

DEMOCRACY WORKS | COUNTRY REPORT | 2014

# South Africa and the Pursuit of Inclusive Growth



*Voices FROM THE South*



## A PROJECT OF



CENTRE FOR  
DEVELOPMENT  
AND ENTERPRISE

*Informing South African Policy*

CDE is an independent policy research and advocacy organisation. It is one of South Africa's leading development think tanks, focusing on critical development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.



LEGATUM<sup>™</sup>  
INSTITUTE

Based in London, the Legatum Institute (LI) is an independent non-partisan public policy organisation whose research, publications, and programmes advance ideas and policies in support of free and prosperous societies around the world. LI's signature annual publication is the *Legatum Prosperity Index*<sup>™</sup>, a unique global assessment of national prosperity based on both wealth and wellbeing. LI is the co-publisher of *Democracy Lab*, a journalistic joint-venture with *Foreign Policy Magazine* dedicated to covering political and economic transitions around the world.

## SUPPORTED BY:



CENTRE FOR POLICY RESEARCH  
*Premier Think Tank, Shaping Policy Debates Since 1973*

Centre for Policy Research, India  
[www.cprindia.org](http://www.cprindia.org)



Instituto de Estudos do Trabalho  
e Sociedade, Brazil

[www.iets.org.br](http://www.iets.org.br)

**Editors: Anne Applebaum and Ann Bernstein**

**Writers: Ann Bernstein, Julia de Kadt, Marius Roodt, and Stefan Schirmer**

Based on papers written by: **Nicoli Natrass, Jeremy Seekings, Charles Simkins, and Hennie van Vuuren**

*The views expressed in this paper are those of the author(s) and not necessarily those of the Legatum Institute (LI) or the Centre for Development and Enterprise (CDE).*

## Contents

---

Introduction	2
The Story of South Africa's Democracy	4
The Economy and Growth Policies in Democratic South Africa	10
Poverty and Inclusive Growth in Democratic South Africa	15
Innovation in Democratic South Africa	21
How South Africa's Democracy Fights Corruption	28
Reaping the Democracy Dividend	31
Harnessing Democracy for Growth—and Growth for Democracy	33
Summary and Concluding Thoughts	35
References	37

## Introduction

---

The international financial crisis of 2008 destroyed banks, companies, and jobs across the world. It also undermined the developing world's faith in Western leadership, in Western models of capitalism, in Western models of progress, even in what economists once called the Washington Consensus on macroeconomics. In the subsequent vacuum, many began looking for an alternative.

Some have turned to the 'Chinese model'—the 'Beijing consensus'—for inspiration, and no wonder. China has grown with phenomenal speed over the past 20 years. Thanks to this growth, some 600 million people have escaped from poverty. At the same time China's size and military prowess have given it an outsized strategic and diplomatic significance. The 'rise of China' is now an inescapable cliché of international political debate, so much so that some now believe Chinese-style authoritarianism is a desirable, even a necessary component of economic growth.

But China is not the only developing country that has achieved high levels of growth in the past two decades, and its model is certainly not necessary or even desirable in many parts of the world. Though they do not attract the same kind of attention as China, there are now several large, successful emerging democracies in the developing world, all of which have achieved growth without Chinese-style authoritarianism. These include Turkey, Mexico, and Indonesia, as well as the three primary subjects of this series of country papers: India, Brazil and South Africa. Through the exploration of the history, the economics and the politics of these three countries, this series seeks to establish the element of another possible road to growth and development: the democracy 'model', or perhaps the 'democracy consensus'.

This first report focuses on South Africa. It begins with a brief history of South African democracy, describing how the core features of South Africa's democratic system were established following the transition from apartheid. The report then examines South Africa's particular democratic institutions—political pacts, elections, parliament, courts, and civil society—and their impact, both positive and negative, on the country's attempts to promote growth, reduce poverty, stimulate innovation and keep corruption in check.

The report is based on four specially commissioned research papers. It also draws on insights that emerged from workshops held in Johannesburg on 19th March and 10th October 2013, attended by South African politicians, senior officials, business leaders, economists, political scientists and journalists.<sup>1</sup>

This report outlines many of the achievements and the challenges facing South Africa after nearly 20 years of democratic governance. The conclusion is that more democracy in South Africa, including a more effective ‘voice’ for the unemployed—and certainly not more authoritarianism—could, under the right circumstances, promote growth. There does not have to be a trade-off between open politics and successful economics. On the contrary, by strengthening both democracy and growth, South Africa could become a wealthier, more stable and a much more inclusive society.



## The Story of South Africa's Democracy

---

### SOUTH AFRICA'S EMERGENCE AS A LIBERAL DEMOCRACY

---

In the period of 1990–1994 negotiations took place in South Africa between the minority apartheid government and the African National Congress. Many other South African leaders and political parties participated in these negotiations, but the two main players were the apartheid government and the ANC.

South Africa made the transition to democracy in 1994, following the first non-racial elections in the country's history, which were then cemented in 1996 with the adoption of a new constitution by the new democratic parliament. Much to many people's surprise, the country adopted a liberal constitution, with many checks and balances, ranging from protection of property rights to an independent judiciary.

At the time of transition, the support for democracy was not just an elite project. On the contrary, the transition was supported by the majority, millions of whom stood in kilometre-long queues, waiting to vote in the first democratic elections. Since then, South Africans have participated in three more successful national elections, as well as four separate local government elections. Elections in South Africa are widely perceived as free and fair. In the *Economist's Democracy Index* survey, South Africa's electoral process is ranked equally alongside the United States and Japan. Popular commitment to democracy remains strong. In the 2011 Afrobarometer survey, over two-thirds of South Africans said they continued to support democracy, while 11 percent were indifferent and only 15 percent felt that non-democratic government was sometimes preferable.

Although the ANC had long been committed to 'majority rule' in South Africa and the right to vote, organise and speak out for all, the party's leadership was historically sceptical of free market economics. In 1955, the ANC's Freedom Charter called for ownership of the country's 'mineral wealth beneath the soil, banks, and monopoly industries' to be transferred to 'the people of South Africa.' The negotiation process at the Convention for a Democratic South Africa (CODESA) forced compromise on all sides. The ANC set aside these policies, instead accepting a property rights clause in the constitution, and agreeing to accommodate the interests of established, big businesses, including banks and the large mining houses. Ironically, this change of heart may have come about thanks to Nelson Mandela's encounter with the Chinese premier, Li Peng, at Davos in 1991. When Mandela met Li Peng, the Chinese leader reportedly said to him: "I don't know why you're talking about nationalisation. I am the leader of the Communist Party in China, and I'm talking about privatisation." Mandela regularly told ANC meetings this story as an explanation of why South Africa should embrace a more mixed-market economy.<sup>2</sup>

But in public, neither Mandela nor his colleagues made much effort to convince their followers of the advantages of market-based economics. Instead, ANC leaders stressed the circumstances that forced them to set aside some of the Freedom Charter's goals. Once circumstances changed, they implied, these goals could and would again be pursued. Even while the ANC was implementing different policies, its leaders retained the language of Marxism-Leninism. More radical members of the party disapproved of the 'compromises' the leadership had made, even if they were presented as temporary. The result is constant internal tension to this day within the ANC, and especially between the ANC and its partners in the loosely defined 'tri-partite alliance', the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP).

## DEVELOPMENT POLICIES IN THE DEMOCRATIC ERA

The ANC's economic policy at the time of the 1994 elections was centred around the Reconstruction and Development Programme (RDP). This was essentially a poverty-alleviation scheme, which, among other things, promised subsidised housing, electricity and other essential services to black people who had been denied these services under apartheid. Most of these policies are still being implemented today.

Once the ANC came into power its leaders found that they required a more comprehensive economic plan. The new government had inherited a large budget deficit from the apartheid state, and had little flexibility. Largely as a result of the influence exercised by the then-deputy president, Thabo Mbeki, the new government adopted the Growth, Employment, and Redistribution (GEAR) strategy in 1996. This strategy accepted that the country needed to reduce the government debt-to-GDP ratio. It resembled, in some ways, a structural-adjustment programme of the kind promoted under the Washington Consensus. The strategy also pinned its hopes on high (6 percent and over) annual economic growth rates, which would, the government hoped, simultaneously fill up state coffers, reduce unemployment, and improve the relative economic position of black South Africans. GEAR laid the foundation for a period of healthy growth (around 5 percent annually) during the second half of the 2000s. But without accompanying microeconomic reforms, the desired results could not be attained.

COSATU, the country's largest trade union federation, despite its alliance with the ANC, was consistently hostile towards GEAR, and regarded it as a 'sell-out' to business interests. Rather than engage COSATU in a vigorous debate on this issue, however, the ANC sought to placate trade union interests by abandoning any attempt to improve labour market flexibility. In effect, the government ceded labour-market policy to the union movement. While this served the ANC's immediate political needs by pacifying its alliance partner, the result was an entrenched oppositional relationship between South Africa's orthodox macroeconomic policies and a labour market policy designed by the far-left. Whereas the National Treasury was, and continues to be, staffed by mainstream economists, the most senior leadership positions in the Department of Labour (DoL) and the Department of Trade and Industry (DTI) are occupied by long-standing trade unionists with quasi-Marxist views.

South Africa's resulting labour legislation is 'labour-friendly', which means that it establishes strict controls over hiring and firing. These policies, vigorously implemented with the help of union militancy, have raised the cost of employing labour to an unsustainable level. A national wage-bargaining system, which sets wage floors by industry and affects in particular those who hire unskilled labour, also provides firms with strong incentives to substitute machinery for workers, and to have a smaller, better-skilled, more highly paid and more manageable workforce.<sup>3</sup> Policies

designed to improve labour-dispute resolution processes, notably the introduction of the Commission for Conciliation, Mediation, and Arbitration (CCMA), have unintentionally burdened employers further by heavily favouring employees over employers, thereby further increasing the risks to employers of hiring labour.<sup>4</sup>

## THE TRANSFORMATION AGENDA

---

Since coming to power, the ANC has been committed to transforming South Africa's racially-skewed society through direct interventions. From the very beginning, the ANC's employment equity policy aimed to change the racial and gender composition of the South African workforce. The Employment Equity Act (1998) requires all employers to achieve equitable representation of racial groups in all occupational categories and levels in the workplace. Employers are also required to develop equity plans that contain a profile of the employer's workforce, the number of employees still to be hired from under-represented groups, the timetable within which these goals will be achieved, and the strategies to achieve such goals. All of these plans have to be submitted to the Department of Labour.

A second and more gradually implemented set of policies aimed to change the racial composition of ownership in South Africa, and in particular the ownership of land. By May 2012, the state had purchased some 7.95 million hectares of land from white owners, and transferred their property to black South Africans. About 10 percent of all white-owned agricultural land was transferred in this manner.<sup>5</sup> At the same time, the government sought to boost the black ownership of businesses. Black Economic Empowerment (BEE)<sup>6</sup> policies grew out of the practice of large businesses hiring well-placed members of the ANC in order to secure good standing with the new government and to reposition themselves in the post-apartheid society. Share-ownership deals ensued, and a few ANC members quickly became very rich.

BEE as official government policy was launched in 2000 with the Preferential Procurement Framework Act, a law which required the government to favour tenders from black-owned companies. In 2003, further BEE legislation promoted sector-specific 'charters', each of which called for a specified number of BEE deals to be concluded.<sup>7</sup> The Minerals and Petroleum Development Resources Act of 2004 backed up these laws by requiring mining houses to become BEE compliant if they wanted to renew their mining licences.

In practice, most South African BEE deals have allowed black investors to buy a discounted stake in a company (sometimes through holding companies or trusts). Their purchase is typically financed through a combination of bank loans (sometimes underwritten by the company involved), expected dividend flows, and increases in share price. In return, the company is able to gain informal access to the black political elite, lucrative government contracts, mining licences, and the like. Only a very small number of the black political and economic elite have benefitted (in some cases again and again) from these arrangements, and the process is often said to promote corrupt relationships between business and government.

