

# The Politics of the MDGs and the Rainbow Nation (South Africa)



African Forum and Network  
on Debt and Development

## A Critical Appraisal of the Global Partnership for Development (Goal 8)



**The Politics of the MDGs and South Africa**

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## Preface

Five years from the Millennium Declaration we are faced with the inevitable need to reassess the current levels of poverty, the instruments that are in place for tackling poverty and indeed the constraints that must be resolved. The fact that the MDGs represent an unprecedented commitment by all nations and institutions, including the International Monetary Fund (IMF) and the World Bank, to implement and realize the MDG goals and targets needs to continue to be emphasized at all stages. Part of the global ability to realize the MDGs is dependent on financing of such development. Aside being affirmed as part of Goal 8 in the MDGs such understanding has also been reaffirmed in the 2002 Monterrey Consensus on enhancing financing for development.

MDGs are unique in that they represent the first global compact between the heads of state of developed and developing countries, together with the UN system, the World Bank and the IMF.<sup>2</sup> The Goals have clear targets and achievable time-bound indicators of success, which can galvanize support among citizens and governments alike. Throughout 2005 civil society organizations, governments and multilateral institutions will be focused on progress in meeting the Millennium Development Goals (MDGs), with 10 years remaining until the target year of 2015. Tanzania is not an exception to this.

The MDGs include a fifty percent reduction in poverty and hunger, universal primary education, reduction of child mortality by two-thirds, cutbacks in maternal mortality by three-quarters, promotion of gender equality, and reversal of the spread of HIV/AIDS, malaria and other diseases. A Millennium Summit of 189 world leaders in September 2000 pledged to meet all of these goals by 2015. A summit later this year will review progress towards the goals and set the development agenda for the next decade.

Of particular importance to this research report is Goal Eight outlining Northern governments' commitment to a global partnership for development - a late addition to the MDGs. Goal Eight relates to issues of: debt cancellation, trade justice, equitable governance in global institutions and political, social and economic rights for the poor – as an indispensable foundation for a politics that will enable sustained progress to end poverty in the South. It is an important goal for holding developed countries accountable in advancing the MDGs. This goal is particularly significant as it requires richer countries to reform their policies and actions to contribute to the fight against poverty.

Despite its status as a middle income country, South Africa's high inequality remains an intransigent problem. The widening gap between the rich minority and poor majority became a contentious issue in the new South Africa five to 10 years after attaining majority rule. Although South Africa's economy is doing well-economic growth-wise; it has been termed "jobless growth" as it fails to meet the employment and living conditions for the majority of its people. The Millennium Declaration was seen by many as a road-map to tailor a new socio-economic direction for the country. In an effort to foster sustainable development and reduce poverty to attain the MDGs by 2015, the South African government has taken several initiatives to encourage the private sector aimed at liberalization of the economy, job creation and reversing the adverse economic trends set by the apartheid regime. This was done through the creation of the popular "Black Economic Empowerment Programme".

To many people South Africa is 'two states in one.' There is the world of the most affluent enjoying the benefits of economic growth and the world of those that are poor and jobless or poorly paid. Africans are the most impoverished segment of the population, constituting 91.1 percent of 21.9 million poor in South Africa. Compared to the size of their population, 56.3 per cent of Africans, 36.1 per cent of coloured people, 6.9 percent of White people and 14.7 per cent of Indian people are estimated to be living under the national poverty line in 2002. The poverty rate among the African population living under the national poverty line was eight times the poverty rate among the White population in 2002. South Africa can be viewed as an archetype of the global economy structure.

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<sup>1</sup> UNDP(2002) "The Millennium Goals in Africa-Promises and Progress" Report prepared by UNDP and UNICEF for G8 Personal Representatives for Africa, June 2002, New York

<sup>2</sup> Salil Shetty in Centre for Human Rights and Global Justice, "Human Rights Perspectives on the MDGs, Conference Report", November 11, 2003, pp. 17-18 accessed at <http://www.nyuhr.org/images/NYUHRGJMDGREPORT2003.pdf>

It is important to note that the global structures that maintain poverty and marginalize the rights of the poorest clearly need reform, but there is little attention to these major framework issues in Northern governments' approaches to the MDGs. The UN should play a strong role in regular monitoring of the Donor countries' progress on Goal 8 and the framework for their reporting on MDG 8 should be revised to include indicators on global governance and participation. The pursuit of achieving the Millennium Development Goals in South Africa and elsewhere in the world requires that mechanisms be put in place to reconcile divergent interests and perspectives in private sector operations.

While a more equitable trade system is vital, donor Official Development Assistance (ODA), along with substantial debt cancellation, provides the essential additional financing capacities, particularly for the poorest countries' progress in reducing and eliminating poverty. Now is the time for the North to honour mutual commitments and obligations in a spirit of genuine solidarity. Such commitments are encapsulated in the Millennium Development Goals - in particular Goal 8.



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## List of Abbreviations

AFRODAD	African Forum and Network on Debt and Development
AGOA	African Growth and Opportunity Act
ANC	African National Congress
BEEP	Black Economic Empowerment Programme
BIG	Basic Income Grant
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
CSP	comprehensive social Protection Approach
DFA	Department of Foreign Affairs
DRC	Democratic Republic of Congo
EEC	European Economic Community
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
HDI	Human Development Index
HIV/AIDS	Human Immuno deficiency Virus/Acquired Immune Deficiency Syndrome
HSRC	Human Science Research Council
IDC	International Development Co-operation
IMF	International Monetary Fund
JSE	Johannesburg Stock Exchange
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NEPAD	New Partnership for Africa's Development
NGOs	Non Governmental Organisations
OAU	Organization of African Unity
ODA	Official Development Assistance
OPEC	Organisation of the Petroleum Exporting Countries
RDP	Reconstruction and Development Programmes
SACP	South African Communist party
SADC	Southern African Development Community
UAPTA	Unit of Account of the Preferential Trading Area
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organisation

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***“Will the legacy of our generation be more than a series of broken promises”***

*Nelson Mandela, 2001*

## 1.0 Introduction

It is often said that global targets are easily set but seldom met and for each success story there have been some setbacks, South Africa is not an exception to this fact, when it comes to Millennium Development Goals. Progress in reducing poverty in Africa is further worsened by the highly skewed income distribution.

All countries including South Africa have signed up to achieving the Millennium Development Goals (MDGs). At present it is clear that many countries are not on course to meet the various targets associated with these Goals. Although low rates of economic growth are often the main reason, high levels of inequality within countries also play a role. This is either because they raise the rate of economic growth required to achieve the targets and fail in their distributive policies or because they lower the rate of economic growth itself and have nothing to distribute as a way of fighting poverty. Furthermore, even when countries are on course to meet the targets at the national level, rates of progress for different groups of people within countries are sometimes highly unequal.

