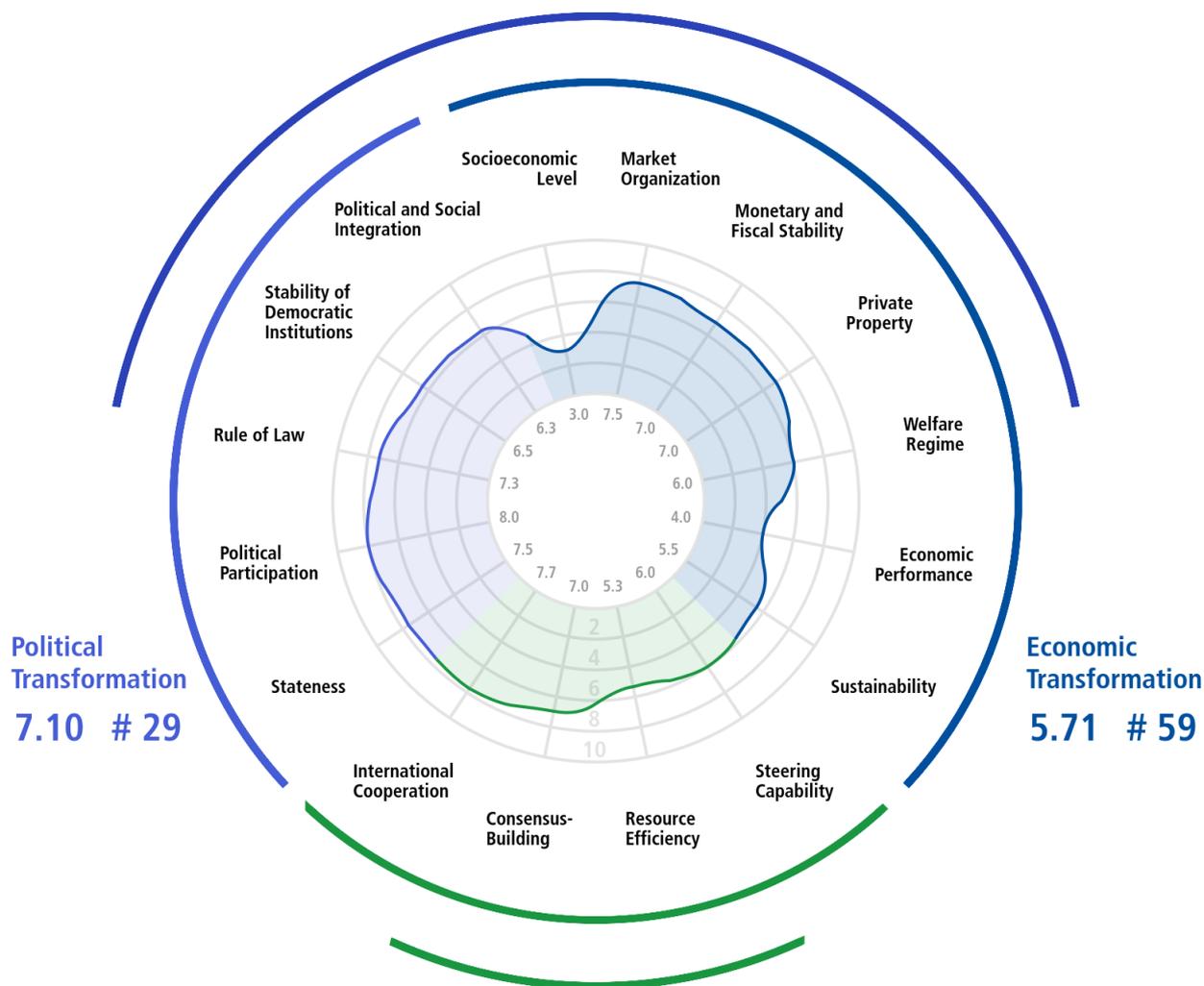


# South Africa

## Status Index

**6.41 # 35**

on 1-10 scale out of 137



**Political Transformation**  
**7.10 # 29**

**Economic Transformation**  
**5.71 # 59**

## Governance Index

**5.60 # 35**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>64.0</b>	HDI	<b>0.741</b>	GDP p.c., PPP \$	<b>15457</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.2</b>	HDI rank of 193	<b>106</b>	Gini Index	<b>63.0</b>
Life expectancy	years	<b>66.1</b>	UN Education Index	<b>0.770</b>	Poverty <sup>3</sup>	% <b>40.0</b>
Urban population	%	<b>69.3</b>	Gender inequality <sup>2</sup>	<b>0.388</b>	Aid per capita \$	<b>23.8</b>

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

South Africa faces considerable structural obstacles to its future development. Poverty, inequality and unemployment, all of which are structurally and intergenerationally transmitted, manifest along historical contours. Successive governments have failed to address their systemic causes and alter the trajectory of development.

For 30 years, innovative policymaking has been constrained by the ideological framework of the electorally dominant African National Congress (ANC). Because the ANC was restrained by internal factional conflict, but also used state resources to resolve partisan disputes, economic strategy and its execution became contingent on the outcome of factional battles within the ANC. This led to policy discontinuity and uncertainty, and none of the government's many short-lived macroeconomic strategies succeeded in transitioning the economy to a decisively inclusive, high-growth track.

Consequently, South Africa's strategic outlook continues to be shaped by a low-growth economy hindered by structural poverty, inequality and unemployment. Over the past three decades, South Africa has effectively addressed these obstacles through robust fiscal and monetary policies, particularly in the 2000s, and by establishing a social security system of grants and pensions that safeguarded the majority of South Africans from severe poverty. In some cases, the establishment of fundamental infrastructure also served as a bulwark. Nonetheless, the inability to broaden the South African tax revenue base, alongside corruption and the mishandling of essential state-owned firms in critical sectors like transport and power, is leading the nation toward a fiscal reckoning. The mounting debt-to-GDP ratio is hampering debt repayment and obstructing capital investment in the essential infrastructure necessary for growth and human development. At the time of writing, the administration, with limited options, was considering a two-percentage-point increase in the nation's value-added tax (VAT), to 17%. This would impose another significant financial burden on the nation's predominantly impoverished consumers.

The ANC's monopoly on unchallenged authority was disrupted in the 2024 general elections, resulting in the formation of a 10-party coalition known as the government of national unity (GNU) that was nevertheless led by the ANC. The new coalition presents potential for change, yet carries a certain level of risk. A newly established government fosters greater coherence in governance, better oversight, more investment in favorable outcomes, governance innovation and the introduction of constructive rivalry among participating entities. All parties have a strong interest in demonstrating success and proficiency in governing in anticipation of the 2026 local government elections. Despite friction within the coalition, the collective interest in its success remained strong at the time of writing.

On the downside, a collapse of the GNU could enable a more unified populist coalition to emerge. The two principal parties, the populist MK Party and the Economic Freedom Fighters (EFF), show a weak commitment to constitutional democracy, with MK advocating a return to parliamentary democracy, as was the case during apartheid.

Given the significant hurdles the GNU faces in the country's severely constrained fiscal environment, implementing substantial reforms that improve people's lives will be arduous and likely entail initial sacrifice. Consequently, external parties are likely to focus on the GNU's need for unpopular reforms. If successful, this may ultimately precipitate the formation of a new coalition among parties such as MK, the EFF and the ANC.

All internal developments affecting the domestic economy are occurring against the backdrop of seismic geopolitical changes. These geopolitical changes will necessitate a reevaluation of the country's foreign policy and relations. Given the country's dedication to a multilateralism supported by an international rules-based order that advances the interests of Global South nations in financial, trade and political institutions, a course adjustment, or at the very least a shift in strategy, may be necessary.

## History and Characteristics of Transformation

The Peace of Vereeniging ended the South African War between Britain and the Boer republics – the Orange Free State and the South African Republic – which culminated in the creation of the Union of South Africa in 1910.

The Union united the country into four provinces with a voting franchise for white citizens, while the limitations on Black South Africans' political rights that had been in place prior to the war persisted and deteriorated further over time. Most devastating in terms of economic rights, the Land Act of 1913 expropriated indigenous South Africans' land in the early days of the Union, setting in motion a chain of intergenerational poverty. In light of this political and economic onslaught against their livelihoods, Black South Africans formed internal resistance movements such as the ANC (1912).

After its victory in the 1948 general elections, the conservative Afrikaner National Party (NP), amid a nationalist wave linked to the South African War, instituted apartheid. The NP established a centralized, partisan ethnic state, distributing jobs and opportunities based on racial classification. Based on the notion of “separate development,” the NP allocated land to Black ethnic groups in less-developed rural areas for the purpose of self-government. Black South Africans were able to exercise their political rights in these “homelands,” ruled by apartheid acolytes, but were denied any political and economic rights in the rest of South Africa, where a pass-law system brutally restricted their political and economic rights and movement. This inhumane treatment was ultimately termed “a crime against humanity” by the United Nations.

South Africa became a republic in 1961 when its domestic policies resulted in its ouster from the British Commonwealth. During the 1960s, Black resistance increased and turned to armed struggle under the influence of the South African Communist Party (SACP) and its benefactor, the Soviet Union, resulting in the banning of the ANC and other organizations. The violent response of the state resulted in catastrophes such as the 1960 Sharpeville massacre and the 1976 Soweto school protests. Both tragedies caused many young South Africans to flee and fight apartheid. In the early 1980s, the ANC, motivated by the SACP, engaged in the so-called people’s war that drew no distinction between combatant and noncombatant and led to widespread violence in the townships. The United Democratic Front, the umbrella organization for civic resistance against apartheid, and the ANC exile leadership coordinated domestic opposition against the regime in the 1980s. During this decade, international economic sanctions against the apartheid system increased, limiting the apartheid state’s capacity to uphold the apartheid system and govern effectively. Prime Minister P. W. Botha declared a state of emergency in 1985, restricting Black South Africans’ freedom of movement and deploying the military in townships where the regime faced the most resistance. During the same period, South Africa continued to be engaged in a border war with the South West African People’s Organization in the former South-West Africa (now Namibia).

In the late 1980s, the collapse of the Eastern Bloc and the Soviet Union helped end the South African and the Namibia-Angola conflicts. Apartheid South Africa presented itself as a bulwark against communism in Africa, and the Eastern Bloc states were major benefactors of the ANC. Their demise, for various reasons, had major repercussions for both the liberation movement and the apartheid state. At the opening of parliament on February 2, 1990, former President F.W. de Klerk announced the unbanning of liberation movements and the release of political prisoners, creating the conditions for a negotiated settlement.

After extensive negotiations, an interim constitution was adopted, and the first non-racial democratic elections were held in 1994. These elections allowed all adult citizens of all races to vote. Nelson Mandela became the first democratic president of a government of national unity with the ANC, the National Party and the Inkatha Freedom Party. The National Party under de Klerk withdrew from the government of national unity in 1998.

