

### THE RISK OF GOVERNANCE FAILURE: SOUTH AFRICA 2014

Johannesburg

22 October 2014

Article by Terrance M. Booysen

#### A continent known for opportunity

For many centuries Africa has been known as a continent where only the 'toughest of tough' survive. Whilst many of the first indigenous African inhabitants mastered their survival mechanisms to live off the land and survive the harsh and dangerous elements known about Africa, many of their counterpart early pioneers from distant shores battled to survive. They had much to learn. Of course many stories have been told through the ages about the high-risks and complexities surrounding Africa; expectedly many have had sad, even tragic endings whilst others the exact opposite.

Like in the bygone era, Africa -- more particularly South Africa -- continues to attract people's attention. In those days the attraction seemingly was not only because of South Africa's vast fertile lands, or the beauty of its fauna and flora. As diamonds were first discovered by prospectors in South Africa in the 1870's, followed by gold in the Witwatersrand in 1886, so began what was known as the *Mineral Revolution*. It was more or less at this time that South Africa took central stage as the country began to develop at a faster pace than its African counterparts. With the scurry of all sorts of prospectors at the time -- both locally and from afar -- South Africa quickly needed to create a permanent workforce to extract the mineral riches. South Africa was then rapidly transformed from a set of agrarian states to a unified industrial nation. Indeed the discovery of diamonds and gold in South Africa had significant effects on the history of South Africa, both politically and economically.

#### South Africa's young democracy

South Africa continues to be a country with massive contrasts. Since the dawn of its democracy in 1994, the country has had to -- in relative terms -- mature and deal rapidly with many of its challenges in order for it to trade on a sustainable basis with its global trading partners. Indeed, South Africa has many positives, and these should not be ignored given the fact that many South African citizens tend to be over critical of the country and its current direction. After all is said and done, a person should not ignore that South Africa is the youngest democracy in the world and there is, quite expectedly, a lot of work to be done as the country moves ahead.

Given the fact that the previous South African white-elitist government only took care of the white minority segment of the country's population, one must expect -- considering the years of abandonment of the black population -- that a massive, collective effort is required to rebuild the country on many of its neglected fronts.



*Most South African 'squatter camps' lack basic facilities and infrastructure. Yet just a few kilometres away, skylines are filled with first-world high-tech businesses, imported sports cars and the finest restaurants.*

#### Some of the positives

While this article focusses upon the risk of governance failing in South Africa, we must acknowledge the many achievements our 'rainbow' nation has accomplished over the last two decades, under the democratically elected ANC (African National Congress) government. Besides our strong heritage, including our world-class Constitution and independence of our courts; we are a nation who can be proud of our 1994 peaceful democratic political transition. Indeed the country has an abundance of rich mineral deposits, including a vibrant and young workforce that needs to be unlocked to allow South Africa to become a truly major economic powerhouse. Whilst the list is not exhaustive, some of the more prominent South African achievements over the last two decades are:

- South Africa has almost trebled its GDP from \$136bn to \$400bn and inflation has dropped from an average of 14% (1980-1994) to 6% (1994-2012);
- tax revenue of R114bn from 1.7m people has increased to R814bn from 13.7m people;
- the dramatic rise of the middle class showing 4.5m people moving above the lower (1-4) Living Standard Measure ('LSM') sectors, with a total of 10m people being added to the middle to higher (5-10) LSM sectors;
- the previously divided education system has been rectified, and schooling is now available to both black and white scholars which is not racially segregated, neither is it discriminatory of gender (today women and black people constitute more than 60% of the overall student enrolments at SA universities and more than 1.4m black students have benefited from the National Student Financial Aid Scheme in both public colleges and universities. Over nine million learners in 20,000 schools receive daily meals);
- the government has built approximately three million houses for the poor and more than sixteen million South Africans (nearly one-third of all SA's population) now benefit from a range of social grants (this figure has increased from circa three million in 1994);
- over seven million new household electricity connections have been made since 1996, and in the past five years, over 400,000 solar water heaters have been installed free on the rooftops of poor households (this is one of the largest programmes of its kind worldwide);
- for the first time since the country's democracy -- giving effect to our Bill of Rights -- a robust plan to improve the socio-economic plight of the millions of unemployed citizens has been tabled and approved through the National Development Plan ('NDP'). Amongst a number of its objectives, the NDP aspires to incrementally improve South Africa's GDP as well as show a marked improvement for employment of six million new jobs by 2020 through government's Expanded Public Works Programme;
- the 2014 World Economic Forum's Global Competitiveness Report places South Africa's auditing and reporting standards, accountability of private institutions, financial market development and efficacy of its legal frameworks amongst the best, rating South Africa in the top ten as compared with 144 other countries. The Report places South Africa first for its auditing standards, second for the accountability of its private institutions, and third for financial market development. (However South Africa's overall ranking in the Report shows South Africa dropped to 56<sup>th</sup> out of the 144 countries this year, from 50<sup>th</sup> (2011), 52<sup>nd</sup> (2012), 53<sup>rd</sup> (2013). But comparing South Africa in terms of its economic competitiveness out of 38 African countries, the country is rated first);
- earlier this year, South Africa was rated a credible 41<sup>st</sup> out of 189 countries by the World Bank for the ease of doing business, and also 64<sup>th</sup> in the same survey for starting a business (the score of 1 being excellent). Clearly this type of recognition brings much hope to attract new business development, including foreign investment;
- South Africa generally has a good reputation in the eyes of consumers from the G8 countries (Canada, France, Germany, Italy, Japan, Russia, UK and US). The international RepTrak 2013 survey placed South Africa 28<sup>th</sup> out of 50 countries.

