



SOUTH AFRICA A DEMOCRATIC FAILURE?

**LOST IN A BLIZZARD OF FRAUD, FAILURE AND DYSFUNCTION IS THE ANC'S
1994 SLOGAN "READY TO GOVERN" - DR DUNCAN DU BOIS**

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FOREWORD

By Bryan Britton

Since 2007 South Africa has descended into the deep, dark valley of African Kleptocracy.

Many investigations being conducted by civil society inside the country and many being pursued by US and UK investigators from outside South Africa, will need to be completed before the extent of the damage, caused by ten years of dysfunctional Jacob Zuma and ANC rule, is finally known.

In the meantime, South Africa must go forward despite the prospect of another ANC period of mismanagement, post the 2019 ANC elective conference, being a distinct possibility.

The current economic and political status begs the question: 'is South Africa a failed democracy?'

And with the regional dynamic changing in Africa and the nature of the world workplace becoming ever more complex, through the advent of the Fourth Industrial Revolution, is South Africa even at the race?

I have assembled a few informed articles, written by experts in their respective fields, to assist readers in judging for themselves the enormity of the way forward for South Africa.

If one is to be guided by Professor William Woodruff's 'A Concise History of the Modern World' and specifically the chapter 'The Decolonization of Africa', then South Africa's history since 1994 looks ominously like those of the fifty-three other African countries post de-colonization.

It may take decades to repair the damage suffered by South Africa.

Professor Woodruff about Africa: 'The Western idea of freely held multi-party elections is not widespread. Too many governments do not have a 'loyal opposition'; they have political enemies. Elections are a means of conserving power, not introducing democracy. In a continent where power is personalized, few presidents have ever accepted defeat in an election. Concentrated, rather than shared power, is the 'African Way'.

Having removed the colonial yoke, Africans now bear a yolk of their own making.

Independence from colonial powers has not only brought widespread violence; it has brought a deterioration of Africa's economic lot. It is the world's poorest, most indebted continent; the debt repayments of some countries exceed the amount being spent on health and education.

By holding the West responsible for the continent's extreme poverty, internal wars, tribalism, fatalism and irrationality, autocracy, disregard for the future, stifling of

individual initiative, military vandalism, staggering corruption, mismanagement and sheer incompetence, Africans are indulging in an act of self-deception.

A similar colonial background has not prevented certain Asian countries from achieving rapid economic development. Africa cannot hope to escape from its present economic and political dilemmas by placing the blame on others.'

THE FAILURE OF DEMOCRACY

Aristotle was an ancient Greek philosopher (384 BC – 322 BC) who had, at the age of seventeen, joined Plato's Academy in Athens. He studied there for twenty years and later became tutor to Alexander, who would become Alexander the Great, master of the Persian Empire.

Alexander III of Macedon, commonly known as Alexander the Great, was a king of the Ancient Greek kingdom of Macedon and a member of the Argead dynasty. He was born in Pella in 356 BC and succeeded his father Philip II to the throne at the age of twenty. He spent most of his ruling years on an unprecedented military campaign through Asia and northeast Africa, and he created one of the largest empires of the ancient world by the age of thirty, stretching from Greece to northwestern India



In discussions about ancient Greek democracy, the most often referenced text is the 'Politics' of Aristotle.

