

Business Input to the 22nd NEDLAC Annual Summit: Restoring integrity by combating corruption through good governance

8 September 2017, Emperor's Palace

Duration: Approximately 15 minutes

Introduction

Deputy President, Ministers, Executive Director of Nedlac, esteemed colleagues, compatriots, and particularly our partners in Nedlac: members of government, organised labour and community, good morning. On behalf of business, I wish to express our gratitude to all those who have made the convening of this twenty-second Nedlac Annual Summit possible. We are honoured by the Deputy President's continued support and involvement in Nedlac. As Business, we continue to place great value in Nedlac as an institution and social dialogue as an underlying principle of our democracy. The seniority of constituency representation here today, reflects the important role of Nedlac in our society.

We acknowledge in the past year that there has been significant progress in Nedlac. This includes the signing of the labour relations stability and national minimum wage agreements; the extension of the employment tax incentive in support of youth employment; conclusion of various Nedlac legislative processes; as well as ongoing engagements on trade negotiations such as the Tripartite Free Trade Area and Continental Free Trade Area, SACU-EFTA Review. This has built confidence in Nedlac's role to find compromises and sustainable solutions that carry the support of social partners. We have also seen progress outside of Nedlac, where organised business and labour have worked together with government in staving off the ratings downgrade in 2016 and the early part of 2017. These achievements have strengthened relationships with government and our social partners, and demonstrated the value of constituencies collaborating and problem solving in the broader national interest.

However, we also need to note there are serious challenges facing the country, where we believe Nedlac could have a more profound impact. We cannot ignore the significant economic, financial and governance challenges we are faced with as a country. Nedlac needs to find more effective ways to enable social partners and government to work together to drive economic transformation for inclusive growth; systemically address the regulatory burden that is stifling the economy; engage comprehensively on energy matters; address the youth employment challenge; and address corruption that is undermining and compromising our social progress.

Corruption and failings in governance are impacting on the economy, employment and are exacerbating the grave state of our public finances. We therefore welcome the theme of this year's Summit : Restoring Integrity and Combating Corruption through Good Governance.

Economic Conditions

Compatriots, Business confidence is a reflection of the economic environment and translates directly into GDP, employment and the lives of many South Africans, particularly the poorest in society who depend on social grant funding and transfers. Business requires visibility, consistency and predictability of economic policy and the broader macro-economic environment if it is to invest for the long term. The lack of economic and political certainty has increased businesses' levels of caution, as reflected in the business confidence index. The damage to business confidence has been particularly acute following the cabinet reshuffle of March this year. The August 2017 results of the SACCI Business Confidence Index (BCI) indicate that business confidence has now reached a 30 year low.

In the first quarter of this year, the economy contracted by 0.7%, thereby bringing the economy into recession for the first time since the global financial crisis in 2008/2009. In contrast to the previous recession, this one is largely self-inflicted. While the second quarter results are better at 2.5%, this is insufficient to meet the needs of South Africa. According to consensus forecasts, the economy will grow by less than 1% this year. With stagnant economic growth South Africa's 2016 GDP growth rate was 0.3% against a global GDP of 3% (according to the OECD). This combination of anaemic economic growth and a growing population, has led to a fall in South Africa's per capita GDP.

Unemployment for the first two quarters of 2017 is at 27.7% of the economically active population. Put more starkly, the current labour force participation rate of 60%, means that some 40% of our economically active population is neither employed nor actively looking for work. At the same time, the population of young people is growing with a significant demographic shift towards the youth. The consequence of low levels of economic growth, coupled with poor basic and higher education is ill-equipping youth to enter employment and become productive. The youth unemployment level of 56% is of extreme concern, particularly as we are now into the second generation of young adults, post 1994, who have very little prospect of finding sustainable long term employment.

This deterioration in the economic outlook together with the associated employment implications has been accompanied by a deterioration in the state of our public finances. The February budget showed our sovereign debt at just under 51% of GDP, with an upwards trend showing no signs, as yet, of

abating. In the current fiscal year the debt-to-GDP ratio is expected to rise to 53.5%. The combination of explicit guarantees and government equity support to SOEs increases this ratio by approximately 10% of GDP. As we have seen in the recent case of SAA, that the risk of defaults in SOEs is very real and could place our public finances under more severe pressure. With tax revenue forecast to fall short by approximately R50 billion, further hard choices will need to be made. We are equally concerned about the proportion of the budget that is allocated to servicing debt.

SOEs and Eskom

The state of our State Owned Enterprises, including their purpose, governance, sustainability and financial viability are all of significant concern to business. This is no more starkly represented than the challenges faced by Eskom, which serves as a proxy for the health of South Africa. As business, we believe that Eskom may be at tipping point. Governance breaches have significantly eroded the financial viability of Eskom. The tariff structure and long term price trajectory appear to be unsustainable. To illustrate this, Eskom anticipates that it would need to pay R413bn over the next 5 years to service its debt. We are concerned about the ability of government to stand behind Eskom's obligations and to meet any shortfall. The necessity to ensure that Eskom is put on a more sustainable path is a national priority that requires serious consideration and our collective input. We have repeatedly raised this at Nedlac.

Sovereign Downgrades

Not surprisingly, the sovereign ratings agencies have considered South Africa's economic outlook and downgraded our rating shortly after the cabinet reshuffle earlier this year. This has been based on a number of factors including: political uncertainty; institutional concerns with State Owned Companies such as Eskom; and fiscal concerns, including the leakages relating to corruption. The sovereign rating determines the cost and availability of capital from local and international providers.