After political liberation, the state’s primary task was to remove the structural hurdles to economic liberation that affected most South Africans. To date, limited progress has been made, as the ANC-dominated government in turn has created further impediments to growth by pursuing incongruent macroeconomic designs, each dependent on the dominance of specific party factions. Despite

providing basic services to millions in historically disadvantaged communities, as well as pensions and other social grants to millions, the government has failed to create a vision and an integrated economic infrastructure to support the development of the private sector and a labor-intensive economy in which South Africans can build independent economic agency.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Section 1 of the South African constitution states that the country is “one, sovereign, democratic state founded on the following values,” one of which is “Supremacy of the constitution and the rule of law.” The rule of law is thus established, and the state continues to have a monopoly on the use of force to maintain order and secure the country’s sovereignty within the confines prescribed by its constitution. However, its reach is encumbered by criminal gangs and organized crime syndicates that in some instances have infiltrated organs of the state, including those responsible for law enforcement and the defense of the country’s borders. The Global Organized Crime Index gives South Africa a criminality score of 7.18 out of 10. This combined measure of the prevalence of criminal markets and criminal actors gives South Africa the highest such score in southern Africa.

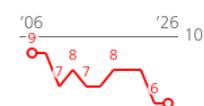
Former President Jacob Zuma also undermined the rule of law, a core tenet of South Africa’s democracy, as he faced allegations of corruption, abuse of power and contempt of court.

These challenges are substantial and stress the state’s capacity to uphold the rule of law everywhere and at all times. According to the United Nations Office for Drugs and Crime, South Africa’s murder rate of 45 per 100,000 (2023 – 2024) is second-highest among countries that publish crime data. Between March 2023 and February 2024, an estimated 76 murders and 411 robberies with aggravated circumstances occurred every day, making it one of the most violent upper-middle-income countries in the world. Within the country, this challenge has fostered the growth of a very large private security industry that currently includes 16,453 active security companies and 608,977 active officers (according to the Private Security Industry Regulatory Authority), compared with approximately 185,196 people in the South African Police Service (SAPS) and 3,000 metro police officers who serve the six major (metro) cities.

Question  
Score

Monopoly on the  
use of force

6



1

An overwhelming majority of South Africans accept the legitimacy of the South African state. According to Afrobarometer (2021/2023) survey data, 53% identify equally with being South African and with their ethnic group, while 19% say they feel more or only South African.

CapeXit, a Western Cape independence movement, has called for the secession of South Africa's Western Cape province to form an independent country. However, even in the Western Cape, this movement and similar calls have not mustered enough support to win a single seat in the provincial parliament. These movements have based their calls on Section 235 of the constitution and have not resorted to violence.

South Africa is a secular state in which the constitution, which contains an extensive bill of rights, reigns supreme.

The ANC – the dominant ruling party for 30 years until the 2024 national elections – employed the Leninist strategy of deploying cadres into the public service, thus prioritizing party loyalty over merit, competence and professionalism. Cadre and pork-barrel appointments to government structures have wrought havoc in the civil service by establishing a system of political patronage justified under the guise of transformation.

This system of partisan governance was amplified under the ruinous administration of former President Jacob Zuma. Although this ended in early 2018, the state is still coming to terms with the corrosive impact on its ability to provide services in key areas. Attempts are still underway to prosecute those involved in state capture during the Zuma era, but progress is slow and has been undermined by understaffed and under-resourced prosecution services. Skill levels across the civil service vary, and are particularly weak at the local level, where services are delivered to ordinary South Africans. Although there has been a marked improvement in electricity supply, largely the result of interventions at the central-government level, local government services such as road maintenance and the supply of clean water are crumbling. Amid weak economic performance and the resultant low government revenues, the National Treasury has had to impose substantial spending limits across the range of government activities to avoid a further surge in the country's high debt-to-GDP ratio. Some positive developments include the success of the government's Operation Vulindlela, a partnership between the presidency and the National Treasury to enhance infrastructure efficiency and address impediments to economic growth, particularly in network industries such as electricity, water, transportation and digital communications. However, one concern is that Operation Vulindlela, the ANC's

#### State identity

8



1

#### No interference of religious dogmas

10



1

#### Basic administration

6



1

reform program, may be more an attempt to deal with the symptoms of an essentially rotten system rather than addressing the underlying issues. Even so, it has also been encouraging that this program received support from the newly formed government of national unity (GNU) in the wake of the May 2024 general elections. At the time of writing, at the beginning of 2025, the GNU was still functioning well and was enjoying positive momentum. Thus far, it has not resulted in governance stalemates, as originally feared. Instead, it has created healthy competition among the parties in charge of different ministries to showcase competence in government. However, it remains too early to report a marked improvement in the quality of services.

## 2 | Political Participation

Regular, free and fair multiparty elections are held at five-year intervals. National and provincial elections occur together, followed by local government elections two years later. A proportional electoral system with a low threshold is used for the national and provincial elections, allowing for the inclusion of a broad representation of South Africa's diverse society in the legislature. However, the closed party list system has been criticized for skewing accountability away from the electorate to the party. The Electoral Commission (IEC) is responsible for the administration and conduct of elections. To date, no credible challenges have been lodged against the integrity of the IEC in executing its mandate prior to, during or after successive elections since 1994, when it oversaw the country's first democratic elections. Like all state institutions, it has been burdened by funding constraints in recent years, experiencing some logistical challenges during registration processes and in the execution of elections themselves. This was particularly the case during the 2024 general elections. Reports from election day note problems with long queues, ill-equipped voting stations and underprepared staff. In addition, the IEC was tasked with implementing amendments to the electoral law that, for the first time, provided for the election of independent candidates to the national parliament. The most recent general election saw the lowest turnout rate of registered voters since 1994, at 58.6%. As a percentage of eligible voters, the turnout rate was even lower, at around 41%, with 59% abstaining from voting. There is no concrete evidence that this can be attributed to the IEC. More likely, it forms part of a broader sense of disillusionment with the functioning of democratic institutions between elections. In a 2024 pre-election survey conducted by the Institute for Justice and Reconciliation (IJR) for Afrobarometer, 85% of South Africans indicated that they were not happy with the country's direction. About 62% of respondents said they were dissatisfied or very dissatisfied with the way democracy was functioning. In the same survey, 11% indicated that they did not expect the 2024 elections to be free and fair.

Free and fair elections

9



1

With the exception of a period characterized by the capture of state institutions by external individuals associated with former President Jacob Zuma, democratically elected leaders have by and large had the power to govern with very few veto powers capable of undermining democratic processes. Despite attempts to bring democratic institutions closer to the people through public hearings and sometimes remote sittings of the national parliament and regional legislatures, the lobbying power to navigate and influence the complex legislative processes of these institutions is disproportionately skewed in favor of well-resourced civil society organizations (CSOs), externally resourced special-interest groups, wealthy individuals and – to some extent even today – those with proximity to the ruling party. This means that in any given policy area, these entities wield power beyond the size of their constituencies. Even the influence of the labor movement, traditionally close to the African National Congress (ANC), has waned in recent years.

Section 17 of the South African constitution guarantees the right to hold a demonstration, picket and petition, provided these activities are conducted peacefully and without weapons. The Regulation of Gatherings Act of 1993 gives effect to this right and outlines regulations on providing sufficient notice, clarifying the nature of the protest, the route to be followed and the number of people expected to attend.

Section 15 of the South African constitution guarantees the freedoms of speech and expression as they pertain to the media, artistic expression and scientific research. It also prescribes the regulation of all state-financed media in such a way as to ensure impartiality and a diversity of opinions. These provisions have been enacted by a suite of laws that include the Films and Publications Act of 1996 (as amended in 2019), the Promotion of Equality and Prevention of Unfair Discrimination Act of 2000, the Electronic Communications and Transactions Act of 2002, the Intelligence Services Act of 2002, and the Cybercrimes Act of 2020. Instances of censorship have been rare and may be challenged in courts and before regulatory bodies. The country is home to vibrant independent media, with some engaging in investigative journalism. The impartiality of the South African Broadcasting Corporation (SABC) has been called into question in the past, particularly during the Zuma administration, which saw the capture of the public broadcaster as well as the physical intimidation of journalists who did not adhere to the official editorial line. The broadcaster has since seen a significant improvement in the quality and content of its news offerings. As is the case elsewhere in the world, the country still grapples with the regulation and enforcement of free speech imperatives in the digital sphere.

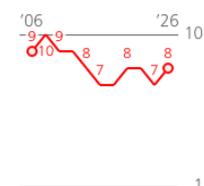
Effective power to govern

8



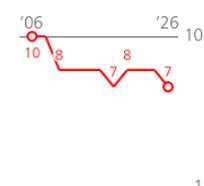
Association / assembly rights

8



Freedom of expression

7



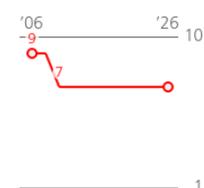
### 3 | Rule of Law

Although not explicitly mentioned in the South African constitution of 1996, the imperative for a separation of powers was one of the guiding principles in its drafting. At the multiparty negotiations that paved the way for the country's political transition, a number of core principles that were to guide the drafting of a new constitution were agreed on. One of these was Principle 4, which stated: "There shall be a separation of powers between the legislature, executive and judiciary, with appropriate checks and balances to ensure accountability, responsiveness and openness." After the document's adoption, several Constitutional Court rulings have confirmed this sentiment. In the Constitutional Court judgment in *South African Association of Personal Injury Lawyers v. Heath*, former Chief Justice Arthur Chaskalson, for example, noted: "In the first certification judgment, this court held that the provisions of our constitution are structured in a way that makes provision for a separation of powers... There can be no doubt that our constitution provides for such a separation (of powers), and that laws inconsistent with what the constitution requires in that regard are invalid." Given the uniqueness of governance institutions across the world, it has to be accepted that the practical application of this principle will differ from country to country. As a young democracy, it can be argued that South Africa is also still in the process of developing proper parameters for the separation of powers. Insofar as the general principle pertaining to the independence of the different branches of government is concerned, the country's track record has been uneven. The electoral dominance of the ruling ANC in the national parliament and provincial legislatures until 2024 proved to be a significant obstacle to the entrenchment of the principle. As the party increasingly used deployments to the executive as a source of patronage, such appointments started to mirror the factional divisions within the party. This affected not only government departments delivering services to people but also law enforcement agencies and oversight institutions meant to provide checks and balances on executive power. As a result, the factional contestation that played out across these institutions affected the execution and oversight of power. The excesses of this practice became particularly visible during the administration of former President Zuma, who used factional deployments to capture the state. The judiciary has been the only arm of the state that has managed to retain its independence, but has frequently done so under substantial pressure.