In February 2007, the government tried to spread the benefits of BEE more widely through the establishment of Codes of Good Practice.<sup>8</sup> These new codes allowed



companies to use a wider range of business practices, including affirmative action and employee share ownership, in order to earn BEE 'points.'<sup>9</sup> BEE compliance is now being strongly transmitted through value-chains, because the BEE status of suppliers affects the BEE status of contractors. The process has brought black-owned and led firms into the economy more quickly than might have been the case but there have been costs: efficiency is often trumped by race, corruption occurs through 'fronting' and a racialised business environment is perpetuated.

## LEADERS OF THE ANC

---

High-quality leadership is crucial for effective democracies. Since 1994, only one party, the ANC, has governed South Africa (although for the first two years they did so in a power-sharing arrangement with the National Party). In that time the party has been led by three different individuals. Nelson Mandela had powerful charismatic qualities and provided a sense that, after listening to all sides, he would take responsibility for difficult decisions. At the same time, he was a strong believer in consensual leadership, and often sought to accommodate as many interests and perspectives as possible. He had a vision of a non-racial country and made every effort possible to talk to a wide range of South Africans. Though he was not himself committed to any clear economic policy, he gave the country the political conditions in which good policy might be made. He also did not cling to power, but resigned after one term, frequently talking of the example he was trying to set for the country and the African continent in this regard.

Thabo Mbeki took over from Mandela as President of South Africa in 1999. During his first term, Mbeki kept tight control over policy debates within the ANC and the tri-partite alliance. This produced an element of stability, but also ensured that Mbeki's idiosyncratic views on HIV/AIDS became government policy with devastating consequences, and he refused to shift his support for Zimbabwe's undemocratic ruling party, ZANU-PF, despite its use of fraud and intimidation to win elections.<sup>10</sup>

The constitutional two-term limit on the presidency prevented Mbeki from standing for re-election in 2009, but he nonetheless ran for re-election as the head of the ANC in 2007. He was defeated by Jacob Zuma in this race to lead the ANC and Zuma subsequently became president of the Republic in 2009. Zuma had been fired by Mbeki for corruption, and his adviser, Shabir Shaik, was found guilty of corruption and sent to jail. He has shown less interest in policy than his predecessors, and prefers to include all the major ANC constituencies in the policy-making process. Some would say that he is beholden to so many interests that this is the only way he can govern. As a result, the South African cabinet grew from 28 to 34 in 2009. Several departments have overlapping portfolios. Zuma cabinet members take different policy positions and often have public disagreements, which was not the case during Mbeki's presidency. Uncertainty, confusion and a degree of paralysis characterise the government's economic direction.

## HOW DEMOCRATIC IS SOUTH AFRICA?

---

South Africa's electoral process is part of what keeps its democracy strong. In addition, the country is one of only a handful in Africa that can be considered a true 'liberal democracy.'<sup>11</sup> Apart from regular elections, there is a strong free press, an independent judiciary, and a tradition of civil society activism to hold leaders to account.

Yet the country also suffers from some democratic deficits. South African electoral results reveal a more dominant incumbent party, and weaker electoral opposition, than in Africa as a whole.<sup>12</sup> In two of South Africa's four national elections to date, the ruling ANC has obtained over 66 percent of the votes—and, in one election, 70 percent—granting them well over a two-thirds majority in parliament. Opposition parties have struggled to gain electoral support. The best performance by a single opposition party since the end of apartheid was in 1994, when the National Party won 20 percent of the vote. In the second post-apartheid election in 1999, the biggest opposition party was the Democratic Party and it won just less than 10 percent of the vote in that year.

In the last national election in 2009, the largest opposition party, the Democratic Alliance (DA), won just under 17 percent of the national vote. Together opposition voters constituted just over 34 percent of the national vote. The ANC is understandably proud of its achievements in attracting such a large proportion of votes. However, the weakness of the opposition has reduced the pressure on the ANC to win electoral votes on the basis of its performance in government. It also means that at the national level the ANC's commitment to democracy has not been put to the ultimate test: the transfer of power to a victorious opposition.

## POTENTIAL THREATS TO DEMOCRATIC INSTITUTIONS

---

There are a number of worrying developments that threaten to weaken South Africa's democratic institutions, especially the judiciary and the media. One cause for concern is the ability of the president to appoint compliant judges. Constitutional Court judges are appointed by the president of the country after being presented with a shortlist by the judicial services commission (which is itself stacked with party functionaries). They serve for only ten years. If Jacob Zuma serves for a full two terms this will mean that, due to the impending retirement of a number of judges, he will be able to appoint a full bench of the Court.<sup>13</sup> There have already been questions raised about his appointment of the country's chief justice, Mogoeng Mogoeng, who is seen as conservative and less qualified than most of the other candidates for the job.<sup>14</sup> Zuma, furthermore, has been known to waver in his support for an independent judiciary and the rule of law.<sup>15</sup>

The saga of Justice John Hlophe is another cause for concern. Hlophe is the judge president of the Western Cape Division of the South African High Court. In 2008, it was reported that two Constitutional Court judges, Chris Jafta and Bess Nkabinde, had been approached by Hlophe to influence them with regard to two cases pending against Zuma, which resulted in the judges of the Constitutional Court launching a complaint. However, when a tribunal of the Judicial Services Commission was eventually convened to investigate Hlophe's conduct, the two

judges allegedly approached by Hlophe refused to appear. It is entirely unclear who is at fault in this debacle, but it has raised questions about the integrity of the South African judiciary.<sup>16</sup>

Worrying trends have also emerged regarding ownership of the media. Independent News and Media (INMSA), South Africa's largest newspaper group has been sold to an investor with a large government shareholding. The sale of the company to Sekunjalo Independent Media (SIM) was finalised in August 2013. It was announced that SIM would have a 75 percent stake in INMSA, with the Government Employees Pension Fund having the other 25 percent. The investment arms of three of South Africa's trade unions, which are allied to the ANC, were shareholders of SIM.<sup>17</sup> This company now controls not only the Johannesburg-based *Star* but also all the English-language press in both Cape Town and Durban. Another newspaper, *The New Age*, was established in 2010. It is owned by the Gupta family who have very close ties to Zuma.<sup>18</sup>

Additional areas of concern include reports of executive interference with the administration of justice, going back to the Mbeki era, and the growing ability of the state security cluster to curtail access to information. Some of these developments are discussed in detail below, as they impact on the fight against corruption.



## The Economy and Growth Policies in Democratic South Africa

Between 1994 and 2009, under its first three democratically elected governments, South Africa experienced steady (but less than stellar) economic growth (see Figure 1). GDP grew, on average, by 3.2 percent per annum, while GDP per capita grew by 1.6 percent. However, patterns of growth have varied substantially. Under Mandela, growth improved substantially from the extremely low levels present at the end of the apartheid era, but it never rose to particularly high levels and the economy crashed in 1998 following the Asian crisis. Under Mbeki, growth recovered steadily and, although the country never achieved the aimed-for level of economic growth of 6 percent, for at least three years in the late 2000s exceeded 5 percent. Jacob Zuma then took power just as the global financial crisis caused growth to drop off dramatically. Subsequently, there has been a mild, although erratic, recovery. With the country struggling over the past year, the 5 percent growth rate of the 2005–2008 period now seems like a very distant prospect.

### THE EFFECTS OF ECONOMIC POLICIES ON GROWTH

Politics have always had an enormous impact on growth in South Africa, and no more so than during the last decade of apartheid, when isolation and instability made it impossible to grow the economy. At the same time, the dominant influence on the patterns of growth outlined above is clearly the state of the global economy. The crash in the late 1990s was primarily associated with the Asian financial crisis, which led to a worldwide recession. The higher growth of the late 2000s matched a similar global boom. The crash of 2008 was caused by the

FIGURE 1: SOUTH AFRICA'S GROWTH IN THE POST-APARTHEID PERIOD  
SOURCE: WORLD BANK WORLD DEVELOPMENT INDICATORS



global financial crisis that started in the US. For a small, open economy with significant trade and financial links with the Euro area, China and the United States, the condition of the rest of the world matters a great deal for the performance of the South African economy.

But while policies adopted by the South African government appear to have had only a minor influence on the cycles of growth, it is possible that they have affected the rate of growth significantly. Over the past two decades, the country would have still experienced the same patterns of booms and busts no matter who was in charge, but the booms would have been stronger and the busts less severe if South Africa had implemented better policies. Such policies would have encouraged more investment and led to higher levels of innovation and entrepreneurship. They would have produced similar growth patterns, but at a higher level.

South Africa did not capitalise on the commodities boom, for example, because investors reacted negatively to rising costs, considerable policy uncertainty and calls for the nationalisation of mines. The very high unemployment rates that have prevailed since 1994 also indicate that the South African economy has been underperforming under ANC rule. During the past two

decades, unemployment, narrowly defined so as to exclude those who have given up looking for a job, has never fallen much below a quarter of the labour force. This is a tremendous waste. It means that South Africa has not fully utilised the resources available for generating income, and that the South African economy operates well below its production possibility frontier. Putting South Africans who want to work into gainful employment would significantly boost the GDP of the country.

## TRADE UNIONS AND UNEMPLOYMENT

South Africa has followed, and remains broadly committed to sound macroeconomic policies. Nevertheless, COSATU, the country's largest trade union federation has, as noted, had a powerful and frequently detrimental influence on the government's labour policies, as well as more recently on industrial policies. COSATU's vision is of a capitalist system shaped and managed by a 'developmental state' that supports a high-wage, high-skilled growth path through complementary labour-market and industrial policies.<sup>19</sup>

This 'high wage now' strategy is built on the assumption that, even in a country with a large labour surplus, it is necessary to



increase the wages of labour today in order to encourage the economy to grow more dynamically tomorrow. COSATU's strategy adopts aspects of the East Asian development experience—notably active industrial policy—while disregarding the central characteristic of the East Asian growth experience; namely, that the economies of Japan, Korea and China only shifted to a more capital and skill-intensive growth path once surplus labour had been absorbed and average skill levels improved.<sup>20</sup>

By contrast, COSATU asserts the immediate need for 'living wages' and 'decent work', using rhetoric and promoting policies inimical to the low-wage, low-skill employment strategies that could create large numbers of jobs for South Africa's unemployed. Precisely because it prioritises 'decent' high-wage jobs for the employed, it is, ironically, a reincarnation of the old trickle-down story: increases in productivity will supposedly drive the rising tide of economic growth, and the only hope for the unemployed is to get training, receive help from the employed and from the state and wait for the employment waters to rise. This strategy has prevailed through all three presidents in the democratic era despite calls from business, some government ministers and international consultants to move in a different direction. For example, the so-called Harvard group, paid for by the Ministry of Finance, famously reminded South Africa in 2008 that its growth strategy "has to be based on the people that South Africa has, not on the people that it wished it had".<sup>21</sup>

COSATU's strategy, supported by many within the ANC and the government, assumes that South Africa's wage structure is too high to compete with the newly industrialising countries, and that the appropriate response is for the state to assist firms to become more capital-intensive in order to compete on a high-wage, high-skill trajectory. It also believes, for reasons much more ideological than logical, in the destruction of existing, competitive, low-wage production, ignoring the fact that high and low skill operations can co-exist where they compete in different product markets. They also ignore the productivity and human capital costs associated with long-term unemployment. Opportunities for those who are employed to obtain formal and on-the-job training lead to significant improvements in earnings. A 2007 study found that returns to an additional one year of experience at age 20 increased earnings by up to 6 percent. Those who lose the chance to acquire these skills because they spend long periods in unemployment face a career of lower skills and poorer pay, even if they eventually make it into employment.<sup>22</sup>

COSATU's vision continues to be central to the government's growth strategy. But there are signs, as there have been before, that it is not a hegemonic position. For example, the minister of finance, Pravin Gordhan, recently suggested that changes to South Africa's labour laws may be necessary to prevent further job losses in the clothing sector—a view subsequently endorsed by Trevor Manuel, a previous minister of finance and now head of the National Planning Commission.<sup>23</sup> Tensions remain between the Department of Trade and Industry and the Department of Labour on the one hand, and the National Treasury and the Reserve Bank on the other (both of which are regarded by the left as pursuing unnecessarily restrictive fiscal and monetary policies). There are clearly differences of opinion within government about economic policy, but under Jacob Zuma's presidency the dispute has been left to simmer unresolved, although he initially appeared inclined to support the left-wing-COSATU position.