In the past ten years of new political dispensation in South Africa, many studies have examined the extent of poverty and inequality, as well as their link to labour market, growth and access to services. According to statistics, income poverty in South Africa declined between 1995 and 2002, from 51.1 per cent of the population in 1995 to 48.5 per cent in 2002, using the national poverty line. Given that the population has grown in the same period, the total number of poor increased from 20.2 million in 1995 to 21.9 million in 2002. It is also on record that poverty in South Africa continues to have gender, race, family-type and spatial dimensions. Given the South African unique history of long years of racial segregation under the policy of apartheid, diversity in culture, race and income groups, policy priorities may vary across provinces and time. Policies also vary in response to the development goals and targets of each province and local governments. South Africa's many problems originate from political and socioeconomic policies associated with the apartheid period that ended in 1994.

The racial segregation under the policy of apartheid can be traced back to the election of the predominantly Afrikaner National Party in 1948, which then extended racial discrimination further in the control and ownership of resources throughout the economy. This was formalised through the enforcement of a wide range of legislation of which the population *Registration Act of 1950* was one of the major cornerstones. The latter Act classified the population into four racial categories namely, Whites, Coloured (people of mixed racial origin), Indians (descendants of Indian indentured workers who came to work on the Natal sugar plantations from India during the British colonial rule), and the indigenous African people. This classification structured differential access to societal resources.

Other apartheid laws, which had a major impact on the lives of the people, were the *pass laws*, the *Bantu Authorities Act of 1951* and the *Group Areas Act of 1966*. The movement of African people was strictly regulated and their permanent residence was confined to designated ethnic homelands. These homelands served as a reservoir of labour for the commercial firms, mines and industrial centres of White South Africa.<sup>3</sup>

Historically, the bond between the ANC, the trade union movements and the South African Communist Party (SACP) was expressed by a unity of purpose: namely 'the revolutionary mission of liberating black people in general and Africans in particular'<sup>4</sup>. The Alliance articulated its consensus on the South African development path in the Reconstruction and Development Programmes (RDP). This was characterized by at least three inter-related features, namely: (a) growth through redistribution (b) a mixed economy with a state actively committed to development, emphasising poverty eradication and service delivery and, (c) a people driven approach to policy making. Diversely mass-based political organisations were signatories to the RDP document. The RDP consensus provided the ANC-led government with the opportunity to enjoy widespread support for its post-election policies, especially amongst the African population, the main constituencies of these organisations.

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<sup>3</sup> UNICEF, (1996) *Transcending the Legacy of Apartheid*, Pretoria, South Africa

<sup>4</sup> Ramatlodi (2001) see [www.info.gov.za/speeches](http://www.info.gov.za/speeches)

## 1.1 Context and Background

South Africa's GDP is by far greater than the total of all other SADC countries, portraying a picture of a region with one dominant nation. The socio-economic and political setting in which South Africa finds itself today has been shaped by both the apartheid policies and the political reforms of recent years. Apartheid was characterised by exclusion and division. As a result, the central feature of South African society was a pervasive dualism characterised by severe disparities in access and entitlement to resources. These inequalities significantly limited opportunities for the majority of the population. The achievement of the MDGs in South Africa, therefore, will hinge a great deal on the government's capacity to redress these inherited inequities.

South Africa is the largest economy on the continent. According to the IMF, in 2003 its GDP accounted for nearly a third of Africa's on purchasing power parity basis and 38 percent at market exchange rate.<sup>5</sup> South Africa is classified as an upper middle income country with a per capita GDP of US\$2 620. However, because of a very skewed income distribution pattern, it is ranked 111 in its Human Development Index after countries such as Uzbekistan (101), which has a low per capita income of only US\$450. Trinidad and Tobago, with a GDP per capita of US\$1 226, which is about half of South Africa but with more equitable income distribution is ranked much higher in its HDI at 54. This shows that with better income distribution, South Africa could easily rank in the top 50 in the Human Development Index.

While there can be no doubting the close link between human development and high per capita income (Norway has the highest GDP per capita income and is also ranked number one in the HDI) shows that income distribution contributes significantly to human development and ultimately MDG outcomes.

**Table 1: Distribution of households in South Africa, according to the various income categories in 2000**

Income per annum	Households%
R0 – R1199p.a	25.6%
R12 000 – R41 999p.a	35.6%
R42 000 -- R95 999p.a	18.8
R96000 – R191 999p.a	9.4
R 192 000 – R359 999p.a	5.4
R360 000p.a and more	2.2

The table above highlights the income disparities in South Africa, which show that the majority of the population, 61 percent, earn less than R42 000 a year while 35.8 percent earn above that. There is a yawning gap between the bottom 25.6 percent of the population who earn less than R1 200 (R100 per month) and the top 2.2 percent, who earn above R360 000 per annum or more than R30 000 a month. The bottom 25.6 percent earn a mere 0.33 percent of what those in the top bracket earn. Until South Africa addresses the income disparities now prevailing in the economy, achieving the MDGs will remain elusive.

## 1.2 The South African Economy

South Africa is by far the largest economy in Africa accounting for approximately 40 percent of the continent's industrial output, 25 percent of GDP, over half of generated electricity and 45 percent of mineral production. South Africa is one of the places where the best diamond, platinum and gold in the world come from. In the past decade the South African economy has registered positive growth rates averaging just over three percent in the last three years. Over the past decade, South Africa has achieved relative macroeconomic stability with consumer inflation coming down to around 4 percent compared to an average of about 9 percent in the apartheid era.

<sup>5</sup> Stoddard E (2005) SA's economic growth shows way for the rest of Africa, Business Day, 11<sup>th</sup> May 2005

South Africa has been excelling in pharmaceuticals, prospecting and mining, metallurgy, occupational safety, digital TV networking and many other aspects. That the end of apartheid era in South Africa would open up the African market to its corporates was in the early 1990s a foregone conclusion. What interested political analysts more at the time were how democratic South Africa would express its growing hegemony on the wider African stage. It is important to note that it was not simply South Africa's political transition to democracy and new-found international respectability which fuelled its economic penetration of the African market. Another major push factor was the fact that the democratic transition coincided with end of the Cold War, the concomitant demise of the state-directed commandist economic model and the triumph of its neo-liberal alternative.

As the table below indicates, South Africa's export trade with Africa has grown significantly in the transition period. Africa is now, by region, South Africa's fourth largest export market.

Region	1991	2001
Africa	4%	12%
North America	0%	-
South America	8%	4%
EU	15%	22%
Far East	57%	40%
Middle East	14%	4%
Others	2%	1%

**Table 2: South African Export Destinations by Region**

Source: Engineering News, May 2003

With each of its African trade partners South Africa enjoys a surplus - it dominates the African economy.

South Africa's economy had been shaped over several centuries by its abundant natural resources and by the attempts of immigrant populations to dominate and to exploit those who had arrived before them. For most of the twentieth century, its mineral wealth had surpassed that of almost any other country in the world, except the Soviet Union. South Africa produced nearly half of the world's gold and ranked among the top 10 producers of a dozen other valuable minerals, including diamonds and copper. The mining industries provided the foundation for the strongest economy on the continent, which, by the mid-twentieth century, included a comprehensive transportation system, an extensive electric power grid, and a significant manufacturing sector. South Africa's main resource deficiency is oil, and as a result, many industries rely on coal rather than on imported fuels.

