The Republic of South Africa: Country Assistance Strategy

We welcome the opportunity to discuss the first CAS for the Republic of South Africa and commend Management and Staff for preparing this important document.

The CAS paper contains a thoughtful analysis of the social, political and economic context of today’s South Africa and an extensive discussion of the very difficult challenges facing the country. The document assesses frankly and carefully the medium-term economic prospects and risks that might affect South Africa’s development.

Growth increase and job creation is the most difficult and most pressing challenge for the South African economy. This challenge is exacerbated by the deformed economic structure. As the CAS paper states, the pervasiveness and cost of economic distortions left by the apartheid era are comparable to those inherited by countries of the former Soviet Union. The extremely distorted economic environment hampers the growth. Slow growth, in turn, does not generate demand for labor that would be sufficient to reduce unemployment which is among the highest in the world.

In the light of the above, we see a compelling need to broaden and intensify Bank support to South Africa’s efforts aimed at promoting growth and higher employment. We expect that the 1999 study on structural and policy barriers to growth, which is mentioned in the CAS, will provide a solid analytical ground for a closer and more productive Bank/Government collaboration in this critical area.

In the near term, full attention should be paid to the remaining serious macro imbalances which may trigger an erosion of the stabilization achievements of the last few years. The very low reserve position looks particularly worrisome - especially when compared to the NOFP of the Reserve Bank. The latter indicator has returned to its end-1996 level and cannot be viewed as sustainable. Frankly, we are very concerned about the viability of this setting. The Government should be advised to expeditiously address this issue and avoid sliding down the crisis curve so much familiar to many countries worldwide.
The CAS provides a sobering picture of the widespread poverty and inequality inherited from the apartheid. It rightly emphasizes measures which are fundamental for poverty and inequality reduction, namely investment in human and natural capital, accelerating and improving the delivery of assets and services to the disadvantaged segments of society, and enhancing environmental management. In order to better help South Africa address the issues of poverty and inequality, the Bank will have to increase its efforts at the sub-national level.

South Africa's newly created provincial and local governments and a newly established system of inter-governmental relations is an area where the Bank can make valuable input using its knowledge and international experience. Therefore, we welcome the intention to continue and consolidate Bank support for sound fiscal decentralization and inter-governmental fiscal relations. We find such work extremely important for improving the delivery of social services, as well as for fostering institutional development and capacity building at all tiers of government.

The country's economic and political prominence in the Southern Africa region naturally positions it to play a significant role in the regional cooperation and development. Hence, *strengthening South Africa's constructive role in regional development* has been identified as one of the three central themes of the proposed assistance strategy. However, we wonder whether the Government of South Africa attaches to this theme the same high priority, as does the CAS. We are also not fully convinced that the suggested strategic focus on Bank support for regional development is appropriate within the country assistance framework. Furthermore, South Africa's individual benefits from the planned regional activities and studies (para. 76 and Annex B9-C) are not clear. Accordingly, the question of their funding (from the sub-regional or country budget) remains open.

Since the re-engagement in 1991, good working relationship has been gradually developing between the World Bank Group and South Africa, although political sensitivities over the Bank's role still persists among some groups. To date, the Bank has been involved in practically all sectors of the economy using a broad range of non-lending instruments. South Africa is a pilot country for the idea of operating as a *knowledge bank*. The Bank's engagement in such capacity has been driven by South African priorities and preferences. We are pleased to note the overall positive conclusion of the recent evaluation of selected non-lending activities of the Bank undertaken by independent international and South African experts. At the same time we would appreciate more specific comments on the results of this evaluation.

The Bank's involvement in South Africa provides a unique opportunity to derive valuable lessons from its experience of working as a *knowledge bank*. Some important lessons have already been documented in the CAS. However, we believe that more can and should be done in this regard. For instance, OED could make a useful contribution. OED findings together with the results of the planned reviews of the external evaluators could be discussed by CODE.