides the institutional basis for national actors to engage with the new global order' in a process of 'bargained liberalisation', which will involve opening up the economy but presupposes that it is possible to influence the terms upon which this is done, and to establish new rules of the game to regulate this engagement.¹² In a country that has lost some 500 000 formal jobs over the past five years of democratic rule, and where an annual growth rate of 5 per cent (nowhere near being achieved) would not yet dent the backlog of unemployment, 'bargained liberalisation' would take place, if at all, at the pace determined by some of the most privileged workers in the developing world, at the cost of millions of the poorest South Africans.
- Does NEDLAC give already well-organised actors even more 'voice' and weight in public life when South Africa desperately needs to hear 'the unorganised', silent or weaker voices in national debates?
- NEDLAC is an imperfectly representative institution where big government, organised labour and organised business (dominated by big business) make decisions, many of which directly affect the vast number of interests not represented at NEDLAC negotiations (small business, informal business, unemployed workers, consumers, provincial and local governments etc) and generally those least able to afford the cost of the trade-offs involved in the deal-making.
- The dominance of the NEDLAC or bargaining approach to public policy influence has diverted business attention away from the implications of democracy for public participation in policy-making. Business-funded organisations supportive of GEAR or NGOs promoting market values and approaches are notably underrepresented in the plethora of new organisations lobbying parliament, with, in many cases, considerable success.
- The grand arguments for NEDLAC as a form of ethnic pacting in South Africa become more and more implausible every day that black business eats into the previous white monopoly on capital.

See main report, section 1

government; the speed and demands of reintegration into the global economy; the relaxation of exchange controls; and, with the spread of democracy throughout the society, the increasingly unrepresentative nature of the participants in NEDLAC. Key government policies – notably GEAR – have been decided outside NEDLAC forums. The capacity that the interests in NEDLAC have to block each other has resulted in fudged compromises at a time when the economy needs dynamic initiatives. Therefore, NEDLAC's importance as a forum may be on the wane. Critical questions arise for government and business (and others) concerning its importance in their strategic game plans for the next five years (see box: **Some strategic questions about NEDLAC**, facing page).

Lobbying

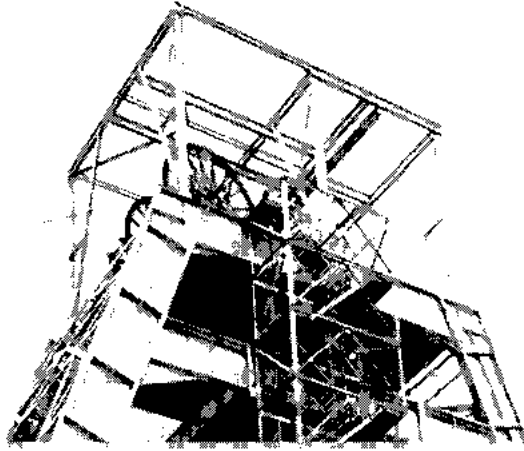
The onset of democracy in South Africa has seen the growth of lobbying which is presently totally unregulated. This takes place in formal and informal ways, and is centred on both parliament and the executive. It is important to note the openness of the democratic government to outside influences. The country is witnessing the emergence of new forces that include active interest group lobbying (eg for and by disabled persons), public interest organisations and professional lobbyists. At present this is dominated by left-of-centre groups often funded with international money, with older welfare organisations and market-friendly interests less conspicuous around parliament. Organisations from the private sector have had to adapt their lobbying strategies to a new democratic environment, and response has been slow and uncertain in many areas. A number of mainly left-of-centre organisations have been much quicker off the mark, and are having an impact on the legislature. There are sufficient examples to illustrate that there is room for well-researched, professional and strategic inputs into the South African policy-making process.

Other policy influences

In addition to the formal and informal domestic influences on policy, there are other players as well. These include international business consultancies (often in alliance with South African firms); international aid organisations and consultants from their countries; multilateral institutions, from the World Bank to UNICEF; and foreign governments with their ambassadors and country experts. In addition, considerable resources have been provided for international travel by government policy-makers.

.....

Does NEDLAC give already well-organised actors even more 'voice' and weight in public life when South Africa desperately needs to hear 'the unorganised' silent or weaker voices in national debates?



SECTION 2

Policy implementation



The two case studies were chosen because of their intrinsic importance as well as their centrality to the government's programme and South Africa's success. Other areas of government policy – including migration policy, local government, universities, urban and rural strategy and the development of small towns – have been analysed in depth in other CDE publications.

In this section we examine two areas of government activity in considerable detail. We have chosen these examples because of their inherent importance as well as their centrality to the government's programme. CDE has elsewhere looked in considerable depth at other areas of government policy, including migration, local government, universities, urban strategy, rural strategy and small towns. We will also shortly be publishing a series of reports on housing, welfare, unemployment and other social policies.

CASE STUDY 1 PUBLIC SERVICE TRANSFORMATION

The democratic government inherited a public service whose structure, composition, culture, values and priorities needed fundamental reform. The country's public service had to be reconstituted after the 'separate homeland' and 'coloured' Asian and 'white' divisions of the recent past. The new political regime understandably also wanted at least some senior public servants who understood its political programme, and were unreservedly committed to it.

It would be a mistake to underestimate the enormous task that faced the new political incumbents in 1994. The director-general of the new department of public services and administration, Dr Ncholo, described how the government officials 'were faced with the multiple challenges of restructuring the public service, while simultaneously trimming it down, extending the reach of the public service to previously underserved communities, while adhering to a commitment to fiscal discipline and simultaneously creating representivity.'¹

The government put considerable effort and energy into the public service and made progress on some issues. The enormous task of amalgamating the numerous previously segregated administrations and creating a unified approach to the public service in terms of the constitution has been accomplished. Discriminatory and inequitable personnel practices have been addressed and legislation drafted for the creation of a new human resources and management framework.

All that being taken as given, it is nonetheless the case that the government set itself far too many change objectives, all of which needed to be tackled simultaneously. Radical interventions took place without a clear plan of 'attack' often at the expense of delivery. According to some senior civil servants, a critical question that was never properly debated and certainly not resolved was whether to 'restructure and then transform (racial composition)' or 'transform and then restructure'.

In addition to inheriting many critical problems, well-meaning but indiscriminate and hastily implemented new policies have also reduced government's strategic options and undermined more fundamental public service reform goals. The pursuit of rapid 'internal equity' through efforts to narrow the wage gap and other reforms have resulted in a rapid escalation of the long-term costs of staff restructuring. These have affected the system of incentives within the public service, resulting in an inability to retain or attract scarce, highly skilled and experienced staff in key areas. The government's new labour regime has been extended to the public sector, with the result that public servants are now becoming the labour movement's fastest growing constituency. The impact on public sector 'restructuring' is already being felt in discussions on privatisation, wage determinations, and overall rationalisation.

The result is that government has been unable to make the public service a more efficient and cost-effective institution. In February 1997 president Mandela questioned 'whether we are making any headway in transforming the civil service to becoming a public service in fact?' His answer was in the negative. In February 1998 he returned to this

The government set itself far too many change objectives, all of which needed to be tackled simultaneously

problem and his conclusions were depressingly similar: Put in simple terms, we need to cut spending on personnel...government is not an employment agency.¹⁵ In February 1999 the president was again unable to report any substantive progress: 'Last year we spoke of the need to cut expenditure on personnel, as part of reducing a bloated civil service and changing its orientation. The commitment remains.'¹⁶

What was missing in this area of policy and implementation was a strategic choice about the priorities of reform and the sequencing of those priorities within a very clear understanding of the nature of the system government was attempting to change. Much greater attention to thinking through, analysing and testing the possible consequences of any action was sorely necessary to prevent avoidable mistakes.

To its credit, the government initiated two far-reaching, critical and forthright investigations and evaluations of their own performance in many aspects of provincial and national public service activity – the 1997 Ncholo report on the provinces, and the 1998 Presidential Review Commission (PRC) on government more generally. Findings from these two reports are disturbing:

'Functionally there exists what many have described to us as a vacuum at the centre of government. Somewhere between the offices of the president and the deputy president and between these and the departments lies a space ...

'Concerns about weaknesses at the centre of government were a recurring theme ... especially in the structures and practices of inter-governmental relations leading to poor co-ordination within and between different departments and spheres of government, creating an incapacity to implement national programmes and a consequent failure to deliver basic services.'¹⁷

... 'There seems to be a lack of consensus on a common and shared vision. Instead, a plethora of visions have been developed by departments and provinces, often quite different from each other in content, context and direction ... [these] appear to have been inspired by different interpretations of the new constitution, the RDP, the white paper [on the transformation of the public service], and more recently GEAR.'¹⁸

The PRC confirmed many of the Ncholo report's findings on public service problems in the provinces, including 'widespread confusion over the differing roles of the political and administrative leadership'¹⁹ a 'lack of accountability'²⁰ and a 'lack of skilled staff capacity, high vacancy rates, poorly managed disciplinary and misconduct procedures, and protracted appointment procedures'²¹

The critical next steps are to learn from and act decisively on the lessons derived from these two reports and the overall experience of the past five years.

The South African public service currently delivers too little and absorbs far too much of state resources. The government has to carefully and strategically think through the new role of the public service in order to achieve a coherent approach to 'right-sizing' and building a lean and focused politically neutral state, dedicated to providing services to all citizens. How to 'bite this buller' in a country with expanding unemployment is only one of the critical challenges facing the new government.

Progress in the public service is critical to achieving the economic, social and delivery goals of the ANC government, which are shared by the majority of South Africans. The answer to the public service dilemma relates as much to economic strategy (and our second case study) as it does to management skill and political courage. This issue again

According to the then Free State premier the province's enormous numbers' of supernumerary staff was a big problem 'because we have to abide by national policy and there is no national policy'

— *Main report, page 76*

The public service and the poor

... if the government damages the efficiency of the state service, whether by real affirmative action or patronage under cover of affirmative action, the chief losers will be the poor. By the same token, if the government improves the quality of the state service by eliminating both the narrow recruitment base and the featherbedding practices of the old regime, if it creates a public service genuinely open to competitive recruitment on merit and demanding real performance on the job, the poor will be the main gainers. There have so far been moves in both directions and it remains to be seen which will prevail.²²

See main report, section 3

SECTION 2: POLICY IMPLEMENTATION

relates to the wider policy debate. The government needs to clarify the appropriate roles of the state and the private sector in the context of this society and its limitations. It needs to ensure that all members of the cabinet are 'on board' and ready to apply these principles and an accompanying strategic approach to downsizing to their departments.

As such a high proportion of public servants work in the provincial governments, the ANC has to communicate its new approach to the role of markets and the state and the implications of this, to its key political leadership in the provinces as well.

As in other areas of policy change, the government would do well to build on some key principles with respect to the public service:

- understand the system thoroughly before trying to change it;
- think through the consequences of intervention before embarking on radical change;
- prioritise policy choices within budgets;
- clarify the principles governing the role of the state in a new mainly facilitative role;
- devise a workable transformation plan with a few manageable objectives;
- ensure the entire cabinet (and provincial premiers) are 'on board';
- get the incentives right;
- uphold merit criteria, and where the need for transformation contradicts such criteria, intensify training rather than allowing standards to drop;
- do not re-establish the public service as a place for employment based on patronage;
- build a new culture of service, public interest and accountability rather than entitlement;
- communicate the approach clearly, simply and consistently to all who have to implement it; and
- act boldly, confident in the knowledge that the vast majority of South Africans share the goals and objectives the government is trying to achieve (see box: **The public service and the poor**, facing page).

The government should act boldly with respect to public sector 'right-sizing' confident in the knowledge that the vast majority of South Africans share the goals and objectives the government is trying to achieve

CASE STUDY 2 GEAR AND THE COHERENCE OF GOVERNMENT POLICY

With respect to GEAR the government adopted an sound new policy direction. It should be credited with doing so, and sticking to its policy in difficult circumstances. Having said that, however, CDE's research indicates that the government has failed to really 'follow through' on the GEAR initiative for economic reform (see box: **GEAR score card**, page 30).

The opening of the South African siege economy in the 1990s revealed serious structural weaknesses which required urgent attention. Contrary to many people's expectations, there was a very modest 'post-apartheid dividend' and the new government was soon confronted by serious economic challenges.

The adoption of the Growth, Employment and Redistribution (GEAR) strategy in 1996 was an important new move in the right direction for South African economic policy. It was a continuation of the shift in ANC economic policy throughout the 1990s towards greater acceptance of the market, and represents a bold step on the part of ANC leadership.

Unfortunately the plan itself was hastily constructed, using rather oversimplified models and setting unrealistic targets. In some important areas the government has steadfastly held the line for fiscal discipline, and the importance of these achievements should not be underestimated. However, in other critical areas it has failed to follow through and ensure compliance with its own stated objectives. In the wider context of the rest of government policies, it has adopted and implemented policies that directly undermine the GEAR strategy.

GEAR score card¹⁴

This score card is an attempt by CDE to assess the major elements of the GEAR policy. Because some aspects of performance have been well beyond the government's control, the achievement rating must be complemented by an assessment of the commitment of the government to improve, maintain or defend the performance or the objectives, as set out or implied in the GEAR policy. This is not an exercise in precision but rather an attempt to gain a bird's eye view in the very broadest terms, of the policy and its implementation.

	Achievement	Commitment	Comment	What do you think? Add your comments here ...
ECONOMIC ELEMENTS				
Framework and goals	✓	✓	If anything too optimistic	
Deficit targets	✓	✓	Improved revenue collection	
Lower interest cost	X	?	Plans to manage interest rates	
CPI / inflation	✓	✓	But plans for inflation targets create uncertainty	
Government dissaving	X	?	Efficiency targets compromised	
Government investment expenditure / policy	X	X	Economic infrastructure static or deteriorating	
Private savings	X	?	Tax on retirement funds / high personal taxes	
Tax as % of GDP	X	X	Government tends to add taxes and levies to basic tax / income tax high for middle incomes	
Corporate taxes	✓	✓	Recently reduced to 30%	
Government wage bill	X	?	Efficiency and transformation not always compatible / downsizing sluggish	
Export growth	X	?	Requires more competitive production	
Privatisation	X	?	Too many conditionalities for rapid progress	
Employment growth	X	X	Labour laws neutralise objectives	
GDP growth	X	✓	Disappointing, but government not solely to blame	
SUPPORTING POLICY AND PROCESSES				
Investor confidence	X	?	Allows political rhetoric to create uncertainty	
Human resource development	X	?	Very mixed objectives in education policy / poor performance / training initiatives belated	
Access to efficient health care	X	?	Overloaded agenda and mixed objectives reduce performance	
Sustainable welfare	✓	✓	Very disciplined approach	
Housing	✓	✓	As positive as can reasonably be expected	
SMME development	X	X	Revenue service penalises business in VAT regulations. State schemes not effective	
Promotion of tourism	✓	?	Support for SATOUR disappointing	
Skills retention	X	X	Government appear complacent about the brain drain	
Rural development	X	X	Land reform emphasises redistribution rather than agricultural development	
Crime and corruption	X	?	Policy generally positive but high priority initiatives not sustained	
KEY: Positive: ✓ Negative: X Ambiguous/uncertain: ?				

International experience of economic reform

In 1994 an international conference was held to examine 13 countries that had undertaken successful and unsuccessful processes of economic reform since the 1960s.¹⁵ It pointed towards a growing consensus on the principles and policies upon which economic reform must be based. However, there was 'much less understanding, let alone consensus, on the political process through which economic reform can be achieved' ¹⁶.

Reading through the case studies and discussions around each country, the numerous areas of agreement seem to resonate with the South African experience. The following were identified as critically important strategic factors in successful reform:

- effective economic reform requires a political strategy as well as a practical economic programme:

- a political leader committed to reform, unambiguously opposed to corruption and able to communicate a credible vision of what the reformed society will look like is essential to sustain support:

- a core team committed to reform, working with the leader, and placed at the critical political-administrative heart of government is vital:

- successful reform requires a reasonably comprehensive programme, rapidly implemented, which 'advances on all fronts' reforming the labour market as well as freeing up trade and capital markets;

- governments that have changed their economic policies have built new political alliances to support these policies:

- reforms must be sustained until they can bear fruit;

- there is a critical link between economic reform and social policies for the poor:

- the middle class is an essential group for reform to be sustained and succeed:

- selected programmes must be launched to build allies for the reform programme among different groups, particularly those most hurt by the reforms initially and who were often most disadvantaged by the previous regime; and those whose active support for reforms are critical to their success – the middle classes (investors, skilled managers etc).