Added to these impressive milestones, South Africa is fortunate to be ranked the third best in the world in supplying safe, drinkable tap water. Moreover, whilst the country also has the cheapest electricity in the world, South Africa generates two-thirds of the continent's total electricity supply. Considering the aforementioned, not least the fact that South Africa also has over 31,000 kilometres of railway tracks which represents eighty percent of Africa's rail infrastructure, it seems as though the rainbow nation has everything in its favour. Indeed, these hard won victories must not be ignored. If we do so, this could have massive negative implications and South Africa could regress far worse than the dark days of apartheid. Whilst the country still has a long road ahead, we need to be acutely aware of protecting all the country's assets. This includes protecting the country's human capital, talent, skills and natural resources to avoid unwanted risks and subsequent unintended consequences.



### Some of the negatives

For the purpose of balance in this article, the following risks have the potential to undermine South Africa's hard earned achievements, and they threaten our ability to grow the economy which is key to creating employment for millions of South Africans. The list is not exhaustive and the risks presented are in no particular order of importance. Interestingly, many of these risks are also identified in the National Planning Commission's Diagnostic Report which identifies amongst other, key national challenges that inhibit the elimination of poverty and seek to reduce the inequalities of our society:

- **leadership** - South Africa has in more recent times been described as a 'rudderless ship', drowning in bureaucracy and going nowhere fast. In fact, the country is reportedly regressing on many fronts as the government produces one national socio-economic development plan after the next, where each 'plan' essentially amounts to zero. Bureaucrats and so-called "tenderpreneurs" appear to be benefitting from the public purse, creating multi-millionaires through massive scale nepotism and cronyism practices with seemingly no end in sight. Individuals who lack personal integrity and who have no moral and ethical qualities, are no substitute for iconic leaders such as the late President Nelson Mandela who personally sacrificed portions of his government salary as a demonstration against greed. Sadly, whilst many of the current government leaders talk glibly about "taking ownership of South Africa's future", few of them actually believe these statements, neither do they practice what they preach. As an example, South African citizens yet again recently learnt of more lavish government spending where they intend spending R1,4bn on a luxurious new debating chamber, a banqueting hall (while millions of people are short of food) and specially appointed lounges for the use of foreign dignitaries.
- **political instability** - in the second quarter of 2013, it was reported that as much as 67% of South African privately held businesses were putting off their investment decisions owing to their uncertainty about the future political direction of South Africa. A further 48% were considering investing offshore, whilst 27% were contemplating selling their businesses, and 14% were seriously considering emigrating. But as fractions of division are still evident between the ANC-led government and many trade unions -- most notably the Congress of South African Trade Unions (Cosatu) and its affiliate the National Union of Metalworkers of SA ('Numsa') -- the question of business certainty in South Africa may still be in the balance? With the understanding that Cosatu and Numsa were notably the biggest supporters of Jacob Zuma's presidency, today they largely oppose the implementation of the government's National Development Plan ('NDP'). Indeed this stance has dire implications for the future sustainability of South Africa, including President Zuma's existing government.
- **poor governance** - amongst a number of matters which can be categorised as 'poor governance', the strong-hold position over the ANC-led government by mainly Cosatu, NUMSA, AMCU and the SACP leaves little room for the government to be able to make its own independent decisions for the best interests of the country as a whole. Statistics have shown that the support of the ANC has been slowly eroding, and this may be largely due to a previously much larger ANC supporter base beginning to lose patience with failed promises made by the ANC, including countless accusations of corruption and nepotism.
- **corruption in government** - the Special Investigating Unit ('SIU') estimates that circa 20-25% of state procurement, representing approximately R180bn is lost each year due to corruption. Corruption of this magnitude undermines state legitimacy and service delivery; it furthermore distorts market competition, increases the cost of doing business and decreases the ease of conducting business. Understandably, this scourge is a massive and debilitating burden upon South Africa's development and it remains a critical area of risk for business stability and sustainable growth in our economy. For any reasonable chance of arresting this endemic rot which is devouring our country, decisive change with punitive consequences must be enforced against those found guilty of this evil, selfish practice. To combat this scourge, decisive anti-corruption policies must start with the top leadership structures in South Africa. Indeed, these policies must be unilaterally applied and supported at all levels in our society, business and government with swift and relentless pressure to eradicate the perpetrators. Hopefully, with the introduction of the blacklist implemented for local government officials found guilty of corruption, including the recently promulgated Municipal Systems Amendment Act, which bars officials dismissed on charges of corruption from working in a municipality for a period of 10 years, these problems will become far less over time.