By the mid-1980s, the economy was distorted by government policies designed to bolster the economic and political power of a small minority and to exclude many of South Africa's citizens, selected by race, from significant participation in the nation's wealth. Basic needs were unmet, resulting in hunger, malnutrition, and undereducation, especially in rural areas. Industrial development could not be sustained through domestic resources, and there was stagnation in some areas when foreign capital was reduced in the face of strong international pressures for political reform. Because the mining industry continued to dominate the economy, wide fluctuations—especially in the price of gold—eroded currency values and reduced the country's ability to import goods. At the same time, keeping black wages low, which was crucial to profits in all areas of the economy, perpetuated the discrimination that provoked widespread protests and condemnation.

### 1.3 Gearing up for Poverty

Just prior to the attainment of majority rule in 1994, South Africa accepted a loan of US\$850 million from the IMF with secret structural adjustment conditions attached, which included: lowering tariffs on imports, cuts in corporate taxes from 48 to 30 percent, putting a tight lid on social spending and inflation, reducing the public workforce and selling off state-owned utilities like water, electricity and telephone services to investors.

These conditions led to the adoption of the Growth, Employment and Redistribution (Gear) strategy a self-imposed structural adjustment programme that the government adopted with advice from the IMF and the World Bank. Since adopting the GEAR, South Africa has pursued tight fiscal policies to attract foreign direct investment (FDI) and to meet the government's fiscal discipline goals. These policies include:

- Reducing the budget deficit
- Easing the debt burden
- Improving tax collection
- Privatising state assets
- Eliminating government dis-saving
- Increasing government investment on infrastructure
- Reducing household and corporate tax rates
- Reducing government consumption expenditure as a percentage of GDP.

The impact of these policies has been disastrous on the poor. Although a World Bank econometric model worked at the time of the introduction of GEAR had predicted economic growth of 6 percent by 2000 and that the economy would be creating 400,000 new jobs each year under GEAR. Economic growth has averaged 3 percent a year, while on average only 160 000 new jobs have been created each year since 1994.

Consequently the state raised water and electricity prices dramatically, to the point that by 2002 they consumed 30 percent of the income of those households earning less than \$70 per month. An estimated 10 million people had their water cut off, according to two national government surveys, and 10 million were also victims of electricity disconnections.<sup>7</sup> The failure of the economy to create sufficient jobs and the introduction of neo-liberal measures has reduced the scope for reducing poverty and attaining the MDGs.

Income disparities and poverty have worsened. Between 1995 and 2000, household income for Blacks fell 19 percent to \$3,714 per year, while White household income rose 15 percent to \$22,600 per year. The proportion of households earning less than \$90 of real income increased from 20 percent of the population in 1995, to 28 percent in 2000. The poorest half of the population earned just 9.7 percent of national income in 2000, while the richest 20 percent earned 65 percent of all income.

High inequality does not only inhibit economic growth, but may also neutralize and even cancel out whatever positive impacts growth could have achieved on poverty reduction in the last 10 years of democracy in South Africa.

On the other hand, GEAR policies have benefited big business. The reduction of the budget deficit from 9,5% of GDP (including the deficits of the Bantustans) in 1993 to fractionally over 1% in 2002/03 has contributed to a lower inflation rate and hence to lower interest charges. Total public sector debt has fallen from over 60 percent of GDP in 1994 to barely over 50 percent of GDP in 2002/03.

The opening up of the economy, including the liberalization of capital markets by scrapping the limits on the amount that South African companies can invest offshore, enables them to take advantage of opportunities in the rest of world and in particular in African countries, where companies such as South African Breweries and big telecommunications giants have made tremendous inroads.

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<sup>6</sup> Bond P (2004) From Racial to Class Apartheid: South Africa's frustrating decade of freedom

<sup>7</sup> Bond P (2002) From racial to class apartheid: South Africa's frustrating decade of freedom

It is important to note that escaping poverty requires investment in both human and physical capital. Poverty is multidimensional, involving not only income, but also food security, health, education, gender, environmental management and access to basic amenities. These are some of the critical issues that need to be carefully managed to attain the MDGs by 2015.

### **1.3.1 Jobless Growth and MDGs**

After several years in which it experienced huge capital flight resulting from lack of confidence in the new regime, capital inflows into South Africa (mostly in the form of loans) are now in positive balance. In his 2005 budget speech, Finance Minister Trevor Manuel said South Africa's foreign exchange reserves had increased to over US\$15-billion - four times more than the current short-term debt level.

The state expected to raise R11-billion more than budgeted for 2004/05, thanks to the strength of the country's economy coupled with "excellent work" by the tax and customs team. Non-interest spending for 2004/05 was R5.2-billion higher than the original estimate, with the largest adjustments being for social grants, drought relief and municipal rates and taxes. Manuel said the country's debt service costs would be 3.5% of GDP, down from 5.6% of GDP six years ago. "Our budget framework for the next three years sees revenue as a share of GDP average 24.2%. We anticipate a deficit of 3.1% of GDP next year, falling to 2.7% by 2007/08".

In the period from 1994 to 2001, South Africa's real GDP grew by 2.8 percent per annum, which was almost three times faster than in the previous decade, and more steadily. The IMF identified the factors contributing to the growth as increased capital inputs (+0.6), a contraction in labour inputs (-0.9%) and higher total factor productivity (+3.0)<sup>8</sup>.

The contraction in labour inputs and expansion in capital inputs essentially means that South Africa has been shedding jobs (or not creating jobs) in preference for capital-intensive growth path. In UNDP parlance therefore, South Africa's economic growth would be described as "jobless growth", which is inimical to poverty reduction.

The desirable strategy would be to increase output without retrenching workers. On the macro-economic level, this translates into sustaining a high rate of economic growth with full employment. There are some South African corporations that manage the link between productivity and employment generation as a core principle of their operations. But the economic system, under GEAR, struggles to strike the balance between economic growth and job creation.

Although the government is upbeat about the economy, job creation remains weak. The unemployment rate has risen from 16 percent in 1995 to 31 percent in 2004. Between 1996 and 2005, the number of people in employment, including the informal sector, rose by 2,3-million. On the other hand, the demand for jobs in the economically active population increased by 5, 3-million. The net result was a rise of 3 million in the numbers of unemployed, pushing their total up to 5, 25-million on the strict or "official" definition (which excludes jobless people who want work but have given up looking for it).

The high rate of unemployment in South Africa demonstrates that the problem of poverty cannot be addressed in any meaningful way unless the unemployment issue is also tackled. South Africa provides a cogent example on how the problem of poverty is, to a large extent, intractable unless labour market problems are resolved. Therefore the economy's failure to create sufficient jobs is a huge setback to South Africa's efforts to meet the MDGs.<sup>9</sup>

Two important challenges must be addressed if the South African economy is to produce a gradual but substantial decline in the rate of unemployment. These are the achievements of the inclusive re-orientation of the economy and a substantial high growth rate. South Africa must put employment and an employment policy at the centre of its development vision.