- powerful communication strategies using the entire cabinet are important ingredients in success:

- introducing the reforms is less difficult than sustaining political commitment to a tough programme. It is important to ensure the early emergence of politically significant beneficiaries as allies for reform; and facilitate a wider institutional climate of opinion and expertise in public and private sectors (media, think tanks, professionals, universities) to support and give impetus to the reform process:

- reform must open new opportunities for citizens, and they in turn must know about these opportunities and credit the reform policies for positive changes.

In short, international experience shows clearly that successful reformers have a plan, a strategy for implementing reforms sequentially and successfully; a strategy for building the political support necessary to sustain the reforms long enough for them to deliver; and a game plan within government for successful development and implementation of the reforms. Of course, luck (as well as timing with respect to global developments) is also important and they cannot be planned for, but a country can make some of its own luck by following a sound strategy.

An assessment of GEAR

This strategic concentration of policy energy is precisely what the ANC government has not achieved. It has undertaken certain actions, but has not done all the other things necessary

With respect to GEAR the government adopted a sound new policy direction. It should be credited with doing so and sticking to its policy in difficult circumstances. However CDE's research indicates that the government has failed to really 'follow through' on the GEAR initiative for economic reform

to achieve higher fixed investment and competitiveness with the same sense of urgency and purpose.

CDE's research indicates that:

The government has notched up some significant achievements, particularly with respect to lowering the deficit, maintaining long-term exchange rate stability, reprioritising expenditure towards welfare and social services, and reforming the budget process.

GEAR and contradictory policies in labour, health, education and home affairs departments

Some government policies appear not to be co-ordinated or integrated with GEAR.

- **The department of labour:** Research commissioned by CDE indicates 'there is a fundamental inconsistency between the policies pursued by the ministry of labour and the vision embedded in GEAR'¹² Labour market policies fit broadly into the high-wage, high-productivity (and consequent low-employment) growth strategy favoured by COSATU and others on the left. As such, they contradict the GEAR goals of labour-intensive growth and rapidly expanding job opportunities for the poor, the vast majority of whom are unskilled and hence need low-skill, low-productivity jobs (see *main report: GEAR versus the minister of labour*).

The department of health: This department has sponsored policies hostile to an industrial sector (pharmaceuticals) in which South Africa has a recognised competitive advantage and is experiencing high levels of FDI. It declined to participate in the department of trade and industry's pharmaceuticals cluster designed to improve the international competitiveness of the sector (although it has recently had some involvement with a new initiative with similar goals). Its attempt to eliminate brand names was deemed unconstitutional, and the department has assumed powers to abrogate patent rights, permit parallel importation and overrule recommendations of the Medicines Control Council. Respected commentators argue that this renders intellectual property law ineffective. The department's approach to the sector has contributed to the country losing an estimated 3 000 jobs in the last 36 months and worsened the investment climate by fuelling uncertainty and resentment among multinationals. The pharmaceutical sector is one example of a more general failure in the health department to achieve the optimum relationship between the public and private sectors for effective delivery; and achieve the right balance between the needs of the poor and international competitiveness. (see *main report: GEAR versus the minister*

of health: the case of the pharmaceutical industry).

The department of education: The formal education system is the primary site of investment in human capital, and success in this area is a precondition for long-term growth. Broadly speaking, the focus and actions of the department have harmed rather than facilitated the objectives of GEAR. The department has been prolific in policy-making since 1994, but the evidence suggests that little of this policy has managed to come to grips with the crises facing all levels of the education sector. The state is struggling to implement much of the policy package, and little progress has been made towards furthering either of the goals mentioned in GEAR, ie improving both quality and equity in education (see *main report: GEAR versus the minister of education*).

- **The department of home affairs:** Immigration policy remains confused and contradictory on the question of skilled immigration. While the issue is not directly mentioned in GEAR, it represents a missed opportunity to help overcome one of the major obstacles to its success, namely an acute lack of skills in the economy. Many companies around the country including foreign firms are having serious problems getting work permits for the technical staff they need to bring in to South Africa to run their operations and train local staff. Currently there are strict controls over the entry of skilled people into South Africa. People in professions or technical areas where a shortage can be demonstrated, and individuals with a substantial amount of money to invest, are allowed in. This ignores the pervasive skills shortage and the need for people with demonstrated entrepreneurial talents and skills. The new white paper on migration, addresses some of the issues relevant to the skills shortage but does not go far enough in removing obstacles to skilled immigration and has yet to be translated into legislation (see *main report: GEAR versus the minister of home affairs: skilled migration*).

See main report, section 2

SECTION 2: POLICY IMPLEMENTATION

Overall, however, there has been a serious lack of follow-through with respect to key issues such as labour market flexibility and privatisation. And in the process of re-prioritising the budget, capital investment on infrastructure and expenditure on essential economic services has declined from an already low base.

The government has also allowed the adoption of numerous new policies that directly contradict the aims and objectives of GEAR (see box: **GEAR and contradictory policies in labour, health, education and home affairs departments**, facing page).

GEAR suffers from significant omissions, such as a focus on human capital development and a complementary development strategy. These areas of policy could have been used to build bridges with those most likely to oppose market-based economic reforms. (See box: **Why is human capital investment not a higher priority for business and government?** this page).

The government has not prioritised sufficiently those aspects of the domestic environment that threaten to undermine or even derail GEAR (crime, corruption, schooling, training, local government).

Until recently there has appeared to be a remarkable lack of strategy by government as a whole with respect to selling GEAR and neutralising its opponents. Criticisms from the left were insufficiently anticipated, and once they occurred were allowed to go unchallenged for too long.

A communications strategy with respect to GEAR and its implications seems not to have been developed or implemented. This is essential for all government departments, provincial and local government, the ANC itself and society at large.

GEAR has been an important government policy, but not the core driving factor in the ANC government and national leadership.

The achievements in the fiscal field are contradicted by increased labour rigidity, very slow progress in privatisation and human resource development, and an investment policy that

The link between economic policy and all other government policies must be defined and enforced

Why is human capital investment not a higher priority for business and government?

The absolute numbers of apprenticeship contracts registered in South Africa has declined steadily over time since their peak in the early 1970s. Even in the presence of a growing population, the absolute number of apprenticeship contracts issued has been on a steady decline.¹⁸

In *Social Equity and Job Creation*, COSATU claimed that South African business on average invests only 1 per cent of their payroll in training.¹⁹ A 1996 survey commissioned by NEDLAC²⁰ estimated this figure at 3,3 per cent and a recent CDE survey of large corporations has found that South Africa's biggest companies are spending about 3,5 per cent of their wage bill on training.²¹ Whatever the exact figure, this is even less than the averages for industrialised OECD countries with established quality education systems (4 per cent) not to mention the 7 per cent average for the Asian Tiger economies.²²

The 1997 World Development Report, ranked South Africa 90th out of 175 countries surveyed in terms of human

development.²³ The 1997 Global competitiveness report ranked South African labour 52nd out of 53 countries in terms of labour skills and productivity.²⁴ In the third international mathematics and science study by the International Association for the evaluation of educational achievement (1998), South Africa's matric pupils came last out of the 21 (mostly industrialised) countries measured.²⁵

A 1995 survey found that 34 per cent of 1 000 South African organisations surveyed were unable to find the skilled or managerial staff they sought.²⁶

This issue is not only serious and pressing but it deserves a much more central role in the debate on South Africa's growth strategy. Human capital development should be seen as more than a long-run concern, to be attended to once a range of more immediate issues have been dealt with. Rather, it may well be one *sine qua non* for South Africa to realise a transition to a higher growth path than it currently enjoys.

lacks real thrust and dynamism. The slow progress in increasing the productivity needed for global competitiveness has been achieved largely as a result of labour rationalisation. The promotion of small business and entrepreneurship has been limp, and instead of a drive towards excellence, emphasis has been placed on the premature promotion of scores of inexperienced people in key strategic state roles in the economy. The government has depended far too much on elaborate and complex spatial development and corridor initiatives, some of them in remote parts of the country and outside its borders, while the urban centres of the economy are experiencing deteriorating or insufficient infrastructure and underutilised fixed investment. Equally slow progress characterises the implementation of public-private sector partnerships, with the result that private capacity is under-utilised. Often a dirigiste rather than a co-operative and consultative approach on the part of the authorities concerned has resulted in decisions which were not supported by the investment community.

Consequently, and most importantly, GEAR has not been able to stem the haemorrhaging of formal jobs, nor has it been sufficient to occasion a new stream of either domestic or international investment in productive activities in South Africa's economy.

Reserve Bank governor issues strong warning

*'Government can force business people to do many things, but it cannot force anybody to stay in business.'*¹²⁷

Key economic indicators 1989-93 versus 1994-8

- The average rate of growth in total domestic product increased from 0 per cent in 1989-93 to 2 per cent in 1994-8. At the same time growth in gross domestic expenditure changed from a negative 0,5 per cent to 3,5 per cent a year. Demand can, for obvious reasons not be allowed to grow so much faster than production for too long. 'A big challenge for the South African economy is therefore not to stimulate demand, but to increase the production capacity of the economy. We have a supply-side problem.'¹²⁸
- The rate of change in total fixed investment in the country switched from an average decline of 2 per cent in the first period to positive growth of 7,5 per cent in the second period. 'In 1998 gross domestic fixed investment was equal to 18 per cent of GDP which was not enough to create jobs for the natural annual increase of more than 2 per cent in the labour force. We need to invest about 23 per cent of GDP every year to keep up with the growth in population.'¹²⁹ Over the past five years however gross domestic saving as a percentage of GDP declined from an average annual rate of 19 per cent to 16 per cent. In 1998 total saving had declined to only 14 per cent of GDP. 'The gap between the minimum required fixed investment and domestic saving is therefore increasing. South Africa is becoming more and more a nation of consumers that do not save enough to

finance economic development in the country.'¹³⁰

- As a result of these structural trends in domestic production, expenditure and saving, imports are rising as percentage of total national income and the deficit on the current account of the balance of payments is increasing. From 1989 to 1993 the current account showed an average annual surplus equal to R5,2 billion but over the succeeding 5 years it changed into a deficit of R8,1 billion.¹³¹
- South Africa is becoming progressively more dependent on net inflows of capital from the rest of the world, needed to fill the growing saving/investment gap and balance of payment deficit, making the economy more vulnerable to the periodic net capital outflows as experienced in 1998.¹³²
- One of the more serious consequences of these structural deficiencies is found in the employment record. In the adverse conditions of 1989-93, total employment declined by 1,3 per cent per annum. In the more favourable environment of the past five years, this rate of decline in employment increased to 1,6 per cent per annum.
- Despite this decline in employment the rate of increase in average real salaries and wages per worker accelerated from 1,8 per cent per annum to 3,9 per cent per annum (above the rate of inflation). On this path 'the only way for South Africa to remain labour competitive in a very progressive world environment is therefore to reduce the number of workers and force productivity per worker higher through retrenchment.'¹³³
- Although relatively strict disciplines were applied with both monetary and fiscal policies over the past five years, there

The need for continuing and intensifying economic reform

In order to place the debate about GEAR into its appropriate context it is important to understand the seriousness of South Africa's economic situation. According to Dr Chris Stals, governor of the South African Reserve Bank, the opening of the South African 'siege' economy since 1994 has revealed some serious structural weaknesses which 'require urgent attention'.¹⁷ In his view it needs to be accepted that 'the longer-term solution for the South African economic dilemma does not lie in the restoration of stability in the world financial markets or in a new upswing phase of the business cycle or in the stimulation of demand through an easier monetary policy, but rather in fundamental structural economic reform'¹⁸ (see box: **Reserve Bank governor issues strong warning**, facing page).

The government should not hesitate to update GEAR from time to time to bring it into line with new international and domestic realities. This also helps to create a dynamic image for macro-economic policy rather than it being seen as something which was done at a particular time because there was pressure to produce it. The new government must revisit GEAR and strengthen the drive for successful economic reform that will provide the opportunities and resources we need as a country.

is no reason for complacency. The average annual budget deficit of the central government increased from 4,3 per cent of GDP in 1989-93 to 5,7 per cent over the next five years. Government revenue as percentage of GDP (the tax burden) increased from 24,9 per cent to 25,6 per cent and government expenditure from 29,2 to 31,3 per cent. This means that in the 1994-1998 period government's total involvement in the economy increased further.³⁵

- The average rate of inflation declined from 13,6 per cent in 1989-93 to 8,1 per cent in 1994-98 but at the level of about 8 per cent per annum, inflation in South Africa is still about three times the average rate of inflation in the major industrial countries of the world – from where South Africa imports the main part of the goods and services we cannot produce ourselves
- In light of the relatively high consumption in the country, the relatively high increases in average wages and salaries, the continuing deficit in the budget and the high inflation rate, monetary policy must remain restrictive. The average prime overdraft rate of banking institutions therefore stayed at 19 per cent throughout the past ten years.

These economic realities have serious policy implications. In the Governor's view:

'These structural deficiencies need urgent attention. The economic challenges for the country have now become of much greater importance than the need for socio-political reform.'³⁷ GEAR provides a sound basis and consistent programme for economic restructuring, but – in the words of a prominent international banking group – the programmes will

have to be implemented 'with less timidity and more aggression.' And 'the need for speedy implementation has increased substantially since the proposals were first tabled in 1996. The global economic environment in which we must now operate is more demanding than before.'³⁸

The more aggressive implementation of structural reform programmes will in its own right contribute to an improvement in overall confidence. This is however not the full panacea. 'Trust and confidence are being eroded on a continuing basis by the escalation of crime and violence; by the almost regular occurrence of corruption and rumours of corruption in public service; by increasing threats of more government regulation of and controls over the economy; by uncertainties about longer-term economic objectives and policies.'³⁹

In his view recent threats for example to regulate the margins of banking institutions; to force banks to make more loans available to small businesses or for housing purposes ('cronyism'); to impinge on the independence of the Reserve Bank in the execution of its stated mandate to protect the value of the currency, all contribute to the decay of trust and confidence. Many more examples of a similar nature can be quoted in respect of other sectors of the economy.

*'South Africa needs an early and unequivocal commitment from its new government after the 2nd of June 1999 to the principles of the market economy.'*⁴⁰

Strategic considerations

Is it possible to get 5–6 per cent growth while haemorrhaging professional skills and making it difficult and costly for foreign skilled people to participate in the economy?

In adopting a difficult and ambitious but essential programme of economic reform, the government needed a comprehensive programme and political strategy. Their absence has resulted in GEAR delivering less than might have been achieved and in its being attacked by those opposed to its core principles, with few vocal or influential allies in favour of GEAR outside the then deputy president and the two key ministries. Politically and strategically, the government's approach to the implementation of GEAR has been weak; it has been defensive on GEAR from the outset. For an organisation with an historically deft touch in the communications field, the government has not communicated effectively enough (nor widely enough) on the necessity for GEAR as a precondition for sustainable growth and development.

GEAR and the approach to government strategy that it embodies had to be placed right at the centre of government policy. Unfortunately this did not happen, and the programme of economic reform became one among many policies rather than the hub around which all other policies had to revolve. This resulted in the contradictory policies in different departments referred to above, and mixed messages from the government. All CDE's research (including extensive analysis of recent ANC documents) leads to the conclusion that there remains an inherent ambiguity about full-blown market economics (and capitalism and capitalists) within the ANC leadership and movement, and this has been reflected in how GEAR has been handled (see main report, sections two and three).

Do not misunderstand CDE on the question of merit and race

*'The debate is not whether one should have a programme to redress ethnic inequalities, but what kind of programme should be adopted to address these issues.'*¹⁴⁷

- Across the range of transformation policies, employment equity involves the greatest gamble on the medium and longer-range outcomes. It is a necessary gamble, but, given the potential losses, skilful hedging tactics are vital.
- In the light of the cautionary facts presented in CDE's main report, employment equity and empowerment programmes would probably have more positive medium and longer-run effects if they were to place more emphasis on training, mentoring and small business development than on targets of representativeness at this stage.

*'The costs of affirmative action are made higher when policy-makers neglect an essential feature of any programme to reduce inequality, not just eliminating disabilities but creating abilities.'*¹⁴⁷

See main document, section 3

A full commitment to the GEAR approach requires engaging with the following difficult but crucial questions:

Is it possible to achieve an average of 5-6 per cent sustained growth with what is probably the developing world's most powerful and protected labour movement.