There is a real risk of further sovereign ratings downgrades. Additional downgrades will place our debt in sub-investment grade territory with potentially very damaging ramifications for the economy including increased volatility in our exchange rate, inflationary pressure and the possibility of interest rate hikes. All of these will exacerbate the current pressures on the fiscus and limit our ability as a country to pursue economic and social development. Business welcomes the establishment, at the behest of constituencies under the Deputy President, of the Sovereign Ratings High Level Task Team in Nedlac, which work has already commenced. As Nedlac constituents, we need to fully commit ourselves to this important process.

Approach to Black Economic Transformation for Inclusive Growth

During the course of this year, Business has across all sectors, sizes and regions engaged in the transformation imperative and developed 'A Business Approach to Black Economic Transformation for Inclusive Growth'. Business has acknowledged that the pace and depth of transformation has been insufficient to address the historical legacies of Apartheid and put us on a sustainable economic growth path. The imperative to drive the transformation of the economy, and thereby harness the full potential and participation of South Africans cannot be overemphasised.

Limited economic participation by the majority of the population; poor outcomes in basic education and skills development; low SMME participation; and low levels of employment contribute to South Africa's poor economic performance. The Business Approach to Black Economic Transformation recognises the role that business must play in driving a radically transformed economy in order for us to become a vibrant, diverse and globally competitive economy whilst deracialising the economy on an accelerated basis.

Corruption

Turning to the theme of this Summit, it is important that we are able to be honest, transparent and introspect on the role of business, as well as the State, with respect to all forms of corruption. We need to recognise that Business is often an enabler of corruption, has benefited from it, and has not been adequately strident and outspoken in dealing with corruption where it arises in the private sector. South Africa is under the microscope, both locally and globally, in this regard and we need to tackle the issue honestly, decisively and comprehensively.

Corruption is a significant barrier to South Africa's sustainable economic, political and social progress. The negative impact of corruption on the economy and on South Africa's ability to deliver inclusive growth and transformation cannot be ignored. Corruption not only discourages long-term investment, it also diverts limited public financial resources that are required, both to provide much needed social support, as well as to stimulate the economy and create jobs. Furthermore, it increases the risk of further sovereign ratings downgrades.

Our current circumstances underscore the importance and urgency of intensifying efforts to strengthen governance frameworks and actions that improve the prevention, detection and punishment of

corruption. A critical determinant in turning the tide against corruption is recognising, as envisaged in the National Development Plan, that South Africa needs a capable state and active citizenry to address the lack of effective, competent and capable governance. Corruption will continue to go unchecked until proper accountability, coupled with transparency and capable, credible oversight measures, are put in place by all social actors.

The Role of Business in Tackling Corruption

It is important for Business to take decisive action to root out corruption in all its forms. Integrity needs to be entrenched and held sacrosanct as a business value and norm.

BUSA has developed guiding principles to address corruption and embed integrity for and on behalf of its members. BUSA membership has agreed to:

1. Embed a culture whereby the highest ethical standards, levels of accountability, and good governance principles must be implemented and enforced by business.
2. Pursue a transparent, zero tolerance approach for those that are found to be involved in corruption where there must be legal and visible consequences.
3. Implement processes, controls and procedures to ensure compliance with anti-corruption legislation, including creating the conditions to enable whistleblowers to come forward.

BUSA has further identified that it needs to:

- build visibility and awareness on the impact and imperative to curb corruption
- highlight governance and ethics good practices and breaches in State Owned Companies
- re-emphasise the important role of institutions such as SAPS, the Hawks, the NPA, Public Protector's Office and the Courts in combating corruption
- add its weight to the efforts of BUSA members and peers in organised business to embrace a business culture of clean and ethical business practices, such as the recent launch by BLSA of the 'Integrity Pledge'.
- Identify, build awareness and facilitate access to standardised anti-corruption tools and compliance frameworks that can be accessed by businesses of different sizes and sectors, including mechanisms to protect the role of whistleblowers.

Role of Nedlac and Social Partnership

Notwithstanding this commitment by business to address corruption, it is apparent that more needs to be done in concert with our Nedlac social partners. Fortunately, Nedlac provides a structure and framework for constituencies to come together to diagnose, and find solutions to complex challenges such as corruption.

In the more recent past, we have seen Nedlac constituents galvanise their efforts and speak out against actions that damage the country, threaten our sovereignty, and keep us trapped in a low growth, low employment environment that provides little hope for a sustainable and prosperous future. We need to redouble our efforts in this regard, separately and together.

Through the ongoing work of the High Level Task Team on Sovereign Ratings, we call on Nedlac and its constituents to collectively consider how we can embed these principles into our thinking, systems and processes, and thereby curb the scourge of corruption that is eroding the advances that we have made since 1994.

Nedlac needs to enable the development of specific collective interventions that can be taken in the face of the considerable headwinds that South Africa is facing and, no doubt, will continue to experience in the run up to the 2019 elections. We cannot afford this as a country and it is our collective responsibility to act together in addressing factors that limit our economic and social potential.

Compatriots, it is fitting that we find ourselves in the same venue where the 2014 Ekurhuleni Declaration was signed on labour relations stability and the national minimum wage, giving rise to two years of negotiation and a signed agreement by all Nedlac constituents, that is in the process of being made into law. In the same manner that we have previously worked together in this regard, we need to work together more effectively in addressing the current challenges facing the country. Business is committed, alongside our social partners, to engaging earnestly in addressing corruption as well as other critical issues that can enable South Africa to flourish and achieve its true potential.

Thank you.