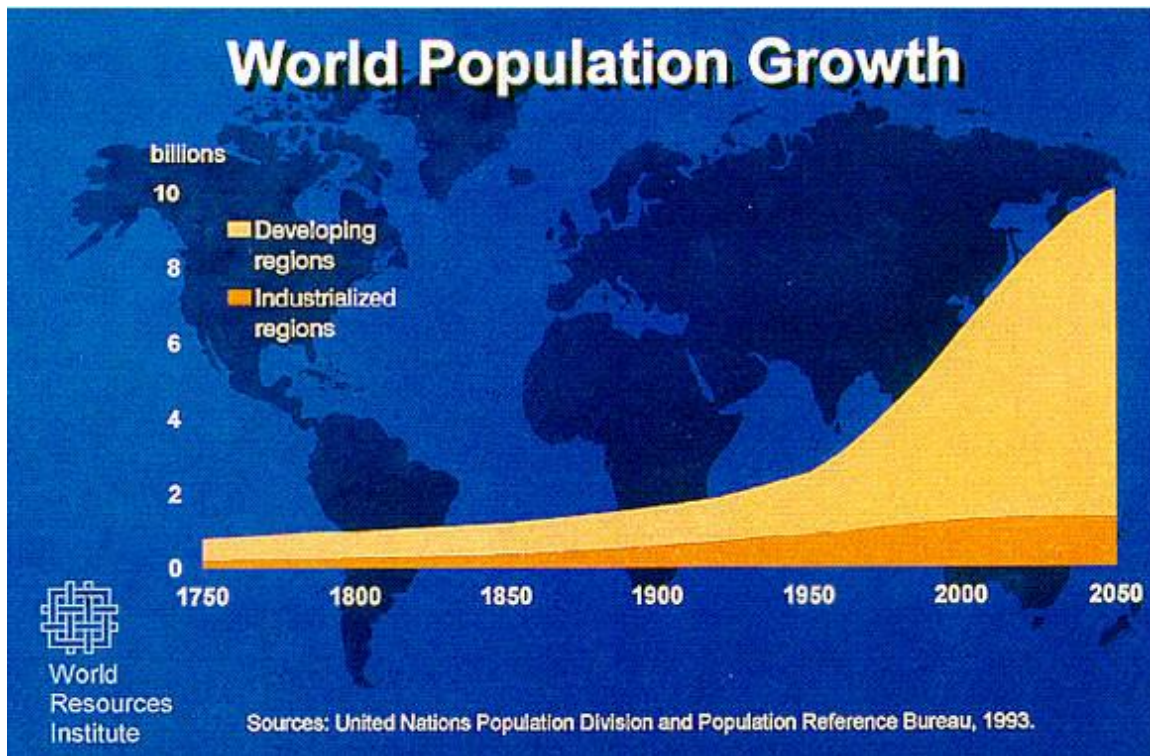
He believed that someone who is virtuous in ruling a democracy, must be able to put the common good above their own individual good.

He also believed that a democracy is a failure where the majority is poor and non-virtuous. This means that whomever is in office, and all have equal access to office

because of democracy's concept of equality, may not act in the best interests of the State and its citizens.

Aristotle famously said: 'When there is no middle class, and the poor greatly exceed in number, troubles arise, and the State soon comes to an end'.

POPULATION EXPLOSION 1910 TO 2016



By 1800 World Population had reached one billion people for the first time. This had increased to 2,3 billion by 1950. The statistic exploded to 7,0 billion by 2011 and projections for 2050 anticipate an increase to 9,3 billion people. Further projections of World Population to the year 2100 are in some cases as high as 15.8 billion.