In whose interests does the ANC intend to govern – an urban-based elite, or the mass of urban and rural South Africans, the majority of whom have few skills and are underemployed?

Is it possible to get 5-6 per cent growth while haemorrhaging professional skills and making it difficult and costly for foreign skilled people to participate in the economy

Is dynamic and sustained growth possible if race is a more important criterion than performance? (see box: **Do not misunderstand CDE on the question of merit and race**, this page).

Is there a new political constituency that the ANC can build, organise and consolidate that will support GEAR and the complementary social policies essential for success?

In order to achieve sustained and high economic growth, the government has to:

make South Africa one of the most competitive emerging markets in the world;

show that it is unambiguously committed to market-based growth;

reverse legislation that discourages employment throughout the economy, especially that of young first-time employees;

SECTION 1: POLITICAL INSTITUTIONS AND POLICY-MAKING

unequivocally encourage skilled professionals of all races to stay in South Africa and demonstrate the positive contribution they can make:

enthusiastically seek out and welcome skilled foreigners;

ensure that there is a core team in government committed to economic reform, and that the ministers (and top public servants) in key non-economic portfolios understand the relationship between economic growth and social policy;

although it might be politically convenient to stress the links between GEAR and the RDP it could be more effective for leaders to forcefully redefine the parameters of the development debate and create new allies for its economic strategy.

In this context, the challenges facing South Africa's government after 1999 are large. The new government will require a more intensive and comprehensive economic strategy without unrealistic targets that set the government up for failure. The link between tough macro-economic reforms and sound development strategies for the poor must be thought through and spelled out. The necessity for the middle classes to buy into the programme needs to be accepted, and its consequences dealt with. The link between economic policy and all other government policies must be defined and enforced. And the government must seize and retain the political 'high ground' from the outset.

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The link between tough macro-economic reforms and sound development strategies for the poor must be thought through and spelled out

SECTION 3
The ANC and
its president



The key question now is whether the ANC
can build on its strengths in order to deal
successfully with the challenges of
governing a complex and racially
divided society

In this section we briefly examine the ANC as the strongest political movement in the country, and one carrying the overwhelming burden of responsibility for improving the life chances of all South Africans. We have tried to understand its history, composition, and the issues that confront it in the challenge of governing the country. We then turn to look at its president, Thabo Mbeki, now president of South Africa.

THE ANC

South Africa was extremely fortunate that, when the apartheid rulers were ready to negotiate with their opponents, the ANC existed and was strong enough to marshal the resources, leadership and support needed to help lead the country's reasonably peaceful transition.

The key question facing the movement at the end of the 20th century, therefore, is how it should build on its historic strengths and depth of leadership in order to deal successfully with the challenges of governing a complex and racially divided new democracy. CDE's report examines and tries to assess the ANC from this perspective: the demands placed on and characteristics of a governing political party necessary to manage the country's system of government, and provide the required leadership and vision for the country as a whole.

Commentators on the ANC frequently fail to appreciate the pioneering nature of many of its activities and resultant dilemmas. The ANC's mission and composition puts it at the forefront in experiencing and having to deal with issues that are new to the country and its politics. For example:

How to build a mass political party in a democratic and big developing country?

What does large-scale poverty and illiteracy mean for democratic consolidation and party-political organisation?

A careful examination of recent ANC documents shows up the difficulties and contradictions that face the ANC in government in 1999. The ANC is not a political party built around common values and principles about governance. It is a loose alliance formed around a common opposition to apartheid, white rule, black indignity and deprivation; organised labour and common support for broad symbolic goals of a better life. After five years in government the ANC is an organisation that perceives itself to be the leading movement at the centre of a complex series of alliances and organisations that form in a sense a 'transformatory' front; an evolution of the former 'revolutionary' front. And this self-perceived revolutionary organisation forms the South African government, which has to implement and operate within a liberal constitution (of which the ANC is a very proud parent), and steer South Africa in an international economy that will severely penalise anything other than a strongly market-driven approach to national economic growth (see box: **Hard questions for the ANC in government**, this page).

As government, some of the ANC's own rhetoric – inherently incompatible and contradictory though this may be – has to be turned into practical policies. And the fundamental question that must surely face the government now is

'It is more difficult for backbenchers in the majority party to raise questions of their own ministers than it is for the opposition parties

Hard questions for the ANC in government

Reading through a number of recent internal ANC documents,¹ CDE is forced to ask:

- Has the ANC in government really thought through the complexities and implications of implementing a liberal constitution with their aspirations to hegemony over state, economy and society?
- Is it really possible for the ANC in government to implement a policy bias for the poor in a developing country, and at the same time assert the 'central and leading role of the working class'? What can this mean in practice when people in formal sector jobs are a minority of work-seekers in a society?
- Has the ANC in government thought through the differences between a public service that reflects the population of the country (a desirable goal) and one that actually does its job competently and honestly? There is no necessary connection between race (ethnicity or gender) and effective delivery? And racial representivity as a goal in itself contains within it apartheid assumptions about groups, their behaviour and their interests?

See main report, section 3

How does a former liberation movement imbued with a socialist world view transform itself into a political party that will turn South Africa into, in Mbeki's words, 'the world's most promising and exciting emerging market'²

whether the ANC in government has moved beyond the revolutionary marxist rhetoric (about the state, the leading role of the working class and its compatibility with a policy bias in favour of the poor) that permeates ANC internal documents and thinking. Is it really possible for the ANC in government to establish South Africa as, in Thabo Mbeki's words, 'the world's most promising and exciting emerging market'² when it still exhibits a fundamentally ambiguous and suspicious approach to business people, both black and white?

For a protracted period – the period when a basis of policy should have been laid to meet future challenges – there has been an increasing divergence in experience and world view between the ANC in government and its political allies in the alliance. Running the country's government exposed the ANC leadership to many new influences, all of which pushed them towards a new approach to economic issues, the role of the state and the market, respect for representative democracy, and the limitations of direct popular democracy or special interest groups.

The distinction between the alliance partners is a blurred one, as there is overlapping membership and leadership. In the main report, CDE discusses some of the issues involved with respect to the costs and benefits of the alliance. A critical question remains unanswered: When does the ANC as an organisation ever get a chance to meet on its own? How does it formulate its positions separate from and independently of those of its allies, enabling it to enter a discussion with those allies about the alliance's policies? (see main report, section 3). In the run-up to the 1999 elections public disagreements between components of the alliance have declined. Prominent union leaders have been drawn into government and the election has submerged overt expressions of discontent. But this trend may be temporary. If growth picks up soon the convergence may consolidate, but if the economy remains sluggish one can predict a divergence after the election solidarity.

The signs of convergence notwithstanding, there are real organisational complications and costs in having three separate movements led by the ANC, influencing each other while competing within and against each other for membership and allegiance. The costs for the ANC are carried through to the country, because of the difficulty in developing a clear set of principles and programmes around which to build a political party that can lead a competitive market economy.

An organisation in transition

In addition to the tensions within the alliance, some ANC MPs believe that the organisation has not yet fully understood, nor resolved, its ongoing transition from liberation movement into parliamentary political party. A liberation movement usually rests on a very broad general action programme that, in the words of an ANC MP 'appealed to the broadest cross-section of our movement'. This mode of organisation, which emphasises solidarity based on end goals, is hardly compatible with a situation in which the 'struggle' has been superseded by the technical and strategic specifics of running a modern and complex country. While the ANC has been able to present a remarkably unified front, with internal differences rarely spilling over into public debate, it has been at the cost of a parliamentary caucus operating under a very tight whip from the party leadership. In the words of one senior ANC MP: 'Obviously if you have a constituency system then you have a greater degree of latitude to challenge your party leadership...but we are a new regime...we feel we cannot confront our own leadership because it exposes us as a party and as a movement... an attack on our executive is an attack on blacks by whites. We are very sensitive about this: perhaps too sensitive about it.... It is more difficult for backbenchers in the majority party to raise questions of their own ministers than it is for the opposition parties.'³

The ANC has been one of the key protagonists for democracy in South Africa since its

inception in 1912. One can therefore understand a degree of scepticism on the part of the ANC when critics attack it for potentially undemocratic practices now that it is in government. Nonetheless, it is important to be vigilant, as democratic values and institutions are fragile. The ANC's dominance as a political movement in the country – a mark of its success, and not a reason for criticism – raises potential dangers for a new democracy. As international research shows, in the presence of such majorities 'illiberal democracies' may emerge, characterised by the following tendencies:

'One of the features of entrenching dominance is the steady elimination of the dividing line between ruling political party and the state, with the result that the ruling party comes to be seen and sees itself as the state rather than the temporary government.'¹⁵

A common feature of many dominant parties is the tendency to 'demonise' their opposition and portray them as opponents of 'the national project'. There is often a 'hardening of the line between the dominant party, which claims to be the regime and the opposition'. 'This often leads to a situation where voters see the competition between political parties 'not as between parties to become government but between government and others'

Dominant parties may be more prone to corruption and maladministration since they are partly insulated from voter rejection.

In this context it is critically important for the ANC to ensure a crystal-clear dividing line between the political party in power for a temporary period (long or short) and the state. Hence the importance of the debate about the independence of people appointed to constitutionally independent institutions: the importance of a vibrant and lively opposition, and the independence and vitality of debate in parliament within the ANC and between it and its political rivals; and the necessity for the lines between the judiciary and the state to be steel-plated.

Within the ANC and government it is critically important that the question of 'conflict of interest' is fully debated, and much greater clarity reached concerning what is and what is not appropriate behaviour. And finally, the definition of and penalties for the corrupt use of public office also needs to be clarified and strictly implemented. Moral exhortations about these issues are important, but the real test concerns executive action.

The risks of centralisation

These complex and overlapping internal issues and tensions have resulted in a steady increase in the degree of prescription and imposition of positions from the party centre. There has been much comment and controversy concerning the highly centralised nature of the ANC as a political movement. The ANC's national leadership, for example, has the power to nominate 75 per cent of the MPs on the party's national and provincial election lists. It nominates the ANC candidates for provincial premiers. Here again it is important to put the issues in a proper context. Although the ANC does have a history of 'democratic centralism' it is nonetheless grappling with difficult issues that do not (yet) confront other political parties in South Africa in the same way. The ANC is changing from a relatively small, highly motivated and idealistic organisation into a mass political party that offers enormous opportunities for personal ambition and material advancement. Frequently the quickest route out of poverty is to become a local political leader, and there is no guarantee that such leaders will always have the interests of the community uppermost in their minds. So how does the national leadership of a large political party deal with this?

The response which is most obvious is to centralise, as the ANC has done. This involves restricting internal democracy within the party, and allocating greater and greater powers to leadership at the centre. It is an approach based on the assumption that those at the cen-

It is critically important for the ANC to ensure a crystal-clear dividing line between the political party in power for a temporary period (long or short) and the state

Continual intervention by outsiders does not help to build strong and vibrant local structures for the ANC – which are, after all, the best protection against corruption

tre know what is best for the country in every region, city, town, village and farm ('the voters are not yet mature enough'), and that the centre has the capacity to enforce national decisions, national policies, and nationally imposed leadership. Whatever the intentions, this approach is one that evinces little faith in democratic processes and their outcomes, and inherently does not trust ordinary party members or citizens to make decisions that are best for them. At the extreme end of this approach lies 'vanguardism' and democratic centralism, the notion of a small group of people operating in the name of democracy but in fact taking decisions and enforcing them without a democratic mandate.

The other approach is to decentralise and deepen democracy. Within the framework of strong national leadership and some agreed values, objectives and codes of conduct, the organisation could decentralise itself and allow for greater provincial and local diversity to flourish within this broad framework. This approach has greater faith in democratic processes and in the ability of ordinary party members and citizens to – most of the time – make the best decisions for their own good. It is an approach that strengthens local leadership and organisation, and allows the diversity of this large country to emerge and start influencing regional and national policies and trends. It assumes a different kind of style and approach of leadership at national level, and a great commitment to building a strong organisation rooted in democratic practices and local branches. It builds the party from the bottom up – within the framework of strong national values and goals as shaped by leadership. And if bad local leaders are elected whose delinquencies stop short of the infringement of the law or internal party codes of conduct, and who consequently cannot be removed, then the role of the national leadership is to ensure free and fair internal elections at the appropriate time so that the local voters and party members can choose to 'throw the rascals out' if they want.

In the realities of everyday life, nearly everyone with power and responsibility is tempted to go the centralising route – it always seems simpler and more efficient, and sometimes actually is. There are many examples of this in large private organisations as well. And while there may be occasions when this is necessary, the pursuit of democracy requires the balance to swing heavily towards decentralisation.

The decentralised approach appears to be the more risky alternative – weak, dishonest or populist leaders can be chosen, harm local communities and bring the national movement into disrepute, and free elections might be hard to enforce – but centralisation has its risks too. National leadership can be out of touch with local supporters; it can become deaf to the different views, ideas and concerns of those who live far from the centre or who just have a different point of view. And continual intervention by outsiders does not help to build strong and vibrant local structures for the organisation – which are, after all, the best protection against corruption. It is significant that, during 1997 every time the ANC national leadership backed a candidate in open elections within the ANC the other contender won.

There is one major reason why the route of decentralisation is the lesser risk. The rank-and-file voters have demonstrated that they are remarkably rational, even sophisticated in their understanding of the problems of government. Survey results on popular expectations shows this, as have many other studies. The top leadership will find that if the factors bearing upon a tough decision are explained, their rank-and-file supporters will be surprisingly understanding. Very often it is not the people at large who will create difficulties, but the special interest lobbies and ambitious vocal activists who interpose themselves between balanced and responsible government and ordinary people. The candidates who successfully opposed the leadership in 1997 would perhaps not have succeeded if the branches were more representative of ordinary voters.

All these observations are in a sense made under a disadvantage. One of the striking things revealed by this study is how little is known and written about the ANC in South Africa. Although the ANC is adept at generating images of itself in its propaganda, as the

country's leading political organisation it has been less successful in communicating the real substance of its analysis, agenda, goal-setting and movement. The nature of the transition has meant that there are very few analysts and commentators of national credibility and independent intellectual integrity who are close to the ANC. This is clearly not the fault of the ANC, but an issue worth noting and one that it can begin to rectify. In so doing the government positions itself more powerfully as the leader of a multifaceted community. It surely does not serve the common national goal of growth to have such a wide gap in knowledge, understanding and perceptions of economic and related social issues as is currently the case between Johannesburg (representing the business centre) and Pretoria/Cape Town (representing government).

What the country and the ANC needs are diverse independent analysts who can participate in the public debate, with a well-informed understanding of the organisation and the views, perspectives and concerns of its national and regional leaders. These should not be propagandists or sycophants, but individuals of integrity who make it their business to know who is who and what is happening in the ANC. There needs to be debate between these analysts in interpreting the ANC and its actions, as well as between these commentators and those who are less close to the ANC.

Where is the ANC's new strategic vision?

It is fair to say that most South Africans no longer dispute the key goals of an ANC government, which in broad terms can be summarised as:

- improving the quality of life for all South Africans, particularly the poorest;
- consolidating the democratic institutions and practices embodied in the constitution;
- eradicating the strong correlation of race with opportunity and income in the country (provided that the strategy does not end up benefiting an elite more than the disadvantaged and hence widening overall inequality); and
- building South Africa into an African success story.

The kernel of national debate now concerns the means by which this is all to be achieved. *How to do all these things?* It is in response to this question that the lack of coherence in the ANC becomes most apparent and worrying. The question of *how* to tackle the key national issues referred to above is also the dominant political debate in the country at large, and among business and the investment fraternity.

Instead of a reasonably clear and coherent position, some nine years after this organisation was unbanned, the ANC in government remains a paradox. It is simultaneously a very strong and weak organisation. Its electoral strength is immense, and without real challenge for the foreseeable future. Its political sophistication is considerable, and probably unparalleled in South Africa's history. The organisation's national and international stature is high. Its ambitions both domestically and abroad are large. And yet the ANC is a relatively weak organisational machine in the midst of a complex transition along a number of intertwined dimensions – structural and ideological. The formal structures of the organisation are weak when it comes to policy-making. In common with many other political parties in government, ANC policy is now predominantly made by ministers and their departments, and they do not consistently operate within a framework supportive of the economy. The role of head office and the party branches in formulating, evaluating or amending policy is minimal. It is said, with some justification, that the ANC has strong political leaders but weak political management.