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<sup>8</sup> These calculations were made prior to the revision to GDP in late 2004. At the time of the IMF-calculations, growth over the period 1994-2001 averaged 2.7%

<sup>9</sup> South African Human Development Report (2003)

## 2.0 Impacts of the RDP, GEAR and other Economic Policies on the achievement of the MDGs

The attainment of the MDGs and related development outcomes in South Africa will depend on progress across a broad range of policies. The policy agenda of South African government towards achieving the MDGs are not clearly specified, rather they are interwoven into the national development policies and programmes such as the Reconstruction and Development Programme (RDP) the Growth, Employment and Redistribution (GEAR) and Medium Term Expenditure Framework (MTEF) which has a similar aim with the goals and targets of the Millennium Declaration.

### 2.1 Reconstruction and Development Programme (RDP)

The government's anti-poverty strategy was first articulated in the White Paper on the Reconstruction and Development Programme. It proposed several dimensions that had to be addressed to achieve the transformation of the South African society. The ANC government endorsed the RDP as its road map for achieving a successful transformation of the country's economy. RDP provided a common strategy for the post-apartheid era and articulated the vision and development path for South Africa's transformation. The RDP is an integrated programme 'to harness resources in a coherent and purposeful effort that can be sustained in the future and is centred on six principles, representing its political and economic philosophy:<sup>10</sup> The principles are:

- A people-driven process
- Peace and Security for all
- Nation Building
- Linking Reconstruction with Development
- Democratisation of South Africa

The programme since 1998 spelt out the main pillars of the country's anti-poverty strategy centred on meeting the people's basic needs, accelerating the basis for sustained economic growth, development and job creation, developing human resources, ensuring the safety and security of citizens and the state and transforming the organs of government to reflect the development and people-centred nature of the state.

The RDP envisioned sweeping government programs to raise living standards—to build houses and roads, to provide services, to upgrade education, and to create jobs to narrow the gap between rich and poor. By late 1994, the government had begun to implement its highest RDP priorities: a US\$135 million school lunch program; a US\$14 million program of free medical care for children and pregnant women; providing water and electricity to rural communities; and phasing in free, compulsory primary education for children of all races.

To help finance the RDP, the government also undertook negotiations to sell some national assets to private citizens, despite the ANC's earlier opposition to privatization. Senior government officials, including the president, accepted salary cuts of between 10 percent and 20 percent to contribute to social reconstruction. President Mandela also asked for concrete proposals and contributions from the business community—such as on-the-job training and employer subsidies of housing, transportation, and education—to meet the urgent needs defined in the RDP.

The new government launched worldwide appeals for new trade and investment packages for South

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<sup>10</sup> RDP (1994)

Africa, as it tried to overcome more than a decade of international isolation. South Africa began reentering world financial markets, establishing new trading partners, and expanding formerly clandestine trade ties that had long existed with many countries. International donors and investors responded cautiously at first, in part because of the continuing high levels of urban and township violence.

However, the RDP, which was a more redistributive and people-centred programme, did not last largely because it is said to have failed to deliver economic growth and job creation. In its place came the Growth, Employment and Redistribution (GEAR) Programme.

## 2.2 Growth, Employment and Redistribution Programme

GEAR is widely seen as a self-imposed structural adjustment programme: it does everything the powerful countries wanted, while creating the impression that it was all South Africa's idea.<sup>11</sup>

As a programme, GEAR has failed to deliver in terms of growth and employment. Job losses as a result of GEAR-induced retrenchments, due to privatisation and downsizing, have been the most damaging aspect of South Africa's embrace of the neoliberal economic approach. Instead of employment growth of 3-4 percent per year promised by GEAR proponents, annual job losses of 1-4 percent characterized the late 1990s. South Africa's official measure of unemployment rose from 16 percent in 1995 to 30 percent in 2002. Adding frustrated job-seekers to that figure brings the percentage of unemployed people to 43 percent.<sup>12</sup> Since 1994, the economy has instead shed at least 500,000 jobs.

GEAR has also failed to deliver in terms of poverty reduction and greater equity. The poorest South Africans are now poorer than they were before the end of White-minority rule eight years ago.<sup>13</sup> With the introduction of GEAR, the government has introduced full cost recovery in areas such as electricity, water and sanitation. Major utilities are also being privatised in line with GEAR's market orientation.

## 2.3 Policy Similarities and Divergences

The targets and expected goals of the development policies adopted by South Africa – the RDP, GEAR and MTEF – had one goal in common, which was the country's political and economic reconstruction and transformation. The RDP aimed to establish "an infrastructural programme that will provide access to modern and effective services like electricity, water, telecommunications, transport, health, education and training for all people".<sup>14</sup>

The introduction of GEAR in mid-1996 changed the planning context for social service and infrastructure delivery by increasing reliance on the market (e.g., cost recovery pricing, privatisation) to conceptualise, implement and evaluate delivery initiatives. GEAR emphasises budget-deficit reduction to stimulate domestic and private sector-driven growth. It also adopted inflation targeting as the framework for monetary policy.

The differences between the RDP, GEAR, MTEF and other subsequent policies are potentially significant in analysing the persistence of several undesirable trends in South Africa's socio-economic development post apartheid. Under the GEAR, economic liberalization and privatisation have been accelerated resulting in rising unemployment and income disparities.

A critical challenge for South Africa is to adopt a credible and sustainable developmental process to manage technological advances and skills requirements in line with its society's current skills pool and pace of economic growth. The system needs to be supplemented with high levels of institutional support to promote egalitarian income distribution, alleviate the ugly effects of market failures and provide comprehensive social assistance to the country's poor.

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<sup>11</sup> Mobiot G (2004) Why Is Britain Using Aid Money to Persuade South Africa to Privatize its Public Services?, *Guardian*

<sup>12</sup> Bond P (2004) From Racial to Class Apartheid: South Africa's frustrating decade of freedom

<sup>13</sup> Jeter J (2002) *Summit Delegates Consult the South African Example; Country is Emblem of Success, Failure in Globalization Debate* in the *Washington Post* August 29, 2002 <http://www.globalpolicy.org/globaliz/econ/2002/0829safrica.htm>

<sup>14</sup> RDP 1994(4-6)

### 3.0 Foreign Debt and MDGs

In the SADC region, Mozambique, Tanzania, Angola, Zambia, Lesotho and Zimbabwe lead the pack of Highly Indebted Countries in terms of debt as a proportion of GDP. The other five SADC countries Botswana, Mauritius, Namibia, South Africa have a comparatively low external debt burden. However, much of the Southern Africa Region's indebtedness derives from the colonial legacy and the fight for independence. For example, some of the countries in Southern Africa (Angola, Zimbabwe, Malawi, Zambia, Lesotho, Botswana and Tanzania) claim that part of their debt was caused by destabilization instigated by South Africa as a reprisal for their opposing of the Apartheid regime.

South Africa's foreign debt of US\$25 billion (as of 2001) was also largely inherited from the apartheid era. Governments and multilateral agencies were unlikely to lend to the apartheid government but private banks and companies did and the Apartheid State built up US\$18.7 billion in debt (Jubilee, 2000). Faced with intensifying sanctions, the apartheid government defaulted in 1985, yet the present government is expected to repay those overdue debts. While in the early post-apartheid period there was much talk of South Africa repudiating its foreign debt, which was considered odious, the introduction of the neo-liberal GEAR programme and the importance the country attaches to maintaining a high credit rating has resulted in the government not pressing for its apartheid debt to be cancelled. Instead, the government undertook to repay the \$25 billion of inherited apartheid-era foreign debt.