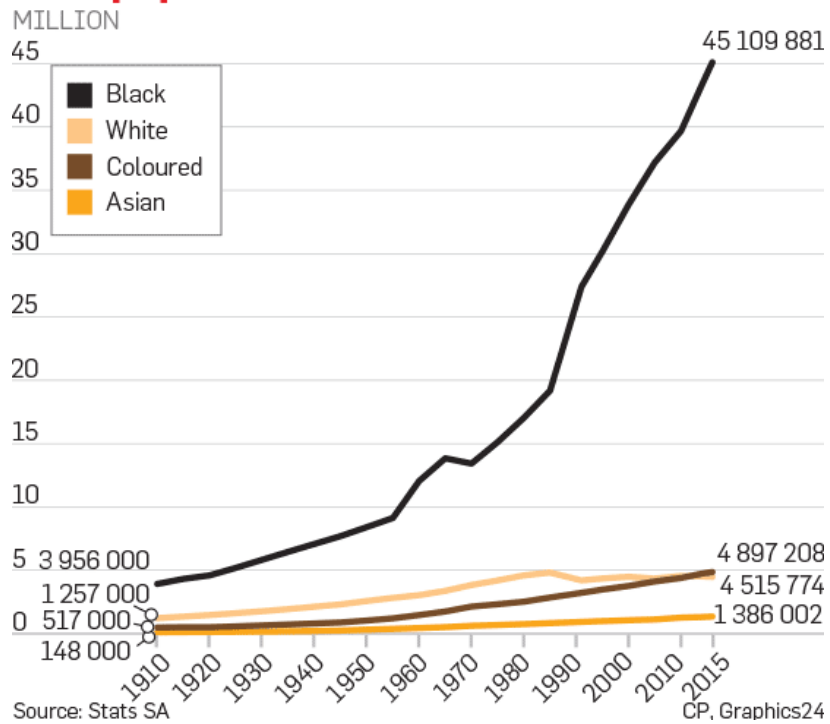
We have seen *one* billion people in the first eighteen hundred years since the birth of Christ and we expect an additional *fourteen* billion eight hundred million people in the three hundred years that follow. It is a horrifying and exponential progression and one which is both appalling and catastrophic. It is sad testimony to man's innate fallibility and absolute stupidity. While projections for the more developed nations are relatively flat, 97% of this anticipated increase will be experienced in less developed nations.

Most disturbingly 49% of that increment will be experienced in Africa.

South Africa's contribution to the exponential growth on the African continent is equally appalling. While Whites, Coloureds and Asians grew from 1 922 000 individuals in 1910 to 10 798 984 in 2016, an increase of 5,6x, Blacks numbers increased in the same period from 3 956 000 to 45 109 881 people, an increase of 11,4x.

Blacks represented 67% of South Africa's population in 1910, whilst in 2016 they had grown to represented 81% of the population. The other race groups had declined from 33% in 1910 to 19% in 2016.

SA's population: 1910-2016



SA Population: 1910 to 2016

	Millions	%	Millions	%
Black	3 956 000	67,00	45 109 881	81,00
White	1 257 000	21,00	4 515 774	9,00
Coloured	517 000	9,00	4 897 208	9,00
Asian	148 000	3,00	1 386 002	1,00
Total	5 878 000	100,00	55 908 865	100,00

Continuation of this historic population growth trend is unsustainable given South Africa's current unresolved challenges:

- Level of Poverty

- High Unemployment
- Large Social Grant Burden
- Low Matric Pass Rate
- Low Conversion to Employment Rate
- Public Sector usurping the role of the Private Sector
- High Debt to GDP ratio
- Junk Borrowing Status
- Migrating Taxpayers
- Low Foreign Direct Investment
- Pursuit of Failed Marxist Ideologies
- Unsustainable employment by SOEs
- Uneconomic SOEs
- Low Economic Growth Potential
- Level of Corruption

There is no doubt that European Colonization and Apartheid impacted the lives of Black South Africans between 1910 and 1994. Where shall we lay blame for the Black population explosion in that same period?

HOW THE WORLD SEES SOUTH AFRICA

Zuma 'functionally illiterate on economics', country ruled by thieves

by Matthew le Cordeur

February 23, 2017

South Africa's day of reckoning with international rating agencies is coming as a result of President Jacob Zuma, who "ushered in a kleptocracy that's now reached deep into his entire administration, barring the Treasury".

That's the view of Eurasia Group president Ian Bremmer and author of Time magazine's list of the world's top geopolitical risks, who visited South Africa in February on a fact-finding mission.

Bremmer placed South Africa in 10th place on the Times risk list, an alarming position to be in considering the various tensions rising around the world.

An influential Wall Street adviser based in New York, Bremmer is a leading political scientist specialising in US foreign policy, states in transition and global political risk.

In an email to investors, analysts and economists around the world, Bremmer said he "encountered one of the most dysfunctional governments in the emerging market space right now".

Zuma is 'functionally illiterate on economics'

"President Jacob Zuma is an exceptionally savvy political tactician but functionally illiterate on economics," said Bremmer.