The 1999 election saw the ANC run a smart campaign and receive a resounding mandate from the electorate. However, it is important not to confuse good electoral politics with the ability to get to grips with the very difficult challenges of governing South Africa. It is criti-

It is critical for the country's future that the ANC's large mandate and routing of the extremes in South African politics is seen as an opportunity to be seized by the new government. Now is the time to take risks and pursue the bold policy initiatives essential for South Africa's success

cal for the country's future that this large mandate and routing of the extremes in South African politics is seen as an opportunity to be seized by the new government. Now is the time to take risks and pursue the bold policy initiatives essential for South Africa's success.

 The organisation does not have a developed and articulated theory of economic growth, nor a strategy for using the benefits of such growth to cut through the structural conditions that produce large-scale poverty

A new centre of gravity needed

We have attempted to understand and assess developments in the ANC in order to identify the characteristics and changes required for it to govern South Africa better. How does this political movement build on its achievements, and respond to the changes in its own composition and environment.

We have concluded that organisationally the ANC is in transition somewhere along the continuum from a liberation movement comprising many different components to the dominant political party in a representative multiparty parliamentary democracy, and that this has numerous practical, organisational, policy and conceptual implications. But we cannot say that the transition is nearly complete. Ideologically, the ANC is moving from a broad socialist heritage to a market-oriented and pragmatic base for South Africa's polity, but it is dragging far too many of the old ideological components and concepts of itself along with it. The two dimensions of the ANC's transition – structural and ideological – are not necessarily always in tandem, nor is the outcome of this transitional phase inevitable or easy to predict, with underlying consequences for investor confidence.

The test of the necessary coherence and political focus lies in South Africa's most serious problem, the loss of 500 000 jobs since 1994 and the highest rate of recorded unemployment in a serious economy.¹¹ Yet an exhaustive reading of ANC literature leads one to conclude that the organisation does not have a developed and articulated theory of economic growth, nor a strategy for using the benefits of such growth to cut through the structural conditions that produce large-scale poverty. This too has serious implications for the organisation, its leadership, its sense of identity and its unity of purpose.

What the country needs is a new centre of gravity for the ANC as the leading political party in South Africa's government. What is the fulcrum of policies and ideas that will inform the new government and its leadership, and provide the base around which to strengthen the party and a new alliance for growth and development?

The role of its top leadership is vital in how the ANC will respond to the challenges it faces; therefore, we now turn to its president, Thabo Mbeki.

THABO MBEKI, ANC PRESIDENT

Thabo Mbeki returned to South Africa in the early 1990s as one of a number of important ANC leaders who had been in exile. Within a few short years he had established himself as the unchallenged successor to Nelson Mandela as president of the ANC and thus the next president of South Africa. This record is an indication of impressive political skills.

In the process of establishing his political position, Mbeki has played a leadership role within the ANC on certain critical and potentially divisive issues. In the 1980s he argued for a negotiated settlement with the apartheid regime, and risked the wrath of ANC/AFK and other militants; in 1991 he led the case within the movement for calling a halt to sanctions; in 1996 he pressed for the adoption of GEAR as the cornerstone of ANC economic policy¹² and more recently he has strongly criticised elements within the alliance for behaving in ways that bring discredit to the movement and its history, practically referring to radical teachers inspired only by selfish motives and totally neglecting their duties as teachers as 'traitors and criminals'¹³ His stance on these and other issues has shown political and intellectual

SECTION 3. THE ANC AND ITS PRESIDENT

courage. In government Mbeki initiated an important review of the public service and government's own operations – the Presidential Review Commission – which was remarkably frank in its assessment of the weaknesses permeating government from the executive downwards.

It is said that Mbeki is one of the most substantial African intellectuals to have emerged in the ANC, which has long had to contend with the 'intellectual hegemony' of non-Africans in the movement.¹ He is reputed to be a man who likes ideas, who is ambitious, and who is determined to succeed. There is a difference of opinion concerning his selection of staff and confidantes. Some argue that he will not employ forceful and independent people, as he does not like to be challenged. Others say that this is not the case, and point to one or two countervailing examples. A third school of thought agrees with the latter argument, and adds that it is his judgement of people that is fallible.

Although everyone agrees he will bring a much firmer and more 'hands-on' approach to managing the cabinet and the government, some wonder if he will get bogged down in 'micro managing' rather than delegating effectively.

A close examination of some of his major speeches and policy concerns leads to some reassurances as well as some concerns. There is no doubt that Mbeki is a man who thinks about the big challenges facing South Africa, and is determined to do something about them. In general he concentrates on critical and central issues and wants to play an appropriate leadership role in a divided country. Like any politician, his approach to issues combines strong emotion with reason. However, a detailed analysis of his speeches covering issues ranging from 'transformation' to international affairs does raise some important questions about his approach to transformation, affirmative action, 'the two nations' business, opposition and international affairs (see box: **Extracts from CDE's analysis of Thabo Mbeki's major speeches**, this page).

In general, CDE's research leads to concerns which centre on:
the necessity to turn good intentions and important issues into the legislative and policy incentives that will dramatically affect how people behave;

Extracts from CDE's analysis of issues raised in Thabo Mbeki's major speeches

- Few would disagree with Mbeki's commitment to education and training and the opening of doors previously bolted to black South Africans – but this has not been the primary focus of the government's affirmative action efforts. Like India and other countries, South Africa has followed the pattern of focusing attention on the needs of the aspiring better-off in the disadvantaged group. The effect of the ANC-promoted legislation and policy thrust has been to speed up the promotion of a class of individuals who would have been the beneficiaries of a deracialising South Africa in any case. This is not a sound strategy for dealing with poverty.
- The 'two nations' speech could have been written in 1990 because it gives the ANC-led government no credit for improving the situation.
- The idea of an 'expectations crisis' is an urban myth. There is no dominant popular discontent of the kind anxiously speculated about by politicians, the media, or at suburban dinner parties (see the evidence from numerous opinion surveys in the CDE main report, section 3).
- It would be a lot more constructive if South African leaders (in the different political parties and elsewhere) moved away from talking about racial groups as though they were homogenous entities. It is time to leave this apartheid nation behind.
- What is required of the country's senior leadership is a policy debate about the choices that face the country if we are seriously to deal with probably the most important cleavage line in South Africa: the divide between those with skills and those without; those with access to educational and economic opportunity, and those without. This debate is less and less about race.

See main report, section 3

It is a misunderstanding of South Africa's needs as a market economy to see competition between black and white skills as a zero-sum game. Global success will require a multi-race, multi-class partnership in order to create the rapid opening of opportunities for mass black advancement

- the priorities he will choose as president, and how these will relate to each other;
- the strategic focus and management of the cabinet team, and in particular how non-performance will be dealt with;
- the importance he will place on economic reform, and the changes this will require to ensure its success;
- his appreciation of the limitations on delivery in the country, and thus what to focus on;
- his approach to affirmative action (irrespective of merit or experience) in key areas of delivery, and how this will affect results;
- the need for a practical strategy to deal with poverty that complements the economic strategy and is actually implemented;
- his approach to business and the private sector generally, in particular the possibility that his calls for business to display a commitment to socio-political goals reflects a misunderstanding of the way in which markets have to operate.

Some commentators argue that, after a charismatic leader such as Nelson Mandela, what South Africa needs is leader who is more in the mould of a technocratic manager. In one sense this is true. The greatness of president Mandela was found in many characteristics, but running a country and a cabinet was not among them. The country certainly needs someone who is better suited to the mechanics of government and the necessity to follow through on policies, programmes and initiatives. However, South Africa under Thabo Mbeki's watch will require a leader with vision. It will also require a leader with the ability to persuade colleagues to operate within a guiding framework, in tune with the most basic needs of the people on the ground. There is no doubt that president Mbeki has vision, but as of yet – perhaps because of the constraints of being deputy president – he has not been able to mobilise a coherent broad strategy in support of his own policy, GEAR.

Economic growth and leadership

Britain's Tony Blair has had to lead the Labour Party away from its socialist and union-dominated past. In so doing he has put considerable energy into developing a new set of ideas for his party and the country, and he is ruthless in ensuring that key members of the cabinet and party toe the new line and are 'on message'. President Mbeki will govern and lead a political party in very different circumstances from that of Britain and Blair. Nonetheless, there are some lessons to be learnt about leadership in political parties undergoing fundamental change. Leadership requires a new direction, and the language to go with it: a new philosophy or strategy must guide the new approach; a small set of priorities must be chosen and stuck to; a team of competent close supporters equally committed to implementing the new ideas must surround the leader; and a certain degree of toughness is then required to impose the new vision on the party and follow through with the chosen policies.

One perspective concerning the Mbeki presidency is that he will apply the rules of the global economy with enthusiasm to South Africa's economy, and couple this with a dramatic push towards Africanisation in every sphere of South African life. In this way, it is stated, president Mbeki will make South Africa a competitive economy and simultaneously promote rapid black advancement. However, there is a critical flaw in this way of thinking. One of the reasons South Africa is potentially a really competitive emerging economy is because of its unusually large reservoir of skilled professionals and entrepreneurs. These are the people who manage and people the world-class financial institutions, educational facilities, and engineering and other technical fields in which South Africa is highly competitive. Unfortunately, because of the country's history and the evil legacy of 'bantu education' most of these professionals are not African. Success in the global economy – rather than

mere conformity to its prescriptions – will require not necessarily a cossetting but at least an acceptance of these highly skilled people and their needs and aspirations as part of the South African diversity. It is a misunderstanding of South Africa's needs as a market economy to see competition between black and white skills as a zero-sum game.

Global success will require a multi-race, multi-class partnership in order to create the rapid opening of opportunities for mass black advancement – a delicate but vital balancing act, nationally and in the cities and farms. The latest evidence in the 1996 census of dramatic out-migration rates of precisely these highly skilled people is a worrying indicator of imbalance. New growth policies will require new social, economic and political alliances, and here again the new president will need to lead.

A second perspective that is heard with increasing frequency goes like this. In the first five years of democracy the government had to get rid of apartheid legislation and establish a new policy framework. That has now been achieved, and during the next five years it will need to concentrate on implementation instead. It is true that the first democratic government has produced a remarkable amount of policy material, and it is true that much more attention needs to be paid to actually getting things done. However, a question must forcefully be raised concerning the relevance of large parts of this body of policy to the kind of economic constraints the country faces, its ongoing capacity constraints, and the remedies needed to achieve sustained growth. Good policy does not exist in a vacuum. An ideal policy cannot be developed, with attention then being paid to real-life constraints in the course of its implementation. Good policies take all these issues into consideration at the outset, and the real-life imperfections influence the nature of the policy adopted.

A key test for the Mbeki presidency will therefore lie in dealing with the weakness of the ANC's political management where there are growing and real tensions between local communities and national leaders. (See the main report for detailed examples of this) And, in a democratic system, excessive centralisation is no evidence of strong political management. The irony of that approach could lie in the fact that an increasingly centralised party will have 'more and more control over less and less'¹³ Strong political management in a democratic system is often subtle, using influence and persuasion, providing frameworks of values and principles rather than autocratic decisions. Strong political management ensures that most of the time the leadership wins and not, as has been happening to the ANC over the past few years, that the national leadership often loses, to the point where people have to be removed through redeployment.

Power, growth and reconciliation

ANC leaders have often said that 'the ANC is in government but not in power'. In its second term in office it is important that the ANC is in power, and fully appreciates how to use that power. Within the framework of the constitution and the checks and balances inherent in that constitution, the government must use all the resources of this society to achieve national goals. So, for example, the ANC ministers should look to all the universities and other bodies in the society as feeding grounds for staff, not only old acquaintances and networks. The government must look at harnessing all the capacity of the society for the cabinet and other appointments, not just those who were prominent in the 'struggle'. Most importantly, perhaps, the ANC has to appreciate that power is not control, or a sense of ownership of society, but that in the modern global economy government 'power' rests on good management, subtle leadership and influence, and the co-ordination of resources.

No one knew what kind of a prime minister F W de Klerk would be, and on his record none would have predicted the bold about-turn starting with the release of Nelson Mandela and culminating in the election of South Africa's first black president under a democratic

Strong political management in a democratic system is often subtle, using influence and persuasion, providing frameworks of values and principles rather than autocratic decisions

constitution. Similarly, we should be cautious about predicting too much about Mbeki's presidency on the basis of his past behaviour. We should also be cautious about many white people's seemingly knee-jerk reaction to black leaders – there is a pattern of initial demonisation and then, all too often, insincere sycophancy. The challenges facing South Africa's new president are large and difficult. The country needs a strong democratic leader who will be decisive about the critical economic challenges facing the country, and the new political realities necessary to deal with those challenges. It is time for the behind-the-scenes man, the person who has had 'an enigmatic curtain' placed around him by others, to emerge.

The next five years will be critical. It is hard to picture the miracle of reconciliation continuing unless there is sustained and high economic growth. To achieve that will require a leader of government and the ANC who has not only a new vision of South Africa and the ANC, but also the organising and persuasive ability to get his party to accept the tough choices required. South Africa is fortunate to have a man of the calibre of an Mbeki to lead it into the next century. He is intelligent, and has shown considerable political skill, agility and courage. He will need to apply these talents and attributes in the new context of national leadership.



SECTION 4

Challenges for the
21st century

This report has been written in the belief
that South Africa can be a success, and
that our progress as a nation will depend
on what leaders in the public and private
sectors actually do over the next
five to ten years

This report is about the relationship between policy-making and power in the first five years of a new democracy. It has been written in the belief that South Africa can be a success, and that our progress as a nation will depend on what leaders in the public and private sectors actually do over the next five to ten years.

In this final section we draw out the conclusions, challenges and practical policy guidelines that emerge from the research.

CDE's comments in context

After the rather critical assessment of the ANC government in the preceding section, we have to refer again to the context in which this assessment has been made.

In the light of the country's past, the ANC's unavoidable inexperience in government, the appalling legacy apartheid bequeathed to the country and the difficulties surrounding transition from one regime to another, any fair observer has to give credit to a government and political leaders of which all South Africans can be proud.

Archbishop Desmond Tutu has frequently said that, 'for a bunch of rank amateurs, the ANC isn't doing too badly.' And former president Mandela has echoed these sentiments with his repeated comment that 'we were taken from the bush to come and run the country' and therefore had a lot to learn.

There have been pockets of excellence, such as Mandela's numerous 'spot-on' judgement calls, the reform of the South African Revenue Service, the impressive reorganisation of the department of transport, the determination and clarity of vision of the department of finance, and others. A number of cabinet ministers are far more talented individuals than the vast majority of their apartheid counterparts ever were. There can be little doubt that, under this government, South Africa has had one of the best economic management teams of the past 50 years. Some of the best and brightest of a younger generation of South Africans have offered themselves for employment in the public service. The ANC-dominated government has been more open to outside influences and advice than any previous apartheid government. There is a willingness to learn from mistakes, and to review its own actions. All these developments are positive and hold great promise for the future.

That said, the challenges that face South Africa at the turn of the century are enormous, even daunting. The economy has shed more than 500 000 formal jobs in the past five years; unemployment is already over 30 per cent; and there are at least 250 000 new young work seekers every year. The impact of apartheid and the fight against it have been devastating for black families and the values, disciplines and respect for human dignity that hold societies together. The consequences of this are seen in very high levels of crime, particularly violent crime and lack of discipline in schools to name only two examples. The effects of a bankrupt and excessively powerful apartheid system have undermined the honesty and integrity of many in both the private and public sectors, resulting in high levels of corruption. The educational system is in trouble: it absorbs an unusually high percentage of the national budget, but fails to deliver satisfactorily, especially for the poorest. The health sector faces enormous challenges common to all developing countries, but compounded by the high and rising incidence of AIDS with no effective government programme in sight; and the return of virulent malaria to expanding parts of the country.

There is sufficient consensus around broad goals for the government to move ahead, secure in the knowledge of its legitimacy. We have pointed out that there is overwhelming agreement on key priorities, and all parties and interest groups, including the ANC, are emphatic that the real challenge is the effective achievement of these priorities. National debate must now focus on the means by which these key goals are to be achieved.

In the light of the country's past, the ANC's unavoidable inexperience in government, the appalling legacy apartheid bequeathed to the country and the difficulties surrounding transition from one regime to another any fair observer has to give credit to a government and political leaders of which all South Africans can be proud

BUILDING A BETTER FUTURE – THE ECONOMIC IMPERATIVE

The onus for leadership and consolidating successful fundamental change in South Africa is not the responsibility of government alone. CDE's forthcoming report on corporate South Africa will examine critically the role of business in meeting these same challenges

As South Africa enters its second five-year term of democratic rule, everyone agrees that the new government must be different. In the ten conclusions and recommendations that follow, CDE is suggesting a cohesive programme of action that will – we believe – enable government to achieve its own objective of massively increasing opportunities and building a better future for all South Africans.

