

South Africa needs a single **ANTI-CORRUPTION** unit and real-time monitoring



Small-business owners closed down municipal offices and shops for two days in Mount Ayliff, Eastern Cape in September 2020, accusing the municipality of sidelining them from government tenders.
Photo: Nombulelo Damba-Hendrik, GroundUp

Small-to-medium enterprises are an engine for economic growth in developing countries. They are, however, also disproportionately affected by state corruption. At a recent webinar co-hosted by the HSRC, delegates from the South Korean embassy and the Hankuk University of Foreign Studies shared lessons from their thriving SME sector and related the country's experiences in tackling corruption. Local researchers explored possible parallel solutions to corrupt procurement processes in South Africa. *By Andrea Teagle*

Small-to-medium enterprises (SMEs) are an important part of South Africa's economy, contributing between 20% and 34% of the country's GDP.

"But it's not all positive news," warned Professor Sope Williams-Elegbe from the University of Stellenbosch during the webinar on SME growth and corruption. "Research illustrates that, based on

South Africa's GDP per capita, we should have three times the number of SMEs that we actually have at present. So we have a low rate of establishment and also a very low rate of survival."

Conversely, South Korea's [growing economy](#) is fuelled by SMEs, which [reportedly](#) comprise 99% of enterprises and account for 89% of employment. However, like South

Africa, South Korea has faced high levels of state corruption, Dr Jongdae Park, ambassador of the Republic of Korea to South Africa, noted in his keynote address.

South Africa and South Korea both rank high on the global Transparency International Corruption Perceptions Index (70th and 39th respectively out of 180 countries). South Korea has recorded a slight decline in public



perceptions of corruption over the past decade, Park said, although the score has increased over the past year.

State corruption impacts SMEs disproportionately by driving them out of procurement markets, Williams-Elegbe added. A [2017 study](#) conducted in Kumasi Metropolis in Ghana, for example, found that a one percentage point increase in corruption was associated with a 36% decline in SME growth, measured by sales and employment.

Park recommended understanding the root causes of corruption as a starting point for addressing it. A survey conducted in South Korea revealed that the majority of Koreans (53.4% of the general public) viewed

their society as corrupt. The most commonly-cited cause of corruption was 'culture'. The culture is one of kinship, Park said, wherein people of the same groups tend to look out for each other.

Similarly, Williams-Elegbe identified kinship and tribal structures, which were intentionally stoked during apartheid "to put pressure on Africans to support their own", as a driver of state corruption in South Africa. At the root of corruption, she contended, was the fact that our governance models still mirror the inherently exploitative and extractive structures of a colonial government.

Overlap and loopholes

Led by law specialist Adv Gary Pienaar, the HSRC and the Open

Democracy Advice Centre undertook a scoping study on infrastructure corruption in South Africa, commissioned by the [Infrastructure Transparency Initiative](#) (CoST). The study, which involved research of public data, reports and interviews, found that corruption has massive ripple effects on business, the government and citizens.

The research revealed that the health of state-owned enterprises (SOEs) deteriorated in recent years, despite legislative reforms to tackle corruption. According to the auditor-general report of 2017-2018, more than half of public entities engaged in uncompetitive and unfair procurement processes, Pienaar said. The result was a loss of R28.4 billion by SOEs.

"Most often the poor performance [of SOEs] that was reported had been the result of inadequate controls, monitoring and oversight," Pienaar said, referring to findings of the 2016-2017 auditor-general report.

The CoST study revealed some unintended consequences of legislation intended to redress inequalities. For example, the Preferential Procurement Policy Framework, intended to favour local labour for construction projects, is being undermined by "business forums," Pienaar said. These groups, essentially a business mafia, use force or threats against small contractors, who are coerced to pay "protection money" to ensure they are able to complete their projects. One black owner of an SME reported that, after refusing to pay a bribe demanded by an official, the number and value of his public contracts with government departments in his province declined markedly.

In response, South Africa has introduced extensive anti-corruption legislation, some of which is promising. In 2018, for example, the Public Audit Amendment Act (2018) extended the powers of the auditor-general to enforce recommendations for remedial action and recover misappropriated money. "An individual responsible, including an official, can be held accountable to return those funds, which is a significant additional weapon in the arsenal of the auditor-general," Pienaar said.

However, Pienaar warned, too many anti-corruption agencies and departments with anti-corruption mandates lead to confusion, overlaps and loopholes that people can exploit, with anti-corruption efforts, such as the COVID-19 anti-corruption task team, becoming exercises in coordinating multiple moving parts. "There has been a long, ongoing call for a single independent anti-corruption agency in South Africa, much like South Korea has developed," said Pienaar.

The South Korean agency, the Anti-Corruption and Civil Rights Commission, is in charge of ensuring implementation of the commitments set out in the United Nations

Convention against Corruption, which Korea endorsed and ratified in 2003, Professor Jaehoon Lee of Hankuk University of Foreign Studies said. Additionally, in 2016, the Four Corruption Vaccine project was launched as a real-time monitor of procurement processes.

Possibly South Africa's biggest weakness in its public procurement processes is that there is no transactional disclosure of financial interests, Pienaar noted. According to reports published by the Public Service Commission (PSC), public servants increasingly adhere to the required annual disclosure of their financial interests that may lead to a conflict of interests. However, neither the PSC nor any other oversight body currently undertakes any oversight or monitoring to ensure that public officials declare their financial interests in a given procurement process.

Lee emphasised that technology also has a role in combatting corruption, through making procurement transparent. Online e-procurement systems enable anybody and everybody to access information about a particular procurement process. While South Africa has an online e-Tender portal run by the National Treasury, Pienaar said, it is not kept up to date and not all relevant information is disclosed on the portal.


Capacity building

Williams-Elegbe noted that the public sector suffered a general lack of capacity, with roots in South Africa's poor education system. "So we have a lot of incompetence that looks like corruption."

Pienaar agreed, explaining that the lack of capacity starts at the project-design phase of procurement, through the supply chain management process and into project management, where, too often, private companies would be paid for work not done. In other instances, contractors are not paid on time due to concerns about possible corruption, negatively affecting the cash flow of SMEs.

Positively, the new Public Administration Management Act aims to build state capacity in terms





of navigating complex procurement processes, and in understanding, managing and avoiding conflicts of interest.

Drawing from South Korea's experiences, Park recommended that South Africa shift its focus from financial capital and [natural resources](#), and develop its [human and social capital](#). He said that cultivating a public "developmental mindset", which focused on productivity and performance, had been key to South Korea's economic transformation.

"Our country and society place huge value on work ethics, and to a large extent [this] can be considered as corporate ethics in governance as well."

On the policy front, from the 1960s onwards, South Korea encouraged productivity by offering companies financial incentives based on output. This led to a virtuous cycle of reward and performance, ultimately fuelling

economic development, Park said. The relative [contribution of SMEs](#) to South Korea's economic growth increased in the 1980s with the introduction of additional research and development subsidy programmes for small enterprises.

Finally, Park recommended that South Africa prioritise stringent accountability throughout the public and private spheres. He argued that citizens should hold the government to account, while also taking responsibility for their own performance.

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Small-to-medium enterprises are disproportionately affected by state corruption.
Photo: Jopwell, Pexels