## TRANSFORMATION AND ENTREPRENEURSHIP

---

The ANC governments' attempts to transform the racial patterns of ownership through direct government intervention has created racialised and increasingly clientelistic relations between business and the state. The cordial relationship between the ANC and the business elite evident during the transition to democracy unravelled in early 1997, when the head of the country's largest bank and head of the leading organisation of CEOs, offered to assist government with its 'capacity' problems by seconding senior executives to the government as 'part of their commitment to transformation.' Mbeki was apparently offended by the suggestion that the new government needed assistance from what he perceived as "white" business.

Only after the corporate sector created the Business Trust in 1998 to raise money for job creation and education did he re-open lines of communication and create a working group through which he would meet with big business leaders.<sup>25</sup> Relations between established businesses and government continue to be uneasy, with government regularly wielding the stick at business, especially when political leaders have felt criticised or thwarted. The recent government attack on executives of the third largest bank for posting what was deemed to be critical commentary of the government on its website is a case in point.<sup>26</sup>

The situation for many new black businesses is very different. Just as the old white corporate sector had maintained power and control over vast swathes of the apartheid economy through interlocking directorships and shareholdings, a tightly linked new black elite now serves on each other's boards and is closely connected to the national government.<sup>27</sup> This is openly justified by an ideological commitment to the growth of a black business elite, which is meant by definition to be both just and good for South Africa. Beneficiaries of BEE also include trade unions who, by virtue of their largely black membership, are able to invest pension funds and debt in BEE deals. Notable union-owned investment bodies include the Mineworkers Investment Company (owned by the National Union of Mineworkers—a COSATU-affiliated union), the Kapano ke Matla Investment Company (owned by COSATU), SACTWU Investment Group (owned by the South African Clothing Textile Workers Union—another COSATU-affiliated union) and the Union Alliance Holdings (owned jointly by COSATU and other trade union groupings).

Neither the government's suspicion of established, mainly white business nor its cozy relationships with black business is particularly conducive to entrepreneurship and growth. Established businesses that are still perceived as white-owned (even though most of them have black shareholders, board members and increasingly black CEOs and chairmen) often act defensively; individual capitalists tend to look after their own narrow interests, perhaps through continued unbundling and disinvestment, and otherwise by engaging in BEE deals and other schemes designed to obtain government patronage. On the other hand, black businessmen who qualify for BEE deals have an incentive to accumulate capital on a parasitic basis (by obtaining shares in return for political favours and connections), instead of participating in the productive sector of the economy. There are clearly successful black and white businesses whose owners take normal entrepreneurial risks, but many feel that government, and the business

environment the government has helped to create, could be significantly improved and are often more of a hindrance than a help.

## DEMOCRACY AND GROWTH POLICY

---

The arrival of democracy in South Africa provided previously excluded interest groups, such as black workers in the formal sector and black business owners, with the ability to influence government policy in ways that were impossible under apartheid. The current political economy of policy-making is therefore a lot fairer than it was prior to democracy.

At the same time, however, the powerful influence of trade unions (in politics and economics) and the clientelistic and nepotistic relationship between some businesses and the ANC-run government has prevented the emergence of a growth policy that would help drive higher growth rates, generate jobs for the unemployed and promote entrepreneurial initiatives across society. In order to further consolidate democracy, South Africa now desperately needs a much more effective growth policy, which will only emerge if South Africa changes many of the policies and political alliances that have become entrenched in the democratic era. The reverse is also true: South African democracy also needs to become more competitive if the South African economy is to grow.



## Poverty and Inclusive Growth in Democratic South Africa

In 1994, the ANC campaigned on the promise of 'a better life for all.' Its election manifesto, the Redistribution and Development Programme (RDP), focused on "attacking poverty and deprivation", and allowing the poor "to develop to their full potential". The state promised to provide improved access to social security, public education, and other services. In 1996, the country's new constitution guaranteed socio-economic rights, subject to available resources. The transition to democracy in South Africa put poverty and opportunity on the agenda in ways that were unimaginable under apartheid.

Poverty has definitely fallen in the democratic era, although it remains far more extensive after 20 years of government interventions than anyone would like. Although different data sources suggest slightly different patterns in poverty alleviation, there is broad agreement that poverty rose in the 1990s and then declined in the 2000s. Servaas van der Berg, one of South Africa's foremost economists, demonstrated a significant decline in poverty after 2001. His calculations reveal that poverty levels, at R3,000 per capita per year in 2000 Rand values, started out at 50 percent of the population in 1993. In 1995 they peaked at 52 percent. From 2001 to 2006 they fell from 51 percent to 44 percent.<sup>28</sup>

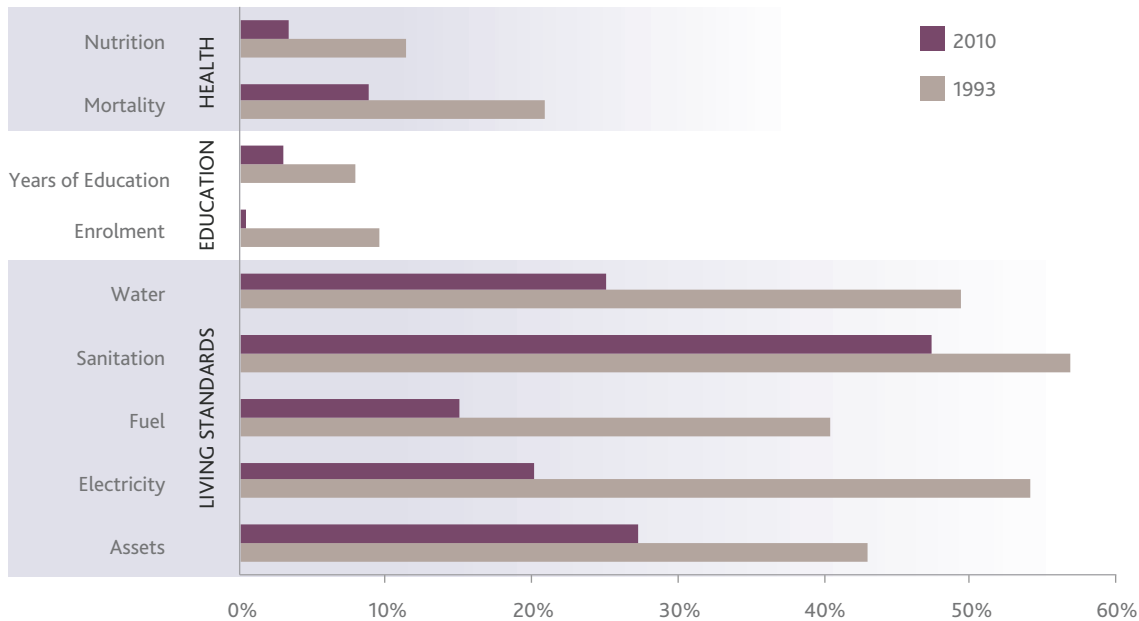
### Anti-Poverty Policies and their Impact

The government has made a concerted effort to assist the poor. The value of cash transfers and public expenditure on services such as healthcare and housing almost doubled, in real terms, between 1995 and 2006. Public expenditure has also become better targeted on the poor. By 2006, the poorest 40 percent of the population received 50 percent of all social spending, including both the estimated value of services as well as cash



FIGURE 2. TRENDS IN THE MULTIDIMENSIONAL POVERTY INDEX (MPI)

SOURCE: FINN, LEIBRANDT, WOOLARD, 2013<sup>31</sup>



transfers. Almost one half (49 percent) of spending on school education accrued, at least nominally, to the poorest 40 percent of the population, as did 57 percent of spending on public clinics and 43 percent of spending on public hospitals. Cash transfers were even better targeted on the poor, with 70 percent of old-age pensions, 62 percent of child support grants and 59 percent of disability grants going to the poorest 40 percent of the population. Some social spending was not well targeted on the poor: only an estimated 24 percent of public expenditure on housing accrued to the poor, and the poor benefited from only 5 percent of public expenditure on universities.<sup>29</sup>

Partly as a result of the way the government has tackled poverty (i.e. by focusing on cash transfers and the delivery of housing, electricity, water, sanitation and access to healthcare and education) there has been a particularly dramatic fall in what is called 'multi-dimensional poverty' since 1993. In terms of this approach a household is classified as deprived in terms of schooling years if no household member has at least five years of education, and in enrolment if one child of school-going age does not go to school; water deprivation is

defined as not having piped water on site; deprivation in child mortality is indicated by a child having died before age 15 and in nutritional deprivation by one person in the household being seriously underweight.<sup>30</sup>

Despite these efforts, poverty has remained entrenched. Its effects have been exacerbated by high levels of HIV, which have shortened life expectancy, and malnutrition and hunger remain persistent, particularly among children. Secondly, while the proportion of the population living in poverty has dropped, the actual number of people living in poverty may have increased as the population has grown. To the extent that poverty did decrease, this took place after 2002, in response to faster economic growth.<sup>32</sup>

While social assistance programmes have redistributed income to the poor and helped bring poverty levels down from 53 percent to 44 percent of the population; they have not changed the nature of poverty in South Africa.

Broadly speaking, poor South Africans have not moved beyond getting a survivalist grant to accessing the opportunities

that will allow them to permanently leave behind the circumstances that hold them in poverty. In addition, rather than supplementing existing incomes, public cash transfers have mostly become substitutes for the private cash transfers (remittances) that poor households used to receive from their relatives who were working as miners or as urban migrants. Apart from some lump-sum transfers for important events such as funerals and weddings, regular private cash transfers have all but dried up, mostly as a result of the job losses in low-income sectors such as agriculture, mining and textiles. Poor households now rarely contain income earners on whom they can depend. Instead, they now depend entirely on state transfers to survive.<sup>33</sup> Almost one in every two South African households receives a means-tested grant.

Although the more important weakness of the anti-poverty programme has been the government's failure to promote job-intensive growth or effective schooling for the poor, poverty is also perpetuated by the very low proportion of South Africans who are self-employed or who operate in the informal sector. In 2008, the informal sector employed only 26 percent of the workforce.<sup>34</sup> Grassroots entrepreneurs are dissuaded by the high crime rate; the complex, unsupportive regulatory environment; the geography of South Africa's cities, where entrepreneurs from disadvantaged areas find it difficult and expensive to reach potential clients in more affluent areas, which are usually far away; and the fact that many of the manufactured items in the consumption basket of poor people are mass produced in the formal economy.

As noted, the powerful political influence of trade unions and the fraught relations between businesses and the state help explain South Africa's failure to produce more job-intensive growth. Why then, has the democratic system not produced greater pressure on the state to produce a more effective anti-poverty programme?

## VOTING PATTERNS AND LIMITS ON ACCOUNTABILITY

---

Poor voters, like non-poor voters, became more apathetic after 1994, with many not registering or registering and then not voting. In 2009 only 58.7 percent of those who were eligible cast a vote, compared with 86 percent in 1994.<sup>35</sup> In addition, only a small proportion of the poor has voted for any of the opposition parties. Voters' capacity to hold the ANC to account has been compromised by the loyalty of the electorate to the party of liberation. As a result, no major opposition party has yet demonstrated credible appeal to the poor. The largest opposition party, the Democratic Alliance (DA) is often associated with privileged racial minorities, while support for other African-led political parties, such as the Inkatha Freedom Party (IFP), the United Democratic Movement (UDM), the Pan African Congress (PAC), and the Congress of the People (Cope), has been limited due to support being restricted to particular provinces or specific rural areas (in the case of the IFP and UDM) or because of infighting, weak policy positions, and leadership squabbles (in the case of Cope and the PAC). The large majority of voters continue to support the ANC, often out of a sense of loyalty rather than as an expression of satisfaction with the performance of the ANC-run government.