"And he's ushered in a kleptocracy that's now reached deep into his entire administration, barring the Treasury.

"That they've managed to forestall credit downgrades is surprising, but the day of reckoning is coming, especially as the political pressures around Zuma mount."

He pointed to hope in the form of Deputy President Cyril Ramaphosa, but said it seems he doesn't have enough votes within the African National Congress (ANC) to make his rise to the presidency a reality.

"There's an eclectic but significant alliance forming around Ramaphosa to take over the leadership of the ANC party in December, with big business, the country's trade unions, and the communists all hoping for an alternative to Zuma's corruption.

"Ramaphosa certainly holds the moral high ground among party members, but that doesn't count for much in the party's internal elections, which will see some violence and is likely to be about brown envelopes rather than policy positions.

"At least for now, it doesn't look like Ramaphosa has the votes inside the ANC."

However, Bremmer offered a sense of hope.

“Still, that doesn’t mean the wheels are about to fall off South Africa,” he said.

“There’s a rich talent base in the country – only about 20% of South Africa’s whites left the country post-apartheid, and the elite labour pool is now reasonably well mixed between black and white.

“Further, South Africa’s economy is no longer dominated by commodities, but instead has diversified towards infrastructure, services and information technology, all of which bodes well for a comparatively inexpensive and high quality-of-life destination.

“Education remains poor and immigration is limited (mostly because of spotty execution on visas rather than the policies themselves), which limits the upside, but you already see South Africa, on Europe’s time zone, becoming a more attractive back office destination for European firms.”

Africa’s rise is also good news for South Africa.

“As Africa itself continues to grow, the base for diversified firms continues to be South Africa,” said Bremmer.

“Especially because the larger African markets – Egypt and Nigeria – are otherwise unattractive as destinations for regional hubs.

“For increased consumption and infrastructure, Africa overall will still see moderate to high growth. Companies that plan on expanding investments accordingly will mostly situate themselves in South Africa.” – Fin24

DISINTEGRATING STATE CAPACITY IS A BETRAYAL OF DEMOCRACY



William Gumede is Associate Professor, School of Governance at the University of the Witwatersrand, Johannesburg. He is Executive Chairperson of the Democracy Works Foundation and former Deputy Editor and Managing Editor of The Sowetan. During the anti-apartheid struggle, Gumede held several leadership positions in South African student, civics and trade union movements. He was a political violence mediator and area coordinator for the National Peace Committee during the multiparty negotiations for a democratic South Africa and was seconded to South Africa's Truth and Reconciliation Commission. He is the bestselling author of several books including, "Thabo Mbeki & the Battle for the Soul of the ANC" and "The Poverty of Ideas: South African Democracy and the Retreat of the Intellectuals" amongst several others.

William Gumede

October 25, 2017

State capacity — the ability of the South African state to implement its declared policies, public services and programmes — has been undermined by systemic corruption, poor skills at critical levels and not holding officials accountable for wrongdoing.

According to the World Bank's World Development Indicators, South Africa is one of the countries in the world where state capacity has gone backwards.

There are glaring examples of a lack of state capacity, where the actual delivery of public services is increasingly not in line with state policy objectives, laws and government statements.

The government introduced the Public Finance Management Act to ensure financial prudence, yet widespread corruption, mismanagement and waste have mounted.

The government has promised to improve school education, but South Africa regularly scores at the bottom in international mathematics tests.

The government says it will pay suppliers in 30 days, yet many companies are going out of business because the government can take months to pay.

State capacity in South Africa has failed at multiple levels. To improve the capacity of the state, multi-pronged interventions are necessary.

For starters, no amount of new technical solutions, more monitoring and evaluation programmes and management-style consulting sessions will reverse the slide in state capacity.

There must be a better understanding of the crucial elements that make up state capacity to come up with appropriate solutions to strengthen the capacity of the state.