The South African judiciary consists of four tiers of courts. Magistrates' courts, which are dispersed across towns and cities throughout the country, hear less serious civil and criminal cases. Thirteen high courts are located in large centers and cities throughout the country and hear cases so serious that magistrates' courts do not have the competence to make an appropriate judgment or impose a specific sentence. Unless there are legally prescribed minimum or maximum sentences, the high courts have jurisdiction to impose penalties up to a life sentence. The Supreme Court of Appeal (SCA) in Bloemfontein hears appeals from the high courts. It can also rule on

Separation of powers

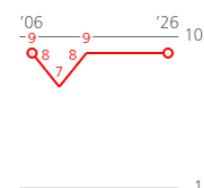
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Independent judiciary

9

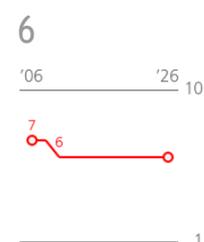


1

matters concerning the constitutional validity of an act of parliament, a provincial act or any conduct of the president, as these issues relate to an appeal, but such orders have no force unless they are confirmed by the Constitutional Court. The Constitutional Court, in turn, is the country's highest court. Its jurisdiction is restricted to constitutional matters, such as the constitutionality of legislation, the standing or powers of certain organs of state in relation to each other, the constitutional rights of citizens, or, as has come up before, the question of whether legislatures or officeholders have failed in their constitutional obligations. All judges in the high courts, the SCA and the Constitutional Court are appointed by the president of the republic, who typically follows the recommendation of the Judicial Service Commission, consisting of (among others) the chief justice, parliamentarians from different political parties, and practicing advocates and attorneys. To date, the South African judiciary has remained fiercely independent, but it is frequently constrained by a lack of resources in a country with high crime rates. High levels of poverty relate to low conviction rates for serious crimes and long court rolls, ensuring that cases are drawn out and expensive. As a result, the judiciary is often blamed for negative outcomes that have their origins in law enforcement and prosecution agencies. As a result, in the 2023 round of the Afrobarometer survey, only 23% of respondents indicated that they had a lot of trust in the country's courts, and a further 27% indicated that they trusted these institutions somewhat.

In the coming years, the prosecution of cases pertaining to a critical period of state capture during the 2010s will be the litmus test for the country's National Prosecuting Authority (NPA). This period, coinciding with the administration of former President Jacob Zuma, was characterized by large-scale corruption and oversight lapses that not only cost the country billions of dollars, but also significantly weakened its public institutions. Not surprisingly, the NPA was also captured by Zuma surrogates, who largely looked away as the state was plundered. While reforms to rebuild the NPA started immediately in the wake of Zuma's forced resignation in 2018, a largely emaciated NPA was then tasked in 2022 with the prosecution of the alleged state capture masterminds who were singled out in the Zondo Commission of Inquiry into Allegation of State Capture Report. To date, progress in this regard has been painfully slow and remains ongoing. Thus far, the prosecution of high-profile suspects has evaded the NPA, which continues to struggle with staff and skills shortages. The Gupta brothers, the most prominent alleged kingpins of the state capture project, had yet to be extradited from Dubai as of the close of the review period. For its part, the African National Congress, the largest party in the coalition government of national unity (GNU), has done little to signal its commitment to clean administration in relation to the state capture saga.

Prosecution of  
office abuse



Chapter 2 of the South African constitution contains a Bill of Rights that has vertical and horizontal application across society. The range of rights is enacted in legislation by the South African Parliament, applied by the executive and enforced by the judiciary. Chapter 9 also provides for a series of institutions meant to strengthen constitutional democracy. These include the Public Protector (Ombudsman), the Office of the Auditor-General, the Electoral Commission (IEC) and institutions directly linked to specific sets of rights, such as the South African Human Rights Commission (SAHRC); the Commission for the Promotion and Protection of the Rights of Cultural, Religious, and Linguistic Communities; and the Commission for Gender Equality. The impressive and comprehensive Bill of Rights, rights-focused institutions and legislation, however, are not matched by the quality of rights enforcement. There are various reasons for this. State capacity and competence are uneven. Law enforcement and prosecution authorities are under-resourced and lack the range of skills to enforce the rule of law in a country with high levels of poverty and unemployment. Particularly damaging in this regard, the country remains afflicted with violent crime, which disproportionately affects women and other vulnerable groups. As a result, courts are overburdened with long caseloads, making justice a protracted and expensive process that favors the highest bidder. Chapter 9 institutions generally lack sufficient funding to execute their mandates. Within these same circumstances of poverty and unemployment, there is also an uneven awareness of rights and access to institutions, typically favoring the more affluent and urban populations.

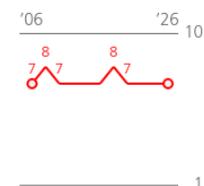
#### 4 | Stability of Democratic Institutions

Democratic institutions and processes that contemplate, legislate, hold to account and implement decisions exist at the local, provincial and national levels. The constitution provides for democracy-supporting institutions, the so-called Chapter Nine institutions such as the Public Protector. Furthermore, the country is a constitutional state in which all laws and their implementation must be tested against the provisions of the South African constitution of 1996. These institutions are broadly regarded as legitimate, and South Africans abide by their decisions. In practice, however, many such bodies lack the requisite skills and resources to execute their respective mandates. They have been used for political patronage, engage in partisan governance and are blighted by corruption.

In the 2023 round of the Afrobarometer survey, only 24% of respondents said they had somewhat or a lot of trust in the country's national parliament, and only 27% expressed trust in President Ramaphosa. The corresponding figures for the judiciary, the police and local government were 50%, 32% and 25%, respectively. While no data on this topic existed at the time of writing in February 2025, there were indications that the creation of the coalition government of national unity (GNU) – following the ANC's loss of an outright majority in the 2024 general elections – could

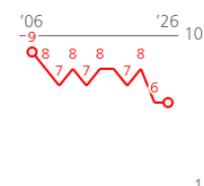
#### Civil rights

7



#### Performance of democratic institutions

6



improve the performance of democratic institutions in three ways: by creating a stronger common purpose, producing better legislative oversight and generating a healthy sense of competition between parties within the GNU to prove their worth to South Africans. A 2025 survey conducted by the Social Research Foundation found that just under 60% of South Africans thought the GNU had done well or quite well up until that point.

All key stakeholders are committed to democratic processes and institutions. This cuts across the legislative, executive and judicial arms of the state, as well as the private sector, the military and civil society organizations, including churches and labor unions. The only real challenge to the status quo comes from the uMkhonto we Sizwe Party (MK Party), led by former President Jacob Zuma, which is campaigning for the abolition of a constitutional state and a return to parliamentary sovereignty, as was the case under apartheid. Advancing a narrow ethnic Zulu agenda, the party contends that the constitutional state is a Western construct that is foreign to Africa. The party's meteoric rise in the 2024 elections, in which it garnered 14% of the vote in its first year of existence, does not bode well for the prospects of constitutional democracy. Employing a populist agenda, it took a substantial share of the vote of the Economic Freedom Fighters (EFF), led by firebrand Julius Malema. This could result in a shift toward more radical populist politics within the EFF and in some quarters within the ANC.

The looming 2026 local government elections will put the GNU as a whole, as well as its constituent parties, under pressure to deliver more rapidly and efficiently on the country's massive developmental challenges.

## 5 | Political and Social Integration

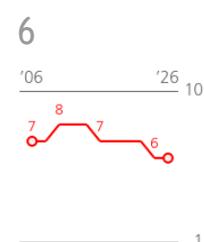
Eighteen parties are represented in the National Assembly, the lower house of parliament. The fragmentation of the party system has increased, although only five of the 18 parties are represented in parliament. Ten of these have constituted the government of national unity (GNU) since the ANC's loss of an outright majority in the 2024 general elections. In general, five of the 10 coalition parties (ANC, the Democratic Alliance (DA), uMkhonto we Sizwe (MK), the Economic Freedom Fighters (EFF), and the Inkatha Freedom Party (IFP)) have more than 5% of the total vote, while the other parties are relatively small.

The ANC remains the largest party. Aside from it, the DA, the IFP, and the Freedom Front Plus (FF+), few other parties have distinct, entrenched support bases. Despite the lofty ideals associated with the idea of a GNU, which also harks back to the GNU formed in the wake of the first democratic elections, most parties are participating in this arrangement for pragmatic reasons. It cannot yet be said that it constitutes a principled arrangement with a shared vision for the country's future, but it has introduced a sense of forced cohesion between the two largest parties in parliament.

Commitment to democratic institutions



Party system



Although there is overlap in many of their policies, relations between the ANC and DA have been highly antagonistic for the better part of the past two decades. However, the ANC's need to partner with market-friendly parties to satisfy international investors during the ongoing economic stagnation and the DA's desire to show its ability to govern at the national level eventually won the day. While tensions still exist, the establishment of the GNU has generated positive momentum and has been welcomed by South African society, civil society, business and international bond markets alike. Following 30 years in which the party system was dominated by the ANC, with its concomitant pathologies of blurring party-state lines and use of state resources for party ends, the GNU marked a much-needed political shift, raising expectations of greater accountability and service delivery. Waiting in the wings to capitalize on this are the remaining parliamentary parties, led by the populist MK Party and the EFF, which have organized themselves as the Progressive Caucus in parliament. A shift in voter sentiment away from the GNU and the ANC, in particular, could strengthen elements within the ANC that would much rather partner with the MK Party. In all likelihood, this would be detrimental to democratic governance.

Given the country's divided history, levels of trust among key societal stakeholders remain low, often resulting in winner-take-all outcomes rather than consensus on national priorities and how to achieve them. This fragmentation frequently impedes decisive action on key policy areas. The National Economic Development and Labor Council (NEDLAC) is a statutory entity that enables the government to engage in organized consultation with the primary social partners in the business, labor and civil society spheres. Although it has served as a consultative platform since the country's political transition in 1994, it is still an underutilized resource that is frequently bypassed by key partners, leading to outcomes reached outside the NEDLAC context. A key development late in the review period was the creation of the GNU, which brings greater inclusion at the government level and bodes well for greater consensus and cohesion in governance. Following the creation of the GNU, President Cyril Ramaphosa has also floated the possibility of a national dialogue, involving stakeholders across the social, political and economic spectrum, to reignite "our collective vision and shared passion to create a South Africa that works for all its people." Structures for the dialogue were to be put in place during 2025. Prior to the 2024 elections, the political and social landscape was dominated by the interests of the Tripartite Alliance (ANC, South African Communist Party and the Congress of SA Trade Unions); this alliance essentially blocked out other interests, and the trade unions protected those with work while keeping out the unemployed. The South African Democratic Teachers Union (SADTU) has also protected a culture of poor performance and unaccountability, weakening the schooling system.

Interest groups

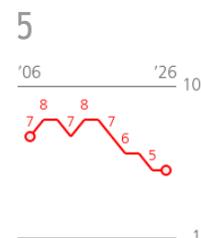
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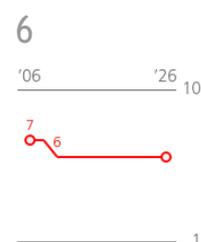
Over the past three decades, successive elections have seen declining voter turnout. During the 2024 general election, only 58% of registered voters cast their ballots, representing about 42% of all eligible voters. This points toward growing dissatisfaction with the ability of elections to bring about meaningful change. A substantial decline in trust in public institutions also seems to point toward disaffection with decades of poor governance under the ANC. The combined impact has been a substantial decline in support for and approval of the functioning of democracy. South Africans appear to have conflated poor governance with democracy, resulting in a decline in democracy’s legitimacy. In the 2023 round of the Afrobarometer survey, 43% indicated a preference for democracy, and only 25% of those surveyed said they were satisfied with the functioning of democracy, compared to 60% and 53%, respectively, when the survey was first conducted in 1999. An increasingly undemocratic political culture is a concern.