Many poor people certainly appreciate the services and hand-outs they receive from the ANC government—electricity, water, free schooling, grants for children—and it is possible that they may fear (or be encouraged to fear) that if they do not

vote for the ANC their grants or pensions or water will be cut off. A complex set of issues thus keep many poor people voting for an increasingly distant ANC with many of its public representatives more interested in enriching themselves than changing the lives of the poor.

Even when opposition parties do obtain seats, their ability to influence policy is limited. South Africa has a bicameral parliament, consisting of the National Council of Provinces (NCOP), and the National Assembly. Despite the checks and balances in the constitution, the national executive dominates parliament, which has, to date, done little more than pass legislation prepared by the executive. It has rarely tried to hold the executive to account. ANC leadership has tended to use the redeployment of members of parliament (MPs) to reward loyalty and punish dissent, limiting the power of parliamentary leaders or individual MPs. As ministers often hold leadership positions within the ANC, it is also hard for MPs to challenge them effectively.

These difficulties are exacerbated by South Africa's closed list proportional representation system, which means that individual MPs are selected by the party leadership, and not directly by the voters. This in turn means that they are far more accountable to the party leadership than to voters and communities. While the ANC's large political majority in parliament has in the past enabled the party to introduce unpopular economic policies, the ANC has not used its dominance and power to persuade voters and the public of why these policies are important, partly because it remains divided on so many economic issues.

In addition, while the government has incorporated elements of fiscal federalism, the South African government operates in a highly centralised way. Unlike Brazil or India, South African provinces have little leeway or incentive to try out independent policy experiments. As a result voters are denied the opportunity to reward experiments that work while voting against the policies that don't.

## INTERCONNECTEDNESS OF STATE AND BUSINESS

---

The interconnectedness of the state and of business also helps explain the persistence of poverty. Broadly speaking, state intervention in the economy is often designed to ensure that economic activity continues to benefit the new political elite rather than expand the economy, improve the environment for entrepreneurship or start to address labour market reform to increase the labour intensity of growth.

The country's history, especially the apartheid siege economy in the 1980s and the nature of the transition, has led to a situation where many large companies in South Africa have got locked into a semi-corporatist approach to growth issues, acquiescing in deals that they can work around rather than pushing hard for the opening up of the economy or the labour market. Large firms can, on the whole, cope with and afford the cost of the bureaucratic and restrictive labour laws. The impact of the current economic environment operates to deter the formation of many new firms and hampers expansion for existing ones. Small businesses that find these laws restrictive have very little influence on policy discussions.

## UNION OPPOSITION

---

Despite the emergence of competing union bodies and tensions between internal factions, the largest trade union, COSATU, remains powerful and influential. According to COSATU's Congress Secretariat Report from August 2012, it has 2,191,016 members. Its biggest single affiliate was the National Union of Mineworkers, with 310,382 members. In the third quarter of 2012 there were 18,313,000 people in the labour force, and 13,645,000 people were employed. This means that 12 percent of those in the labour force and 16.1 percent of those who were employed were COSATU members. Founded as, primarily, a federation of unions in industrial sectors, COSATU is now dominated by unions in the public and parastatal sectors; 42 percent of COSATU members now work in the public rather than the private sector. COSATU's membership has also shifted from being predominantly un- or semi-skilled to being predominantly skilled, supervisory, or even professional.

Trade unions often claim to speak on behalf of the poor, but they rarely lose sight of their primary mission: to protect the interests of their current membership, which in the case of COSATU comprises the relatively well-off working and lower middle classes. The median wage of a unionised worker is more than double the median of non-unionised workers. Almost no union members are in the poorest half of the South African population, which comprises households with workers in non-unionised sectors (such as domestic work and agriculture) and marginal forms of employment, or the unemployed. In the South African context, trade unions are a powerful movement of better-off workers. They are indeed a labour aristocracy.

Partly as a result of its large size, but also through its influence within the state, (especially in the Department of Labour) and within the ANC-led alliance, COSATU wields considerable power over wages and the organisation of production as well as on public policy. Faced with a rise in outsourcing of labour, for example, COSATU has lobbied the state to pass legislation prohibiting such outsourcing. COSATU prevents unorganised workers from undercutting high wages by insisting that centrally-bargained wage settlements are extended to non-parties through administrative fiat. When organised labour employs strike action, it often does so for political reasons (i.e. to exert pressure within the ANC).

Trade union objections to the proposed Youth Employment Incentive Scheme, first proposed by the National Treasury in 2008, reveal the extent of their determination to oppose any improvements in the flexibility of the labour market. The scheme aims to alleviate South Africa's high levels of youth unemployment, by reducing the cost to employers of hiring inexperienced and low-skilled youth.<sup>36</sup> But high levels of opposition from unions have forced the government to substantively modify the scheme and to delay implementation. Even if this scheme is finally adopted—which now appears to be possible—the unions will still have succeeded in delaying its implementation by at least five years. This policy, it must be emphasised, is a very modest first step in dealing with youth unemployment. It does not represent real labour market reform, something COSATU opposes even more vehemently.



## THE ROLE OF CIVIL SOCIETY IN ADDRESSING POVERTY

---

In the past, civil society—including trade unions, media, NGOs, and social movements—has helped to keep issues of poverty and inequality in the public arena, despite government attempts to downplay them. However, civil society weakened substantially during the early post-apartheid years, when compared with the years of anti-apartheid struggle. More recently there are signs of renewed energy and organisational formation, though often not through the traditional methods of mass mobilisation. South Africa’s most effective post-apartheid ‘social movement’—the Treatment Action Campaign, which lobbied for the wider provision of drugs to combat HIV and AIDS—succeeded primarily through strategic alliances with powerful interest groups at home (notably, the medical profession) and abroad, rather than through mass mobilisation.

Given the ANC’s history as South Africa’s primary liberation movement, many people feel uncomfortable associating themselves with any opposition to the ANC or ANC policy. This poses a significant challenge for civil society. Unless civil society is able to stand up to government—with widespread support—it cannot effectively promote pro-poor policies and higher rates of growth. Still, there is growing optimism about the potential for pressuring the state, with new legal and other tactics being tried. And that is taking place in the context of recent, but unsuccessful, efforts to constrain civil society, and particularly the media, with new legislation. One area in which civil society is playing an increasingly important role is in fighting corruption, which is discussed in detail in a section below.

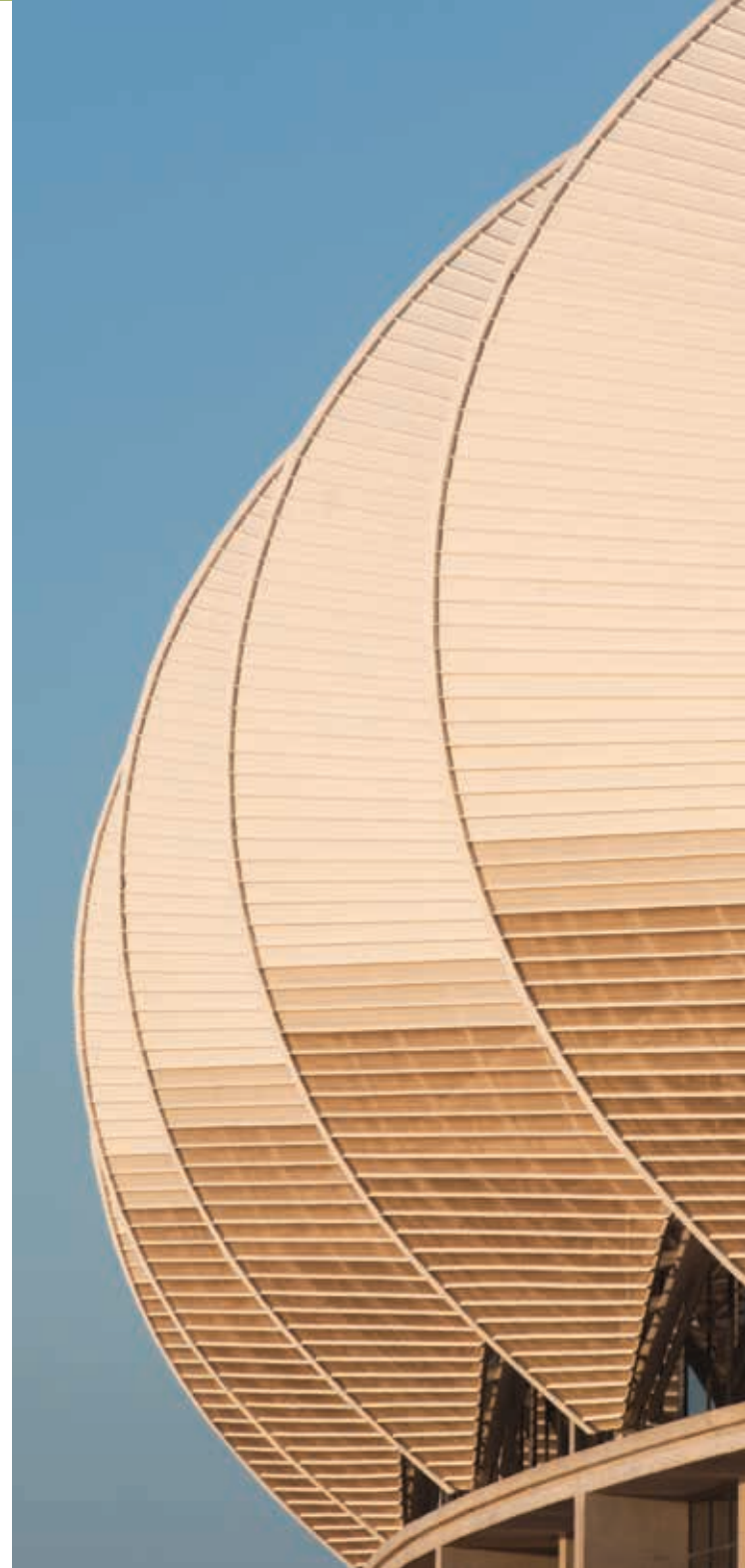
## Innovation in Democratic South Africa

---

Innovation is a vital source of economic growth and development, particularly in democracies, where guarantees of free speech, free association, and the free flow of information create a climate for new ideas and challenges to orthodoxy, which autocratic countries find difficult to replicate. This kind of innovation can take many forms. Although the word 'innovation' typically brings to mind scientific innovation or radically new technology, many other forms of innovation can promote economic and social development as well, particularly in developing countries. For example, 'frugal innovation' involves changing existing products or processes in order to produce radical reductions in cost, or in order to allow companies to reach previously unreachable audiences. Other important forms of innovation include business innovation, cultural innovation, and policy innovation.

During the apartheid era, South Africa retained a fairly open academic discourse, particularly around science and technology. With a few defence-related exceptions, the state never really impeded the circulation of scientific information. Before 1994, South Africa produced many innovations in such areas as defence, material science, and electronics. In part this was because institutions engaged in innovation, such as the Council for Scientific and Industrial Research (CSIR), worked well, revealing that elements of democracy and meritocracy prevailed in apartheid South Africa, even though these principles mostly applied only to whites. South African industry innovated particularly well in areas in which sanctions gave the state no choice but to innovate, most notably in arms, but also in energy.

During the transition to democracy, there was a largely successful effort to retain scientists and to keep research institutes going. The Department of Arts, Culture, Science,



and Technology was established after the 1994 transition, and international best practices were adopted. During this period, research and development (R&D) spending went up dramatically, with private sector R&D rising to about 58 percent of total R&D spending. Despite these positive indicators, there has been no sharp improvement since 1994. The only measure of innovation that has improved in the democratic era—the production of peer-reviewed journal articles—can largely be attributed to changes in university financing. By contrast, other measures of innovation, such as the number of patents filed, have stagnated, while the performance of other middle income democracies has improved. Historically, South Africa had as many patents in the US office as all the other BRICS countries combined. Now the country achieves only one-tenth of the patents produced by the BRICS countries. And while Brazil's royalty receipts have risen by a factor of ten, South Africa's have stagnated.