The ANC as the governing party makes policy and is a crucial element of state capacity itself. This means that, although the ANC is the governing party, improving the policy capability of the ANC itself is crucial to overall state capacity. Increasingly, the ANC has become a party-state, where the party has become interchangeable with the state. This means that lack of capacity in the ANC will translate into plunging capacity in the state.

Elected and public representatives are crucial elements of state capacity. Elected representatives come up with policies, hold public officials accountable for delivery and play an oversight role over the effectiveness of policy implementation. If elected officials are incompetent, corrupt or lack the necessary oversight skills, they cannot effectively scrutinize policies, public service delivery and government actions, which undermines the capacity of the state.

Public servants are crucial as coal-face implementers of policies, services and government decisions. Increasingly, senior public servants, without the requisite knowledge, competency and management skills, are “deployed” on the basis of patronage, political connections and corruption to crucial public service posts.

Competent, honest and diligent personnel not aligned to corrupt clientelist networks are increasingly marginalized, vilified and forced out. This has also eroded the institutional memory in the state, meaning obtaining quality government data and statistics — the basis for quality policy — is increasingly difficult.

A crucial element of state capacity is the ability of the state to align and co-ordinate government decisions and activities across departments. But government surveys regularly report “silos” within the state.

Because of the erosion of competency within the public service, the ability of the state to analyze problems and generate relevant, evidence-based policies has also been undermined. These factors have combined to undermine the operational capacity of the state, with the state unable to deliver services efficiently, on time and at reasonable levels of quality.

An important pillar of state capacity is the level of perceived honesty of the state, and the ability to hold officials accountable for their actions. High levels of dishonesty erode state capacity.

Because of the systemic corruption and mismanagement, and the perception that it only applies laws to ordinary citizens and low-level public servants and often exempts errant politically connected leaders and public servants, the state is increasingly losing its authority.

Furthermore, the official policy, laws and rules reflected in constitutional documents and statements by leaders are increasingly diverging from practice. For example, the South African Revenue Service issues statements that ordinary people who do not pay taxes will be severely punished, but the politically connected get away without paying due taxes.

Informal rules, behaviour and decisions increasingly supersede the formal laws, policies and behaviour. The state has lost its ability to assert the “rules of the game”, to regulate, monitor and enforce political, economic and social behaviour. This crucial component of state capacity is often missing in poorly performing African and developing countries.

The ability to manage divergent social demands effectively is a crucial element of state capacity. When the state loses its authority, it also loses its capacity to manage society-wide divergent conflicts and interests.

The views of ordinary citizens, customers and users of the quality of public services and the state’s response to them is a crucial aspect of state capacity. But these views are increasingly ignored by the state.

Democratic oversight institutions such as the chapter nine institutions, the public protector and courts hold government departments accountable for public services. But, if these institutions are packed with incompetent and politically connected staff, they are also unable to play their constitutional role and therefore undermine state capacity.

Finally, civil society — the private sector, business and social movements and nongovernmental organizations — are crucial partners in helping the state to deliver public services. But the state is often hostile to civil society, which also erodes the capacity of the state to deliver public services.

William Gumede is an associate professor at the University of the Witwatersrand’s School of Governance. This is an edited extract from an address on state capacity and democracy at North-West University

CORRUPTION AND FRAUD AFRICA'S WEAPONS OF MASS DESTRUCTION

Nceku Nyathi started working at University of Cape Town Graduate School of Business (GSB) in September 2013 as a Senior Lecturer at the Allan Gray Centre for Values-Based Leadership. Previously he worked at The Open University Business School and The University of Leicester, School of Management. He has a BSc (Hons) from Cirencester, an MA from Warwick and PhD from University of Leicester. From 2010-2012 he was part of Advancing Business Learning for Employability in Ghana (a collaboration between The Open University Business School and five top Ghana's Business Schools).



He is a Senior Lecturer in the Allan Gray Centre for Values-Based Leadership at the UCT Graduate School of Business.

Nceku Nyathi

October 26, 2017

Institutions and broader society have a crucial role to play in terms of encouraging and promoting ethical behaviour to boost business and the economy, says Dr Nceku Nyathi.