Approval of democracy



Given its history of apartheid and intergenerational trauma passed down for more than a century, the country continues to be characterized by deep divisions that are kept alive by some political parties – either to divert attention from their poor performance or to garner political support based on prejudice – and by media that sell the racist narrative. New middle and affluent classes have developed among the country’s historically defined Black, Coloured and Indian groups, but the majority are still working class or poor. In light of this, consensus on key policy areas is difficult to find when constituencies have different interests in a particular matter. Some have expressed the hope that a strong GNU will assist in forging a greater sense of common purpose. Many have therefore welcomed President Ramaphosa’s announcement of a National Dialogue that was to commence in 2025 to forge a new common national vision for the country.

Social capital



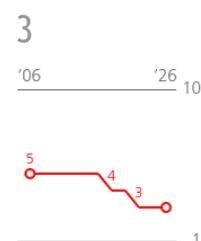
## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In 2023, South Africa had a per capita GDP of \$15,847 (adjusted for purchasing-power parity at 2023 U.S. dollar prices). This is more than \$2,000 higher than a decade earlier, when the corresponding figure was \$13,569. However, interpreting the country’s socioeconomic well-being based solely on GDP per capita can be misleading. Given the country’s high levels of unemployment, poverty and inequality, poverty and inequality sit downstream from unemployment, with the official unemployment rate at 32% feeding into these indicators. About 40% of the country’s population lives on less than \$3.65 a day, the most recently established global poverty-threshold statistic, measured in 2014. In terms of the country’s own

Question Score

Socioeconomic barriers



national poverty line, measured around the same time, 55% of South Africans lived in poverty. While these figures signaled a substantial decline in poverty from the mid-2000s, when around two-thirds of South Africans fell under the national poverty line, they marked an increase from the early 2010s. Given the slow economic growth that has occurred since then, as well as the devastating economic impact of locking down an already poorly performing economy during the COVID-19 pandemic, it is highly likely that the percentage of people falling under either of these poverty lines has increased. In terms of income distribution, the country is among the most unequal in the world, with a Gini coefficient of 0.63 when most recently measured in 2014. This figure signaled an increase in inequality from the coefficient of 0.59 measured in 1993, a year before the country's democratic transition. This has also been borne out in the country's personal income statistics, with the South African Revenue Service's (SARS) 2024 Tax Statistics Report showing that 2.6% of South Africans pay about 76% of all income tax. This again points to the core issue of unemployment and the unsustainability of dependence on the few who do work. Overall, the country's Human Development Index (HDI) score was 0.717 in 2022, which represents a strong improvement from 0.650 in 1994 and is among the highest HDI values for sub-Saharan Africa. However, when inequality is factored into the country's HDI, the inequality-adjusted HDI drops by 35.6 percentage points to 0.462. Significant for the country's future is the fact that poverty and inequality remain highly racialized. In spite of the establishment of a small Black middle class, the majority of poor South Africans are from communities that were previously disadvantaged under apartheid. These racialized economic realities also help sustain spatially segregated residential settlement patterns.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	420886.9	406920.0	380699.3	<b>400260.7</b>
GDP growth	%	5.0	1.9	0.7	<b>0.6</b>
Inflation (CPI)	%	4.6	7.0	6.1	<b>4.4</b>
Unemployment	%	34.0	33.3	32.1	<b>33.2</b>
Foreign direct investment	% of GDP	9.7	2.3	1.0	<b>0.6</b>
Export growth	%	9.7	6.8	3.7	<b>-2.0</b>
Import growth	%	9.6	15.0	3.9	<b>-6.3</b>
Current account balance	\$ M	15843.6	-1207.2	-4209.4	<b>-2578.6</b>

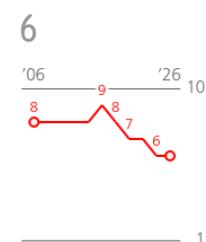
Economic indicators		2021	2022	2023	2024
Public debt	% of GDP	68.8	70.7	73.2	<b>76.0</b>
External debt	\$ M	169438.2	171723.3	165786.6	-
Total debt service	\$ M	26685.1	27609.1	22916.0	-
Net lending/borrowing	% of GDP	-4.5	-3.5	-	-
Tax revenue	% of GDP	25.9	26.0	-	-
Government consumption	% of GDP	19.2	19.0	19.3	<b>19.2</b>
Public education spending	% of GDP	6.6	6.2	6.1	<b>6.0</b>
Public health spending	% of GDP	5.5	5.4	-	-
R&D expenditure	% of GDP	0.6	0.6	-	-
Military expenditure	% of GDP	0.8	0.8	0.7	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

An institutional framework exists to ensure access and broad-based participation for all who want to compete in the market. However, the country's apartheid legacy dictates that the playing field is uneven. As such, this framework exists to further open the market rather than merely protect its openness. There are two significant drivers for South Africa's quest for fair competition. The first is to guarantee a diversified economy in which market access is not restricted to powerful actors. During the apartheid years, these markets were concentrated and monopolized by fewer than 10 sizable companies with holdings in almost all economic sectors. The second is to effect racial redress in terms of ownership and control, given that almost the entire formal economy was vested in the hands of white South Africans. To this day, a lack of access to capital, for example, remains a major obstacle for Black entrepreneurs who cannot rely on a stock of intergenerational wealth to secure loans. Progress has been made on both objectives, but many of the country's largest companies are still very closely related, either by historical connections or shareholding arrangements. This historical dominance is especially noticeable in sectors like media, banking, insurance and mining. State-owned enterprises are significant actors and have monopolies in industries like transport and energy, yet they have struggled with governance compared with their private sector counterparts. Even more so after the state capture years, some have become a significant drain on

### Market organization



the central government's coffers, with the failure of some posing a significant threat to the economy. They have also been a financial burden on the government. While some improvements have been made at the Eskom state electricity provider, South African Airways (SAA) and the Prasa passenger rail agency, others, like the South African Post Office and Transnet, which provides the country's freight rail and port infrastructure, still put a substantial damper on economic activity.

Some reforms in the direction of opening the market to private participation in the provision of critical infrastructure have been promising. Eskom has been unbundled into three divisions: generation, distribution and transmission. This will continue to accelerate participation in the power-generation sector by independent power producers (IPPs). IPPs have already lightened the burden on Eskom's fragile generation infrastructure and increased the share of renewable energy in the country's energy mix.

Transnet has also taken steps to encourage greater private participation by allowing concessions on certain freight rail routes and partnering with Manila-based International Container Terminal Services (ICTSI) to run, develop and upgrade the Durban port's container terminal. South African Airways continues to seek a private equity partner to rebuild its largely scaled-down operations. The government's Broad-based Black Economic Empowerment Act represents the cornerstone of attempts to open ownership of the country's economy to historically disadvantaged communities. Although the declared purpose of such legislation has been admirable, it has often resulted in a distortion of the original goals. The additional administrative burden associated with meeting and disclosing employment equity goals has been criticized within the financial community. However, the apparent failure of the Broad-based Black Economic Empowerment Act (B-BEE Act) to increase the rates of Black ownership and involvement in the formal sector has drawn the most criticism.

The cornerstone of the country's legislative suite of acts to promote open and fair competition is the Competition Act of 1998, which was amended in 2018 to address challenges in enforcement. The primary institutions responsible for the enforcement of the act are the Competition Commission, the Competition Tribunal and the Competition Appeal Court. The Commission investigates alleged instances of anti-competitive practices, the abuse of existing market dominance and collusion; the Tribunal hears cases on alleged transgressions; and the Appeal Court allows for appeals of rulings made by the Tribunal. Some of the Commission's major achievements have been in the regulation of the construction, bread and steel industries; in these cases, substantial penalties have been imposed on transgressors.

#### Competition policy

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Although it is the largest economy in Africa, with a GDP of \$377.78 billion, South Africa accounts for only 0.36% of the global economy. It has an ostensibly open economy, is highly dependent on trade and has seen a decline in import tariffs since the transition from apartheid. The most recently recorded average applied most-favored-nation (MFN) tariff rate is 7.6%. Given the country's high level of integration and reliance on imports for several critical commodities, it is vulnerable in a volatile global economy characterized by slowing globalization and geoeconomic competition that is in turn resulting in rising tariffs and shortened supply chains. From an export point of view, South Africa is also vulnerable to intensifying geopolitical posturing among players such as the United States, China and Europe. South Africa has long antagonized the United States, a major trading partner, by fraternizing with Russia and Iran. The recent election of U.S. President Donald Trump has raised further concerns about the longevity of the African Growth and Opportunity Act (AGOA), which has given African nations duty-free access to the U.S. market for specific products. For example, should its renewal be used as leverage to enforce allegiance and compliance by South Africa, an early member of the BRICS group of countries that includes China, Russia and India as well as a host of new members, such as U.S. foe Iran, South Africa may be put in a diplomatically untenable situation.

The country has an extensive trade infrastructure, including ports, airports and highways, but logistical challenges such as port congestion, high shipping costs and inefficient supply chain management hinder the smooth movement of goods. Race-based policies such as Black economic empowerment laws, which require 30% equity ownership by historically disadvantaged groups, create barriers and difficulties for foreign investors. According to the International Monetary Fund (IMF), South Africa is the most difficult place to do business in the world, ranking last among the 49 countries measured. At the African continental level, it stands to benefit in the long term from the implementation of the African Continental Free Trade Area (AfCFTA), which seeks to eliminate trade barriers between member states. Founded in 2018, the AfCFTA currently has 43 members and 11 additional signatories. It entered its operational phase in April 2024.

South Africa has a well-regulated and established banking sector overseen by the country's independent central bank, the South African Reserve Bank (SARB). Given low levels of formal employment and the fact that many rely on income from the informal economy and on government grants and pensions, one of this entity's major challenges has been to bring more South Africans into the banking system.

The banking system is regulated by the Banks Act of 1990, which sets operating parameters for banks, licensing requirements, and capital adequacy and prudential standards; the Financial Sector Regulation (FSR) Act of 2017, which provides for a "twin peaks" model that separates the objective of financial stability from consumer protection and empowers the SARB to act as the prudential authority to monitor local and international banks' compliance with the Basel Accord; the Financial Intelligence

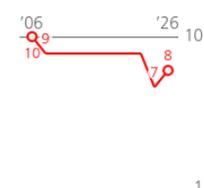
#### Liberalization of foreign trade

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#### Banking system

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Center Act of 2001, which combats money-laundering and the financing of terrorism; and the South African Reserve Bank Act of 1989, which governs the central bank and its mandate to set monetary policy.

Despite these regulations, the Financial Action Task Force (FATF) signaled concern in 2021 about the legislative framework's capacity to deter money-laundering and the financing of terrorism, as well as the country's ability to prosecute high-profile cases of alleged financial wrongdoing. In the absence of a timely and satisfactory response, the FATF gray-listed the country's banking system in 2023 pending resolution of its concerns. This imposed additional oversight and red tape on cross-border transactions. Over the past two years, substantial progress has been made in rectifying these concerns, and the country is expected to be removed from the gray list sometime during the latter part of 2025.