**Table 3: South Africa's External Debt**

Total External Debt US\$m	External Debt as % of GNI 2002	Debt service as % of exports of goods & services		
		1997	1998	1999
25,041	22	17.9	12.7	14.4

Source: Moses Tekere (2001) A research Paper presented to AFRODAD on Regional Integration In Southern Africa, AFRODAD, Harare.

The above table shows that while South Africa's external debt is relatively large, it is manageable taking into consideration the size of the country's economy. Debt service as a percentage of exports is also low and has been declining since the introduction of GEAR. Given such a scenario, foreign debt is not the most critical issue to consider when looking at the achievement of the MDGs; rather income distribution becomes critical, especially in a policy environment that lays so much stress on cost recovery, particularly for essential social services such as electricity, water and sanitation. Tekere(2001) argues that the South African government has however managed to keep its expenditure on debt service far much lower than expenditures on both health and education a difference of 3.1% and 3.9% respectively<sup>15</sup>.

South Africa was hit with a major foreign debt crisis in 1985, when a group of banks, led by Chase Manhattan, withdrew substantial credit lines. The banks refused to roll over existing loans and called in many of the short-term loans. As a result, the value of the rand dropped precipitously, and the government temporarily closed its financial and foreign-exchange markets. Unable to meet debt obligations so suddenly, the government declared a standstill on repayments of approximately US\$14 billion of South Africa's US\$24 billion total external debt. Liabilities not included in the standstill were trade credits, loans from the IMF and central banks, and credits guaranteed by Paris Club member governments. Publicly quoted issues of South African parastatals (state corporations) were also left out. After the 1985 debt crisis, however, South Africa had no choice but to run continuous current-account surpluses to meet repayment commitments. By the early 1990s, South Africa had become a capital-exporting nation because creditors wanted repayment on loans, and almost no new capital inflows other than replacement or rollover trade credits were available.

<sup>15</sup> Moses Tekere (2001) A research Paper presented to AFRODAD on Regional Integration In Southern Africa, AFRODAD, Harare.

The key problem in repaying its loans was the large, but undisclosed, portion of South Africa's debt that was denominated in hard non-dollar currencies, but appreciated in dollar terms as the dollar weakened.

South Africa nonetheless repaid between US\$1.7 billion and US\$1.9 billion of debt by 1990, and some foreign bankers were increasingly willing to refinance maturing South African credits. For example, US\$300 million of US\$900 million bearer bonds in Deutsche Marks and Swiss francs were rolled over or replaced in 1990.

There was almost no external borrowing by South Africa from 1985 to 1990, so even its slowed schedule of debt repayment made South Africa a net capital exporter during the late 1980s. South Africa reduced its total disclosed foreign debt to less than US\$20 billion in early 1992, down from nearly US\$24 billion in 1985, according to the South African Reserve Bank. Currency fluctuations brought South Africa's international debt back to US\$25.8 billion at the end of 1993, including rand-denominated foreign debt, and that figure continued to increase in 1994.

The government repaid about US\$500 million in foreign debt in February 1994. At that time, South Africa was considered an under-borrower by conventional financial criteria, with a foreign debt/export ratio of about 60 percent and a foreign debt/GDP ratio of 15.1 percent, according to South African Reserve Bank figures. Overall, South Africa posted a net capital inflow of more than R8 billion in the second half of 1994. Foreign borrowing increased in 1995, when gross foreign debt rose to nearly 22 percent of GDP.

## 4.0 ODA and the MDGs

South Africa's relationships and dependence on foreign assistance is unique on the continent. Contrary to the situation prevailing in many African countries, ODA in South Africa amounts to between 1 percent and 1.5 percent of the annual budget compared with 75 percent of the budget in Mozambique for instance.<sup>16</sup> While before 1994 aid was channeled almost exclusively through NGOs for anti-apartheid activities, since then most donors give their funds directly to the state to assist in achieving the development and reconstruction goals of the RDP.

Overall ODA management and co-ordination in South Africa is carried out by the International Development Co-operation (IDC) in the Department of Finance. All government departments are expected to register their intention to solicit ODA with the IDC and to submit quarterly reports on the status of their discussions with donors. On their part, bilateral donors are encouraged to channel their activities through the IDC.<sup>17</sup> A report commissioned by the South African UN office in 1998 on the donor community confirms the need for the formalized approach to ODA. General policy objectives for ODA put forward in the document are to:

- Increase ODA for the benefit of the poor
- Accept full ownership of donor-supported interventions, at macro and sectoral level and in all spheres of government
- Align ODA to the Medium Term Economic Framework (MTEF) and budget in order to promote sustainability beyond donors' involvement and ensure that donor resources are directed towards government's development priorities
- Use ODA to complement and encourage the process through which departments and provinces align their budget priorities with the country's development priorities
- Manage ODA through co-ordination and the creation of coherence among various donor-supported programmes and projects at macro and sectoral level and in all spheres of government, including maximizing international development experience and donor's comparative advantages.<sup>18</sup>

Major multilateral and bilateral aid donors provided significant development assistance to the new South Africa that emerged in 1994 as a temporary and post-apartheid transitional contribution coming to an end after five years in 1999. In 1994, the government established a special Reconstruction and Development Fund to channel and finance projects in various sectors. In 1996, development assistance management was then moved to the National Treasury.

**Table 4: RDP Fund Grants and Foreign Technical Cooperation, 1997/98-2003-2004**

R million RDP Fund	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Receipts	243	531	451	578	500	500	500
Disbursement	169	456	327	350	450	450	450
Technical Cooperation							
Estimated Expenditure	340	420	410	400	300	300	300
<b>Total Foreign Assistance</b>	<b>583</b>	<b>951</b>	<b>861</b>	<b>978</b>	<b>800</b>	<b>800</b>	<b>800</b>

Source: National Treasury, South Africa

<sup>16</sup> Camerer L (2000) Terms of Endearment: Bilateral donor engagement in fighting corruption in South Africa, in African Security Review Vol 9 No 5/6, 2000

<sup>17</sup> Camerer L (2000) Anti-Corruption Strategies Project, Institute for Security Studies, Cape Town Published in African Security Review Vol 9 No 5/6, 2000

<sup>18</sup> Ibid

The table above explains foreign assistance provided to government departments through the RDP fund, which was subjected to exchequer regulations. The international project funding supports a range of development programmes, including labour market skills training, housing development, rural schools electrification, the working of water project and water supply schemes, education curricular workshops, support for refugees from neighbouring countries such as Mozambique, assistance to the Truth and Reconciliation Commission, trade and investment, rural heritage settlements, small business advice, Public Service capacity building and promotion of good governance.

A closer scrutiny of the role of aid in South Africa reveals that although aid assisted the country in the transformation of institutions, service delivery and speeding as well as consolidating the young and rather fragile democracy, aid focus and management left a lot to be desired. Recipient responsibility has been identified as key if aid is to help poor countries attain development goals especially the MDGs. Aid must be in line with the plans, needs and priorities of the recipients. Institutional reforms and policy changes in aid-recipient relations is important. Needless to underscore is the need to integrate capacity building, sufficient coordination and institutional development.