ALMOST every day we read about politicians and business executives involved in acts that show a lack of integrity, morality, and ethics.

In South Africa, a string of corruption scandals involving President Jacob Zuma and graft allegations implicating state-owned enterprises continue to dominate the headlines. Evidence of graft has also been piling up against multinational companies implicated in the leaked Gupta emails, notably KPMG and McKinsey.

It seems that ethics is a casualty in the pursuit of financial gain. But this Faustian trade-off has implications for the long-term health of business, the economy and the country.

It has been estimated that SA loses between R25bn and R30bn each year to corruption, incompetence and negligence in the public service, never mind the reputational damage that deters foreign investors.

According to the South African Business Ethics Survey published in 2016, a majority of corporate SA is still not serious about integrating ethical behaviour into their culture, but remains focused on regulatory compliance.

Ethics Institute CEO Professor Deon Rossouw noted, during the release of their survey, that SA's poor economic performance as well as the general slump in the world economic environment were factors facilitating unethical behaviour.

"Our study shows that businesses typically have ethical codes of conduct ... but the pressure to meet unrealistic financial targets is probably another reason for many unethical decisions and actions," he said.

Auditor general Kimi Makwetu has challenged this point of view, stating: "[True] ethical leaders do not compromise their standards for material gain."

This begs the question: Can we make bad people good by teaching them about moral conduct or moral theories?

Over 2000 years ago, the philosopher Socrates argued that ethics consisted of knowing what we ought to do, and that such knowledge can be taught.

Morals, honesty, integrity are generally constant throughout society. It is the conduct of individuals that changes. The behaviour of individuals tells us about their level of morality and their moral standing.

Speaking at the Allan Gray Speaker Series at the UCT Graduate School of Business (GSB) in October, Michael Louis, the director of the Louis Group International and a founding member of the African Christian Democratic Party (ACDP), said ethical standards differ from one individual to the next.

Wrong is wrong and right is right

"Every one of us has a different ethics standard... It is about your standard, not somebody else's standard. Set your own standards, [but] wrong is wrong even if everybody is doing it and right is right even if nobody is doing it."

Speaking at the same event Graham Power, founder and executive chairperson of the Power Group of Companies and the Unashamedly Ethical campaign, pointed out that ethical considerations are key to the success of any business.

“I am of the view that when doing business deals you have to ask yourself: ‘How will this make me feel if it is published on the front page of the newspaper and my wife and kids found out?’...that, for me, is the true test of whether something is a grey area or not in terms of ethics.”

He said that people know what’s going on in the country. “It’s Gupta leaks, it’s Eskom, it’s bribery, it’s corruption and collusion, back and forth. I believe we will get to the point where it will no longer be fashionable to do whatever is necessary to drive the nicest car, to live in the best house.

Power added that placing greater emphasis on developing ethical leaders would help eradicate corruption, which is holding the county back.

“Corruption and fraud is the largest weapon of mass destruction. We will not eradicate poverty in Africa unless we eradicate systemic corruption.”

While there is no instant solution to addressing corruption, and developing ethical leaders in business, civil society, and government, there is no doubt that educational institutions have a crucial role to play in terms of teaching and promoting ethics, good character, courageous stances and moral choices.

Marcus Tannenber, one of the authors of the Poznan Declaration, a formal statement aimed at mainstreaming ethics and anti-corruption in higher education, said that universities need to use their influence to address “the causes behind the causes” – that is, the determinants of corrupt behaviour, which likely has its roots in the value systems of decision-makers at various levels within the public and private sector, many of whom have been educated at universities.

The broader society and the home also have important roles to play. In a 2010 article published in the Journal of Values-Based Leadership, Joseph Hester and Don R. Killian argue that we cannot speak about ethics and moral behaviour without talking about community and the home. They claim that moral values are learned early in life and direct our purposes, beliefs, and values as we mature.