It is important to emphasise that the onus for leadership and consolidating successful fundamental change in South Africa is not the responsibility of the government alone. Thus CDE's forthcoming report on corporate South Africa will examine critically the role of business in meeting these same challenges.



The second democratic government must be different – more of the same will not be good enough

The extension of the franchise to all adult South Africans inevitably pushed two issues to the top of the political agenda:

Equality of opportunity, enabling all South Africans to reach the pinnacles of wealth, power and status. A key theme in the French revolution was 'careers open to talents' – similarly, Abraham Lincoln's presidency of the United States demonstrated the possibility of proceeding from 'log cabin to the White House'. The peculiarities of South African history have deferred the realisation of this standard value to the end of the 20th century.

'Social citizenship' – the requirement that all South Africans be assured of the material conditions for their effective participation in society. This requires the satisfaction of basic needs at the highest possible level.

In both fields, progress has been made since 1994. In the political and business worlds, members of formerly disadvantaged communities command significant power and wealth. And the black middle class is a clear beneficiary of changed political circumstances. Ordinary people in these communities take pride in the achievements of their most talented members. At the same time, the lives of millions of people have been improved by the provision of water, electricity, telecommunications, and other infrastructure. Central government has shifted resource allocation in the direction of social services: education, health, and income maintenance. The ANC has made its five-year record in the provision of services a central plank of its recent election campaign.

At the same time, economic growth has been anaemic. The minister of finance has pointed out that average real per capita income rose by 4.5 per cent between 1994 and 1997 – but the poor performances of 1998 and 1999 will erode much of this gain. Average real per capita income is still more than 5 per cent below the peak reached in 1975. It was possible to raise the social citizenship platform between 1994 and 1999 by making the state budget more sharply redistributive and by adopting, in some spheres at least, more efficient programmes. Further progress of this sort is possible, but in the medium and long term improvements in the platform will only be possible if economic growth is far more robust.

If GDP growth were to reach 3 to 4 per cent a year, the average per capita income would rise, and state revenue would increase. Even then, under the conditions imposed by changes in production, unemployment will continue to rise, the poverty of the unskilled classes will deepen, and overall inequality will increase. There are advocates, some within the ANC, who

create the hope that an expansion of demand will favour the less skilled and the unemployed, but both the government and the business community know that these more populist policies are unsustainable, will severely prejudice investor confidence, and contain the risk of higher inflation, which hits the poor most severely of all. Populist expansion of demand brings short-term gain at the cost of often sharp, painful adjustments later on. There is no alternative to raising investor confidence, competitiveness, and achieving a higher growth rate within the broad framework imposed by the global economy.

In the words of the governor of the Reserve Bank, it needs to be accepted that 'the longer-term solution for the South African economic dilemma does not lie in the restoration of stability in world financial markets, or in a new upswing phase of the business cycle, or in the stimulation of demand through an easier monetary policy, but rather in fundamental structural economic reforms'

South Africa has a macro-economic strategy that has set the country on a path towards the economic fundamentals essential for our goals to be achieved. However, it has not been fully implemented, does not deal with all the structural changes that are required, and many of its essential tenets are directly contradicted by other government policies. The government has acknowledged the important role of the private sector in many aspects of service delivery, job creation, and infrastructure provision.

But the policy implications of these verbal understandings have not been carried through, department by department, in any systematic or meaningful way. The government states a commitment to the privatisation of state assets, but allows sectoral policy documents to equivocate in this area. As a result, little happens. The government has privatised so few national and parastatal assets that its effect on the economy has yet to be seen, and its impact on consumer services yet to be felt. The government has adopted a policy of radical tariff liberalisation which will inevitably affect short-term employment prospects, but, contrary to sound economic advice, it has not coupled this with every imaginable freeing up of the economy so as to provide an environment in which new entrepreneurs and opportunities can flourish.

It is hard to see how South Africa will make significant economic and social progress without a further series of unequivocal and tough choices. If we are choosing a path to growth which involves international competitiveness and market driven forces, then we must take that road with resolution. High growth and maximum job creation must become the lodestone against which all other policies are tested.

POLICY GUIDELINES. A new, comprehensive strategy for economic growth is required. The country has to achieve high growth as quickly as possible. This growth strategy should be the benchmark against which all other policies are tested. A government resolutely focused on growth will require new social and political alliances.

If we are choosing a path to growth which involves international competitiveness and market driven forces, then we must take that road with resolution. High growth and maximum job creation must become the lodestone against which all other policies are tested

2 Priorities must be determined

The government's policy-making effort is huge in scope and ground-breaking in significance. Clearly, it cannot all be done at once. The government must select new priorities for the new millennium.

If the past five years has taught observant South Africans anything, it is the fatal error of trying to change or transform everything all at once. The mismatch between the country's many challenges and its capacity to respond to all of these demands is glaringly obvious. Choices must be made. Priorities must be determined and sequenced.

In the light of the country's limited capacities, it is important to focus government on a

few selected areas. The new government must choose a manageable set of priorities, and achieve lasting results in those selected areas.

Our analysis clearly shows that South Africa must set itself on an intensified new economic growth path. It must directly tackle the structures and dynamics that perpetuate poverty and inequality. This can only be achieved in the framework of an effective market economy and global economic trends. The policy of compromise and the uneasy, uneven amalgam of the ANC's socialist history and its partial market accommodations cannot deliver the growth required. More fundamental choices are needed.

Unless these choices are made and then successfully implemented, the country and the ANC's core ambitions will be fundamentally threatened. Without significant economic growth, it is difficult to see how the government will consolidate democracy, maintain racial reconciliation, establish viable local government which is critical to a sustained improvement in the quality of millions of people's lives, and make real inroads into the inequalities that characterise the country.

Without sufficient and sustained growth:

South Africa becomes a society of warring interests, with too many losers and too few winners.

The country's national sovereignty would soon be threatened as, following an economic collapse, we would need to borrow from multilateral organisations and bow to their policy demands

South Africa will lose many of the special features that distinguish it from other developing countries. In particular the country will rapidly lose its skilled population, which will take at least two generations to replace; it will also witness a rapid decline in its relatively superior infrastructure.

The impressive and sensible leadership of the ANC will come under increasing threat from more radical and populist elements in the movement. This pressure will in time serve to undermine the organisation's bold ambitions: to build a modern and exemplary African-led political party; to lead a democratic country which is an African success story; to drive a rebirth of the continent.

POLICY GUIDELINES: There are risks for the ANC and the country, whichever route is chosen. In the short term the risks of going for a tough, comprehensive and consistent economic strategy seem great. In the medium term, however, these risks will be dwarfed by the grave dangers for the country as a consequence of insufficient economic growth. The results of the 1999 election give the government a strong mandate to be bold. In the interests of the country, the region and all its people, the government should act decisively, formulate and adopt a comprehensive economic strategy with the determination to really implement it, and build the political growth coalition necessary to sustain it.



South Africa's comparative advantages must be exploited

The entire programme will fail unless it is built on South Africa's comparative advantages. South Africa is a potential 'African lion' and one of the most significant of all developing countries. What does the country have that makes us special in the developing world? We suggest the list includes some of the following factors:

- a democratic constitution and bill of rights protecting citizens and foreign investors;
- powerful and impressive political leadership;
- a population that increasingly shares many cultural characteristics, and is unlikely to be divided by religious or ethnic violence;

In the short term the risks of going for a tough, comprehensive and consistent economic strategy seem great. In the medium term, however these risks will be dwarfed by the grave dangers for the country as a consequence of insufficient economic growth

- a well-developed infrastructure and urban system;
- urban environments that are world class, offering managers and professionals a competitive lifestyle to that available in other comparable global cities;
- a relatively highly skilled and established middle class;
- a strong and vibrant business community, with untapped potential for growth domestically and globally; and
- a highly developed financial sector that works well and is managed independently of state influences.

South Africa's strengths compared to other emerging markets must be identified and built upon, not under any circumstances undermined. Probably the most immediate need is to reverse the emigration trend of skilled middle-class South Africans with policies and effective reassurances which will give the disillusioned among them more hope for the future. This reversal must be coupled with measures to facilitate the immigration of skilled people. More broadly, it also means that the government will have to build alliances with the professional, business and community organisations of these skilled sectors. While this may be difficult to sell to some of the special interest groups in the government camp, the spin-off for government will be a more positive response from these groups to the regular appeals by government leaders for a greater commitment to social transformation. The following comments take an aspect of the issue of the skilled middle classes a little further.

4 South Africa's human capital - including its middle class - should be preserved and nurtured

As the CDE report demonstrates, many indicators show that South Africa has a pronounced deficit in human capital. Our ranking on the international Human Capital Index is much lower than our ranking in terms of Gross National Product per capita. Our 'people' score as a component of the World Competitiveness Index (calculated for about 47 countries) is close to the bottom. We regularly come last in international comparisons (again across about 50 countries) of literacy and numeracy among secondary school pupils. According to the standards of upper-middle-income countries, we have relatively small professional and artisan classes. And there has been a long-term deterioration in university entrance matriculation pass rates.

The reasons for this are not hard to find. One of the most enduring adverse effects of apartheid policies was sharp inequality in educational and training expenditure across racial groups. Educational institutions also took a beating from political unrest in the period between 1976 and 1994. The 'culture of teaching and learning' has not yet been fully restored, and despite teachers and school principals being relatively well paid, their performance is inadequate.

The result is that South Africa has only about a million highly skilled and two million skilled workers. The remaining seven million in employment are semi-skilled or unskilled, and there are about four million unemployed. And this is at a time when, both nationally and internationally, the composition of the formal sector workforce is shifting towards the skilled and highly skilled end of the spectrum. Tragically, our skilled and highly skilled workforce seems certain to be severely affected by AIDS over the next 20 years. We need to see to it that our performance in producing skilled and highly skilled people improves dramatically. On top of that, we would do well to import skills. In that respect, it is encouraging to see the more positive proposals in the recently released white paper on this topic, although it still does not remove all the obstacles to skilled immigration and legislative and administrative change has yet to take place.

Cutting across nearly all these areas of strength and advantage for South Africa is the

In all the talk of 'transformation' empowerment' and 'redress' is sufficient attention being paid to the needs and psychology of entrepreneurial and professional South Africans?

A critical policy question for the new government thus concerns bridging the diverse needs of the poor on the one hand, and the entrepreneurial and professional middle class on the other

existence of an urban middle class, certainly no longer exclusively white. Although the government has made important, generous, and sometimes remarkable gestures of reconciliation between black and white, a vital question still remains 'hanging' In all the talk of 'transformation' 'empowerment' and 'redress' is sufficient attention being paid to the needs and psychology of this group of South Africans: 'The dilemma the policy-makers need to grapple with is that this is the most privileged and also therefore the most mobile group in the country. And yet this is the group that is absolutely essential to the country's future if South Africa is to become an African success story. Access to middle-class status should not be seen as a zero-sum game; there is room there for everyone with intelligence and determination. It is important that the debate about affirmative action and skilled migration take this point on board fully.

A further implication is that the government must be sympathetic to the need to maintain our world-class living environments for senior managerial staff (good schooling, health care, well served neighbourhoods etc), and has to more actively facilitate community policing in high crime areas in co-operation with the private sector.

The future of South Africa's cities and thus the South African economy is directly related to the prospects of the middle class. They are concentrated in the cities and are directly affected by the politics, economics and management of these critical arenas for national growth. How we manage transition in those cities will also bear directly on the retention, commitment, active involvement, and growth of the middle class.¹⁰

A critical policy question for the new South African government thus concerns bridging the diverse needs of the poor, on the one hand, and the entrepreneurial and professional middle class on the other. One commentator sees it this way: 'Public policy stands on two pillars. One is transformation, and transformation is in essence about the needs of all categories and classes except the privileged establishment. The other is growth and investment, which inevitably must address the responses of holders, savers and developers of capital, technology and high-level knowledge resources, but does so without considering the economic culture of the classes on which the response is based.'¹¹

CDE would put it slightly differently. South Africa has to have a national vision that has something substantial in it for everyone. How we achieve this new vision has to build on what all the different groups in the country have to offer. In other words, we need a multi-race, multi-class coalition for growth, development, poverty alleviation, and institutional change.

Transformation has to result in an improvement of conditions for all South Africans – citizens and consumers, middle class and poor – and growth has to improve the living conditions and access to opportunities for all as well.

POLICY GUIDELINES. South Africa's human resource situation is one of near crisis, and extraordinary measures are required, which will have to achieve results more quickly than programmes within the government line functions. Furthermore, all policy should recognise that the growing and increasingly racially diverse middle and professional class has a huge contribution to make to the transformation of the whole society. Its energies and experience should be fully utilised. The government needs better advisers on the needs, perceptions and attitudes of the middle class.



SOUTH AFRICA'S PRIORITY: Centre the new government around a comprehensive growth strategy

The government should focus its attention around one central objective: to place South Africa on a high and sustainable economic growth path, with special attention given to labour absorption – particularly of young workseekers. If we get this right, many other

objectives will also be achieved. Those national goals that do not 'naturally' follow from economic growth can be addressed sequentially. And implementing all the reforms necessary for sustained growth will in itself be a massive achievement (see box: **CDE's position should not be misunderstood**, this page).

Successful economic reform in South Africa will require:

A comprehensive package of economic reforms that are essential for South Africa's economic growth. These must be implemented aggressively, and with the necessary speed. It is essential that policies are seen to converge, and that momentum is achieved. It is dangerous to liberalise piecemeal and unevenly without an overall strategy. Otherwise, liberalising policies in, say, the trade area can be offset by, for example, labour market regulation, or intervening in the agricultural sector may lead to increased urban migration before urban policies have started to work. A comprehensive but sequential approach is essential for success. (CDE has touched on many of these in its analysis of

CDE'S position should not be misunderstood

Many commentators have pointed out a key dilemma facing the South African government, namely the simultaneous need to grow the economy, consolidate democracy, and satisfy aspirant, mainly poor supporters. Equally well debated is the polarisation of views around this dilemma.

At first glance there is a structural tension built into the South African transition. Simply put, democracy promises equality for all citizens, and a market economy appears to deliver inequality. But, in order to bring about greater equality as promised by democracy, the state needs the wealth generated by a competitive market economy to meet the demands for a greater equality of services, for example in education, health and housing. In the short term, the reforms needed to improve the performance of the economy might well increase inequalities before they lead to a greater distribution of wealth – an outcome that cannot be guaranteed.

In assessing this understanding of South Africa's challenges, it is important to be clear about what we mean by democracy promising equality for all citizens. The political leadership can determine how that equality is interpreted. Is it seen as equality of outcomes, or equality of opportunity? If the emphasis is on equality of opportunity, then it is quite possible for a market-based economy to offer increasing access to opportunities to those previously denied them. Outcomes will inevitably be unequal, but access to entrepreneurial, education, training and many other opportunities could be progressively and rapidly expanded.

This approach requires a firm commitment to and understanding of the workings of a market-based economy, and the necessary public interventions to ensure expanding opportunities for more and more South Africans.

Some interests insist that tight fiscal and monetary disci-

pline is not essential for growing the economy. They argue for strategic state spending aimed at a demand-led 'growth path' even though it might imply a higher deficit and higher inflation for a period. They assert that the higher initial growth that would result from this approach will attract more capital and investment, and that the economy could grow itself out of its state debt. They also argue that those who do not support this approach are indifferent to the plight of the poor.

This view is strongly challenged by adherents of the current mainstream approach to sound economics. They maintain that state spending crowds out private capital, and that the conditions for attracting international capital – essential for South African growth – are low inflation, declining state debt, and an economy that does not need direct state intervention to maintain its growth rate.

There is a third view – namely that government must pursue a growth strategy based on international competitiveness and simultaneously a strategy of social reform and development.¹² This is the position that CDE strongly supports, and which informs this report. Such an approach will only be possible if the development and socio-economic strategies complement the macro-economic strategy. This means they need to be highly selective, well planned, cost-effective, involve the private sector extensively, and contribute to South Africa's competitiveness. They also need to take place within the fiscal limits of the macro-economic strategy. To be effective, such socio-economic reforms will require a substantial reallocation of and far more efficient state expenditure, and a clarification of the socio-economic priorities that will assist economic growth in the short and medium term.