The biggest lesson and experience revealed by the South African case in regard to development assistance is that it is least effective in direct support to poverty reduction and job creation if it is not administered through a human rights based approach. There are problems for most donors efforts to assist in interventions directly targeting the poor such as support to job creation and education. The international community — the donor community — needs to sustain and increase the volume of official development assistance in order to reverse the growing marginalization of the poor. The importance of engendering processes that are inclusive, transparent and democratic, and that empower the poorest sections of the population can not be overemphasized if development aid is to help attain MDGs in South Africa.

## 5.0 Trade and MDGs

The legacy of apartheid left South Africa with a polarized economy characterized by protectionist policies and high tariff structures [South Africa's tariff levels are on average three times higher than those of the EU. These supported the import substitution industrialization strategy under the apartheid regime], high inequalities of income and limited labour skills. The protectionist policies led to structural inefficiencies in South Africa's industrial sector. Since its first democratic elections South Africa has been involved in redefining its relations in the international arena. The isolation of apartheid South Africa left the democratic government with empty hands regarding international agreements, both in the trade and cooperation spheres.

Like other Sub-Saharan African countries, South Africa had never enjoyed equitable terms of trade with the West. This makes productivity and economic growth necessary for poverty eradication and the attainment of MDGs difficult. Issues of trade are supposed to be addressed and resolved by forums like UNCTAD, WTO and the Uruguay Round. Unfortunately, these institutions do not pay sufficient attention to the crucial issues of Debt, aid and commodity policies and consequently global responsibility and international co-operation are declining at this crucial time when the challenges are greater than ever. Post-apartheid South Africa has made sustained attempts to lure investment and improve its share of world trade, although figures on the ground tell a different story altogether.

Figure 1



Source: WTO

South Africa, as a Southern African state, follows the general thrust of the sub-region's trade policy (through COMESA and SADC) which is one that embraces liberalization and integration into the regional and global economies. Its emphasis on open-regionalism implies that, although regional integration will be promoted, this will not be at the expense of the rest of the world. Integration of member countries amongst themselves will also imply simultaneous integration into the global economy as part of the WTO and as part of their bilateral and multilateral relations with other economies such as the European Union (under Cotonou Agreement) and the United States of America (under AGOA).

In terms of direction of trade South Africa as the dominant player in the region is the main source of imports as well as the main destination for exports.

Regional integration schemes in Africa have proved to be by and large, ill conceived, poorly designed and inadequately implemented. Regional integration has been inhibited by the small size of individual countries, low per capita income, limited manufacturing capacity, weak financial systems and poor transportation and communications infrastructure.

The major reasons, which have been given for the failure of regional integration in Southern Africa and Least Developed Countries in general, include:

- ❖ Failure to dismantle trade barriers
- ❖ Lack of proper distributive arrangements for the benefits arising from regional integration.
- ❖ Ineffectiveness of import substitution policies.
- ❖ Macroeconomic instability and lack of political will.

*(Lyakurwa et al, 1997)*

It is also important to note that although South Africa is the principal source of most SADC imports the SADC market is not of great importance for it, accounting for 24% of her exports.

South Africa is a big player in regional trade at continental level and this has a strong bearing on its economic growth, ultimately on its capacity to improve the welfare of its own people. Since 1994 when South Africa was integrated into the continent's economy, trade with the rest of the continent has grown significantly. During 1994-2002, the average share of South Africa in the rest of Africa's external trade rose three times its 1970-93 average, but was still only 2 percent of the total.

As a percentage of GDP, the rest of Africa's trade with South Africa during 1994-2002 rose to four times its 1970-93 level but was only equivalent to 1% — 0.5% of Africa's GDP.<sup>24</sup>

## 5.1 Foreign Investment

South Africa's foreign trade and investment were affected by sanctions and boycotts, especially during the 1980s and early 1990s. These measures included a voluntary arms embargo instituted by the United Nations (UN) in 1963, which was declared mandatory in 1977; the 1978 prohibition of loans from the United States Export-Import Bank; an oil embargo first instituted by OPEC in 1973 and strengthened in a similar move by Iran in 1979; a 1983 prohibition on IMF loans; a 1985 cutoff of most foreign loans by private banks; the United States 1986 Comprehensive Anti-apartheid Act, which limited trade and discouraged United States investors; and the 1986 European Economic Community (EEC) ban on trade and investment. The Organization of African Unity (OAU) also discouraged trade with South Africa, although observers estimated that Africa's officially unreported trade with South Africa exceeded R10 billion per year in the late 1980s. The most effective sanctions measure was the withdrawal of short-term credits in 1985 by a group of international banks. Immediate loan repayments took a heavy toll on the economy.

It is difficult to assume that Sub Saharan Africa countries can attain MDGs through increases in Foreign Direct Investment (FDI). There is little hope for most countries including South Africa of balancing their accounts by attracting steady inflows of foreign direct investments. The most damning criticism of FDI is that no matter how conditions improve, foreign investors have a whimsical and Afro-pessimistic perspective, and are unreliable partners. South African president Thabo Mbeki made the following comments:

"In our own country, we have been assured that our economic fundamentals are correct and sound. We have developed a stable and effective financial and fiscal system. We have reduced tariffs to levels that are comparable to the advanced industrial countries. We have reformed agriculture to make it the least subsidized of all the major agricultural trading nations. We have restructured our public sector through privatization, strategic partners and regulation... Yet, the flow of investment into South Africa has not met our expectations while the levels of poverty and unemployment remain high."<sup>19</sup>

<sup>19</sup> Mbeki, T. (2000), 'Address to the Commonwealth Club, World Affairs Council and US/SA Business Council Conference,' San Francisco, 24 May.

<sup>24</sup> Stoddard E (2005) SA's economic growth shows way for the rest of Africa, Business Day, 11<sup>th</sup> May 2005

The GEAR was introduced to promote investor confidence in the new majority government. But the programme has lured few investors. Instead investment has grown by less than 2 percent per year since GEAR was introduced against a target of 7 percent.

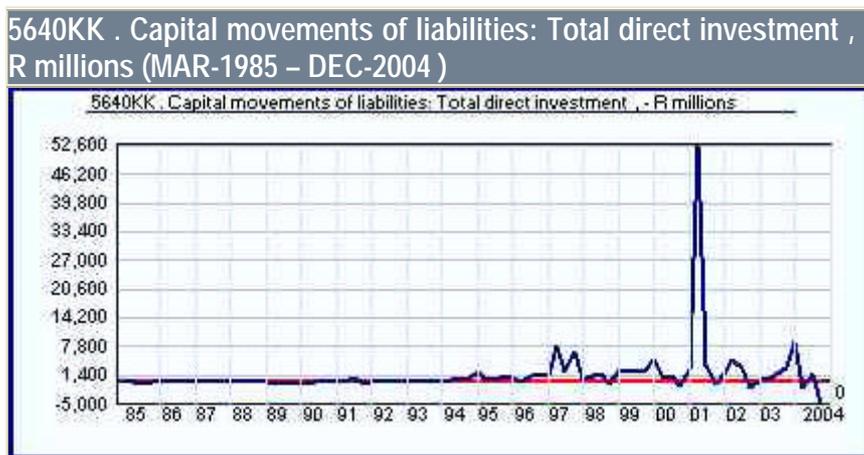
Foreign investment in South Africa grew during the 1960s, going mostly into mining and manufacturing. It peaked in 1970 when it contributed over 60 percent of total investment before stagnating and going into decline forcing the government to rely on borrowed capital for investment in the last two decades.