At the same time, the country's share of high-tech exports is now just 5 percent, while Brazil's is 12.5 percent. Brazil is a much bigger country than South Africa, but its scientists appear to be on an upward trend, whereas South African scientists are losing ground. This sense of decline is to some extent confirmed by the recent R&D expenditure trends. Between 2007 and 2010 South Africa's gross expenditure on research and development decreased from R21 billion to R20.9 billion. Instead of progressing towards the hoped-for 2 percent of GDP, a target the government intends to achieve by 2018, R&D spending fell from 0.93 percent in 2008 to 0.87 percent in 2012.

South Africa's comparative decline may be linked to the growing wariness amongst investors about the mining sector, an area where South Africans have historically been world leaders. R&D in the mining sector has been in decline and the sector now accounts for only 10 percent of total R&D investments in South Africa, compared with 24 percent in Australia. South Africa's uncompetitive business environment also explains the relatively low levels of innovation in the country's private sector, since established businesses are not under sufficient pressure to do something new. Lastly, innovation is inhibited by the lack of cooperation between state bodies and the business sector. Business and government institutions undertake research and development projects in isolation from one another and, as a result, are denied the large benefits that can emerge when the state and private enterprises tackle challenges together.

There are areas with more promising prospects, especially in the more entrepreneurial parts of the economy. South African businesses have always been good at adopting foreign technologies and adapting them to the local context. In addition, the private sector has proved to be good at exploiting local inventions and selling them in global markets. One example is Discovery Health Care, which has an innovative business model that shifts the emphasis from curing disease to promoting wellness. This model is now being exported to Britain and the US. A second example is SABMiller, which has managed to expand globally due to strong business capabilities and experience in running distribution networks in low-income areas. They are now the second largest brewing company in the world measured by revenue. A third example is MTN, which was the first company to pioneer prepaid cellular telephony and is now active in 22 countries, mainly in Africa and the Middle East.<sup>38</sup>



Aspen, the biggest pharmaceuticals company in Africa and one of the largest suppliers of generic medicines in the southern hemisphere, is another example of globally successful South African entrepreneurship. Founded in 1997 in a small house in Durban by two local entrepreneurs, Aspen now boasts a market capitalisation of R12 billion. And most recently, the Lodox, a full-body, digital X-ray scanner that is extremely low dose (90 percent less radiation than conventional X-ray machines) and produces rapid, high-quality diagnostic images, has attained international prominence. Initially developed by De Beers to combat diamond theft, it has had a positive impact on how doctors across the globe deal with traumatic injuries.

Patents have been generated from a variety of sources and registered with the US Patent Office during the past five years. The table below shows the awards made between 2008 and 2012 by the US Patent Office to organisations operating in South Africa that received five or more grants.

#### US PATENT OFFICE AWARDS, 2008-2012

Individuals	131	
SASOL Technology (Pty) Ltd	44	
Spinalmotion Inc	15	Spinalmotion is an American company that has brought in South African expertise
CSIR	14	
Azotec (Pty) Ltd	13	Specialises in capacitive proximity and touch electronics
University of Cape Town	9	
Discovery Holdings	8	Leading SA health insurer
Technology Finance Corporation (Pty) Ltd	7	
University of the Witwatersrand	7	
BHP Billiton SA Ltd	6	Mining company
Waterleaf Ltd	6	Recycling, refurbishments and energy conservation conversions
Amazon Technologies Inc	5	
Cork Group Trading Ltd	5	
Detnet SA Ltd	5	Electronics for mining applications
Force Protection Technologies Inc	5	
Longyear TM Inc	5	Rock drill company originally an Anglo-American subsidiary. Appears to be disengaging from South Africa
Medtronic Inc	5	Medical technology
Platco Technologies (Pty) Ltd	5	Medical technology, now incorporated into ABRAXIS
Sourcecode Technologies Holdings Inc	5	Software development company

These examples suggest that South Africa has great innovative potential. In the context of a more open and conducive business environment coupled with improvements in education, private sector innovation could be the key to more rapid and inclusive economic growth.

A constraint on innovation in the country is the challenging environment faced by small and medium-sized enterprises, and particularly new entrants to the market. The expected return to entrepreneurship is also very low, given high levels of risk, the challenges of becoming competitive, and low economic growth, which promises limited rewards, if any. This problem is exacerbated by BEE policies, which, by offering greater rewards in other sectors of the economy, pull skilled young black people away from entrepreneurship.

The biggest challenge South Africa faces in promoting innovation is the poor level of education and skills. Democracy typically promotes innovation through increased freedom of information, and providing opportunities to larger numbers of people. But without sufficiently high levels of education and skills, people can't make use of information, and aren't able to benefit from access to opportunities. To date, democracy's biggest contribution to innovation has been through broadening access to quality schools for more black South Africans and to higher education. But while the number of higher degrees in science, engineering and technology has increased, the expansion of access to education has been of mixed quality. At the school level, performance in maths and science has been dismal.<sup>39</sup> As a result, there is simply insufficient human capital to generate or absorb innovation, or to transfer it into products and processes in the economy.

The country's restrictive approach to skilled immigration denies South Africa outside sources of energy and innovation too. This scarcity of skills makes investment in R&D ever more expensive; a large proportion of spending goes towards keeping the same number of people working in research. Instead of creating more output, increased spending only drives up wages further.

Policy innovation, typically associated with a radical change in government, is an area in which democracies usually have an advantage. Following the transition from apartheid, South Africa deployed many new practices and innovations as the public sector started to catch up with international best practice in a wide range of government departments. In some cases, new approaches were not always positive, and it can be argued that post-apartheid South Africa had too much policy innovation coupled with insufficient implementation. The many changes forced on the education system created major disruption, for example, but have had little impact on the quality of schooling for the vast majority of people. Policy innovation has also been constrained by the lack of political competition. Without alternation between political parties in government, there are fewer opportunities for innovative policy to emerge.

Some potential for experimentation exists in the Western Cape Province, which is controlled by the Democratic Alliance. The province has placed a strong emphasis on promoting innovation and has sought to persuade its universities to work closely with local businesses and government in order to create 'knowledge hubs.' It is too early to judge the success of this initiative, but the Western Cape is an area where policies that are different from those of the ANC government could deliver results.

## Corruption in Democratic South Africa

---

As well as creating personal fortunes, corruption generally diverts resources away from productive activities into unproductive, 'rent-seeking' and thus hampers growth. However, the relationship between corruption and development is not straightforward. All forms of corruption have a cost and should be opposed, but high growth rates and at least some types of corruption can sometimes co-exist.<sup>40</sup>

The last decade of apartheid was a period of extensive corruption. High levels of secrecy and the dominant role of security agencies offered almost unchecked opportunity for graft. During the first years of democracy, by contrast, corruption was limited and typically petty. The constitutional framework for fighting corruption was established at this time. Starting in 1997 the introduction of BEE created opportunities for politically-connected individuals to benefit from their access to the state.

A watershed moment in the history of corruption in South Africa was the 1999 'Arms Deal' scandal involving a series of multi-billion-rand defence contracts between the South African government and several international arms companies. Once the deal was signed, outsiders alleged that there had been collusion between political leaders and lobbyists for the defence companies. A number of these allegations fell on Schabir Shaik, a businessman with close personal and family ties to the ANC's pre-1994 intelligence networks. In 2005, a judge found Shaik guilty of soliciting a bribe from a French arms manufacturer, Thompson-CSF, on behalf of Jacob Zuma, then deputy president of the country. In quick succession, President Mbeki fired Zuma, and state prosecutors announced that they would bring corruption charges against him.



Zuma, however, had significant political backing within the ANC, and remained the deputy president of the party, despite his expulsion from national office. Many Zuma supporters believed Mbeki had simply used the charges to dismiss a political rival. They saw the corruption charges as part of a conspiracy to get Mbeki another term in office and to undermine Zuma's political ambitions. After a deeply divisive campaign where he mobilised different groups disgruntled with Mbeki, Zuma became head of the ANC at its 2007 elective conference, as well as the presumptive candidate for the presidency in the 2009 national elections.

Despite a strong case, prosecution of Zuma failed to go to court, largely due to intervention from intelligence agents monitoring the phones of key members of the prosecution and then leaking these recordings to Zuma's legal team. Zuma's lawyers used excerpts of these recordings as evidence of procedural flaws in the prosecution. Charges were dropped a few weeks before the 2009 elections.

Further down the political hierarchy, South Africa has also suffered from the rise of 'tenderpreneurs,' politically connected people who become rich through the government tendering system.<sup>41</sup> Apart from channelling state resources in unproductive directions a corrupt tendering process awards government contracts to individuals who are not suitably qualified. Julius Malema, the former head of the ANC Youth League (ANCYL), and now the leader of a new radical, populist, far-left movement, the Economic Freedom Fighters (EFF) is an example of this pernicious phenomenon. Before being ousted from the ANCYL, Malema was allegedly awarding tenders to friends and family in Limpopo, his home province and the poorest in South Africa.<sup>42</sup> It was reported in 2011 that a businessman had paid Malema R1.2 million in order to be awarded tenders by the Limpopo provincial government.<sup>43</sup> Malema's company, or his cronies' companies, often never completed work or did it poorly.<sup>44</sup> The public prosecutor has found that tenders awarded to a company owned by Malema were unlawful.<sup>45</sup> Ironically, one of the EFF's policy pillars is the abolition of the government tender system.<sup>46</sup>

This practice extends well beyond the high profile activities of Malema and is rife throughout government. The auditor-general's last state audit revealed that about R600 million in state tenders was awarded to suppliers linked to the families or employees of the department that was awarding the tender. In 75 percent of these cases, the conflict of interest was not disclosed. This figure does not include officials who are employed by one department but do business with another.

In a probe of the national department of health, the Special Investigating Unit (SIU) found 9,000 employees to be active company directors. While about 1,000 of these do business with the department, 235 of them had benefited from health tenders worth R42.8 million. The department of basic education also revealed how more than 3,000 of its employees had engaged in business with the state in the 2010/2011 and 2011/2012 financial years. They earned a combined sum of R152 million.<sup>47</sup>

The Limpopo textbook crisis, where the province failed to deliver textbooks to pupils, can also be linked to 'tenderpreneurism.' Edusolutions, the contractor that had been appointed to distribute the textbooks, failed to do so. The holding company of Edusolutions is headed by a number of members of the ANC, including a former director general of Gauteng and a former acting director general in the presidency. In addition, the former general manager for budgets and acting chief financial officer in the provincial education department, Solly Tshitangano, claimed that the tender had been awarded irregularly.<sup>48</sup> The leader of COSATU in the province, Dan Sebabi, said that the majority of political leaders in Limpopo were also tenderpreneurs. He was quoted as saying: "They are doing business with the same government institutions they are leading. They are awarding themselves tenders".<sup>49</sup>

In sum, levels of patronage and corruption have risen dramatically since the beginning of the Zuma era in 2009. According to the latest report from the auditor general, 'irregular expenditure' at the national level has increased from R228 million in 2007 to over R2.2 billion (a ten-fold increase). At the provincial level we see an increase from over R4 billion in 2007 to R16.7 billion in 2010 (a four-fold increase).