GEAR – privatisation, labour regulation, tax levels, and freeing up state resources for additional expenditure on economic services and essential economic infrastructure. However, the actual components and details of such a comprehensive package of economic reforms is not the subject of this report).

A small select number of non-economic reforms that are critical in creating the appropriate environment for growth. This package needs to be highly selective, so that maximum attention can be paid to these issues, to ensure speedy results. Clear priorities here are combating crime, minimising corruption, skilled migration, improving essential economic infrastructure, and maintaining good quality urban environments.

A national cabinet (and key provincial premiers) committed to the economic reform programme, and determined to assist in its speedy implementation. The cabinet in turn must be supported by a core team of well-placed professionals in government tasked with developing, monitoring and implementing key components of the comprehensive growth strategy.

Selective, complementary (and not antagonistic) and sustainable local government, education, health, welfare and development strategies.

The government's macro-economic strategy of 1996 did not deal with its implications for development, social policy and poverty. And this has become one of the areas where opponents of GEAR's core principles can attack the strategy, and where policies are adopted that either undermine or do not support the thrust of GEAR. It is important to note that the business proposals on macro-economics that preceded GEAR's adoption also ignored this dimension of an effective strategy.

What is essential here is to choose development priorities that complement the growth strategy. Choices will need to be made about the trade-offs between different social and development priorities. Successful economic growth will require:

developing South Africa's human capital – this requires systems of education, training and basic health that deliver results;

infrastructure development is critical, and the priorities have to be i) infrastructure crucial for economic growth, especially transport and telecommunications; and ii) the basic infrastructure essential for small business to operate and prosper;

identifying the constraints on enterprise development and removing these;

identifying and then removing any barriers that discourage investment and prevent job creation or lead to job destruction;

recognising that South Africa's cities and large towns are the critical arenas for national economic growth. World-class urban environments with associated security, educational, health and recreational facilities are vital to attract and keep highly skilled and mobile managers and entrepreneurs.

Within each social ministry, attention will need to be paid to the reallocation of priorities and funds. 'Crowding in' the private sector will be essential for delivery and the effective use of limited resources. Delivery programmes will need to be re-examined to test their sustainability in poor communities.

What is critical is to choose the key priorities for their complementarity in promoting economic growth. This will entail a choice about which areas to concentrate on and in what order. The government needs to identify the key structural factors in South Africa that perpetuate poverty, and attack these with well-chosen, sequenced and achievable initiatives. The link among efficient markets, sound economic policies, job creation, business development and alleviating poverty needs to drive policy and be made much more explicit and persuasive.

A partnership for growth between government and the key players in the society whose commitment and active buy-in is essential for the reform programme to succeed and result in economic growth. This cannot be a half-partnership or a reluctant one, but needs to be

Government needs to identify the key structural factors in South Africa that perpetuate poverty and attack these with well-chosen, sequenced and achievable initiatives

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a full-blown meeting of minds and energies if economic reform is to succeed. This will have political consequences for government.

Successful economic reform will require different social and political allies from those of the past. Sustaining a tough economic reform programme will need a deliberate programme of ensuring and sustaining political support for reform through alliance-building and selected initiatives. These relate to other initiatives already identified, but must include:

the identification of vulnerable groups, and the development of selective and sustainable anti-poverty initiatives for the urban unemployed and rural poor. The government must identify those groups most likely to suffer the pain of economic transition, and devise a special strategy to cope with this. This strategy should ideally build on the government's broad approach to change and development, ie help individuals in these affected sectors to become more self-sufficient rather than increase their dependency on the state. Here again, strategic focus and policy consistency is essential – the link between development priorities, macro-economics and sustaining reform needs to be consistent:

the identification of those who will inevitably benefit from the economic reforms and initiatives to ensure that their 'voice' is strengthened and heard politically.

An excellent communication strategy by the government as a whole of the reasons for the reforms, their overriding importance, and the dangers of not succeeding.

Once the decisions have been made about the precise nature and trade-offs involved in an effective growth, development and poverty alleviation strategy, government must devise a brilliant marketing strategy (private sector expertise could be useful here too). In this area of national life, the government and those who support the programme for economic and associated other reforms must define the terms of the public debate on these matters. The danger of not doing so is that the opponents of market reform take the gap, to the detriment of the government's credibility, and threaten the continuation of sound economic policies. Government should invest time and money in better communication with the media at all levels, including briefings for editors who can then understand the thinking of government leadership better; access for reporters, and time taken for off-the-record background briefings that are not propaganda sessions but frank discussions about the challenges that face the country. The ANC itself needs to become an instrument for marketing and selling the new approach.

The government must prioritise what needs to be done to implement the growth strategy, and to ensure that this actually happens. The components of the strategy will need to be followed through, and the implications of this approach to growth fed into each relevant ministry of state and applied. Thus, if the growth strategy requires investors and corporations inside South Africa to respond with confidence and optimism, then how this group of people feels about the new government and their place in this new society will be an essential consideration for all policies. If a key priority is jobs, then the impact of labour market policies must be assessed in terms of job creation, and changed. If economic growth requires more skilled people, then immigration policy must be changed and education and training radically improved. If small and medium enterprise is seen as a key vehicle for job creation, then the tax, banking and regulatory systems must be reassessed and changed where necessary.

POLICY GUIDELINES: The government should centre its activities for the next five years on South Africa's top priority: achieving an 'economic miracle' A compelling, comprehensive approach to economic reform and its relationship to poverty reduction must be developed and marketed. This must not be left to one or two ministries. A powerful government team is required, united in its commitment to the growth strategy and its success. With this new vision, the government could build a new alignment of political forces within the ANC's current constellation of support and outside

The government should centre its activities for the next five years on South Africa's top priority – achieving an 'economic miracle' A compelling, comprehensive approach to economic reform and its relationship to poverty reduction must be developed and marketed. This must not be left to one or two ministries

its traditional base. A new political coalition, 'a new alliance' for growth and development in South Africa, is required. Excellent communications will be an important factor in success.

.....
 Successful change in any part of the South African system can only take place in carefully selected, well-thought-through, incremental steps. Anything else results in disaster



PRIORITISATION AND ITS IMPLICATIONS: A clear shift towards strategic management in government is necessary

The suggestions which follow would not be made if CDE was not comfortable with the deep respect for human rights that the ANC has demonstrated. The ANC in government is most unlikely to descend to the level of shallow 'technocratic' social engineering that can be found in some developing countries. Against this reassuring background, it is necessary to suggest that the government has to consolidate its gains in restructuring and reforming the society by concentrating on the management of a complex and troubled social and economic system in order to achieve strategic objectives. Unless strategic systems management succeeds, conditions in the society could well undermine the social gains that have already been made, and with them the quality of the democracy and our ability to keep pace with world development.

It is totally understandable that when the ANC assumed power, its first commitments and those of its advisers would have been to secure human rights and a new moral basis for society. Reconstruction, transformation and reform, driven by strong and legitimate moral imperatives, had to be pursued almost irrespective of the consequences. However, just as the Reconstruction and Development Programme (RDP) after a while had to be made subject to the fiscal discipline of the department of finance, so the broader social policies of government have to be re-approached within a system of management that can guarantee their sustainability and success.

POLICY GUIDELINES. The approach suggested does not require that the government abandon its humanitarian, reform and reconstruction commitments. What it does require is that the test of policy now be based on an assessment of required inputs, likely and possible consequences, mechanisms for implementation, resources for sustainability, the ability and motivation of personnel, and the impact on other policies. Political leaders should retain their moral passions and commitments to constituency interests as the underlying drivers of policy, but henceforth the primary test of their performance should be their strategic analysis and management skills.

We are not suggesting that modern revolutionaries in the global village should all have MBAs, but this is a useful analogy. This element of successful societies has been described as the 'organisational effects'. It is a theme which is vitally important for South Africa, and we will now indicate how some government policies should be adapted in this context.

Transformation

The disjuncture between idealist (and inexperienced) calls for 'total transformation' and the convoluted and complicated realities of institutional change in the South African state has brought into sharp focus one of the key realities of effective reform in such a complex system. Successful change in any part of the South African system can only take place in carefully selected, well-thought-through, incremental steps. Anything else results in disaster, and the creation of potentially worse situations for all concerned (public servants, citizens) than those that prevailed under apartheid.

In some respects South Africa resembles what has been termed a 'suspended state' – a

state in which formal authority has either not been entrenched or has only been partially established.¹⁷ One sees this most clearly in respect of the difficulties in enforcing law and order, from the most petty offences to the most heinous; in the struggle to enforce payments for services; the widespread evasion of tax in the formal and informal sectors; remarkable examples of corruption in government; and even in the behaviour of many elected officials. The poor motivation and performance of many public officials also attests to the phenomenon and its very negative consequences.

Transformation is essential. It is equally essential to define the concept clearly, as without such a definition 'transformation' has so many and broad meanings as to be rendered meaningless or its looseness may allow for a new form of racial and ideological domination. In Thabo Mbeki's words: 'It is our task as students to rescue this word from becoming a dead word, a word that has no substance, by ensuring that we liberate it from misuse and give it its proper content based on meaningful debate and careful interrogation.'¹⁸ This advice could usefully be applied to the notion of transformation that will guide the Mbeki government in future.

CUF's research leads us to suggest that transformation should convey a focused, incremental approach to fundamental change that builds on individuals using their freedom and expanded new opportunities in an entrepreneurial environment.

Fundamental change has been essential in South Africa's institutions, but the approach to it should protect the sustainability of its results and the reputation and effectiveness of its beneficiaries.

Over the past five years government policy has been characterised by 'transformation idealism' at three levels: in the restructuring of state organisations to orientate them towards new goals, in the introduction of new policies to redress the disadvantages imposed by apartheid, and in changing the skewed racial composition of state and parastatal personnel. The exercise has been successful in that considerable change has been achieved.

There are still vestiges of the old order, but these are no longer formally secured, and because they rest on 'lag effects' and an accumulation of resources in the family systems of privileged minorities which cannot be removed without stripping them of constitutional rights, policy as such can do little about the remnants of privilege.

Any intensification of transformation will have the following costs:

by running ahead of state capacity to implement changes, it could set the government up to fail, or overburden budgets;

each restructuring exercise has a learning curve built into it, and hence it will delay the improvement of delivery even if its stated objectives are to improve it;

the aspects of transformation that reduce the role of the older, more experienced bureaucrats (provided they are committed to the new system) uses only a subset of the country's human resources.

For this reason, further progress from now on, in most areas (with some exceptions) depends on:

increasing the resources available to disadvantaged South Africans ('empowerment') rather than eroding the rights of advantaged South Africans;

getting the existing base of broad policy thrusts to work, rather than experimenting with more far-reaching legislative transformation;

- increasing the availability of skills and aptitudes among new recruits to state personnel rather than aiming at numerical targets or premature representivity. The brutal fact is that there is an excess of demand over supply for qualified black personnel in all spheres, and 'forcing the pace' will risk the reputation and the morale of the intended beneficiaries and hamper delivery.

.....

It makes no sense to talk of South Africa having 'Rolls Royce' policies or the 'best labour system' in the world. If we do not have the resources or capacity to implement such sophisticated policies, they will fail

Sustainable transformation will require far greater policy and budgetary skills in government, fewer priorities, and a greater realism about limitations. It is essential to stop the very negative process of continually 'setting up government to fail'

moving away from goals, models and policy advice for South Africa that uses highly industrialised countries as their base. Policy has to be made for the conditions under which it will be implemented. It makes no sense to talk of South Africa having 'Rolls Royce' policies or the 'best labour system' in the world. If we do not have the resources or capacity to implement such sophisticated policies, they will fail. Far better to design appropriate 'Toyota' policies that can actually be implemented and achieve the intended results.

From now on transformation would be better served by a period of consolidation rather than by more and more restructuring. Consolidation must place heavy emphasis on:

- the evaluation of progress in policy implementation;
- ensuring the sustainability of existing and proposed programmes;
- training, and exposing new recruits to budgeting, management techniques and co-ordinating skills;
- improving the response of both public servants and communities to the new policies in order to reduce the sluggishness of reform strategies. Here one could give the examples of the management of schools, and the management of the rates and services payment default problem – an improved Masakhane campaign;
- developing effective campaigns, within schools and with the co-operation of trade unions, churches, community organisations and the bureaucracy, to repair the damage done to communities by apartheid and to reduce the lack of personal discipline in our society, which imposes a huge drain of dependency, welfare problems and security costs on the state. The fact that, as the minister of social welfare pointed out some time ago, South Africa has one of the highest rates of teenage pregnancy in the world is but one illustration of the problem.

*POLICY GUIDELINES: The government should prioritise strategic management, consolidation, and sustainable policy interventions. This strategic approach to governance will require a reassessment of **how** to change South Africa. Sustainable transformation should be built around five ideas: systematic selective change, entrepreneurship, follow-through, anticipation of consequences, and accountability. This will require far greater policy and budgetary skills in government, fewer priorities, and a greater realism about limitations. It is essential to stop the very negative process of continually 'setting up government to fail'*

7 PRIORITISATION AND ITS IMPLICATIONS: Government must be made more efficient and coherent

A strategic approach to government will be impossible unless a reasonable degree of coherence exists within the institutions of government.

Our research shows that, after five years, the new South African state remains weak in a number of areas. Most of the institutions are in place for democratic rule, but they are not sufficiently effective or efficient.

The cabinet

The Cabinet has turned out to be a body with a weak strategic focus. Indeed, the Presidential Review Commission identified what senior government people know, namely that there is a vacuum at the apex of the South African system of government.²⁵ Nelson Mandela is a remarkable man, an international icon, and a truly great South African, but he has not excelled as the head of government.

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The cabinet has not had a strategic focus, and does not pull together around agreed joint priorities; policies are often unsustainable; policy skills and policy management capacity is in severe shortage; legislation has often been confused with action; race sensitivity has prevented a frank assessment of problems in important instances; and relationships between ministers and officials are problematic. The impact on governance and delivery is negative. The former deputy president's initiatives have thus far provided 'band-aid' but have not been able (or empowered?) to change this undesirable situation.

The cabinet is a mixed bag, with pockets of excellence and incompetence. Although many provincial 'cabinets' have seen ministers fired for corruption or incompetence, thus far the central cabinet has been remarkable for its continuity. Undoubtedly, part of the reason for this has been the use of the cabinet as a balancing mechanism among parties in the government of national unity and among factions in the ANC.

With respect to policies, it is often hard to reconcile the legislation and policies introduced by one minister with those of another. Most importantly, there is no clear strategic direction, with the result that policy contradictions abound and important critical initiatives such as GEAR are not properly followed through.

The new president must lead the government strategically. This does not mean that he should create an office that is effectively the ministry of everything. He needs to determine the key priorities, and then the strategy of change to back this up. He then needs the right staff and support to ensure that his vision and programme is being implemented and applied throughout the cabinet and the broad government system. Some critical choices with respect to staff and function will be needed to ensure that the president's load is manageable and related to the country's core priorities.

Probably the most important and ongoing set of decisions South Africa's new president will make is his cabinet appointments. All over the world such appointments need to balance a series of competing demands in and around the governing political party, and South Africa will be no different. What is critical, however, is that the key appointments relevant to government's chosen priorities are excellent ones. If South Africa is to have any chance of success, and becoming all that the government wants the country to be, it is essential for a core of priority ministries to be managed by the best possible people. It could be worthwhile examining the feasibility of performance contracts with cabinet ministers that specify in some detail what exactly is required from their department.

The team of cabinet ministers has to be committed to the government's core vision and strategy as a condition for their appointment. They should have clear performance contracts with the president, and if they do not perform they should be dismissed. They should also be dismissed if they promote policies or programmes that contradict the core government objective. They must know they have to keep 'on message' to use Tony Blair's phrase. Ministers should be required to engage critics and not just reject opposing views. They should learn to 'roll with the punches' which if done successfully will lead to better policies and stronger public acceptance of such policies.

The relationship between ministers and their senior officials needs to be clarified and agreed by all parties concerned. Here again the appointment of directors-general in the core team of ministries identified above must be on the strength of their ability to do the job. If necessary use the other ministries for a range of appointments to deal with party politics, representivity and so on. These senior officials need to be the best available people in the country.