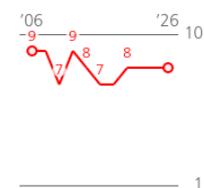
## 8 | Monetary and fiscal stability

Monetary policy is the responsibility of the country's independent central bank, the South African Reserve Bank (SARB), whose primary objective is to ensure price stability. Guided by the bank's Monetary Policy Committee, which meets every two months, it sets interest rates with the goal of keeping inflation within a 3% – 6% band. Adjustments it makes to the basic repurchase rate (repo rate) charged to commercial banks are then passed on to consumers in the form of the prime lending rate. In recent years, it has been successful in reining in inflation stemming from COVID-19 supply chain issues and the impact of global stimulus by governments that followed in its wake. From the beginning of 2024 to the time of writing in February 2025, the repo rate was cut by a total of 75 basis points. At the time of writing in February 2025, the official inflation rate stood at 3%, down two percentage points from the same period in 2024.

The SARB's independence in choosing its own monetary tools remains contentious, with some arguing that the bank has a much larger role to play in addressing structural impediments to growth in South Africa. Such calls have become prevalent again. These calls come from some within the ANC, but especially from the EFF and MK, which want the bank nationalized. However, the government has remained consistent in its support for the SARB's independence despite the unpopularity of some monetary policy decisions. The genuine independence of the bank is also tenuous, given that the central bank governor is a political appointee. To build public trust and protect its independence from calls for nationalization, it has become imperative that the bank become more transparent and communicate better about how it makes its decisions.

### Monetary stability

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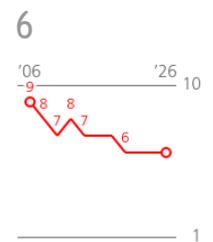


The National Treasury is the government department primarily responsible for crafting and implementing fiscal policy in South Africa. Widely regarded as one of the more competent, transparent and consistently professional ministries in government, the Treasury operates within a medium-term policy cycle. As a result of macroeconomic incoherence over the past three decades, government policy has largely failed to address the interlinked challenges of growth and employment, which in turn influence poverty and inequality. As a result of overall low growth rates, government revenue has been constrained and is sensitive to economic fluctuations. With a rate of 37%, personal income tax is the largest source of government revenue. Yet with a third of the working-age population unemployed, there are relatively few income-tax payers, resulting in turn in high levels of public dependence on government pensions and grants. In the most recent tax year, only 6.6 million taxpayers out of a total population of 63 million earned above the threshold for paying income tax. Astoundingly, only 6.2% of these taxpayers account for 76.2% of all personal income-tax revenue. More social spending will not improve this picture. While the Treasury has been accurate in predicting and containing expenditure, the vulnerability of the tax base to domestic and global variables has made it more difficult to predict income.

At present, the country's debt-to-GDP ratio is 72%, with the expectation that it will peak at about 75% in the 2025/26 financial year. Higher levels of borrowing have in turn resulted in higher debt-service costs, which currently soak up about 20% of all government expenditure, higher than the respective allocations to critical developmental areas such as education, health and safety. Consequently, this also crowds out expenditure for economic infrastructure investment. In light of this, the Treasury is doubling down on fiscal consolidation and reported a surplus in March 2024 for the first time in 15 years. Amid struggles to balance competing interests, the national budget speech in February 2025 was postponed for the first time since the country's democratic transition, after an impasse within the government of national unity over the ANC finance minister's proposal to raise the value-added tax (VAT) by two percentage points, from 15% to 17%. Compared with its developing-country peer group, South Africa is a highly taxed society.

Restrictive labor laws, policy uncertainty, tenuous property rights, and physical infrastructure that is not developed or maintained are all issues that need to be addressed to create a sound environment for job creation.

#### Fiscal stability



## 9 | Private Property

The question of private property and, specifically, the issue of expropriation without compensation has become an immensely emotive, polarizing and highly politicized topic, with the EFF, the MK Party and the left wing of the ANC campaigning for a dispensation that gives the state broad powers to expropriate and limits the role of courts in overruling the execution of these powers. The more moderate stream within the ANC, which includes those around President Cyril Ramaphosa, also favors the option of expropriation, but within a much more strictly circumscribed set of parameters. The DA, the largest opposition party, accepts the need for expropriation. It is of the opinion that expropriation without compensation should be limited to a small number of exceptional cases.

In January 2025, President Ramaphosa signed into law the Expropriation Bill, which had been subjected to legislative scrutiny for the past four years. The new act, according to the ANC, provides clarity and certainty about the circumstances that warrant expropriation and the question of compensation. The ANC also contends that sufficient legal oversight is envisioned in the act. The DA, its partner in the GNU, has vehemently opposed the measure's enactment due to clauses that it regards as problematic for the principle of private property and as potentially harmful to investment. The act grants the state extensive power to confiscate any kind of property on public or private land for reasons that are in the public interest, akin to legislation in other parts of the world. The DA contends that its broad wording may make implementation a sticking point. In light of this and the ANC's perceived intransigence on adopting a National Health Insurance System, the DA has declared a dispute within the GNU – a mechanism provided for in the coalition agreement. The question of private property will therefore become the first major test for the cohesion of the GNU.

For most of the past three decades, the relationship between the government and the private sector has been lukewarm. This relationship has been shaped in this way largely as a result of the country's history. The ANC, which has been in government since South Africa's political transition, has typically offered an ideological home for a constituency that covers the entire spectrum on the left. In light of this, it has been decidedly pro-labor and, to varying degrees, has pursued the idea of a developmental state in which state institutions and state-owned enterprises stand at the center of its economic development vision. While its relationship with the private sector has been accommodating, cordial and consultative in practice, its rhetoric has favored centralized approaches, and its actions have not provided evidence of a state that views the private sector as a catalyst for growth and development.

The devastating impact of the COVID-19 pandemic highlighted the state's vulnerability and the role private actors have played in alleviating the massive burden on governance systems, which were on the verge of collapse during the pandemic years. During this period, substantial goodwill also emerged.

### Property rights

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### Private enterprise

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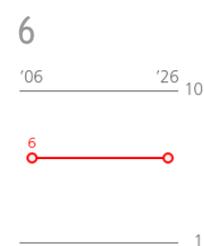
In what many regarded as a far-reaching statement by a senior ANC official, Ramaphosa in 2022 publicly stated that “business creates jobs, not government,” and hence the emphasis of the latter should be to “create an environment in which the private sector can invest and unleash the dynamism of our economy.” This shifting attitude is bearing fruit, particularly as it relates to public-private partnerships with entities. The national airline, South African Airways (SAA), is currently seeking a private equity partner. Transnet, the state-owned rail and ports authority, has offered concessions on its busiest freight lines and port terminals. Probably the greatest success stories have come from the power sector, where the country previously found itself on the verge of an energy infrastructure collapse. The unbundling of Eskom, the state electricity utility, into generation, transmission and distribution entities will in the future mean improved competition in the power sector. These steps mark progress, but in other departments the state has still preferred to cling to and even expand its control. One key example has been the National Health Insurance (NHI) bill, which seeks to provide comprehensive insurance and could inflict serious damage on the country’s private medical facilities and, potentially, encourage the migration of medical expertise. Broad consensus currently exists that the state does not have the financial means to fund the bill’s prescriptions in the form current as of the review period’s close. However, the uncertainty that results from the current situation does make planning for the sector difficult.

## 10 | Welfare Regime

Although 55.4% of the South African population officially falls below the country’s national poverty line, this figure was established more than a decade ago, in 2014. No similarly comprehensive study has been done since. Yet many key signals indicate that this figure may have worsened significantly since the lockdown of much of the economy during the COVID-19 pandemic.

Such poverty and the vulnerability it creates can largely be attributed to the country’s massive unemployment problem. According to the official measure, which counts working-age job seekers actively seeking employment, about one-third of this population is unemployed. However, when one considers the entire working-age population of 41.4 million, only 16.9 million, or 41%, are employed and earning an income. Of the 16.9 million working South Africans, only 6.6 million earn above the threshold that requires the payment of income tax; income tax, at a rate of 37%, is the single largest contributor to government revenue. Of these 6.6 million taxpayers, about 413,000 contribute three-quarters (76.2%) of all personal income-tax revenue. On the one hand, this points to an unhealthy reliance on a small group of people for government revenue. On the other, it inevitably also points to high levels of economic vulnerability.

Social safety nets



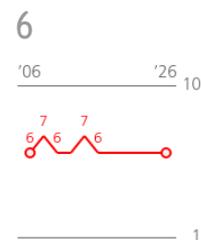
The expansion of the social welfare system, against the backdrop of weak growth and high unemployment rates, is unsustainable. There is no doubt as to the system's positive impact on livelihoods and the buffer such support provides for sociopolitical stability. However, in a slow-growing economy characterized by high rates of unemployment, many ask where the funding will come from for such support in years to come.

The past three decades have seen apartheid laws repealed and replaced with laws aligned with the equality objectives of the South African constitution, which, as a point of departure, cites the need to undo the legacies of apartheid. In addition to removing discriminatory legislation, laws were promulgated that could accelerate access to opportunity, such as the Broad-Based Black Economic Empowerment Act, the Employment Equity Act and the Preferential Policy Procurement Framework Act. Such legislation has used quota systems to achieve equitable access in terms of race, gender and ability. Some progress has been made in the areas of employment and procurement, particularly in the public sector, while progress in the private sector has been somewhat slower. In the latter, white people held 66% of top management posts, while Black people held 14% in 2022, according to the country's Commission for Employment Equity. Regarding ownership in the economy, some headway has been made, but much more needs to be done. According to the Business Leadership South Africa (BLSA), a business-sector association, only 30% of companies registered on the Johannesburg Stock Exchange are owned by Black South Africans. While the legislative route presents one way to open up opportunity, the longer-term and more sustainable means toward achieving this would be to focus on the improvement of educational outcomes and a better alignment with the skills demands of the country's economy. While final-year school results have steadily improved over the past two decades, South Africa still performs poorly on global measures of literacy and numeracy. In light of this fact, public high school results are not in all instances regarded as a reliable signifier by tertiary institutions.

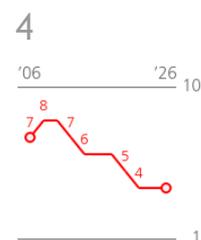
## 11 | Economic Performance

South Africa is an upper-middle-income country (with indications that it might drop to middle income) characterized by consistently lackluster growth rates, unemployment rates that are among the highest in the world, and relatively stable inflation rates. According to the World Bank, South Africa's GDP for 2023 was \$380.7 billion. Economic growth in the period under review remained anemic, with an official GDP growth rate of 0.7% in 2023, dropping further to 0.6% in 2024. At present, GDP per capita in PPP terms stands at \$15,847. While the initial post-apartheid years recorded significant growth on this metric, it has been relatively stagnant over the past 15 years since the global financial crisis of the late 2000s, and through the 2020 COVID-19 pandemic lockdown and the nine years of state capture under former President Zuma. South Africa has run a negative current account balance, supplemented by portfolio inflows, for most of the past three decades. Its negative balance in 2023 was \$6.143 billion, which amounted to 2% of GDP.

