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OPINION AND ANALYSIS

Corruption in South Africa: impact on political risk, foreign direct investment and society

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AS A SOUTH African, it is natural to relate with the excitement that comes with a period of transition from apartheid to democracy. This is a time pregnant with expectation, with promise, and the prospect of a better future. The goal of the ruling party, the African National Congress (ANC), has been specifically that of transforming South African society both politically, economically, as well reshaping social life as it was known.

When reflecting on how the current government has performed through the lens of political risk, there are several criteria on which the country may be measured. One can focus on socio-economic indicators, quality of leadership, rule of law, racial and ethnic cleavages, labour policy and rates of unemployment, a country's foreign policy and so forth. Typically a measure will include a combination or all of these indicators, and any additional others. But perhaps a measure that has come increasingly to the fore is the country's level of corruption.

The act of corruption emanating from the ruling elite is demonstrated in the form of the abuse of public resources. The biggest corruption scandal post-apartheid is arguably the Arms Deal, which draws in political heavyweights such as Thabo Mbeki and Jacob Zuma. The Nkandla home improvements, costing R246 million from an initial estimate of R27 million, continues to occupy a prominent position in the media, political parties and society at large. Other cases involve an eThekweni mayor connected to a R3 billion tender marred with irregular spending and maladministration. Public works is under investigation over transactions totaling R90 billion over allegations of tender rigging and price inflations, and the Watergate saga where plans to replace an ageing municipal water pump, to the tune of R15 billion, reveals a bogus company and the misappropriation of R11 billion.

Incidents of corruption and gross maladministration are plenty in the public sector, with a common thread running in the debilitating ways in which they redirect public expenditure from essential spending in healthcare, education, social grants, skills development, and supply of power and sanitation. Corruption is probably the most sinister of all the ills as it involves active participation in improper acts known to cripple the future prospects of a country.

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Despite the seriousness of such a crime, evidence shows that political corruption is widespread. Alarming, even though 88% of the public officials who were facing charges of financial misconduct and were found guilty, only 19% lost their jobs. The vast majority (81%) continued with their employment in the public sector. Reports indicate that an excess of 25 billion is forfeited every year to the government procurement budget due to fraud². Between 1994 and 2009 an estimated 250 billion was lost to corruption, and an average 20 percent of GDP is lost to corruption³.

According to Corruption Watch SA, Transparency International's (TI) 2013 global *Corruption Perception Index* (CPI) shows that South Africa has dropped 34 places since 2001, with 50 per cent of that decline occurring since 2009. South Africa is currently ranked at number 72 out of 175 countries, and scores 42 as at 2013 (with zero meaning very corrupt). South Africa ranks closely to countries like Sao Tome and Principe scoring 42 and Ghana scoring 46.

But how so, when South Africa has created one of the most formidable regulatory structures to contend with public fraud? To date, South Africa has 13 government agencies tasked to tackle corruption, but it seems this is nothing compared to the culture of impunity that exists throughout the ranks.

And what of the impact that corruption has on the investment environment? The knock-on effect on foreign direct investment (FDI) is difficult overlook. Ultimately, the credibility of our political leadership is undermined due to international perceptions of corruption. The country takes a hard knock on its reputation as government fails to adhere to practices of good governance. This stifles foreign investment and flows to the stock market, global competitiveness, economic growth and ultimately to the development and upliftment of our people. And who can ignore the consequential mass action strikes and protesting citizens, exacerbating public and international perception of the current political risk. Investors divest and redirect to safer markets, and rating companies such as Standard & Poor's, inevitably mark us down (currently at BBB-).

South Africa's low domestic savings has made FDI a necessary requirement to narrow the shortfall and act as a springboard for investment activities required for economic growth in the country. FDI has remained at relatively low levels compared with other emerging market countries. Besides global events such as the international sub-prime crisis, and subsequent tightening of capital controls, South Africa can ascribe its lower investment levels to the lack of skilled labour, socio-economic conditions such as the prevalence of HIV/AIDS, administrative incompetence in government, and the cost of capital. The billions that are lost yearly to corruption could be better spent addressing some of these national problems.

Political corruption devalues the tumultuous journey to democracy that the country has had to travel, as it makes a mockery of the country's social fabric, erodes social cohesion, leaving society feeling swindled. So instead of committing all our efforts and resources, mindful of the bloody struggle that our society once fought for, in realising the ideals of an equal society with equal opportunities living in dignity, we are forced into constant pre-occupation and feelings of contempt

² Daily Maverick, 2013. <http://www.dailymaverick.co.za/article/2013-12-05-analysis-perceptions-and-reality-of-corruption-in-south-africa/>

³ News 24, 2012. <http://www.news24.com/MyNews24/Corruption-SA-Counting-The-Cost-20120508>

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on acts of corruption slowly eating away at everything we have achieved. Corruption, just like apartheid, needs fearless leadership to address head-on an issue which challenges the very future of South Africa.

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