By 1984 loans constituted over 70 percent of South Africa's foreign liabilities, as compared with only 27 percent from direct investments.<sup>20</sup>

After the end of apartheid, foreign investment has remained sluggish (see Figure 2 below) and has been mostly limited to portfolio investment rather than direct investment. The GEAR has helped to attract only a trickle of new investment, less than 2 percent increase per year instead of the projected 7 percent growth. Where FDI has come it has been mostly in the form of joint ventures or buying into existing enterprises. As the example from the Asian Tigers shows, portfolio investment does not create new jobs and in many instances it is a source of instability to the currency markets because of its fickle nature. While joint ventures may bring in new capital and technology, they do not necessarily create new jobs. Hence current investments into South Africa have largely failed in job creation.

South Africa on the other hand has invested heavily in the rest of the African continent. Big continental investors include banks, retailers and mining companies. Between 1994 and 2003, it is estimated that South African companies invested an average of US\$435 million a year into Southern African Development Community (SADC) member states.<sup>21</sup>

**Figure 2**



Source: Reserve Bank of South Africa

Despite the need to redress past neglect by ploughing more resources in service provision for the poor, the government has instead cut corporate taxes dramatically from 48 percent in 1994 to 30 percent in 1999. It has also slashed its budget deficit to below 3 percent of GDP by restricting social spending, notwithstanding the avalanche of poverty and unemployment.<sup>22</sup>

<sup>20</sup> Jeter J (2002) Summit Delegates Consult the South African Example; Country is Emblem of Success, Failure in Globalization Debate *Washington Post* August 29, 2002 <http://www.globalpolicy.org/globaliz/econ/2002/0829safrica.ht>

<sup>21</sup> Stoddard E (2005) SA's economic growth shows way for the rest of Africa, *Business Day*, 11<sup>th</sup> May 2005

<sup>22</sup> Bond P (2002) From racial to class apartheid: South Africa's frustrating decade of freedom

South Africa has increasingly opened its market since 1994 by reducing tariff rates and non-tariff barriers. The South African government has stated its aim to open the market further to increase trade and to develop more competitive domestic industries. In 2000, South Africa signed a free trade Agreement with the European Union and in June 2003 began negotiations for an FTA with the United States. South Africa is also negotiating or exploring possible free trade agreements with Mercosur, India, and China.<sup>23</sup>

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<sup>23</sup> US government (2003) South Africa: Foreign Trade Barriers, [http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2004/2004](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004)

## 6.0 The Way Forward on the Attainment of the MDGs in South Africa

The MDGs embody the multidimensional nature of development. They cut across income and non-income dimensions of development, which are also interlinked. In turn, the policy agenda implied by these goals is broad and multi-sectoral. Economic growth is central to poverty reduction and related development goals. The attainment of MDGs in South Africa will require policies that promote stronger economic growth and create employment. In turn achieving economic stronger growth will require actions and proactive policies.

Based on literature on sustainable development and relevant trends in socio-economic development and policy-making in South Africa, the South African Human Development Report 2003 identified and analysed five central challenges facing MDGs in South Africa. These are eradication of poverty and extreme income and wealth inequalities; the provision of access to quality and affordable basic services to all South Africans; the promotion of environmental sustainability; a sustained reduction in the unemployment rate and the attainment of sustainable high growth rates.

### 6.1 Key Issues

The widening gap between the rich and the poor remains worrisome and is a possible time bomb for social unrest. South Africa's income poverty and inequality have increased in recent years. A large segment of initially poor households have either held steady or fallen behind. For example, a significant proportion (21%) of households in Kwazulu-Natal, observed in both 1993 and 1998, emerged in the second period not only as poor, but as falling even more deeply into poverty: that is to say, their ability to generate an income declined between the two periods.

According to a 2004 report by the Human Science Research Council (HSRC), poverty among South Africa's poor is getting deeper while the gap between the rich and poor "is wider now than ever before".<sup>25</sup> The study shows that 57% of South Africans live below the poverty line. Provinces with the highest proportion of poor people were Limpopo with 77 per cent and Eastern Cape, 72 per cent while Western Cape and Gauteng had the smallest number of poor people – 32 per cent and 42 per cent respectively.

Apartheid was notorious not only for its brutality, but also for its gross inequality. Per capita incomes for Whites were 12.3 times higher than for Blacks – the worst inequality in the world. Progress in poverty reduction is therefore complicated by the highly skewed and unequal income distribution which has worsened in recent years.

### 6.2 Hurdles and Challenges

Growth alone is not enough for South Africa. The macroeconomic policy framework pursued by the government, its underpinning assumptions and what are considered acceptable trade-offs between social and economic imperatives are key to the attainment of the MDGs in South Africa. A number of hurdles and challenges can be easily identified;

#### 6.2.1 Social Security

There have been proposals to introduce a Basic Income Grant (BIG) of R100 per person per month for every South African citizen, regardless of age and income level. BIG can be seen as an attempt to address mass chronic unemployment and underemployment, rather than an attempt by South Africa to introduce a welfare state. In contrast to conventional social assistance that is subject to means tests, the BIG would be paid to everyone irrespective of income.

The Taylor Commission which was appointed by the government to investigate the feasibility of introducing a BIG recommended the gradual phasing in of the BIG.

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<sup>25</sup> <https://www.hsrc.co.za> (see also Business Times 21st November 2004).

The Commission also recommended the introduction of a “Comprehensive Social Protection Approach” (CSP) package, which would include measures to address income poverty, capability poverty, (measured in terms of water and sanitation, transport, housing, health and education); and asset poverty (land access, ownership etc).

### **6.2.3 HIV/AIDS**

At least six million people die of HIV/AIDS in South Africa every year. HIV/AIDS poses a major threat to the development prospects and quality of life for many South Africans. The epidemic has made a huge dent on public finances through increased demands on medical and social service delivery.

In his 2005 budget speech Finance Minister Trevor Manuel said the government would this year allocate an additional R3 billion to the provinces to fight the pandemic.

South Africa has one of the highest HIV/AIDS infection rates in the world. Figures released by the South African AIDS Caring Project in 2004, show that out of the estimated 40 million people living with HIV/AIDS globally, between 4.7 and 6.6 million, or 10%, are South Africans.

## **6.3 Prospects and Progress**

South Africa's anti-poverty strategies capable of halving poverty by 2015 may be divided into two broad types:

1. The provision of social security grants for poor and vulnerable households;
2. Developmental strategies that focus on job creation, capital investment, training and financial support.

### **6.3.1 Social Security Grants:**

Spending on welfare and social security has been the fastest-growing category of government spending during the last 10 years, increasing 5 percent a year in real terms from 12 percent of consolidated government spending in the fiscal year 1992-93 to 16 percent in the 2002-03 fiscal year. Government is now paying monthly grants to more than seven million people, up from three million, six years ago. Welfare and social security is the third-largest line on the expenditure side of the budget, after state debt costs and education.<sup>26</sup> The amount of money spent on social grants has increased more than three-fold over the same period from R10 billion to R34.8 billion.