- **a largely divided and unequal society** - for centuries the country has been divided along numerous racial and economic lines and exacerbated through the 'apartheid' era and policies. Starting with the early pioneers, South Africa's indigenous black inhabitants were almost entirely excluded from the benefits colonialism brought through development, infrastructure and administration. In more recent times, the lines of division are largely based upon economic lines where the gap between the rich and poor is widening at an exponential rate. Figures show that the devastation of this travesty is felt mostly by women and children. Whilst the incomes of black households may have increased by an average of 169% over the past ten years, they are a sixth of those of white households. According to the World Bank, South Africa's Gini Coefficient currently hovers around 65%; it is the second worst index of poverty levels in the world and trails far behind the other BRIC countries (Brazil, Russia, India and China). About a quarter of the population are unemployed and according to UNAIDS, about a third of South Africa's roughly 53 million people live on US\$2 or less per day. Ironically, despite the early ANC slogan "*A better life for all*", South Africa has become one of the most unequal and divided societies in the world.
- **crime** - South Africa's high, increasing crime rates continue to impact business and civil society in a manner which erodes the nation's psyche on a daily basis, and it is rampant. The 2014 Global Economic Crime Survey shows that nearly 70% (Q1: 2014) of business executives in the private and public sectors have experienced some form of economic crime in the last 24 months. The global average is 37% - there's been an increase of 3% since 2011, compared to a 9% increase in South Africa over the same period of time. The local figure is not far off the 79% of business people -- polled at the recent Corruption Watch business conference -- who said that they had experienced some form of actual or attempted corruption. It is believed there is a steady decline in the effectiveness of whistle-blowing systems in South Africa, which may be related to senior management committing more crimes. It is further believed that the rise in economic crime is directly linked to the demise of the corruption-busting Directorate of Special Operations (aka Scorpions) which was disbanded in 2009 and replaced by the Directorate for Priority Crime Investigation (aka the Hawks).

<i>Main types of economic crime experienced</i>		
Type of crime	Experienced by South Africans	Experienced by global counterparts
Asset misappropriation	77%	69%
Procurement fraud	59%	29%
Bribery & corruption	52%	27%
Human resources fraud	42%	15%
Financial-statement fraud	35%	22%
Cybercrime	26%	24%
Money-laundering	14%	11%
Tax fraud	11%	6%
Illegal insider trading	9%	5%
<i>Source: PwC's 2014 Global Economic, Crime Survey, February 2014</i>		

- **education** - the quality of the education system for most black children is sub-standard and critics believe schooling is in a deep crisis. Gauging from the recent Annual National Assessments (ANA), our children's performance is not on par as compared to our much poorer neighbouring countries, who largely out-perform us. Clearly with poor levels in literacy and numeracy, South Africa will continue to limp along with a scarcity in the high skill set levels we desperately require. Indeed, such a dilemma also exacerbates the country's poverty levels, including levels of inequality for development and growth. Sadly, twenty years into our democracy, only 35% of our junior black school children can read, with results ranging from 12% in Mpumalanga to a "high" 43% in the Western Cape. In contrast, most white school children enter Grade 12 and/or some form of tertiary education, whilst only 50% of black children get to Grade 12 and only 12% make it to university. Indeed, the unreliable provision of teaching and learning materials, including the Education





Department's inability (or failure) to deliver upon their core functions, does not bode well for the efficacy of the current educational system. Clearly this situation is exacerbated by the many inept teachers who fail to accept their responsibilities and who deliver poor teaching services.