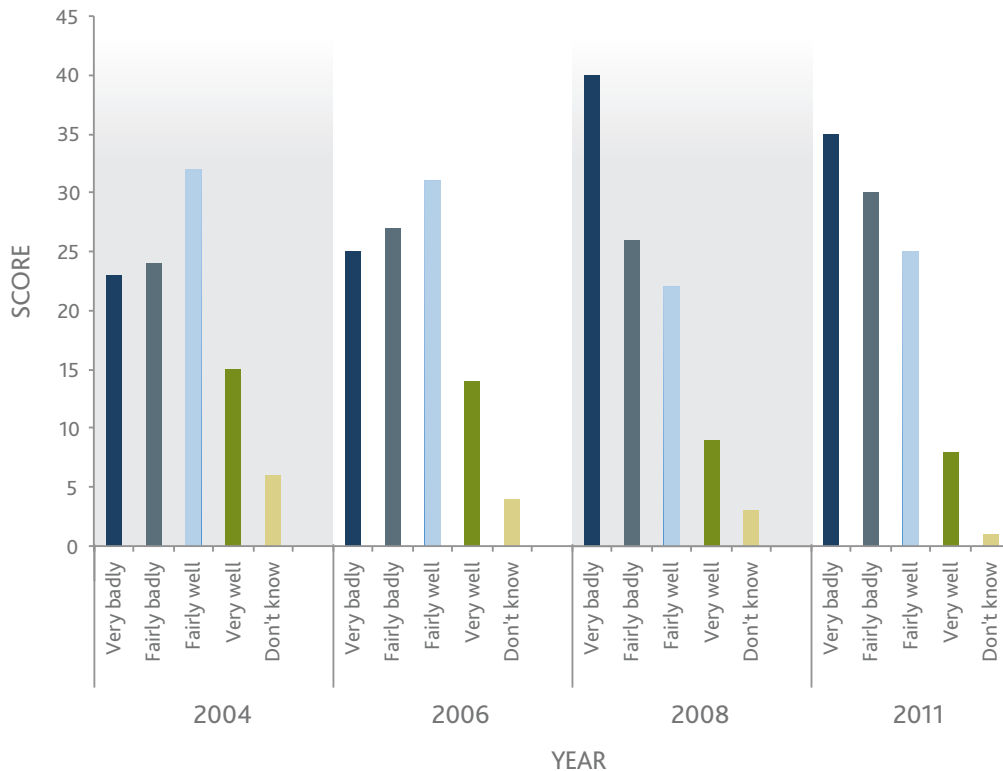
At the local government level it emerged in 2009/10 that only seven of the 237 municipalities (in five provinces) received a clean audit. This included only one city, Cape Town.<sup>50</sup> In 2010/11 the auditor general reported that 13 municipalities received a clean audit. Nevertheless, 'unauthorised, irregular and wasteful' expenditure increased from R6 billion in 2009/10 to nearly R11 billion—an almost 100 percent increase.<sup>51</sup> According to the auditor general, nearly R800 million was awarded in tenders to municipal officials and their families in 2010/11.<sup>52</sup> The public service commission also noted, in addition, that 'the perpetrators of corruption are increasingly at a more senior level, which highlights the need for better, more ethical leadership.'<sup>53</sup>

Internal government reports paint an unambiguous picture of rapidly escalating corruption. The findings of Transparency International’s Global Corruption Barometer confirm this picture. In 2012 almost 50 percent of South Africans reported paying a bribe to secure essential services. The global perception survey on corruption ranked South Africa 69 out of 176 countries surveyed in 2012, a decline from 2011’s 64th position out of 183 countries.

These massive increases in corruption have been accompanied by worsening public perceptions of how the state handles corruption. About 60 percent of citizens now feel that the state performs badly or very badly.

FIGURE 3: AFROBAROMETER DATA: HOW WELL OR BADLY WOULD YOU SAY THE CURRENT GOVERNMENT IS HANDLING THE FIGHT AGAINST CORRUPTION? (2004–2011)

SOURCE: AFROBAROMETER, ROUNDS 2 (2004), 3 (2006), 4 (2008), 5 (2011)<sup>54</sup>







## How South Africa's Democracy Fights Corruption

In recent years, South African democracy has developed several public institutions devoted to the fight against corruption, and some of them are now working very energetically to stop the upward trend. The public service and administration minister, Lindiwe Sisulu, said in 2013 that her department will draft a 'Single Public Service Bill' that will make it illegal for civil servants to be involved in companies that benefit from state tenders.<sup>55</sup> The public protector's office, headed by Thuli Madonsela, has also set ambitious investigative targets for her staff and has been at the receiving end of smear campaigns as a result. Nevertheless, she continues to work with some of the same investigators who served the previous public protector, Lawrence Mushwana—a man who at best was described as a lacklustre performer in that position. Under Madonsela's leadership, investigators who previously drafted explanations of why their boss was not pursuing politically contentious cases are now engaged in important investigations of the political elite, including the president. This is a remarkable turnaround, proof that strong, ethical leaders matter in the fight against corruption and are capable of rejuvenating existing institutions.

Not all recent changes in state anti-corruption structures have been positive. South Africa's elite crime-fighting unit, the Directorate for Priority Crimes Investigations, (known as the 'Hawks') lacks the investigative and prosecutorial independence enjoyed by its predecessor, the Directorate of Special Operations (nicknamed the 'Scorpions.') That unit, which was ostensibly closed for exceeding its mandate in 2009, had in fact been deemed too independent by many politicians. Other government departments dedicated to the fight against corruption have been crippled by the failure to make appointments to important leadership positions. The National Prosecuting Authority was without a permanent head

between October 2011 and August 2013 and the Special Investigating Unit has been without a permanent head since late 2011.

Two major legislative developments also have negative implications for the fight against corruption. The Protection of State Information Bill and the General Intelligence Laws Amendment Bill, both introduced in 2012, seek to entrench many flaws of the state security agency, from its overbroad mandate to regulations for the monitoring of communications.<sup>56</sup> An apartheid-era security law, the *National Key Points Act*, is often used to reduce the availability of information about government activities to the public. The number of Key Points, about which information can be classified, has risen from 118 in 2007 to 182 in 2012. Most recently, the Act has been used to avoid public questioning of the more than R200 million in public funds used to upgrade security at Zuma's private residential compound.<sup>57</sup>

Perhaps South Africa's most powerful anti-corruption tool is its judiciary, which has long been in the front line of the fight against corruption. Despite numerous political attacks the courts are widely perceived as fair. Nor does the fight against corruption depend solely on institutions. Corruption can also be tamed if civil society is empowered to ask questions and principles of good leadership and transparency are promoted.<sup>58</sup>

And indeed, civil society is starting to take up issues of corruption at the local and national levels. Business Leadership South Africa (an independent association whose members represent South African big business leadership and major multinational investors) recently adopted a code of conduct in which all members committed themselves 'in all jurisdictions in which they operate neither to offer, nor to accept bribes, inducements or facilitations of any kind within the private sector or to or from public officials and public institutions'.<sup>59</sup> Corruption Watch, launched in January 2012, grew out of a unit within COSATU that was handling complaints about corruption by its members. Its first executive director is David Lewis, the former head of the Competition Commission,<sup>60</sup> and Zwelinzima Vavi, the general secretary of COSATU is a board member of the organisation together with other prominent citizens. Corruption Watch promotes the involvement of individuals in workplaces, schools or society more generally in the fight against corruption, assists in legal prosecutions, and collects corruption data.<sup>61</sup>

People can report instances of corruption to Corruption Watch through sending messages on their cell phone or through the organisation's website. In its first 11 months of existence the organisation received three reports a day of clear instances of corruption. The three primary types of corruption reported concerned the abuse of resources by a government official, 32 percent; procurement corruption, 23 percent; and 22 percent were instances of bribery.<sup>62</sup>

A well organised social movement was also created recently to fight the passage of the so-called Secrecy Bill (officially called the Protection of State of Information Bill). If passed, the bill would allow the state to classify large volumes of information, including evidence of public corruption. The bill has been passed by parliament, but it was sent back to the legislature by President Jacob Zuma.<sup>63</sup> Although Zuma declared that the bill was "unconstitutional," he may also have felt pressure from the alliance of civil society movements, which protested against it.<sup>64</sup> Zuma admitted he was

influenced by “various opinions and commentaries regarding the constitutionality and tagging of the bill,” evidence that at least he heard the public’s arguments—and also evidence that South African democracy does give the public tools to fight back against corrupt practices. Although as yet, the outcome of this particular battle is still unknown.

The media plays a vital and important role in combatting and exposing corruption. Sometimes the effects of this exposure are direct and reasonably quick. At other times, the results are not as direct as in more established democracies. For example, if a corruption scandal is reported on in South Africa’s major newspapers, it is unlikely that those implicated will immediately resign. They might be moved out in a cabinet shuffle or in time a commission might be appointed to investigate their misdeeds. Nonetheless, the vibrant South African press, the freest on the continent, does have a containing effect.

A recent instance of this emerged in the prosecution of Jackie Selebi, the former national commissioner of police in South Africa. Selebi was prosecuted for a number of crimes, including corruption, racketeering, and defeating the ends of justice. In the months prior to the charging of Selebi, the *Mail & Guardian*, a weekly newspaper with a strong tradition of investigative journalism, had published a number of articles outlining the case against him. Although the police commissioner was a close ally of then-President Mbeki, the case against him had been brought into the public consciousness by the newspaper, and this made it difficult for Mbeki to delay or prevent the charging and subsequent prosecution of Selebi. The police commissioner was consequently sentenced to 15 years in jail in 2010.

Finance Minister Gordhan recently said that the South African economy would not grow if people relied on government tenders for their income.<sup>65</sup> It is surely the case that a significant expansion of entrepreneurial South Africans who rely on their own resources and identify their own opportunities would have very positive consequences for the economy. Such entrepreneurs are likely to be more innovative and dynamic than those who depend on government for their contracts and income. In addition, independent entrepreneurs are likely to have fewer opportunities to engage in corrupt relationships with government officials. More entrepreneurship and less patronage could bring down corruption dramatically.



## Reaping the Democracy Dividend

---

To ensure that democracy is deepened and entrenched, South Africa needs to grow its economy and to lift a much larger proportion of its people out of poverty than has been the case in the past. At the same time, this paper provides evidence that the deepening of democracy could also contribute to economic growth.

On the one hand, rapid, labour-absorbing growth will provide opportunities for all South Africans to become active economic participants, to obtain a stake in an entrepreneurship-driven economy and to use their democratic vote to defend and strengthen this economic system. On the other hand, a more competitive political system could help encourage a more competitive, faster-growing, less corrupt, more innovative economic system. South Africa's democratic deficit has helped slow down economic growth and vice versa.

To promote growth South Africa needs to reduce the cost of doing business by reducing the political risks of investment, lowering the costs and increasing the productivity of both skilled and unskilled labour, reducing mark-ups, and reducing the overall cost of public services.

### THE IMPORTANCE OF LABOUR MARKET REFORM

---

There is a growing view in parts of government, business, and international organisations analysing the South African economy that labour market regulation distorts the economy through its impact on the levels of employment of workers at all levels of skill and education. Intrusive regulation also dictates the size of the formal and informal economies, the wage level, the size of unions and the nature of their relations with the government.



COSATU and its political partners, along with other supporters of the existing regulatory framework (and those who would tighten it further) insist these regulations are essential, in order to ensure that the economy creates 'decent work.' In practice, the result is exceptionally high unemployment levels for unskilled workers, even as skilled workers earn high (and rising) wages. Political opposition to wholesale labour market reform remains strong, but the current situation cannot hold for much longer. With national elections in the offing in 2014, there is a new push from government to try to remove the issue of youth unemployment from the opposition parties' artillery. They are determined to introduce the limited issue of incentives for employers to hire young, inexperienced workers. This will be a small step in recognising that it is the cost of employment that is one factor producing South Africa's massive unemployment crisis. Nonetheless it will breach the wall of wholesale opposition to labour market reform as it might be coupled with the non-application of South Africa's strict hiring and firing laws to these new hires. And perhaps it will increase momentum for the necessary further changes. Addressing unemployment is South Africa's most pressing national priority. A relatively small wage-subsidy programme will not have a very significant numerical effect. Nonetheless, this proposal—if seen as a learning experiment with vital policy implications—holds more promise than many other government initiatives costing considerably more.<sup>66</sup>

## CREATING ZONES OF EXCEPTION

---

South Africa's rising labour costs harm the whole economy, but they are particularly bad for labour-intensive manufacturing industries where global competition is most fierce. The creation of special economic zones (SEZs), where some provisions of the labour laws are relaxed, might well facilitate the emergence of a larger manufacturing sector able to compete in international markets.<sup>67</sup> To do that, these zones should relax the rules governing the employment and dismissal of workers, in order to allow participating businesses to rapidly (and cheaply) increase or decrease the size of their workforces in response to fluctuations in the flow of orders. This is critically important because firms that have to pay idle staff during periods of low activity incur costs that must be recouped when orders pick up again. SEZs could reverse this competitive disadvantage for at least some South African companies. Successful SEZs have played a critical role in transforming economies around the world. China—and the whole world—would look very different today if Deng Xiaoping hadn't created SEZs on China's east coast. The same is true in Mauritius or Costa Rica. Successful SEZs can lead to millions of new jobs, catapult countries out of poverty and completely transform their economies.<sup>68</sup>

## Harnessing Democracy for Growth—and Growth for Democracy

---

### THE NEED FOR DECISIVE AND INNOVATIVE LEADERSHIP

---

Implementing a growth agenda in South Africa requires changes in the current nature of the South African state as well as credible leadership and a strong, competent civil service. The president of the country needs to mobilise the cabinet and his party, champion policies, push them through to implementation, and ensure that poor implementation has clear and serious consequences for those responsible. Finding good leaders depends on a range of interconnected factors, and a good deal of luck. The development of the capacity of the state will also be influenced by many contingencies, including improvements in the education system and a more competitive labour market. But a strong democratic system can help create the context in which such changes are more likely to occur. When one party dominates at the polls and expects to win elections regardless of its performance, it can afford to tolerate weak leaders and poor performance. When elections become closer contests it is possible that there will be growing pressure to appoint public representatives and political leaders on merit and to reform badly performing branches of government.