### Equal opportunity



### Output strength



In addition to weak economic growth, an official unemployment rate of 32% underpins and sustains high levels of poverty and inequality. In practice, only 41% of working-age South Africans are employed in the formal economy. Poor educational outcomes and an insecure policy framework are key drivers of high unemployment. In light of this, the primary objective of economic policy in South Africa should be to create an inclusive, high-growth model guided by prudent policies.

Currently, the economy's major challenge is fiscal, with a debt-to-GDP ratio of 72.5% as the review period closed, the highest level since the democratic transition and more than double that of 15 years ago. As a result, high debt-service costs, comprising 20% of the national budget, have crowded out other spending on critical areas such as health, education and security. In light of this, fixed gross capital investment has been constrained to 15% of GDP, which is much lower than what is required for a country with South Africa's needs. Ultimately, the country's current fiscal management is coming at the expense of future generations.

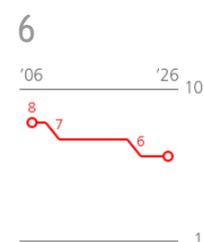
One of the state's main successes has been the containment of prices through prudent monetary policy. The average inflation rate at the end of 2024 stood at 4.4%. After inflation rose following central bank stimulus during the COVID-19 pandemic, South Africa was forced to raise interest rates, as were other central banks. South Africa began to reverse this cycle in the second half of 2024, with more rate cuts expected in 2025. One key uncertainty was the extent to which punitive tariffs mooted by the new Donald Trump administration in the United States – spurred on by the intransigence of South Africa's government officials, including the president – would affect price stability.

## 12 | Sustainability

Given South Africa's large coal deposits, the country relies on coal as its primary energy source, and the coal supply chain has become a major employer in a nation that otherwise struggles with high levels of unemployment. Amid an accelerating global climate crisis, these factors combine to make the country particularly vulnerable as it seeks to adapt its energy mix for long-term sustainability. In few countries is the dilemma of balancing present and future needs as pronounced. South Africa has one of the highest per capita CO<sub>2</sub> emission figures in the world, at 7.34 tons per person, compared with the global average of 4.69 tons. Yet if coal as an energy source were to be taken away today, the economy would implode.

For more than 15 years, the country has suffered the consequences of a profound lack of investment in its electricity generation and transmission systems, resulting in frequent nationwide blackouts. The convergence of the climate crisis and South Africa's own energy crisis has forced the country to confront the causes of the energy crisis and begin replacing its aging coal infrastructure with renewable energy. From

### Environmental policy



a regulatory perspective, Eskom, the country's monopoly energy supplier, has been unbundled into three companies responsible for generation, transmission and distribution. This has accelerated participation by independent power producers (IPPs) in renewable energy generation and enables the government to better target existing obstacles to power generation.

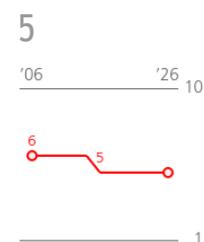
To accommodate the financial and social costs of this transition, the country has drawn on international funding. In a groundbreaking deal struck during the Glasgow Conference on Climate Change (COP26), the country received pledges of \$8.5 billion from Germany, the United States, the United Kingdom and the European Union to help achieve a "just transition" that would not leave behind those most vulnerable to its impact.

Substantial funding challenges remain, but there has been progress in addressing the country's dire energy deficits in a more sustainable way. By January 2025, the country had gone more than 300 days without electricity blackouts.

South African spending on education and R&D amounts to about 6.1% of GDP, which is higher on average than that of its peers. While enrollment rates are high and literacy rates stand at 90% when the criterion of being able to read, write and understand a simple sentence from daily life is applied, the country lags far behind international peers in terms of return on investment in education outcomes. On measures such as math and reading literacy, South African children perform worse than most peers elsewhere, even in African states where fewer resources are deployed toward education. In 2024, the Southern and Eastern Consortium for Monitoring Educational Quality (SEACMEQ V) conducted a math and literacy study among sixth graders and found that 35% of sixth graders could not read for meaning, and only 17% were regarded as mathematically competent for their age. While final-year high school results have been improving, schools still experience very high dropout rates between grades. These shortcomings within the primary and secondary school system also have an impact on the ability of the tertiary system to teach on the assumption of a basic level of competence. This, in turn, has an impact on research output. Expenditure on R&D has remained stagnant since 2019 at around 0.9% of GDP.

Under the government of national unity, Minister Siviwe Gwarube of the Democratic Alliance now leads the Department of Basic Education. Whether the poor performance of this vital sector can be reversed remains to be seen; a key factor will be unraveling the extraordinary power held by the South African Democratic Trade Union (SADTU). The SADTU has undue influence over policy and appointments and has undermined the professionalism of the sector.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

South Africa has high and deeply entrenched levels of poverty and inequality. These would present substantial structural obstacles to growth in any country. In South Africa, they are racialized and intergenerational, which make them potential obstacles to social cohesion. Poverty and inequality are underpinned and reinforced by high rates of unemployment. Currently, the official national unemployment rate is 32.1%. When broken down by racial category, however, the corresponding rate for Black South Africans is 36.1%, compared with 8.2% for white South Africans. But these figures need to be considered in light of the overall demographics of the society, namely 81% Black African, 8% Coloured and 7% white. Of the 17 million employed, 13 million are Black African, 1.7 million Coloured and 1.7 million white. Thus 76% of those employed are Black African compared with 10% Coloured and 10% white.

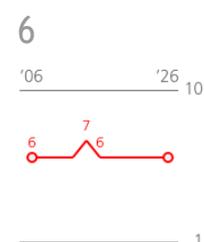
More meaningful than race as a structural impediment is education. Among those without a matric (the qualification gained upon graduating from high school), 38% are unemployed; among those with a matric, 34% are, compared with 20% of those with tertiary education and 9% of those with university degrees. With a median age of 28.5, the country's youthful population should typically offer the prospect of a demographic dividend, in which the productivity of young people can be harnessed for growth. Without measures to leverage this advantage, such as a good-quality education system and an environment conducive to business growth, it appears this may become a missed opportunity.

In the period under review, the ANC lost its outright majority and had to enter a government of national unity (GNU) coalition. In light of this, it can be argued that there are now stronger checks and balances on excesses of ANC power. However, the party still struggles to reconcile itself to the idea of sharing power.

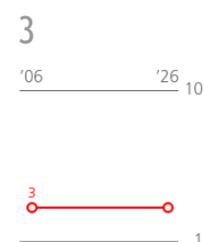
There is no exact figure for the size of South African civil society because of conceptual differences over what constitutes a civil society organization. Nevertheless, a 2020 report by the Kagiso Trust, a South African development agency, cites the Department of Social Development's 2019 national register of non-profit organizations, which listed 214,510 registered non-profit organizations.

Most of these organizations are local entities aimed at alleviating the consequences of poverty and improving access to basic services, while a small number of well-resourced think tanks and advocacy groups have a wide reach and influence in South

Structural  
constraints



Civil society  
traditions



Africa and the rest of the continent. There are few legislative restrictions on the South African civil society sector, which, given the formative experience of the anti-apartheid struggle, has a strong tradition of activism. The relationship between the post-apartheid South African government and civil society organizations, especially those engaged in advocacy, has evolved over time. In recent years, critical organizations have often been criticized for advancing agendas aligned with their donor countries, primarily from Western Europe and the United States.

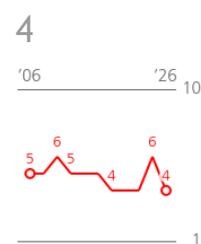
In 1994, South Africa emerged from decades of apartheid and centuries of colonialism as a deeply divided and unequal society, polarized along the lines of race, ethnicity and class. In the preamble to the constitution adopted in 1996, this history is referenced as well as the intention to shape a new, inclusive society that will progressively undo the consequences it has had for the people of South Africa.

Two important steps were taken during the first years of democracy. The first was to create a government of national unity (GNU) led by the ANC and its leader, Nelson Mandela, consisting of the major political parties on both sides of the country's historical divide. The decision to opt for the GNU was motivated by the need to create a sense of ownership and representation in a new democratic state, giving it legitimacy in the eyes of cautious followers. The second was the institution of the Truth and Reconciliation Commission (TRC) to investigate politically motivated crimes against humanity that occurred on both sides of the political divide during the period from 1961 to 1994. The GNU was relatively short-lived and disbanded after the 1999 general elections. By 2000, the TRC also concluded its hearings and drafted a report with recommendations; its final installment was tabled in 2003. Since then, the impetus for justice and reconciliation has dissipated from public discourse.

This has given rise to resentment and impatience, particularly among younger South Africans who have struggled to gain a foothold in the labor market. This makes the country vulnerable to populism and mobilization along racial or ethnic cleavages.

When the ANC lost its outright electoral majority in 2024, for the first time since the country's transition, it was forced to enter a coalition with nine other parties to remain in government. Given the polarization of preceding years, all parties chose to call the new government a government of national unity, largely to rekindle the reconciliatory tone of the 1990s. President Ramaphosa has also called for a national dialogue aimed at building a new, inclusive vision for South Africa, to be held in 2025. While some applaud the idea of foregrounding the need for more reconciliatory politics, others express concern that it could become an exercise in co-optation by elite interests. For such a dialogue to be consequential and have legitimacy, it will have to be truly inclusive of all people in this vast country.

Conflict intensity



## II. Governance Performance

### 14 | Steering Capability

South Africa's major post-apartheid challenge has been to undo the structural and reinforcing constraints of poverty, inequality and unemployment. It has been possible to scrap discriminatory legislation from the country's statutes, and promulgate new laws with the aim of evening the playing field. However, since the country's political transition, what the country has needed more than anything is robust, inclusive economic growth to accommodate a growing population as restorative justice measures have started to find traction. As such, steering capability in South Africa required successive administrations to stay the course in navigating the country away from its inherent structural constraints toward higher, more equitable rates of growth. Three decades represent a useful time span to assess the South African state's steering in this regard. The verdict on its performance is not unequivocal. In some areas, the state has demonstrated remarkable steering capability, but in others, its performance has been abysmal.

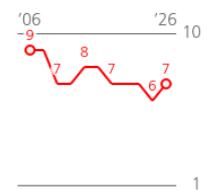
Macroeconomic policy has been incoherent and discontinuous, largely dependent on factional whims within the ANC and its socialist and anti-free-market orientations. Since 1994, the country has had at least six macroeconomic policy designs that represented compromises between the party's center-left and communist wings. None of these ran their full course. Not only did policy change substantively, but the personnel responsible for its implementation also changed, given the ANC's predisposition toward using the state as a means of party and personal patronage. In 2012, some optimism accompanied the release of the country's National Development Plan (NDP), slated to run through 2030. At the time, it was hoped that the NDP could focus attention on specific targets and outcomes and on building a capable state, regardless of which faction was in power. Unfortunately, fierce infighting within the ANC – which coincided with the damaging period of state capture in the 2010s – hollowed out key state institutions and undermined their capacity to effect meaningful change. By the end of the decade, the NDP was hardly being mentioned in government communications, given the wide margins by which the state had missed its targets.