- ***inadequate and poorly located infrastructure*** - whilst optimists may argue that South Africa's infrastructure and basic services are still very good (as compared to other SADC regions), in truth many citizens feel cheated by the government. They believe that after two decades of democracy, the standards of infrastructure and services delivery (as compared to many previous 'white-only' establishments and/or residential suburbs) is still largely skewed in favour of white people. Furthermore, this has exacerbated the massive divisions between the so-called rich and poor, as well as opened past racial and political tensions. Indeed, the lack of basic services in less privileged communities forms a great part of this growing problem. Compounding matters further, many of the existing, older infrastructural systems in the more affluent, developed areas of South Africa are beginning to fail. As the government is constantly trailing behind the demands of its citizens vis-à-vis a modern and more evenly distributed array of basic services and infrastructure, it now finds itself pressed to fulfil its obligations to those citizens who do not have access to these amenities, as well as those who demand renewed or upgraded amenities. These mounting problems are also part of the reasons for limited social inclusion and retarded economic growth.

- ***ailing public health system*** - whilst a lot of progress has been made in South Africa's public health system, life expectancy is still unusually low and this is exacerbated by a multi-faceted disease burden, comprising of HIV/AIDS, tuberculosis and other diseases related to poor nutrition and exercise habits (e.g. obesity, hypertension). It is worth noting that six infectious diseases make up over 90% of all deaths. HIV/AIDS, tuberculosis, pneumonia, diarrhoeal diseases, measles and malaria are the infectious diseases that overwhelm health care systems and they are the biggest drivers of health care cost. Interestingly, all these diseases are preventable. Compounding South Africa's healthcare problem are matters such as the high rate of violence associated with criminal and domestic violence, including the country's high road accident rates. According to the World Bank's 2013 Global Atlas of the Health Work Force, South Africa's doctor-to-patient ratio is well behind the ratios of our BRIC counterparts. Currently South Africa stands at 0.8:1000 people, whilst Brazil (1.9:1000) and Russia (4.3:1000) outperform us, and India (0.7:1000) face similar difficulties. Other developing countries like Egypt (2.8:1000), Cuba (6.7:1000) and Mexico (2.1:1000) are also well ahead of South Africa. It is worth noting further that in 2009, 17% of our graduating medical professionals immigrated for better opportunities. Expectedly, whilst there is a marked difference between the quality of the healthcare standards of the public versus private healthcare establishments, critics argue that the private healthcare systems do not optimally serve the country's needs, stating the costs of private health care are prohibitively more expensive (as compared to other developed countries) and the private healthcare only benefits a relatively small segment of the population. It is suggested that the solution to address both systems may be found within an integrated national healthcare system, as proposed through the National Health Insurance. Finally, the public healthcare sector is described as a 'collapsing' system due mostly to insufficient locally skilled healthcare professionals, antiquated hospital equipment and systems, maladministration and corruption.

- ***poor performance of the failing public service*** - many local municipal authorities will, as an example, deny any of their own wrong-doing in respect of poor public service management which has become daily news across most of South Africa's media platforms. Whilst the vast majority of municipalities are essentially defunct and consistently receive qualified audits, municipal authorities -- who have circa R320bn budget under their control -- blame poor performance and service delivery on ageing systems and/or any other convenient excuse for the country's current public service delivery woes. In truth, many of the problems can be attributed to the incompetent people who head the public services and who lack the most basic managerial, financial and technical skills. They refuse to be held to account for any forms of mismanagement or substandard performance. Indeed the problems in rural and/or poorer communities is further exacerbated as a result of the poorer municipalities being totally dependent upon government grants and loans, as they are not able to draw on a substantial tax base from affluent residents. In a recent report, the Minister of Co-operative Governance, Pravin Gordhan, stated that out of the 278 chief financial officers at municipalities, 170 of them were not qualified for their position. The Minister further said that a third of the existing municipalities were



dysfunctional. That being said, in many instances the public have voiced their outrage through violent protests, damaging public and private property and even causing human fatalities. In respect of the business sector's sentiment, research from the fourth quarter of 2013 showed that 59% of business executives were negatively impacted by poor government service delivery. These statistics have more than doubled as compared to a previous survey just six months earlier. Eighty-one percent of business executives stated unreliable utilities was a core business issue. Their concerns included the disruption of water and electricity supply (Q1:2013 - 41%), while 69% said road concerns such as potholes and traffic light issues (Q1:2013 - 21%) and 58% cited billing issues (up from 23% in Q1 this year). Indeed, considering the latest verbal ANC-led political media attacks upon the Public Protector in respect of the Nkandla saga, amongst many other corruption related matters; these actions do not bode well for raising the standards of sound governance. Expectedly, any form of government red tape and bureaucracy just makes matters worse and most employees in the public sector have become masters of using this to their advantage to avoid personal liability.