### TOWARDS CONTESTED ELECTIONS AND GREATER ACCOUNTABILITY

---

South Africans will go to the polls in 2014 and there are signs that this will be a more closely run election than previously. A number of new parties (Agang, the Economic





Freedom Fighters) may draw votes away from the ANC. The Democratic Alliance is also working hard to consolidate and expand the gains it made in the last elections. The party hopes to attract between 25 percent and 30 percent of the vote. If successful, the ANC may feel that in order to stop its electoral slide it needs to become more effective in government. This is, of course, not the only way the ANC could respond to the challenge of the opposition and it is possible that authoritarian tactics could be attempted. And competitive elections on their own cannot ensure the emergence of a more efficient meritocracy. Nevertheless, there is truth in the words of a South African commentator who recently argued: "It is only when the ANC feels it has a real shot at losing the elections, or dramatically falling in electoral numbers, that it will be the best possible party in government that it has not yet been. Political competition is therefore good for the ANC and, more importantly, for you and me as voters".<sup>69</sup>

South Africa is currently seeing a growth in the number of political parties aiming to contest the 2014 elections. The positive side of this is that there are more and more black South Africans speaking out against the ANC and in so doing making it more respectable to be black and not ANC. On the other hand, if opposition parties end up stealing more votes from each other than weakening the governing party, that will not help the cause of accountability. A worrying development is voter apathy or active decisions not to vote. South Africa is seeing a growing number of eligible voters not participating in national elections. As mentioned earlier, only 58.7 percent of those who were eligible cast a vote in 2009, a significant decline from the 86 percent in 1994.<sup>70</sup>

Our support for more closely contested elections is based on their potential to enhance the government's accountability. Accountability could be further strengthened by the calls for electoral reform first proposed in 2003 by the Slabbert Commission, which was appointed by the then minister of home affairs, Mangosuthu Buthelezi, with the approval of cabinet. The commission recommended replacing the current closed-list proportional representation electoral system with a more directly representative system that would give voters a direct say in who from a particular party represents them. Making politicians more directly accountable to the people who elect them definitely has some potential to strengthen the incentives for improved governance. These considerations are, unfortunately, largely moot as the

proposal has little chance of being adopted. The ANC and some opposition parties are strongly opposed to it.

## FIGHTING CORRUPTION AND DEFENDING DEMOCRACY

---

One of the most important arenas in which democracy can be harnessed for higher growth and better governance is in countering the escalating prevalence of corruption in South Africa. Democratic institutions can play a vital role in the fight against corruption if people use their votes to get corrupt leaders out of office; if the freedom of expression that democracy provides is used to put pressure on government to act honestly; and if misdeeds and fraud with public money are made transparent to the public. This makes it imperative that the independence of the judiciary and of the media are defended. Once these come under the president's or the ruling party's control their ability to expose and to prosecute wrongdoing will be significantly compromised. For similar reasons it is vital to oppose plans, such as those contained in clauses of the 'Secrecy Bill', that contain provisions with very wide ambit to restrict the public's access to information. It is important that South Africans do not take their hard-fought democratic constitution for granted.

## Summary and Concluding Thoughts

---

South Africa has now been a democracy for two decades. During that time, the political system has remained stable, and it is not now under threat. Nevertheless, South African democracy faces significant challenges.

Some of these challenges are economic. South Africa has not yet been able to achieve the high levels of growth the country so urgently needs. Rather than focusing on rapid growth and job creation, South Africa has preferred a high-wage model. Unfortunately in the context of massive unemployment levels, and a very serious skills shortage, this has not been effective. Fraught state relations with established businesses, poorly-designed BEE policies that promote corrupt relations between business and government and ambiguity about markets and the role of the state, have also impeded growth.

The failure to attain high levels of growth and its capital-intensive nature has reduced South Africa's ability to address poverty. While poverty has fallen since the apartheid era thanks to short periods of high growth and the massive rise in social grants, the decrease has been far less significant than anticipated. Massively expanding grants is unsustainable and has been accompanied by a rise in inequality, particularly among black South Africans. Despite the fact that every citizen is now able to vote, the poor, and particularly the unemployed, do not have a strong voice in South African politics—in large part due to the dominance of the labour movement and the system of proportional representation, which does not allow for members of parliament to be accountable to local constituencies. While civil society has done much to keep issues of poverty, injustice and inequality in the public arena, organisational capacity and energy weakened substantially in the early post-apartheid years, and is only now beginning to strengthen and reassert itself.

The onset of democracy has not resulted in an innovation dividend. While innovative business activities, products, and policies continue to emerge, formal innovation has expanded in other middle income countries, leaving South Africa behind. South Africa's economic environment doesn't do enough to encourage innovation, and this is exacerbated greatly by the skills shortage. Nonetheless, South African business remains strong in adopting and adapting existing technologies to the local context, and South Africa has produced some novel innovations, as well as a number of highly innovative companies on the global scale.

In the early years of South Africa's democracy, corruption was limited. In more recent years, particularly since the Arms Deal, it has grown rapidly, in both scope and scale. This has been strongly associated with internal divisions within the ANC, the weakening of many of the controls over the civil service, corruption in the police and the lack of rigorous political competition. Although all these issues were present under the Mbeki regime, corruption has accelerated under the Zuma presidency with members of his family and associates amassing wealth at a very rapid pace. On the positive side, the rise in corruption has reinvigorated elements of civil society, and there is now strong and growing civil society action against corruption coupled with the media and opposition members of parliament playing an important role.

To become more inclusive and to further entrench democracy South Africa needs much faster and more labour intensive growth. To raise the growth rate the country needs to create a business environment that will attract more local and international investors while also strengthening the way the government provides infrastructure, delivers quality education across the country and permits skilled immigrants to enter the country. In addition, the government will have to push labour market reform, even if it does so in a piecemeal way. To do so successfully will require decisive leadership and a more effective, professional civil service across a range of departments.

As we have argued, the strengthening of democracy can help create the conditions necessary for these changes. If elections became more closely contested, political parties become more directly accountable to the electorate and corruption is regularly exposed and then acted upon, then ruling parties will feel compelled to govern more effectively and to become better at promoting growth and delivering services.

Under democracy, South Africa has notched up a number of achievements. It remains a stable country that has generated new economic opportunities, reduced poverty to a degree and produced some inspiring innovations. However, if South Africa is to become a truly inclusive society it needs to generate higher rates of growth, sustained for a long period. It needs to deepen and strengthen its form of representative democracy so that government becomes more accountable to the electorate. With the right reforms, some luck and the emergence of a more accountable government South Africa has every chance of serving as a beacon for democracy and what we might call 'the democracy consensus' in Africa.

## REFERENCES

- Papers prepared for and presented at the first Johannesburg workshop held in March were the following: Nattrass, N. Democracy and Growth in post-apartheid South Africa; Seekings, J. Democracy, Poverty and Inclusive Growth in South Africa since 1994; Simkins, C. Innovation and Democracy in South Africa; and van Vuuren, H. Democracy, corruption and conflict management. An additional invaluable source was Simkins, C. South African Disparities (2011). *Journal of Democracy*. 22(3) pp.105-119.
- Mboweni, T. 2012. "Jordan Wrong on ANC Policy Choice". *Sunday Independent*, 18 November.
- Moll, P, 1996, 1996. "Compulsory Centralisation of Collective Bargaining in South Africa". *American Economic Review, Papers and Proceedings*, 82 (2): 326-29 and Nattrass, N. 2000. "Inequality, Unemployment and Wage-setting Institutions in South Africa", in *Studies in Economics and Econometrics*, vol.24, no.3: 129-142. See also CDE, Jobs For Young People: Is a wage subsidy a good idea? August 2011.
- Bhorat, H. and Van der Westhuizen, C. 2009. A Synthesis of Current Issues in the Labour Regulatory Environment, *DPRU Working Paper*, 09/136. Available on: [http://www.commerce.uct.ac.za/research\\_units/dpru/WorkingPapers/PDF\\_Files/WP\\_09-136.pdf](http://www.commerce.uct.ac.za/research_units/dpru/WorkingPapers/PDF_Files/WP_09-136.pdf).
- Source: Landman, JP. 2012. "Land Reform, More Emotion Than Sobriety". Blog post, available online at: <http://www.jplandman.co.za/Files/Sept%20land%20reform.pdf>  
Mahlageni, BM. 2012. "Reflections on the Impact of the Natives' Land Act, 1913, on Local Government in South Africa". Research Unit, Parliament of the Republic of South Africa, available online at: <http://www.parliament.gov.za/content/Land%20Act%20-%20Paper%203%20-%20Langa%20-%20Final.pdf>.
- In this legislation, and in South African parlance more generally, the term 'black' is used to refer to all those who are not white. It does not only refer to people of African descent.
- Hirsch, A. 2005. *Season of Hope: Economic Reform under Mandela and Mbeki* (Pietermaritzburg: University of KwaZulu-Natal Press, 2005); Gqubule, Duma (ed.). 2006. *Making Mistakes, Righting Wrongs: Insights into Black Economic Empowerment* (Johannesburg: Jonathan Ball); and Turok, B. 2008. *From the Freedom Charter to Polokwane: The Evolution of ANC Economic Policy*, New Agenda, Cape Town.
- Government Gazette* 29,617, 9th February, 2007.
- Information on legislation, charters, BEE scorecards etc. can be found on the Department of Trade and Industry website: <http://www.thedti.gov.za/bee/beecodes.htm>.
- Makumbe John. September 2009. "The Impact of Democracy in Zimbabwe Assessing Political, Social and Economic Developments Since the Dawn of Democracy". Centre for Policy Studies Johannesburg.
- Maree, J. 2012. "COSATU, Oligarchy and the Consolidation of Democracy in an African Context". In Buhlungu, S. and Tshoaei, M. (eds.). *COSATU's Contested Legacy*. HSRC Press, Cape Town.
- Rakner, L. and van de Walle, N. 2009. Opposition Weakness in Africa, *Journal of Democracy*, 20(3) pp.108 -121..
- This was one of the issues raised by Allister Sparks at a CDE testing meeting, 10 October 2013.
- Smith D. 2011. "South Africa Rights Groups Condemn Jacob Zuma's Choice of Top Judge. *The Guardian*. 25 August. Available online at: <http://www.theguardian.com/world/2011/aug/25/south-africa-jacob-zuma-choice-top-judge>; de Lange, D. 2011. "Mogoeng Zuma's 'Last Resort'". *The Post*. 19 August. Available online at: <http://www.thepost.co.za/mogoeng-zuma-s-last-resort-1.1121062?pageNumber=2#>. UmTp4xAeRbs; Democratic Alliance Press Release. 2011. "DA Submission to President Jacob Zuma regarding the suitability of Judge Mogoeng Mogoeng for the position of Chief Justice". 5 September. Available online at: <http://www.da.org.za/newsroom.htm?action=view-news-item&id=9745>.
2011. "Zuma's Attacks on the Judiciary are a Worry. *City Press*. 5 November. Available online at: <http://www.citypress.co.za/citypress-says/zumas-attacks-on-judiciary-are-a-worry-20111105/>
- Grootes, S. 2013. "Hlophe Saga: The (Mi) Stakes are Too High". *Daily Maverick*. 1 October. Available online at: <http://www.dailymaverick.co.za/article/2013-10-01-hlophe-saga-the-mistakes-are-too-high/#>. UmTqwRAeRbt; Devenish, G. 2013. "Hlophe Case a Stain on the Judiciary". *The Star*. 16 October. Available online at: <http://www.iol.co.za/the-star/hlophe-case-a-stain-on-judiciary-1.1592943#>. UmTuNBAeRbs; and SAPA. 2013. "Judges File Application to Review John Hlophe Tribunal". *City Press*. 21 October. Available online at: [http://www.citypress.co.za/news/judges-file-application-review-john-hlophe-tribunal/?utm\\_source=rss&utm\\_medium=rss&utm\\_campaign=judges-file-application-review-john-hlophe-tribunal](http://www.citypress.co.za/news/judges-file-application-review-john-hlophe-tribunal/?utm_source=rss&utm_medium=rss&utm_campaign=judges-file-application-review-john-hlophe-tribunal).
- Survé reveals funders of Independent SA, *Business Report*, 21 June 2013, available online at: <http://www.thepost.co.za/surve-reveals-funders-of-independent-sa-1.1535301#.UmT6hBAeRbs>; Sekunjalo finalises INMSA purchase, *Business Report*, 21 August 2013, available online at: <http://www.iol.co.za/business/news/sekunjalo-finalises-inmsa-purchase-1.1566097#.UmT6jhAeRbs>.
- Davis, R. 2013. "Is The New Age's coverage really pro-ANC?" *Daily Maverick*. 4 February. Available online at: <http://www.dailymaverick.co.za/article/2013-02-04-is-the-new-ages-coverage-really-pro-anc/#>. UmT9RBAeRbs.