POLICY GUIDELINES: The new president must lead the government and the country with an inclusive vision and a bold, pragmatic, strategy. International experience of successful economic reform shows that it is essential for a core team (ministers and senior public servants), committed to comprehensive economic reform and its consequences, to be appointed. Performance targets need

The new president must lead the government strategically. This does not mean that he should create an office that is effectively the ministry of everything. He needs to determine the key priorities, and then the strategy of change to back this up

to be agreed for each minister, and delivery monitored. The necessity for results relevant to the growth strategy must be emphasised. Roles, responsibilities and accountability among ministers and senior public servants must be clarified and monitored.

There should be a change of policy with respect to the provinces.

Powers should be allocated according to capacity within clearly defined and new constitutional guidelines

The provinces

The 1994 compromise on and experiment with the provinces has proven to be difficult to implement. As a mechanism for allowing 'regional voices' to emerge in the choice and design of policies, the provinces have been weak. The provincial administrations have been ill equipped to cope with the numerous and difficult challenges with which they were saddled. The leadership, skills and experience pool allocated to the provinces have been unable to rise above details and play a part in core debates about policies.

Central government departments have been loath to see provinces as anything other than compliant implementing mechanisms. The centralising drive of the ANC as a political party has not allowed much space for provincial leaders to find their feet and develop the regional policy and implementation experiments relevant to their own circumstances.

The cost of provinces as popularly elected but generally less than impressive implementing vehicles is exorbitant. The costs of democratic decentralisation are only worthwhile if an authentic pluralism of views, regional diversity and experimentation is allowed to take place. Delivery in the country as a whole has suffered as a result of an ill-thought-through division of South Africa into nine provinces, with an equally ill-thought-through allocation of new roles and powers and responsibilities.

POLICY GUIDELINES: There should be a change of policy with respect to the provinces. Powers should be allocated according to capacity within clearly defined and new constitutional guidelines. Thus some provinces can and should play a greater role in policy development, and should be allowed greater leeway for experimentation within fiscal constraints. Some provinces do not have much capacity at all; they should therefore have far fewer powers and a different role altogether until there is greater capacity.

The public service

Our analysis shows that the South African public service is a weak instrument, and very expensive. Despite the government's intentions, and some progress, the South African public service still exhibits grave problems – many inherited from apartheid, some newly created. The service is characterised by its size, its expense, poor human resources, inefficiencies in key areas, corruption, imperfect lines of accountability, tensions between elected and appointed officials, general indiscipline, and a lack of motivation. Ill-thought-through 'transformation' attempts have only made matters worse, and inadequate progress has been made on the necessary changes required. CDE's research and conclusions in this area have been informed by the work done by the two government-appointed investigations into the public service (see section 2 of the main report for a full examination of the 1997 Ncholo report on the provinces, and the 1998 Presidential Review Commission on both central and provincial governance issues).

The situation has had five negative and worrying results:

'the delivery of public services, their costs and quality, leave much to be desired.'¹⁶ so much money is absorbed by salaries that little is left for new infrastructure development, maintenance of declining infrastructure, and other priorities;

rather than acting as a bulwark of law and order, the poor performance of many public servants feeds into a culture of lawlessness; the gap between intentions and action, between ambitious policies and impact on citizens' lives is a large one; and missed opportunities are mounting, and some situations are deteriorating.

The drive to create a 'representative' public service in the senior echelons of government has in many cases established the race of senior managers as more important than merit. Frequently the best available people are not being used for the most important jobs. This has already and will continue to undermine the effectiveness of government, and undermine the government's own commitment to a non-racial society. As elsewhere, a better balance in harnessing all of South Africa's skills has to be achieved in the public service.

There have been other factors undermining the effectiveness of the South African public service; these include the lack of clarity over the government's position on the different roles of the state and the market in providing services; and the lack of clarity over the different obligations and responsibilities of individuals and the state. This has resulted in very different policies and approaches being followed throughout the system; far less privatisation and contracting out than is needed; drawn-out battles between the unions and tiers of government that has further delayed delivery; an unsuccessful Masakhane campaign; a deepening culture of non-payment; and continuing financial troubles in provincial and local government.

POLICY GUIDELINES: The public service has to be radically downsized, and 'supernumeraries' removed. Appointments in ministries critical for successful economic reform must be made solely on merit. Policy with respect to privatisation and public-private partnerships needs to be clarified and speeded up. Unequivocal and firm action has to be taken against non-payment where offenders can afford to pay.

The public service has to be radically downsized, and 'supernumeraries' removed. Appointments in ministries critical for successful economic reform must be made solely on merit



PRIORITISATION AND ITS IMPLICATIONS: Parliament and the ANC as dominant party

The pattern has been identified of a parliament that is marginal to the process of policy formulation and decision-making and in some respects sidelined, superficiality in the relationship between MPs and constituents, an absence of mechanisms for consultation with and feedback to citizens, critical influence by often unrepresentative lobbies and special interests, and a tendency towards a top-down centralism on the part of the leadership in the party.

Parliament

The institution of parliament in newly democratic South Africa remains weak. In general, parliament has been sidelined by the executive.

In a mature democratic state, parliament is normally a repository of life experience, and MPs can often play an invaluable role in drawing attention to practical difficulties in proposed policy or legislation. If MPs are close to voters they will quickly learn of the unintended consequences of legislation on individuals, households or communities.

The lack of appropriate skills and experience by many in the ANC caucus is further exacerbated by the highly centralised nature of the ANC as an organisation, and the proportional list system that makes MPs beholden to national leaders rather than directly to voters. The important function of government backbench MPs to question ministers and government

policy on behalf of their own constituents – whenever necessary – has therefore been missing thus far in the democratic parliament. The electoral dominance of the ANC is a further factor in executive power

It is significant that parliament has not been a site of heated debate around the GEAR strategy – arguably the most important policy shift the ANC has made since 1994. If the ANC MPs, many of whom did not like the strategy, had been allowed to use parliament as the debating chamber it should be, it is possible that government leaders could have ironed out a lot of its weaknesses, thought through more of its consequences, and generally marketed the strategy much better than they did.

As things turned out, many MPs have quietly sided with the SACP and the unions in their opposition to the policy, and in the process created the mistaken impression in those circles that they would assist the anti-GEAR cause in parliament, prolonging the tensions within the alliance and increasing the government's vulnerability with respect to maintaining sound economic policy.

Lobbying of parliament by interests, organisations and communities has been partial and mixed. The enormous avalanche of legislative change has required considerable resources and capacity to keep up with new developments. In general, and relative to their capacity and resources, interests that support market economics and complementary social policies have been underrepresented in parliamentary lobbying (see box: **Implications of CDE's research for business**, page 74).

On occasion the ANC majority has been influenced by well-researched and well-organised representations to parliament, but there have also been numerous situations where, on highly controversial issues, the ANC has used its majority to rapidly push legislation through, regardless of the nature or scale of opposition. Prominent examples here include labour, health, local government, and education legislation.

POLICY GUIDELINES: ANC leadership should give the ANC caucus greater freedom to debate issues publicly. Every effort should be made to strengthen the links between voters and parliament. Controversial shifts in policy will need to be dealt with strategically. Conflict avoidance will not help to sustain the necessary policy changes for South Africa to become a success. There is significant space for outsiders to influence government policy. This needs to be done timeously, professionally and strategically. Government and business have an interest in expanding and deepening the impact of organisations outside the state that support successful economic reform and complementary social policies.

The ANC as dominant party

Our analysis shows that the country's dominant party, the ANC, has a tradition of decision-making procedures that is not conducive to the really hard and sharp choices the government has to make in the next five years.

One of the characteristics of many senior people in the ANC is that they are part of a tradition in which the verbalisation of goals and programmes and the mobilisation of voluntary energy around these goals were critically important in the struggle for liberation. Many contradictions could be papered over by bridging phrases or well-honed qualifications. The sense of mission was so strong that it unified almost all difficult moral, intellectual and strategic choices. The apartheid enemy served to unify differing ideologies and beliefs, and contradictory strategies were opportunistically resolved in the same context. This included accepting aid from both capitalist and communist states; and working within official institutions such as the unions in one context and boycotting other official institutions because they were official and weakened the struggle.¹⁷

Government and business have an interest in expanding and deepening the impact of organisations outside the state that support successful economic reform and complementary social policies

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There is a similar approach to tough choices in government. The ANC has used its formidable rhetorical capacities to paper over many difficult choices and contradictions. Hence GEAR is described as a policy of growth in a local and in an international economic context, and simultaneously as a policy of redistribution. Affirmative action legislation is promoted as a mechanism to deal with the situation of the rural poor when 95 per cent of its application will be in urban-based formal sector corporations and institutions. Political minorities in the urban areas are effectively disempowered in megacity legislation, and simultaneously asked to play a leading role in making the country's cities economically attractive and competitive. For many within the ANC these contradictory positions are not regarded as simple political verbal gymnastics, but actually believed.

At an organisational level the ANC is quite used to functioning as an ideological amalgam, because the liberation movement in both its external and internal programmes had to incorporate the inputs and resources of militants, nationalists, Stalinists, devout Christian clergy, film stars and reluctant capitalists. As with many post-liberation movements it is quite understandable that the same synthesis of diverse commitments is believed to be possible in governing the country. Nowhere has this been more evident than in the handling of macro-economic policy.

It is significant that the ANC conference of 1997 did not debate the GEAR strategy. In the short term this might have been a victory for the party leaders who did not want an explosive issue to blow up on the congress floor, but what it really means is that the movement as a whole, including members active in local and provincial government, was not given an opportunity to get to grips with the core implications of the policy and how it affects what they believe and what they do in their city, town or province.

A major consideration in government has been the ANC's commitment to 'democratic participation'. Generally this has been applied in two different and unfortunate ways. Some ministers did not have the policy confidence to be selective about the results of such participation, and instead have become overly reliant on the recommendations of policy committees and advisers. There are departments (education, land affairs initially, and others) in which the policy agenda has been taken over by small groups of people who do not have the accountability to take responsible policy decisions.

The second phenomenon of 'participation' has involved large, costly processes ostensibly organised to involve key stakeholders in the design and testing of policy proposals – which are sorely needed – but which in fact turn out to be a sham. Notable examples here include the process around the white paper on local government, and the design of the new education curriculum.

Hence, the relationships between the ANC executive and both the caucus and the constituencies are imperfect. And because effective compromises between expectations cannot be reached, the strategic profile of government has been fudged and contradictory.

There is a key dilemma in this situation: can the leadership deepen democratic accountability, participation and consultation and at the same time maintain a tough, strategic approach and fiscal discipline which in the short run will frustrate the moral idealism and expectations of the party and its supporters? There are no easy answers, and it is perhaps understandable that the ANC has sought to blur its strategic profile by sending contradictory messages and by papering over the discrepancies with elaborate and often confusing 'discussion documents'

The way to resolve the problem is by extending participation rather than by reducing it. The various elements in the representative structure of a government tend to moderate their positions when consulted and exposed to the full facts of a situation. The CDE report points to research evidence that the rank-and-file of party supporters have a surprising degree of understanding of the difficulties that government faces. When exposed to severe challenges and tough choices, a cabinet must go to special lengths to expose its parliamen-

The minority of racists still present in South Africa are no longer the root cause of inequality holding back black advancement. Poverty and a lack of access to the core opportunities that can enable individuals and families to break out of poverty is the real cause of structural inequality in South Africa today

tary caucus to the full realities of the choices and, through active debate, allow it to help formulate the correct strategic balance. The same applies to the components of the cabinet.

For a party faced with the strategic dilemmas of the ANC in government, it is essential that the broad strategic reconciliation of policy alternatives be prepared, as a mission statement with priorities, integrating all portfolios, *in advance* of specific groundbreaking legislation. The whole cabinet, the caucus, party structures and, through constituency meetings or feedback surveys, the supporters at large should be presented with the 'bigger picture'. This process inevitably reduces divergence and gives the top leadership more freedom to act strategically in the longer-term interests of the country.

The ANC policy machine, as evidenced by its collective output, is the most sophisticated and articulate expression of political goal-setting that this country has ever witnessed. However, the sheer verbal facility of these outputs often tend to disguise an innocence with respect to implementation and real world constraints. Understandably, the writers and formulators of policy are often people who have seldom administered complex systems or multifaceted projects that are not driven by a sense of mission. Whenever a policy runs into trouble, the first reaction of the government is to appeal to citizens' sense of mission. This has repeatedly been the case with the Masakhane campaign; it is the essence of the campaign around a culture of learning and teaching; it forms the core of many appeals around crime and corruption; and it is the basis of most appeals to the white minority in respect of their contribution to change.

But government policy cannot rely on voluntarism – it has to work within the detailed interactions in social and economic systems. Moral exhortations are fine, but the real nub of getting these issues right lies in designing a system of incentives and disincentives to shape how people behave in government and the private sector. The nature of government policy-making has considerable moral and verbal sophistication, but it is weak in its understanding of social and economic processes. "There is a simple way of putting this problem. Changing a tyre on a motor car is quite a straightforward process, but very often there is a bolt which sticks or the jack does not work on a slope. Good policy has to assume the sticking bolt and the awkward slope."¹⁸

The ANC in government in 1999 faces a number of difficulties and contradictions as a political movement. It is an organisation that, five years after its assumption of power, perceives itself to be the leading movement at the centre of a complex series of alliances and organisations that form a revolutionary front. And it is this self-perceived revolutionary organisation that forms the South African government which has to implement and operate within what can only be called a liberal constitution (of which the ANC is a proud parent), and steer South Africa in an international economy that will severely penalise anything other than a strongly market-driven approach to national economic growth.

POLICY GUIDELINES. The ANC should move to become a powerful political party in a multi-party system as quickly as it can. It must strengthen its branches and institute effective codes of conduct to deal with corruption, conflict of interest, and nepotism. It should require MPs to work in properly allocated constituencies to strengthen the vitality of the party, the caucus, and its links with voters and communities. In addition to these immediate practical steps to make MPs more accountable and available to voters, serious and urgent thought is necessary on the feasibility and mechanics of a mixed PR and constituency system for South Africa. It must have its own firm organisational base off which to lead the country and consolidate its own constituency around a new growth and development strategy. The ANC also needs to rethink its understanding of society and what motivates people. It has to reconceptualise itself as a political movement, and adopt a new language and philosophy that reflects government's views on change and politics far better than its current 'revolutionary' phraseology and related mindset.

Government policy cannot rely on voluntarism – it has to work within the detailed interactions in social and economic systems. Moral exhortations are fine, but the real nub of getting these issues right lies in designing a system of incentives and disincentives to shape how people behave in government and the private sector



PRIORITISATION AND ITS IMPLICATIONS: The presidency and new allies for growth

The presidency

The new president should play to the centre of South African politics – the broad majority of people who are not racist, who are reasonable in their expectations of government, who would support tough measures against crime and corruption, and who are in favour of opening up opportunities and economic possibilities in a massive way for all South Africans. The new president should act on a positive vision of South Africa and its future. He would do well to operate on the basis that he has more friends than enemies in developing and promoting South Africa as a new global success story. The task is to harness this positive energy.

The second ANC government should build and expand on the issues of critical national debate that Thabo Mbeki has already begun. However, for this to be effective the debate needs to become a good deal more practical.

After a careful reading of all that president Mbeki has written in this area, we suggest that the discussion needs to be far more specific about what exactly he wants people to do. By stressing what has already been achieved, the new leadership can inspire people to do more in the future. What should be avoided is the setting of impossible scenarios of global and national poverty that make most people want to give up in despair. Specific challenges need to be isolated, and modest, achievable targets for improvement set. It is important to define 'problems that can be solved' and ensure that the government and the country achieve 'small wins'

Collectively these will all add up to impressive changes, but they need to be presented in ways that are feasible, else people will not act. It is important to stress what achievements have already been made, and not continue to paint a picture of South African and global poverty as though no progress has been made. Not only is this not true and grist to the mill of government's enemies, but such an approach is likely to demotivate.

The new president has frequently asked important questions about white South Africans and their commitment to changing South Africa. These are valid questions which need public airing. There are still many whites who hold racist views, who can see no good in what the government is trying to do, and who have done very little to help change South Africa for the better. However, these are a minority. What the new government should aim to do is harness the essential goodwill and commitment of millions of people to making South Africa a success story by:

Making all minorities really feel an important and needed part of South Africa's future. This means not just saying it but meaning it. It means watching for the body language, the emphasis and tone of how ministers and senior leaders deal with this issue. In particular, the president and cabinet ministers should not just berate whites. Spell out what is in it for them if South Africa becomes the kind of society the government wants to create. It is no longer helpful to appeal to a sense of guilt or remorse about the past. Appeal to their interests, and spell out for them and their children what kind of a future the government is offering and trying to build.