- **ailing economy** - in spite of a number of economic plans to boost South Africa's economy, including the recently announced National Development Plan ('NDP'), the economy is struggling to get the required traction in order to create the much needed (decent) jobs. Foreign Direct Investment ('FDI') is also somewhat aloof at this point in time. This could be due to the fact that government is churning out legislation which is considered by and large 'investor unfriendly', not least the endless negativity flowing from South Africa to foreign destinations. Clearly, if South Africa does not arrest this situation, the country may find that all its FDI will go to other jurisdictions on the continent. Compounding matters, the World Bank revised South Africa's economic 2014 growth outlook to 2.7% from an earlier forecast of 3.2%. South Africa's economy would have grown 1.6% in the first quarter of 2014 had the economy not experienced the crippling effects of a five month strike in the platinum sector. Whilst the country has had high hopes of reaching an annualised Gross Domestic Product ('GDP') growth in the region of 4% to 5%, the reality at this stage is pinned more between 1% to 2%. But government's debt to GDP has increased from 27% (2009) to 46% this year, which does not help this situation we now find ourselves in (South Africa's current deficit is estimated to be R153 billion). That being said, the World Bank has projected economic growth to improve to 3.4% in 2015.

- **unemployment** - whilst it is true that many black South Africans were not properly represented in official statistical employment surveys pre-1994, labour experts and academics believe that the unemployment in 1994 has risen from 13% to 25.5% in the 2Q:2014, and peaked during 2014 at 31.2%. South African unemployment is now one of the highest in the world, with the biggest job losses at both a quarterly and annual rate found in the manufacturing and agriculture sectors. For many young South Africans, the promise of the new democracy has not delivered. Approximately 74% of the potentially economically active population under the age of twenty-four are not able to find employment and are saddled with poverty and despair, including the associated social ills that this brings (e.g. crime, alcohol, drug abuse, social unrest and political instability). Critics believe the government will need to inter alia, revisit the stringent labour regulations placed upon employers in order for them to be able to bring many of the unemployed into the formal economy. Interestingly, the World Economic Forum ('WEF') ranked South Africa's labour laws and regulations at 133<sup>rd</sup> (i.e. the 7<sup>th</sup> lowest) among 139 countries worldwide. Finally, given the high unemployment levels (and income disparities) in South Africa, this could fuel social unrest as well as lead to an increase in loan defaults which could hurt the banking sector and ultimately affect South Africa's financial stability.

- **industrial strikes and rolling mass action** - under the Presidency of Jacob Zuma, the Department of Labour's latest annual industrial action report shows that R6.7bn in wages were lost in 2013 whilst the figure was R6.6bn the previous year. Since President Zuma's first inauguration, South African workers have already lost more than R11bn in wages due to strikes and rolling mass actions.

- **South Africa's growth path** - a number of South African economists, strategists and business leaders are of the opinion that South Africa requires a "new economic democracy" and that the long-term provisions of the National Development Plan ('NDP') are unrealistic and therefore unsustainable. Part of the rationale for this thinking is based upon the NDP's over reliance on 'shaky issues' such as energy costs, climate change and environmental degradation which still requires resolve. Moreover, the NDP is still based on the premise of an annual GDP growth rate of 5% to supposedly benefit all South Africans. Indeed, there are many variables which can change government's 5% forecasts and these are determined by external factors such as



commodity prices, rand value and direct investments which are controlled at a global level. In the words of Clem Sunter -- a scenario economic planner, speaker and best-selling author -- South Africa requires a Codesa III to negotiate a new economic policy which may include new debates over the issues of nationalisation, land ownership, beneficiation and general rules of investment, capital ownership, public private partnerships, economic freedom and environmental sustainability.