The consequences could have been much worse were it not for the guidance of a competent National Treasury that throughout most of the past three decades has managed to exercise fiscal prudence with the resources at its disposal. While it had limited control over most factors that dampened growth and increased government debt, its transparency and discipline provided predictability and certainty to stakeholders.

Question  
Score

Prioritization

7



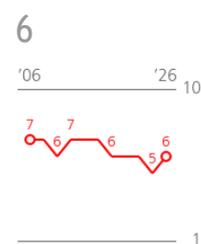
The creation of the GNU in 2024 offers the prospect of more effective governance, given that all parties have a vested interest in its success. With local government elections looming in 2026, all parties need to prove themselves individually and as a GNU collective, given the high stakes of the 2029 general elections. Moreover, there are indications that the model has given rise to healthy competition among the parties. However, major stumbling blocks may lie ahead in specific policy areas where substantial ideological differences exist between the ANC and DA. These relate to education, property expropriation without compensation and the proposed National Health Insurance system.

Policy implementation capacity remains weak. The state capture era, characterized by industrial levels of corruption and maladministration, hollowed out resources, skills and capacity. This is not to say that capacity levels were not poor before the Zuma administration. Even before that, the ANC's practice of leveraging the state for patronage was well established. While party deployments to government departments are common practice around the world, the ANC went well beyond this by using state resources, such as law enforcement agencies, the secret service and the revenue service to fight its internal factional battles at the expense of the greater good of the country. The Zondo Commission of Inquiry into Allegations of State Capture, widely referred to as the Zondo Commission, lifted the lid on the sheer extent to which internal ANC battles had been waged with state resources. During the Zuma era, this reached its peak.

Against this backdrop, and amid the worsening economic impact of COVID-19, Operation Vulindlela (Zulu for "clear the path") was launched by the South African government in 2020 as a joint priority initiative between the presidency and National Treasury to remove structural obstacles responsible for sluggish economic growth, state inefficiency and investment bottlenecks, which had been particularly exacerbated by the COVID-19 pandemic. The initiative originated in the government's Economic Reconstruction and Recovery Plan (ERRP) and, rather than focusing on new policies, emphasized improved implementation of existing policies and reform programs in the following catalytic sectors: energy, water, digital transformation, transport and logistics, and the country's visa and migration regime.

Upon the creation of the GNU, Operation Vulindlela was also broadly endorsed by other GNU partners, and signs of reform implementation are increasingly visible, particularly in the energy sector, which for years has put the brakes on the country's growth prospects. In the transport and logistics sector, progress is being made in allowing public-private partnerships, while the country's Home Affairs Department has eradicated almost all visa backlogs and is embarking on a widespread digitalization program. Such progress can be ascribed to Operation Vulindlela, but also to competition between parties within the GNU to prove themselves. As such, the resilience of the GNU will be vital in the year to come.

Implementation



Policy learning is coordinated by the Department for Planning, Monitoring and Evaluation (DPME), located in the presidency. The DPME also serves as the secretariat for the National Planning Commission (NPC), an advisory body of thought leaders and experts from key sectors of South African society who provide input into the implementation of the country's National Development Plan (NDP). While the NPC is influential, its recommendations are not binding. At best, it serves as a critical input into the national government's decision-making process.

Under the ANC, policies have been a mixed bag, with some successes such as expanded access to water and electricity. However, many areas have instead revealed a disconnect between the ANC and the practical realities of implementation, as well as between the party and society. To illustrate the first point, the ANC has touted its aspiration to establish a developmental state, an approach based on an efficient, capable and professional state apparatus. None of this has been evident in the maladministration of the South African state. As to the second, the ANC presents itself as the vanguard of the people, but public hearings are often used more as stamps of legitimacy than as genuine instruments of feedback. The cluster of recent legislation – the National Health Insurance (NHI) bill, the Basic Education Laws Amendment (BELA) and the Expropriation Without Compensation policy – has been out of touch with the interests of South African society and with the capacity of the state, and is further evidence of ideologically based populist policymaking. The underlying ideology of ANC policy is state interventionism by a state that lacks the capacity to deliver.

It remains to be seen whether the GNU will be able to roll back some of the infeasible policies and implement those that benefit the broader society. An about-face will be required to move South Africa into a policymaking mode that promotes high growth and job creation, but this will mean cutting spending, providing tax relief and privatizing many of the burdensome SOEs.

## 15 | Resource Efficiency

In 2024, South Africa had a budget surplus of 0.4%. It was the first time in 15 years that its budget had been in the black. However, this was not due to strong economic figures, but rather to a concerted effort by an assertive National Treasury to curb spending and contain the country's substantial debt-to-GDP ratio, which at times has threatened to spiral out of control. The introduction and enforcement of expenditure ceilings have been instrumental in this regard. While the debt growth trajectory is showing signs of leveling out, with an expectation of a peak of around 75% in the 2025/26 budget year, existing debt levels of 72.5% are crowding out expenditure in critical social areas such as education, health and safety. Importantly, this is also crowding out fixed capital investment in growth-promoting infrastructure.

### Policy learning

5



### Efficient use of assets

5



For many years, the growth of the country's public service wage bill has been a concern, particularly against the backdrop of spiraling debt levels. One of the National Treasury's major successes in recent years has been the degree to which it has arrested this trend. The current figure stands at 32.1% of total state spending and is projected to fall to 31.4% in the 2027/28 financial year.

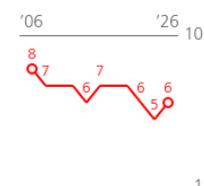
According to the Treasury, fiscal multipliers warrant more attention. The fiscal multiplier measures how much economic growth results from one unit of government spending. A multiplier of 1 suggests growth equal to the amount of investment. In its 2024 budget, the Treasury notes that the current multiplier in South Africa is below 1, suggesting no relationship between government spending and growth. It attributes this to the existing composition of government spending and the extent to which debt-service costs have impeded investment in capital infrastructure; the poor governance of local governments and state-owned enterprises; and structural constraints such as the unreliable electricity supply and weakly maintained transport logistics system. The introduction of Operation Vulindlela, a partnership between the presidency and the National Treasury to enhance infrastructure efficiencies in network industries such as electricity, water, transport and digital communications, in which previous inefficiencies have impeded economic growth. The initiative has had positive effect in these areas, and there is growing evidence of the partnership's capacity to unblock constraints to growth. Importantly, this initiative also enjoys the support of all GNU parties.

The Arney curve measures the optimal size of government in an economy. The optimal size of the public sector is estimated at 18% to 24% of the economy. In South Africa, it is between 30% and 50%.

The National Policy Development Framework, introduced in 2020, serves to standardize policy development across government departments. Its core objective is to bring consistency to the procedures that shape policy across government. It is implemented under the guidance of the Policy and Research Service (PRS) in the South African presidency. The presidency, as delineated by the South African constitution, is entrusted with the strategic orchestration, guidance and oversight of the implementation of government policy. The PRS is tasked with ensuring coherence in the development and implementation of policy across various spheres and levels of government. While substantial room for improvement remains, Operation Vulindlela, born out of crises, has shown what can be done when proper alignment exists between stakeholders across the policy spectrum in the public and private sectors.

Policy coordination

6



A broad anti-corruption legislative framework exists and a range of public institutions are tasked with its implementation. The Public Finance Management Act (PFMA) of 1999 is the cornerstone of financial management, including procurement in the public service. The competent National Treasury is the institutional custodian of the PFMA, which has at times been described by some as overly rigorous and a bureaucratic constraint on project implementation. The Treasury uses a medium-term expenditure framework that offers predictability, and it has received international awards for budget transparency.

The Office of the Auditor-General (AG) audits all public finances and is generally regarded as an institution that executes its constitutional mandate without fear or favor. For many years, the AG was criticized for its inability to enforce compliance with its recommendations, resulting in limited responsiveness by other entities. In the 2018 amendments to the Public Audit Act (PAA), the AG was granted significant new powers to ensure compliance. The constitution also mandates the Office of the Public Protector to protect South Africans from the abuse of public funds or resources. When the need is established, the Public Protector may direct public institutions to take corrective measures.

The Political Party Funding Act of 2018 requires political parties to declare all donations over ZAR 100,000 and prohibits single donations exceeding ZAR 15 million. It also prohibits political parties from receiving support from foreign governments or individuals or state-owned corporations. All donations must be disclosed to the Electoral Commission (IEC), which must publish this information quarterly. The National Parliament's Register of Members' Interests requires all parliamentarians to disclose their financial interests to avoid conflicts of interest. The South African Public Service Commission requires public service heads of department or executive authorities to declare their interests on a similar registry.

The 2002 Promotion of Access to Information Act (PAIA) allows citizens and the media to access public-interest or individual-rights information and to enforce that access. However, doing so is cumbersome and expensive, which often puts this legislative remedy out of reach for most South Africans. It is frequently used by CSOs and the country's diligent private media that cover the actions of the legislative and executive arms of the state.

Despite the comprehensiveness of these institutions and the legislation governing them, corruption remains a major scourge and impediment to the country's development. This was underscored by the Zondo Commission into Allegations of State Capture, which issued its final report in 2021. The report detailed the extent to which the state had become a source of patronage, and at the time of its release the information was also used to wage internal factional wars within the ANC. While arrests have been made, several major figures implicated by the commission remain free. Ironically, the National Prosecuting Authority (NPA), tasked with prosecuting

Anti-corruption  
policy

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these individuals, was severely weakened during the period of state capture because of resource constraints and appointments of personalities pliable to the ruling party's dictates.

## 16 | Consensus-Building

Consensus exists on the importance of a democratic political system as the means to achieve the state's objectives. However, the nature of this consensus is more nuanced than in previous years. Following the ANC's loss of an outright majority in the 2024 general elections, the country is governed by a government of national unity (GNU) coalition, collectively representing 72% of the vote. Among these 10 parties, a broad consensus exists on the goals of development, democracy and the constitutional state. However, they do not agree on everything. In 2025, for example, the government failed for the first time to produce a final budget on the date allocated for the annual budget statement. The two major parties outside the GNU, the new MK Party and the EFF, both populist parties with a respective 15% and 10% of the vote, have shown less commitment to constitutional values. Both are offshoots of the ANC. The MK Party, in particular, which contested its first election in 2024, has indicated its preference for a return to a political dispensation with parliamentary sovereignty. As such, future elections will be decisive regarding the country's direction with respect to consensus on the goals and means of development.

A broad national consensus exists among key political actors with respect to achieving certain ultimate economic outcomes: growth, increased employment, declining levels of poverty and reduced inequality. However, there is limited consensus on how to achieve these outcomes. In the case of the ANC, extensive state intervention and social spending aimed at wealth redistribution have characterized its policy approach for much of the past 30 years. The other large party within the newly formed GNU, the Democratic Alliance, together with other parties such as ActionSA and the IFP, favors a free-market economy and seeks to pivot the economy toward private-sector-led growth by reining in government spending and reducing the regulatory burden on small businesses, with the goal of driving growth, employment and wealth creation. The 2025 budget, with its continued high taxes, high spending levels and redistributive nature, does not bode well for a transition to a more market-led economy or wealth generation. At the time of writing, the proposed budget was still set to be reviewed and debated by the National Assembly and the National Council of Provinces (NCOP).