Creating an environment where, through incentives, South Africans are encouraged to think in terms of the public interest. Harness the goodwill and resources of those who have resources in South Africa through the right kind of tax and other incentive structures. And then, using well-chosen leaders, encourage by example.

Adopting and promoting policies that empower individuals. The key to South Africa's success will lie in the use of government resources, leadership and influence to create environments in which millions of people are able to take increasing control of their own lives

The president should avoid the setting of impossible scenarios of global and national poverty that make most people want to give up in despair. Specific challenges need to be isolated, and modest, achievable targets for improvement set

and seize the new opportunities. What is vital is that 'a culture of individual opportunity and responsibility' predominates rather than an attitude of entitlement and dependence on the state.

As the country's leader
with the largest political
mandate in its history
Mbeki should move
boldly to construct
practical partnerships
for sustained
economic growth

New allies for growth

As president of the country, Mbeki has to give the lead. A successful growth strategy will depend on his leadership of the country and the ANC, and his ability to drive the overall programme. As we have already indicated, a critical requirement for such success will be the harnessing of new partners for growth, outside the ANC's traditional conception of its allies. As the country's leader with the largest political mandate in its history, Mbeki should move boldly to construct practical partnerships for growth with the key interests in the society necessary for its economic success and political durability. These include:

The large business sector: Open and direct support for a growth and development strategy from business leaders and organisations in South Africa has obvious political complications for government. However, there is nothing to stop the government from drawing on individual business leaders, informal groupings, business-funded think-tanks, research capacity, successful NGOs and marketing expertise in developing, implementing and promoting a sensible combination of growth, development and poverty alleviation strategies. More thought on the government side needs to go into its relationship with the South African business sector and how this relationship can support the government's core objectives of economic growth with labour absorption. *Domestic business are the government's most important allies for effective economic reform.* Business too needs to give far more attention to its relationship with government. In the words of a senior business spokesman: 'In general terms the relationship between government and business is better than at any time since 1948. Having said that I would not be candid if I did not say there has been a view in the established business community that relations with government could be better. This was manifest in a number of areas, not least business' ability to influence legislation which it believed to be damaging to the country's competitive position and to its attractiveness to investors, foreign and local. There is no doubt that part of the blame lies squarely with business and its inability to present its case more coherently and with greater tactical and strategic wisdom.'¹⁹ (see box: **Implications of CDE's research for business**, facing page).

Black business: it is striking that the ANC has tended to ignore a large, growing and solid area of support for markets and deregulation. There are many small black enterprises that have survived despite apartheid (in some cases because of it), and that have not benefited from any of the government's business promotion strategies thus far. In addition there are many small independent black rural producers on farms and smallholdings who have also not received much attention from the government. Here are two groups that are natural ANC supporters; would back market economics; and are not looking for government handouts. In addition there are the black business and professional groups, many of which are exposed to the rigours of international competition and which are also potential allies for a new growth, poverty and development strategy

Provincial leaders: Premiers and other leadership in the provinces have a real interest in investment and job creation in their regions. They would not be impressed with the drafters of labour legislation who believe that low-wage and low-skilled jobs should be located in South Africa's neighbouring states. Think for example of the country's two most impoverished provinces (and two most loyal areas of support for the ANC) – the Eastern Cape and Northern Province. With unemployment estimated to be more than 50 per cent of the working population, political leaders in these areas are desperate for

employment for their citizens and for investment and tax revenue. Regional leadership is an obvious place to start to build support for a new economic regime and a market-oriented growth and development strategy.

South Africa's cities and larger towns have immediate and material interests in the success of the country's growth strategy. They should be enrolled by central government as allies in promoting and applying a new growth and development strategy.

The indigenous churches are potential allies for a growth strategy. The vast majority of their members will be people who are not 'experts in the toyi-toyi' or first in the queue for entitlements.²² All the research seems to indicate that these are disciplined, hard-working, law-abiding citizens hungry for opportunity, not hand-outs, and eager to take advantage of new opportunities. International research also indicates that these mainly evangelical protestants are a potential source of support for modest, market-oriented reforms.²³ They are a new area of potential support and organisational mechanisms for government.

Implications of CDE's research for business

*'Business has often failed to understand its changing relationship with the forces unleashed by and within a democratising social order. Business has been slow to define its social and political interests and is defensive, reactive and inept in promoting them. Business as a corporate citizen is often less than effective.'*²⁰

In this report CDE has focused its attention on the challenges that face South Africa's new government. A forthcoming report will examine the role of corporate business in the country's transformation, and will also include a rigorous and critical analysis of large corporations, their contribution to the country, and the difficult challenges that face the private sector in helping to drive South African economic growth and democratic consolidation.²¹

At this stage it is worth highlighting some implications of CDE's research for business leaders:

- business would do well to understand the realities of the ANC and its complexities;
- the country needs new priorities and focus for the next five years;
- in the same way that it is essential for the new government's leadership to reassess priorities, capacity and focus, so it is important for business to do the same in its very different context. Business has to be as honest and tough about its own activities and impacts as the country needs government to be about itself;
- the new global and domestic policy context is an opportunity for business. The widespread consensus that there is no viable alternative to a market economy results in a

much more positive attitude to business than would have been imaginable even a few years ago. This new situation leads to an increase in the attention paid to business and the demands placed on business from many quarters

- business should stop drowning in an avalanche of policy initiatives and proposals from government. What is required is a strategic time out. Business must choose its own priorities, develop a game plan, and become a much more strategic player in public life;
- government policy can be influenced by timeous, professional and expertise-based inputs on important policy issues. At present those in favour of market-based economic reform and complementary strategies for poverty reduction and development are a lesser influence than others.

If a Martian were to look at South Africa today and see the crying need for rapid economic growth coupled with high labour absorption, they would probably react by saying that government and business are the most likely partners to promote such growth.

The fact is that government and business's needs, interests and priorities around the core objective of economic growth that benefits all South Africans are actually very close to each other. It is the country's history, politics and limited visions that prevent a more fruitful partnership from emerging.

The central challenge for both business and government is how to build on each other's strengths and their congruence of interests to form the kind of partnership appropriate for South Africa in the 21st century, and help lead the country towards a more prosperous and inclusive future.

Provincial leaders, cities,
large towns and the
indigenous churches are
potential allies for a
growth strategy

A closer relationship with the IFP is a complex issue. It is interesting, in the context of a new focus on growth and the political implications of that, to note that Mandela has said that 'both parties [the ANC and the IFP] share the same vision of a free market economy and importance of traditional leaders'⁴³ There is no doubt that a closer relationship between the ANC and the IFP could strengthen those who favour a strong market-based approach to economics and development in the ANC; could bolster the ANC's claim that it is the movement and spokesman for the poor – especially the rural poor – in the country' and could harness traditional leaders behind the government. However, a 'ganging up' of black-dominated political parties would not be a good development for the country. (Nor would a 'ganging up' of white-dominated parties be good for the country). ANC leaders' comments which imply that it is unnatural for black-dominated political parties to exist separately from the ANC is a worrying approach to political diversity and democratic pluralism. South Africa needs a competitive party-political system to keep those in power honest and to promote the democratic process. Nonetheless, in the context of building a new coalition for economic growth, an issues-based alliance with the IFP could be useful.

10 Don't get race wrong, again

South Africa has a terrible record as a country. Centuries of race discrimination denied millions of people the opportunity they deserved to make as much as they could of their lives and talents. For the first time we now have a constitution and bill of rights that entrenches the principles of non-discrimination. This is a remarkable achievement. We must take care not to undermine it. There are still racists in South Africa, white and black. They are the exceptions, and the government should aim to keep it that way. The government cannot outlaw them, and people are entitled to their own points of view and prejudices, however much we might dislike those views. The bill of rights, government, public institutions and public morality will not allow discrimination against people when it comes to the use of public funds, public resources of any kind, and a myriad of other opportunities and facilities previously denied the majority of South Africans. We should keep our eyes focused on that ball.

Race is important in this country because of our past. However, the minority of racists still present in South Africa are no longer the root cause of inequality holding back black advancement. Poverty and a lack of access to the core opportunities that can enable individuals and families to break out of poverty is the real cause of structural inequality in South Africa today. We have to fix the issues that constrain people and lock them into poverty. That means we must focus on education and training, quality of schools, basic health, and issues of that kind. First and foremost we must focus on growth and employment; a job is the quickest route out of poverty.

A focus on race and a narrow approach to affirmative action (separate from merit) is a destructive 'red herring'. It is important to note that:

Already the demand for qualified black recruits far exceeds supply and black appointees in the private sector enjoy salary premiums at levels which reduce their relative cost effectiveness and productivity.

Unintentionally, norms and expectations can easily be created which will suggest to minority South Africans that they and their children are second class citizens, encouraging more emigration and a further loss of the skills available for creating more economic opportunity for all.

It is impossible to avoid sentiments of special entitlement taking hold which must inevitably weaken the kind of employee motivation and standards of performance which South Africa needs to become a world-class player.

Equity policy has already run ahead of the improvement of educational output and the establishment of tested and effective national training initiatives, both of which are vital for ensuring both equity and excellence.

South Africa cannot afford to spend another half century getting race wrong. Although role models are important, poverty and inequality in South Africa will not change through the hasty enrichment of a small group of black business leaders or the accelerated promotion of urban black professionals. If incompetent or inexperienced people are placed in positions of authority, the institutions designed to educate and service black South Africans in particular could suffer the most, thus ensuring the necessity for another generation of affirmatively promoted South Africans.

If incompetent or inexperienced people are placed in positions of authority the institutions designed to educate and service black South Africans in particular could suffer the most, thus ensuring the necessity for another generation of affirmatively promoted South Africans

CONCLUDING REMARKS. BECOMING THE 'WORLD'S MOST EXCITING EMERGING MARKET'

Following Thabo Mbeki's election as president, there have been encouraging indications that the government is moving towards addressing some of the issues outlined in this report. It is far too early to know what the outcomes will be, or what other positive initiatives the new government will announce. Developments should be carefully watched, and any action taken measured against the analysis in this report.

Core conclusions

It is important to highlight the core conclusions at the base of the CDE analysis:

The CDE report is an attempt to review the first five years of democratic rule in some depth. It provides a perspective of 'the big picture' and, while it is by no means exhaustive, it does identify broad patterns, trends, and critical fault lines. Written from an independent perspective outside government, it provides important insights on and pointers towards a general strategic direction from a non-partisan source.

In CDE's ten areas of challenge for the country and its detailed assessment of the new government, coupled with practical policy guidelines, a set of independent benchmarks are put forward against which to measure progress over the next five years.

In the context of South Africa's limited capacity (skilled people and constrained finances), one of government's most important decisions will concern the choice of areas in which to concentrate its best energy and attention. Recognition of the reality that priorities must be determined is essential, as a weakness of the previous five years was the proliferation of programmes and a failure to make sufficient headway in the most critical areas. Conscious trade-offs will be necessary, and a focus on those areas that provide maximum return absolutely mandatory.

In concluding that the new government needs to centre itself on economic growth, CDE is making three essential points:

Key economic reforms are urgently necessary if South Africa is to develop a competitive economy. The labour market is only one of numerous areas that require attention. The package of structural changes should concentrate on: the shortage of skilled people; crime and corruption; the poor administration of provinces and cities; low investment in economic infrastructure; and changes to labour legislation.

Social and development policy priorities should be chosen for their complementarity to economic growth.

The best people in the country need to work on providing answers to the following

The country has to accept as a challenge the fact that we come from a 'weak neighbourhood' in a world influenced by Afro-pessimism. South Africa's new government has to do better than a comparable government outside Africa in communicating its attractiveness and support for investment

question: At the end of the 20th century, what is South Africa's visible comparative advantage in a fiercely competitive global economy? What is our unique area of economic potential, and how do we realise and market this effectively?

In addition to these substantive changes that are required for government to realise its own commitment to economic growth and employment creation, South Africa needs to signal this new resolve and commitment more effectively. A critical ingredient in successful economic growth is sufficient local and foreign investor confidence, to sustain rising levels of fixed investment.

The country has to stop sending ambiguous messages to investors, both domestic and foreign. This ambiguity is reflected in inconsistent attitudes to crime and corruption and necessary social and equity goals which are not reconciled with competitiveness and efficiency; in attitudes to skilled immigrants; a failure to improve the performance of education and training; or statements and signals by politicians which appear to qualify or contradict the central thrust of economic policy. This can be seen in internal ANC documents, certain government policy positions, and actions by the labour movement which directly undermine the president's commitment to making South Africa the 'world's most exciting emerging market'

There is little doubt that reservations among local and foreign business people and fund managers are often based on minimal information, and almost equally often on a racist stereotyping of Africans or Africa. The country has to accept as a challenge the fact that we come from a 'weak neighbourhood' in a world influenced by Afro-pessimism.

The harsh and unjustified reality of this challenge is that South Africa's new government has to do better than a comparable government outside Africa in communicating its attractiveness and support for investment. While a Spanish or Polish cabinet minister can afford to flirt with the ILO or with some of the less practical aims of social market thinking, a South African cabinet minister does not have this luxury. We can point out that corruption, for example, is high in Brussels or Italy or elsewhere in Europe, but investors sense that there is a tough fabric of independent civil society in those countries – which South Africa and its neighbours do not yet have – which will ultimately hold things in check.

It is therefore critically important that the new cabinet (and the cabinets in the provinces and executives in the large cities) stay 'on message'. If we want South Africa to become the world's most desirable emerging market, we have to persuade investors – domestic and foreign – that this is the case. We have to take the actions necessary to become a competitive market, and we have to communicate first to ourselves as a country and then to the outside world what we are doing and why this is important for South Africa.

The country needs strong leadership to take us successfully into the next century. However, strong democratic leadership does not entail increasingly detailed and centralised control of all decision-making – whether this is in the office of the presidency, the national cabinet, or the ANC's national leadership. What is required is the centralisation of objective-setting, targets, critical benchmarks, financial regulations, and codes of behaviour, all coupled with penalties for non-performance and malfeasance.

Within this framework of priorities, focus and performance, detailed policy development and implementation should be decentralised. Hundreds of different experiments should be encouraged, because no one really knows exactly what will take root and flourish in our unique circumstances.

From a 'liberation front' to a partnership for growth and development

The period 1999–2004 will be critical for South Africa. The country will either establish itself as a successful market economy, or find itself embroiled in deteriorating socio-economic conditions which will threaten the very foundations of its democracy. An already race-conscious society will either decisively move away from its destructive past, or (probably unintentionally) find itself sinking deeper into the negative politics of race. The country will either consolidate itself on the road to global and domestic success or find itself going backwards, and the consequences of that will be to set South Africa back for at least one if not two or more generations.

There are two views on the future of this society. The one perspective holds that we can muddle through and continue governing on the basis of a compromise between the competing sources of power and influence – at its starkest, a compromise between the competing visions and priorities of socialism and transformation on the one hand, and the requirements for global competitiveness on the other. This scenario sees continuity, holding the alliance together and 'a little bit for everyone' as both a possible and desirable route forward.

The second view sees South Africa as a nation, yet again faced with a series of hard choices. The country must have sustained economic growth building up to an average of at least 5 per cent a year. Without that it will be impossible to balance the competing strains of class, racial (and probably ethnic) reconciliation, and fundamental transformation away from an apartheid world. Without sufficient growth the skilled population will decline, resources will shrink, and South Africa will not be able to deal with its own problems, never mind lead an African renaissance. A tough global marketplace will simply leave South Africa behind.

For this to be avoided, the government has to make some decisive choices and resolutely go for growth. This will not be easy, but then neither will dealing with the consequences of inadequate growth.

It has been said that the generals always know how to fight the last war. The leaders of the ANC played skilful and statesmanlike roles in helping to achieve South Africa's 'political miracle' of 1994, but that 'war' was not a test of skills in governance; rather, it was a contest of diplomacy and political power. The new 'war' is one of strategy, building momentum, management, and co-ordination.

What is needed now is for the new government to lay the foundations of a South African 'economic miracle'. This will require moving away from being a 'liberation front' and towards a real partnership for growth and development.

Without sufficient growth the skilled population will decline, resources will shrink, and South Africa will not be able to deal with its own problems, never mind lead an African renaissance. A tough global marketplace will simply leave South Africa behind

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