- **overly prescriptive regulation & lack of skilled workforce** - these are considered two of the biggest business growth inhibitors in South Africa, with obvious direct impacts on employment. Thirty-eight percent of South African business executives state over-regulation (and red tape) as a major cause for limited growth while 36% of business owners state that the lack of skills is constraining their expansion plans.
- **electricity supply and disruptions** - being one of the biggest risks to South Africa's economy, South Africa is ranked 99<sup>th</sup> in the 2014 World Economic Global Competitiveness Report as compared to 144 countries in this area. Eskom Holdings SOC Ltd -- which provides more than 95% of the country's electricity -- regularly requests its industrial customers (and consumers) to switch off machinery, even if this means reducing the production of industry with obvious implications of reduced productivity and job losses. Eskom cannot provide reliable electricity to run Africa's second-largest economy and black-outs are common. Eskom has a long-term plan to expand generating capacity by more than 40%, while facing a R225bn funding shortfall until 2018. South Africa can expect electricity supply shortages for another five years before any guarantees are provided for reliable electricity.

#### **Spotting more warning signs ahead**

- **rating agencies** - in addition to the aforementioned problems, most of the international rating agencies have downgraded South Africa in terms of our sovereign credit rating, with possible further downgrades ahead. Standard & Poor's rating on South Africa should be seen as a major warning sign if the country is serious about attracting the much needed foreign investment on which job creation will depend. Generally South Africa's BBB- level is considered by most international investors as being just one level above 'junk-status', and dangerously close to a 'dis-investment' grade. Of course, the downgrading of all four of South Africa's major banks by Moody's in August 2014, after the collapse of African Bank, has shaken local and international investors. Expectedly the major banks have assured the stakeholders of their robustness, and hopefully this will also provide comfort to the foreign investors. Unless there was good reason, cancelling South Africa's bilateral investment treaties with other non-BRIC countries may have seriously placed international investors on the back foot. Clearly massive investment is required to fund state entities such as Transnet, Eskom and SAA, not least the much spoken of Russian Rosatom nuclear projects ear-marked to begin in South Africa.
- **African country governance ratings** - there are many reports investors and tourists may consider before making their decisions to invest in business and/or visit a foreign country in order to spend their hard-earned money. That being said, the Mo Ibrahim Foundation is well known for the Ibrahim Index on African Governance ('IIAG'). Whilst South Africa has traditionally been amongst the top performers -- but trailing Mauritius, Cape Verde and Botswana -- in 2014 South Africa has once again been dragged down by low scores on personal safety because of high crime rates, including other challenges associated with human rights and human development.
- **failing state ratings** - a number of African countries have been classified as 'failed states'. While this trend encroaches the South African borders, South Africa must be acutely aware of its political, socio-economic and foreign trading policies to ensure the country does not become directly affected, or slip into the status of failed state itself and scare foreign investment. Failing states trigger refugee movements, alter regional patterns of alliance and they become hubs of regional shadow economies. As a broad and basic definition; a failed state can no longer perform its national basic functions (e.g. provision of security, law and order, justice and basic welfare) which is usually due to fractious violence, extreme poverty or civil war and external intervention is normally applied to avert a humanitarian disaster. Fortunately South Africa is not considered a failed state; however there are a number of early warning signs that the country must seriously address if it is to improve its position on the Failed States Index 2014. In 2013 South Africa was ranked 113<sup>th</sup> out of 178 countries and



115<sup>th</sup> in 2014 (178<sup>th</sup> position is the least likely country for governance failure). There are twelve indicators which are contained in three major categories -- namely social, economic, political & military -- which are used to assess a country's vulnerability and stability. Brazil (125<sup>th</sup>) and South Africa (115<sup>th</sup>) are placed in a section called 'Warning', China (68<sup>th</sup>), India (81<sup>st</sup>) and Russia (85<sup>th</sup>) are placed in a section called 'High Warning'. But Namibia, Lesotho, Swaziland, Mozambique and Zimbabwe range upwardly from 'High Warning' to 'High Alert' countries. Somalia, Angola and the Democratic Republic of the Congo are in the 'Very High Alert' country section and they are considered 'failed states'. Expectedly, with the increasing political and socio-economic pressures in these countries, South Africa becomes a natural attraction for these country's desperate citizens who migrate to South Africa with clear implications. Botswana and Mauritius are the most stable of all the SADC countries.