19. Vavi, Z. 2008a. "Walking through the Door." *Mail & Guardian*, September 5-11: 35 and Vavi, Z. 2008b. "Ten Steps to a New Economy." *Mail & Guardian*, September 19-25: 30
20. Birdsall, N. and F. Jaspersen (eds). 1997. *Pathways to Growth: Comparing East Asia and Latin America*. Washington D.C. Inter-American Development Bank.
21. Hausmann, R. 2008. Final Recommendations of the International Panel on ASGISA. CID working paper 161.
22. National Planning Commission, The Labour Market, available online at: <http://www.npconline.co.za/pebble.asp?releid=111>
23. 2011. "Cabinet: No, Pravin, We Won't Relax SA's Labour Laws." *Mail & Guardian*. 25 August. Available online at: <http://mg.co.za/article/2011-08-25-cabinet-no-pravin-we-wont-relax-sas-labour-laws>.
24. Gevisser, Mark. 2007. Thabo Mbeki: *The Dream Deferred*. Johannesburg: Jonathan Ball.
25. Handley, A. 2008. *Business and the State in Africa: Economic Policy-Making in the Neo-Liberal Era*, Cambridge University Press, Cambridge.
26. Bauer, N. 2013. "ANC tears into FNB over 'political statement'." *Mail & Guardian*. 21 January. Available online at: <http://mg.co.za/article/2013-01-21-00-anc-tears-into-fnb-over-brand-campaign> and Parker, F. 2013. "The ANC and FNB's Ads: Storm in a Teacup". *Mail & Guardian*. 4 February. Available online at: <http://mg.co.za/article/2013-02-04-the-fnb-ad-saga-storm-in-a-teacup>.
27. Calland, R. 2006. *Anatomy of South Africa: Who Holds the Power?* Cape Town, Zebra and Seekings, J. and N. Nattrass. 2011. "State-Business Relations and Pro-Poor Growth in South Africa" in *Journal of International Development*, vol.23, no.3: 338-357.
28. Van der Berg, Servaas, Megan Louw, and Leon du Toit 2007. 'Poverty trends since the transition: What we know', Department of Economics, Stellenbosch University, available online at: <http://www.npconline.co.za/MediaLib/Downloads/Home/Tabs/Diagnostic/Economy2/Poverty%20trends%20since%20the%20transition.pdf>.
29. Van der Berg, Servaas and Moses, Eldridge. 2012. "How Better Targeting of Social Spending Affects Social Delivery in South Africa", *Development Southern Africa* 29,1: 127-39.
30. Finn, A, Leibbrandt, M, and Woollard, I. 2013. "The Significant Decline in Poverty in its Many Dimensions Since 1993". *Econ3x3*. Available online at: <http://www.econ3x3.org/article/significant-decline-poverty-its-many-dimensions-1993#sthash.zBBz1P6p.dpuf>.
31. Arden Finn, Murray Leibbrandt, Ingrid Woollard, The significant decline in poverty in its many dimensions since 1993, 29 July 2013.
32. Van der Berg, Servaas and Moses, Eldridge. 2012. "How Better Targeting of Social Spending Affects Social Delivery in South Africa". *Development Southern Africa* 29,1: 127-39.
33. Leibbrandt *et al.*, 2012: 23-4 show that by 2008, poor households relied overwhelmingly on social grants, whereas as recently as 1994 remittances had played a very important role.
34. <http://www.oecd.org/employment/emp/45282868.pdf>
35. SAIRR, South Africa Survey, 2012.
36. CDE Round Table. August 2011. *Jobs for Young People: Is a youth wage subsidy a good idea?* Available online at: [http://www.cde.org.za/images/pdf/JOBS%20FOR%20YOUNG%20PEOPLE\\_Is%20a%20wage%20subsidy%20a%20good%20idea.pdf](http://www.cde.org.za/images/pdf/JOBS%20FOR%20YOUNG%20PEOPLE_Is%20a%20wage%20subsidy%20a%20good%20idea.pdf).
37. SA Gov, National Survey of Research Experimental Development, 2011 Report.
38. [https://www.mtn.co.za/About\\_us/Pages/MTN\\_SA.aspx](https://www.mtn.co.za/About_us/Pages/MTN_SA.aspx) In 1996, MTN was the first company to pioneer the prepaid solution and is the first company to launch the highly acclaimed MTN Zone, the dynamic tariffing billing system.
39. CDE. October, 2013. Mathematics Outcomes in South African Schools: What are the facts? What should be done? CDE insight.
40. Bardhan, P. 1997 "Corruption and Development: a review of issues". *Journal of Economic Literature*, 35. Leff, N. 1968. *Economic Policy-making and Development in Brazil, 1947-1964*. New York, Wiley..
41. Naidu, B and Piliso, S. 2011. "How Malema Made his Millions. ANCYL President Benefits Handsomely from State Tenders", *Sunday Times*. 21 February.
42. Forde, F, McKune, C, and Faull, L. 2011. "How Malema Pulls Tender Strings". *Mail & Guardian*. 5 August.
43. Wa Afrika, M, Rose, R, and Hofstatter, S. 2011. "Tender Boss Paid Malema". *The Times*. 14 August.
44. Hlongwane, S. 2012. "Shoot the Tenderpreneur". *Daily Maverick*. 12 April.
45. SAPA. 2012. "Protector Fingers Malema on Tenders". *News24*. 10 October.
46. Evans, S. 2013. "EFF: No more tenders in government". *Mail & Guardian*. 17 July.
47. <http://www.financialmail.co.za/fm/Features/2013/07/25/sisulu-stops-civil-servants-doing-business.jsessionid=0D3645052498B14BEFD04D394D7FCA0A.present1.bdfm;Steinacker,J.2010.> "Free State Tenderpreneur Scores Big." *Sowetan*. 4 April.
48. Jika, T and van der Merwe, J. 2012. "Bigwigs' Behind Limpopo Textbook Bungle". *News24*. 15 January.
49. *On the Trail of South Africa's Missing Textbooks*, BBC, 3 October 2012.
50. Mukhadam, S. 2011. "Holding Local Government Accountable, Institute for Security Studies". *ISS Today*. Institute for Security Studies. Cape Town. 14 July. [www.issafrica.org](http://www.issafrica.org)



51. Levett, S. 2013. "Something is Rotten in the State". *Finweek*. Johannesburg. 10 January. In the latest report 2011/12, the AG reports that 18 percent of municipalities have received a clean audit.
52. Nhlabathi, Hlengiwe. 2012. "Officials get R800m from Tenders". *The Sowetan*. 25 July. [www.sowetanlive.co.za](http://www.sowetanlive.co.za)
53. Op Cit. Ensor.
54. The Afrobarometer is a comparative series of public attitude surveys, covering up to 35 African countries in Round 5 (2011-2013). It measures public attitudes on democracy and its alternatives, evaluations of the quality of governance and economic performance. Fieldwork for Round Five was conducted in South Africa in the last quarter of 2011. The survey interviewed 2,400 adult South Africans. A sample of this size yields results with a margin of error of +/- 2 percent at a 95 percent confidence level.
55. Ibid. Heese, K. *Business Day*.
56. Right2Know Campaign. 2013. *Secret State of the Nation 2013*. Right2Know Campaign. Cape Town. 18 February.
57. Ibid.
58. Jones, M. 2012. "'Endemic' Corruption Disturbs Madonsela". *Independent Online*. 4 April.
59. [WWW.BLSA.ORG>ZA](http://WWW.BLSA.ORG>ZA)
60. Hlongwane, S. 2012. "Launched, Supported, Crucial: Corruption Watch". *Daily Maverick*. 27 January.
61. Corruption Watch. First Annual Report.
62. Corruption Watch. First Annual Report.
63. SAPA. 2013. "Zuma Sends Info Bill Back to Assembly". *Independent Online*. 12 September.
64. SAPA. 2013. "Secrecy Bill a Threat, Says FXI". *Independent Online*. 3 May, and SAPA. 2013. "New Call to Scrap Info Bill". *Independent Online*. 28 August.
65. Maswanganyi, N. 2013. "Entrepreneurs the Key to Jobs, says Gordhan". *Business Day*. 22 August.
66. CDE. August 2011. "Jobs For Young People: Is a wage subsidy a good idea?" CDE, Round Table.
67. CDE. May 2012. "Special Economic Zones: Lessons for South Africa from international evidence and local experience". CDE, Round table
68. CDE. May 2012. "Special Economic Zones: Lessons for South Africa from international evidence and local experience". CDE, Round table.
69. <http://historymatters.co.za/yes-but-will-agang-really-catch-on-by-eusebius-mckaiser/>
70. SAIRR. 2012. *South Africa Survey*.



**ADDITIONAL FUNDING:**

The John Templeton Foundation

Smith Richardson Foundation

The Lynde and Harry Bradley Foundation

Center for International Private Enterprise (CIPE)

Konrad-Adenauer-Stiftung e.V.



JOHN TEMPLETON FOUNDATION  
SUPPORTING SCIENCE—INVESTING IN THE BIG QUESTIONS

SmithRichardson  
FOUNDATION





[www.li.com](http://www.li.com)  
[www.prosperity.com](http://www.prosperity.com)

**LEGATUM INSTITUTE**  
11 Charles Street  
Mayfair  
London W1J 5DW  
United Kingdom

t: +44 (0) 20 7148 5400

<http://twitter.com/LegatumInst>



**CENTRE FOR  
DEVELOPMENT  
AND ENTERPRISE**

*Informing South African Policy*

[www.cde.org.za](http://www.cde.org.za)

**CENTRE FOR DEVELOPMENT AND ENTERPRISE**  
5 Eton Road, Parktown,  
Johannesburg, 2193  
South Africa

PO Box 1936, Johannesburg, 2000

t: +27 (0) 11 482 5140  
e: [info@cde.org.za](mailto:info@cde.org.za)