Currently the Department of Social Development runs at least six types of non-contributory social grants. These are the disability grant, which provides R700 a month; war veterans grant R718; foster care grant R500; care dependency grant (for disabled children under 18) R700, child support grant R160 and grant aid R150. Although non-contributory, all the grants are subject to a means test.

Social grants play a critical role as tools for wealth redistribution and poverty reduction. The poorest 20 percent of households receive the largest amount from grants. It is estimated that without the social grants almost 56 percent of the elderly would be living in poverty and 38 percent in what is known as ‘ultra-poverty’. With the grants, this falls to 23 percent and 25 percent respectively. A government-sponsored research on social grants noted that overall they had the potential of reducing the number of individuals in poverty from 42 percent to 24 percent.

Although South Africa's Finance Minister Trevor Manuel supports the concept of social grants and has been quoted as saying that they are the “largest and most effective redistributive programme.” The grapevine indicated that he has so far refused to implement the Commission's recommendations, arguing that it is burdensome to state coffers.

In a statement in support of BIG, the Taylor Commission noted that at least 22 million people in South Africa – well over half the population – live in poverty and on average, survive on R144 per person per month. A Basic Income Grant would provide rapid and sustained relief to all South Africans and thereby help attain poverty reduction and consequently MDGs by 2015.

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<sup>26</sup> Social wage' suggests admission of jobs failure Business Day. Available online: <http://www.bday.co.za/bday/content/direct/1,3523,1485364-6078-0,00.html>

## 7.0 Conclusion

Economic growth is a prerequisite to sustained poverty reduction. But it does not emerge sustainably from public expenditure alone. Pro-growth policies, pursued with patience and perseverance, are vital, but the state must play its redistributive role. Compared to other African countries, South Africa has perhaps the best chance of achieving the MDGs – it has a negligible debt burden, it has a high average income per capita, its infrastructure is well developed and its economy is growing at a healthy average of 3 percent per year.

But on close inspection, South Africa faces seemingly intractable problems that include a high unemployment rate, high HIV/AIDS prevalence rate, the highest income disparities in the world, which is still growing and a legacy of social services delivery institutions that were set up to serve a small minority. South Africa is also pursuing a neo-liberal economic policy framework, GEAR, whose market orientation is forcing the government away from pursuing strategies to correct the legacy of apartheid injustice.

Whether and how soon South Africa will achieve the MDGs will, to a large extent, be determined by its capacity and willingness to harness the resources at its disposal to benefit not just a select few but the majority poor. Currently GEAR has failed to deliver on most fronts, in particular employment generation and income distribution. The government should revise the policy and put in place strategies that are more accommodating of the need to address past inequities. The Millennium Project must be a through train to continuing growth and poverty reduction, and not an express to a terminus called 'adjustment'.

An appropriate sustainable development strategy is the cornerstone to unlocking the creativity of the public and engendering processes that are inclusive policy-making processes and the embodiment of the major concerns of the various stakeholders in the country's sustainable development strategy will help attain the MDGs by unleashing stakeholders' creative involvement in the development process.

## 8.0 Recommendations

For South Africa to achieve the MDGs by 2015 it is extremely important, from a political viewpoint, to address urgently and adequately the socio-economic needs of the disadvantaged population, and with resources commensurate with the seriousness of the situation. More precisely the following issues need attention:

1. The issue of **the mobilization of resources** is an important one, bearing in mind that the most strategic thing to be prioritized is the mobilization of existing domestic resources which are not fully utilized. In meeting the huge priority needs of its population and in the context of a strong economic growth, South Africa would certainly require significant external finance but avoid incurring an excessive and unnecessary debt burden, as well as avoid implementing adjustment policies that have exacerbated most African economies after independence. Middle income countries such as South Africa should receive only a small (\$9-12 billion p.a.) share of the additional aid, to be devoted to outstanding pockets of deep poverty.
2. The government should prioritise **the creation of a more equal society** to achieve the MDGs. Failure to address this issue will not only result in the failure to achieve the MDGs, but is potentially the most explosive issue in the country. Considering the total number of poor people in South Africa and the current rather limited coverage of social grants, there is need to increase their coverage by introducing the Basic Income Grant (BIG).

Education, health, housing and job creation are among the top priority areas for action in the social and economic sectors. These are areas where the human and social impact of apartheid has been particularly devastating, and which may in some cases require determined action and programmes over a large number of years to show significant results.

### 3. Introduction of a Comprehensive Re-distribution Policy

The economic and social sectors of South Africa require a profound restructuring and policy re-direction, if economic growth is to benefit the whole population. The government's capacity to deliver social services has been undermined by the programme's over-reliance on market forces, even in social services delivery. The result is that the poor are being denied access to basic social services such as water and sanitation, while services such as health are becoming more expensive because of the government's insistence on full cost recovery. The government should modify aspects of GEAR that limit its capacity to deliver social services and to rectify past injustices. Given the current income disparities in the country and the existence of extreme poverty side by side with extreme wealth, programmes such as GEAR should be tempered by government interventions for the poor. The capacity to manage programmes and to deliver public services must expand very quickly. Programme design, planning, piloting, monitoring and accountability must also improve.

### 4. Black Economic Empowerment Programme (BEEP) :

Generally, there is the need for a comprehensive national programme of redress, with strong elements of affirmative action, to tackle the glaring socio-economic imbalances created by apartheid. There is, particularly, a need to promote the empowerment of blacks through human resource development in encouraging entrepreneurship and skills in management and administration. The BEEP programme needs to reach a much wider constituency if it is to contribute towards the attainment of the MDGs. There is urgent need for government to come up with strategies that will broaden the participation of the majority of Blacks in formal employment in the BEEP so that they can benefit from ownership of major corporations.

## 5. Utilization of Trade opportunities

Given South Africa's strategic trade position and influence in the continent the country can attract direct foreign investment to boost its agriculture and that of the entire region. The trade agreement and single currency under the South Africa Customs Union could be enlarged to incorporate other regional states. Important for South Africa is to avoid trade treaties and agreements that can be used to hurt other African countries at the World Trade Organization or with the European Union or the United States. Supporting regional industrialization on a competitive basis than before becomes very important in this regard. It is important for South Africa to work towards raising the rate of investment, encouraging market efficiency, raising intra-regional and international trade and ultimately supporting a stronger growth in the Southern Africa region and Africa as a whole.

6. An important finding of this report is that shifting decision-making closer to communities and their organisations can improve the connection between sustainable development policies and outcomes. This is key to poverty reduction and the attainment of MDGs in South Africa.

The real prospect for sustainable development and the attainment of MDGs in South Africa depends on confronting political challenges: that is strategic political interventions that focus policies and support measures on achieving the goals of sustainable development.

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# About AFRODAD

## **AFRODAD Vision**

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

## **AFRODAD Mission**

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by African governments;
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled to enable poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level to protect the interests of the weaker nations.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

African Forum and Network on Debt and Development

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