- **foreign investors** - the discussions with the U.S. Ambassador in February this year also adds its own concerns regarding the much needed foreign investment for South Africa. South Africa must take note of Ambassador Gaspard remarks, which suggest certain warning signs of possible disinvestment from the U.S.. In brief, the U.S. has invested \$4.7bn into South Africa's HIV/AIDS programmes and this support has yielded significant life-changing results in the combat of this disease. In addition, the U.S. Agency for International Development supports a public-private partnership with South African organisations to develop local solutions to education challenges. In 2013, over 1,200 South Africans were enrolled in U.S. universities and similarly, hundreds of U.S. students visit South Africa to study every year on the back-end of the U.S. government's renowned Fulbright programme. Moreover, seventy-eight of the U.S. owned companies based in South Africa directly employ nearly 70,000 people, and indirectly employ another 75,000 workers in South Africa. The annual employee training and skills development spend is over R320m, this being in addition to the mandatory 1.5% of their total payroll taxes in spending on training which the South African government requires. Yet notwithstanding this sterling support from the U.S. -- and considering that South Africa exports goods annually to the U.S. to the value of circa R20bn under the Africa Growth and Opportunity Act ('AGOA') -- South Africa may have jeopardised its chances to have AGOA renewed. If South Africa continues to prevent American companies to export to South Africa, there's a good chance that the U.S. trade agreement (established by the U.S. and which has been in place since 2000) may be withdrawn by the U.S. in 2015. Should this occur, it will have dire implications upon the foreign investments, employment and export opportunities afforded to South Africa. Then, might other first-world countries do the same on the back of this withdrawal? Surely attracting and maintaining as many foreign investors as possible -- not just the BRIC countries -- remains critical?

### **It's not plain sailing, we are in dangerous waters**

There's a saying that "the more things seem to change, the more they seem to stay the same". In this respect, South Africa remains a country where survival is paramount. As was the case in our painful history; simply surviving -- be this in the context of our human existence or in business -- is just not enough if we are to grow as a nation and grow our economy. Somehow the social ills of our past seem pretty much the same as it was in the apartheid era. (Or has it got worse as some critics seem to suggest?)



*Approximately 74% of the potentially economically active South African population under twenty-four years of age are not able to find employment.*

The country needs the mind-set of massive rejuvenation which catapults its society and economy on a trajectory where the notion of 'survival' is replaced with 'thriving prosperity' for all its inhabitants. Being able to thrive in the context of a newly established democracy, requires an extraordinary strong group of leaders who are able to carefully balance the needs (and expectations) of an increasingly agitated society.

If South Africa is to become a truly healed nation and competitive global player; the country will need to take a hard, introspective look at what we have done right and what we have done wrong. In doing so, we must



understand and apply good governance practices at all levels in our society, in business and also within all levels of government.

Most certainly, governance will fail if there is no ethical leadership and direction. The mantra by which we all need to operate will require, amongst other actions; to abide by the rule of law and implement proper controls, take robust action against corruption, have proper oversight and accountability, impose severe consequences for leaders who flout the law, and remove inept or unqualified government and municipal officials. Using these action-principles, organisations must also ensure the equitable treatment of all its stakeholders. They must ensure clear lines of accountability and ensure their disclosure (when necessary) is of a material nature which is transparent and fully reported.

### **What can we do?**

If the answer were as simple as the question, then South Africa would surely have addressed its many challenges years ago. Our country has generally been known as one where our people have somehow faced, and overcome some unique, and often very contentious social and economic challenges. And we know South Africa's people are resilient, and we must acknowledge all the good things we have achieved, but at the same time admit to where we have blundered as a nation. Ever since Nelson Mandela wore Francois Pienaar's No. 6 Springbok rugby jersey at the 1995 World Cup Rugby match, South Africa has proved its ability to reinvent itself politically and economically.

Some of our biggest risks as a country are presented in this article, and it is my firm belief that South Africa and her people have the means to overcome all our critics, and rise above these challenges for a better, brighter, prosperous and more sustainable country. Moreover, the act of corruption has undoubtedly underpinned many of South Africa's *past and current* challenges. We need to acknowledge that corruption cannot be singularly attributed or blamed on government alone. Indeed it takes two parties to validate corruption, and corporate businesses -- amongst other parties -- are equally at fault for this horrendous crime on our people. That being said, we also need to acknowledge that in order to change South Africa's current woes, it will require a fundamental mind shift in the way in which we do things. For example, simply changing leaders -- be they in government and/or business -- in the hope for better results, *will not* improve our downward slide. The country and all its constituencies need to change their patterns of past behaviours, including their policies in order that new and hopefully positive outcomes may be expected.

South Africans understand the spirit of 'ubuntu'; we truly do need to roll up our sleeves and practice ubuntu in the way Madiba would have done. South Africa is the largest country in Africa with a nation which needs to finally forgive its past transgressors. In order for the country to move forward as one nation -- where we are all united under the same code of patriotism -- we need to scrap all forms of discrimination and stand behind the National Development Plan which is designed (albeit not perfect) to transform our country.