Consensus on goals



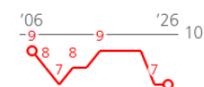
All parties contesting elections profess a democratic ethos. The emerging difference concerns the nature of democracy, with parties within the GNU expressly committed to constitutional democracy with separation of powers, while the two major parties outside the GNU are more ambivalent. MK, in particular, has expressed its preference for parliamentary sovereignty, in which the voice of parliament would supersede the constitution. Some of its members also face charges of instigating the 2021 KwaZulu-Natal riots. At present, therefore, commitment to constitutional democracy remains dominant, with dissenting voices in the minority. This view is also widely supported by civil society and the private sector, while the Constitutional Court remains vigilant as part of an independent judiciary that seeks to uphold the rule of law. The exponential growth of the populist MK Party, however, signals a prospect of greater contestation in the future.

South Africa is afflicted by poverty, inequality and unemployment. While a degree of integration has occurred within a relatively small middle class, these structural factors continue to perpetuate social cleavages. Over more than three decades, the state has found ways to alleviate the plight of those afflicted by these historical drivers, but it has failed to develop systemic solutions to eradicate them. Given its hegemonic social and political influence, the ANC has been able to leverage its social capital for many years to contain the worst excesses of racial or ethnic tension. Exceptions have included sporadic xenophobic violence, especially against migrants from elsewhere in Africa. Furthermore, the ANC has used the race card as a diversionary tactic regarding its own governance failures. The party's fall from grace, which saw it lose its outright parliamentary majority in 2024, mirrors its gradual loss of social capital over a longer period. As such, it has lost its cohesive force. The new government of national unity (GNU) governs by consensus and has a clearinghouse mechanism that it uses to deal with issues that seriously strain internal relations. To date, the GNU has had a stabilizing effect on governance with respect to the efficiency of government policy implementation.

Public consultation occurs, but is limited to better-resourced civil society organizations, academic institutions, businesses and lobby groups. As such, both the parameters of policy debate and the range of voices and views reflected in policymaking processes are defined by the degree of access accorded to stakeholders and interest groups, their ability to engage in technocratic environments, and whether their interests align with the ANC's interests.

Anti-democratic actors

7



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Cleavage / conflict management

7



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Public consultation

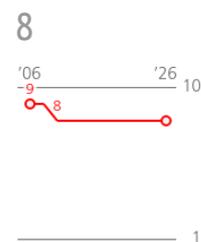
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The Promotion of National Unity and Reconciliation Act of 1995 made provision for the creation of a national Truth and Reconciliation Commission to investigate the nature, cause and extent of gross violations of human rights that occurred between 1960 and 1994. It was and remains the most prominent institution created by the post-apartheid state to provide a basis for truth about the country's apartheid past, a necessary condition for reconciliation. At the time, it distinguished itself from predecessors by focusing on restorative justice, as opposed to retributive justice. However, the latter was not excluded for those who failed to receive amnesty due to the lack of full disclosure of human rights violations committed on behalf of a political entity with a political objective. The TRC held public hearings from 1996 to 1998. The final report was completed in 1998 and presented to former President Nelson Mandela. An addendum to the report, primarily dealing with reparations to victims, was presented to former President Thabo Mbeki in 2003. While the TRC managed to expose the nature of apartheid's cruelty, its limited mandate could not cover apartheid's economic devastation, which still manifests today in the presence of racialized, structural poverty, inequality and unemployment. The inability for more than 30 years to address this in a systemic, long-term fashion constantly puts pressure on social cohesion in the country.

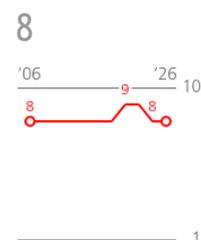
#### Reconciliation



## 17 | International Cooperation

According to the OECD's Aid at a Glance Report South Africa, South Africa received between \$800 million and \$850 million in external official development assistance (ODA) in 2019, the most recent complete data point. At the time, this amounted to between 0.1% and 0.2% of the country's GDP. The European Union as a whole was the largest contributor, followed by the United States and the United Kingdom. Target areas for support are well defined and focus on health, education, governance, and water and sanitation, along with other areas of basic infrastructure. However, several factors have in recent years affected the volume and nature of development assistance flows to South Africa. These include the COVID-19 pandemic, the rightward shift of voting publics in the major donor countries, and the Russian-Ukrainian war, which has had an impact on the spending priorities of these countries. At the time of writing in February 2025, the decision of the new Donald Trump administration in the United States to dissolve USAID appeared likely to have significant implications for U.S. ODA in South Africa, where USAID has been the primary vehicle for the distribution of critical support, particularly in fields such as HIV/AIDS treatment and care. The Trump administration has also singled out South Africa for its alleged unfair treatment of minority groups and has summarily suspended all aid to South Africa.

#### Effective use of support



South Africa is a constitutional democracy with a relatively open, upper-middle-income economy. As Africa's largest economy, it plays a powerful role in continental African politics and institutions and – albeit reluctantly – is often viewed externally as the continent's most influential voice in global forums. For this reason, it was part of the G20 group of nations even before the African Union joined the G20 in 2023. The country also assumed the G20 presidency in December 2024 – running through November 2025 – under the guiding themes of solidarity, equality and sustainability. Multilateralism, non-alignment and the pursuit of an international rules-based order form the cornerstones of its foreign policy; however, being located in the Global South, it also campaigns for a more equitable global order that addresses the under-representation of countries in the Global South in global political, finance and trade bodies that set the rules for global conduct. This also provides context for its membership in the BRICS group of nations, which – in addition to the original members Brazil, Russia, India, China and South Africa – expanded in 2023 to include Iran, Ethiopia, Saudi Arabia, the United Arab Emirates (UAE) and Egypt. The BRICS group is not a club exclusively for democracies, but its existence is grounded in common interests around the reform of the international system. In an increasingly fragmented and polarizing global geopolitical climate, BRICS and the G20 are often cast as opposing forces, with South Africa's position construed as inconsistent, particularly by its traditional partners in the West, as the G20 – with members like China, Russia and Saudi Arabia – is also not a club of democracies. As such, actions like the country's 2023 appeal to the International Court of Justice (ICJ) to consider investigating charges of genocide against Israel in its ongoing war against Hamas in Gaza have been viewed by some with strong Israeli ties in the West as a provocation rather than a principled action. In February 2025, U.S. Secretary of State Marco Rubio cited South Africa's policy toward this conflict as one reason that he would not attend the Johannesburg G20 summit in November 2025. Ironically, South Africa was castigated for similar reasons by the United States in recent years for not taking a stronger stance on Russia's invasion of Ukraine. At the time of writing in February 2025, the South African government had announced an imminent state visit by Ukraine's President Volodymyr Zelenskyy, while the new Trump administration was initiating a Ukraine peace process that was widely regarded as privileging the interests of Russia. While South Africa's foreign policy may be presented as guided by principle, there are strong indications that – driven by the Trump administration – future geopolitical influence and contestation will take on an increasingly transactional nature, in which longer-term loyalties, alliances and principles could become secondary to shorter-term strategic interests. Apart from the Rubio example, another recent instance was the new U.S. administration's announcement that it would cut all official development assistance to South Africa, and might additionally discontinue the country's privileged access to the U.S. market through the African Growth and Opportunity Act (AGOA), which was up for renegotiation in 2025. Shifts of this nature will prompt the South African government, and others in similar positions, to consider the extent to which they may have to adapt their approaches in

## Credibility

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order to position themselves for influence and alliances in a more fragmented order. South Africa's antagonism toward the United States reached a new level when, in March 2025, the South African ambassador to the United States, Ebrahim Rasool, undiplomatically called President Trump a "white supremacist." He was summarily expelled from the country. This will further damage relations with one of South Africa's major trading partners, and is likely to have dire consequences for the economy.

South Africa is a member of the Southern African Development Community (SADC) and the South African Customs Union (SACU). At the continental level, it is an influential member of the African Union (AU) and hosts a number of key continental institutions, such as the Pan-African Parliament. It continues to be a strong proponent of the African Continental Free Trade Area (AfCFTA), which came into effect in 2021 and has now been ratified by 40 countries, creating the world's largest free trade area for about 1.2 billion people. That body's secretary-general is South African Wamkele Mene.

Regional  
cooperation

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## Strategic Outlook

There are significant systemic barriers to South Africa's future development. Despite the end of apartheid more than three decades ago, issues such as structural and intergenerational poverty, inequality, and unemployment continue to plague the country. Many factors, including the state's character and stance, have contributed to an inability to identify systemic ways to change these conditions.

There was little room for creative policymaking for 30 years due to the constraints imposed by the ANC's ideological dogmatism. The ANC, besieged by factional antagonism and guilty of using the state to settle such party scores, made the definition of economic policy and its implementation a function of whichever faction held sway within the ANC. This resulted in policy discontinuity and uncertainty, with none of a range of macroeconomic designs succeeding in shifting the economy into a decisively inclusive and high-growth trajectory.

As such, the country's strategic outlook continues to be shaped by a low-growth economy, impeded by structural poverty, inequality and unemployment. For the most part, South Africa has been able to overcome these obstacles over the past 30 years or so by maintaining firm fiscal and monetary policy stances. In particular, in the 2000s, the country established a social security system based on pensions and grants that shielded the majority of its citizens from the most extreme forms of poverty. In some instances, the provision of basic infrastructure also served as a bulwark. Nevertheless, South Africa is approaching an economic reckoning due to corruption, the inability to broaden the tax collection base and the mishandling of important state-owned firms in sectors such as energy and transportation. The costs of debt repayment are putting a strain on the vital capital infrastructure needed for growth and human development, as the debt-to-GDP ratio continues to rise and is becoming harder to control. As of this writing, the administration was contemplating a two-percentage-point hike in the country's value-added tax rate, to 17%, as it had been left with few other options to fill fiscal holes. Consumers in the country who are already struggling to make ends meet will take a further financial hit.

A 10-party coalition, the so-called government of national unity (GNU) headed by the ANC, ended the ANC's monopoly on unchallenged power after the 2024 general elections. There is hope for change with the new coalition, but there is also danger; if the GNU were to collapse, a more unified populist coalition could gain an opening. There is a noticeable lack of dedication to constitutional democracy among the two main parties outside the governing coalition, the populist MK Party and the EFF. MK favors a reversion to parliamentary democracy, in which the rule of law would be subordinate to legislative decrees.

Implementing large-scale reforms that improve people's lives will be impossible without initial sacrifice, especially given the enormous problems faced by the GNU in a highly constrained budgetary context. As a result, the GNU will likely face criticism from outside groups. In the distant future, this could lead to a new alliance between MK, the EFF and the ANC.

In parallel with these domestic economic shifts, the world is experiencing seismic geopolitical developments that are forcing the nation to reevaluate its foreign policies and relationships. The government may need to adapt its approach or perhaps its course of action due to its dedication to multilateralism and the international rules-based order. In light of the increasing global reversion to strongman politics, driven by a limited number of countries, the country may need to reevaluate its orientation if it wants to maximize its influence in the international arena.