We are a nation who know how to achieve greatness when the 'chips are down'. Amongst other, we are a strong contender in the commodities markets as a global mining and mineral processor which controls about three quarters of the world's platinum production with major shares in palladium, gold, manganese and diamonds. We have had great attention and interest shown by the developed countries who are very willing to assist our country; now we need to seriously get our house in order and allow South Africa to take its rightful place on the African continent and fulfil all the promises of our Constitution.

The government has to date managed the macro-economic fundamentals quite well. We have a sound financial service and stock market, a world-class revenue service, and a strong private business sector which is mostly competitive and well governed. We have a press that is free and fair, and a liberal Constitution which is considered one of the best in the world.



Considering these factors, let's unshackle the paradigm of blame and entitlement, and harness the magic of 1994 as we stand together and tackle our country's current challenges. From a business perspective, this may entail some of the following actions:

1. Business, government and civil society need to join hands and find trusted, socio-economic solutions that benefit all the country's stakeholders;
2. Government must allow business to run its business, with minimum labour law regulations and no social engineering;
3. Business must partner government to solve some of the service delivery challenges;
4. Business needs to talk with a single voice;
5. Small business needs special focus, tax reprieve and government support;
6. Company cultures need to be based on ethical, shared stakeholder-value models;
7. Social inequality must become the joint responsibility of big business and the government;
8. Inequality and the erosion of social capital must be addressed;
9. All forms of serious crime and corruption at all levels in business and government must be exposed with massive consequences;
10. Over regulation must be addressed, and business must commit to strong, moral leadership;
11. Political party and cadre deployment must be stopped; and
12. Political party funding must be transparent.

As the National Planning Commission planned a way forward for South Africa, the Commission sketched three possible broad trajectories for South Africa's road ahead:

1. **A varied state** - in this scenario, the state could continue to operate broadly as it does today, with highly varied levels of performance. People's experiences of the state are shaped by who they are and where they live, with poor and historically marginalised groups -- who are most dependent on state services -- encountering the worst performance.
2. **A state of last resort** - in this scenario, people have growing levels of inequality and declining confidence in the state. Only the more affluent people will opt out of using public services as they resort to the use of private schools, private hospitals and employ private security guards. As this proportion of the population grows, a shrinking majority is left dependent on state services that fall further behind.
3. **A capable state** - in this scenario, the state is sufficiently capable and effective in delivering qualitative and consistent public services, and enjoyed by all South Africans.

I am most certain that all South Africans would opt for a *capable state*. Progress towards such an outcome can be judged by the government's performance in the following areas:

- Tackling unevenness in state performance;
- Ensuring that citizens' experiences of the state are no longer determined by who they are and where they live;
- Reducing the gap between policy formulation and implementation, leading to improved performance and greater public confidence in the state;
- Offering stimulating and challenging career paths, leading to a strong sense of shared identity and common purpose among public servants;
- Ensuring that public servants are in tune with the needs of wider society, particularly those of the poor; and
- Improving performance in national, provincial and local government, particularly when it comes to the state's ability to work in the interest of those who are most in need; and identifying and overcoming blockages to implementation.



We all need to think about the future of South Africa as well as challenge ourselves to think in new ways regarding the success and sustainability to which we all aspire. Only South Africans can decide their collective fate; we must decide whether we want to roll up our sleeves and 'work the richness of our soil'? This will require a change of heart, mind and attitude of each person who calls themselves a Proud South African. Failing in these governance matters is surely not an option.

Let us remember the father of our nation Tata Madiba who said, "After climbing a great hill, one only finds that there are many more hills to climb." (1918-2013)

## **ENDS**

**Words: 7,099**

For more information about CGF Research Institute visit [www.cgf.co.za](http://www.cgf.co.za) or [www.corporate-governance.co.za](http://www.corporate-governance.co.za)  
For more information about IRMSA visit [www.irmsa.org.za](http://www.irmsa.org.za)

### **Contact details:**

CGF Research Institute (Pty) Ltd  
Terrance M. Booysen (Chief Executive Officer)  
Tel: 011 476 8264  
Cell: 082 373 2249  
E-mail: [tbooyesen@cgf.co.za](mailto:tbooyesen@cgf.co.za)

The Institute of Risk Management South  
Africa  
Gillian le Cordeur (Chief Executive Officer)  
Tel: 011 555 1800  
Cell: 082 322 6104  
E-mail: [gillianl@irmsa.org.za](mailto:gillianl@irmsa.org.za)