“The financial debacle of 2009 confirms that many in leadership positions feel that this is a ‘me-first’ world and are apt to live by principles of greed rather than the moral principles they have sworn to uphold. There is an urgent need to dig deeper, to ensure that children first grow up with a proper understanding of right and wrong through a study of morals and ethics.

"If we expect our children to grow up with a respect for the rule of law, which needs to be seen as fair and equitable for all, then we need to teach them about making moral choices and having a value system as a basis for their decision-making," Hester and Killian pointed out.

Without proper ethical considerations, they argued, we are in danger of society becoming increasingly fragmented and unstable as self-interest overshadows the public good.

“We cannot put everyone in a single moral universe, but we can teach them about cause and consequence, about the value of charity and community and about having values that are not able to be measured in material terms alone.”

ANC IS ON THE BRINK OF EXTINCTION

By Gemma Ritchie, Mashadi Kekana

October 27, 2017

In a bold speech to honor the memory of OR Tambo, former president Thabo Mbeki delivered a fiery criticism of the ANC, saying the party has failed its own heroes.

Friday marks OR Tambo's centenary birthday in what has been declared the 'Year of OR Tambo' by the South African government under the theme, "Life and Legacy of Mr. OR Tambo".

OR Tambo was one of the founding members of the ANC youth league in 1943, alongside Nelson Mandela and Walter Sisulu and he served as president of the ANC from 1969 to 1991, making him the longest serving president.

To commemorate Tambo's life and legacy on October 27, the University of Witwatersrand hosted a lecture given by Mbeki. And Mbeki took the opportunity to join a chorus of voices that have criticized the party under Zuma's leadership.

"We are at a time of great stress", said the former president.

He continued: "It is a critical time in the ANC's history" where the party faces "a third threat of extinction".

Allegations of corruption aren't new to the party, Mbeki reminded his audience as he recounted the near destruction of the ANC in the 1940s and 1960s. The former president's warning seemed to be that history is on the verge of repeating itself.

In the 1940s, Mbeki said, corruption in the ANC and "self-serving leaders almost led to the organizations disappearance".

It was in the 1940s that OR Tambo began playing a key role in the movement as a member of the African National Congress Youth League (ANCYL).

The subsequent strength and unity of the ANC in the 1960s led the apartheid government to become increasingly fearful of the party and other liberation movements.

The ANC, as well as other anti-apartheid organizations, was banned in South Africa. In yet another period of danger to its existence, Mbeki regaled how the party relied on mass struggle, international solidarity and its own underground movement to survive.

Mbeki noted how Tambo was a key tactician and said the end of apartheid would have been impossible without him.

"OR Tambo is the father of South Africa's democracy," he said.

Mbeki highlighted Tambo's principled character, his honesty and intellect as a model for South Africans, and genuine ANC members.

To move forward, Mbeki has encouraged ANC members to “go against the entrenched rapacious and corrupt values” which, he said, have become the norm in the ANC since 2007 - the year that Zuma was elected ANC president.

OR Tambo was the longest serving ANC president and he founded the ANC Youth League alongside Nelson Mandela. After 50 years in politics, Tambo died in 1993, a year shy of witnessing South Africa transition into democracy.

THE PRESIDENT'S KEEPERS

Jacques Pauw

October 29, 2017

This is an exclusive extract from Jacques Pauw's 'The President's Keepers', which delves into a world of lethal criminals: the men who keep this toxic president in power. 'He is a gangster like us': New book reveals Zuma's 'darkest secret'

Once Jacob Zuma ascended to the highest office on 6 May 2009, one hoped he would change his ways and obey the laws of the land. He didn't, and failed to submit a tax return for his first year in office. This was no exception. He didn't submit a tax return for the second year, either. Or the third or the fourth.

By 2011, the VIP Taxpayer Unit was again begging the president to get his tax affairs in order. At the time, this unit reported directly to Ivan Pillay, who was concerned that Zuma's non-compliance would create political fallout and cause people to pitch the South African Revenue Service against the president.

He appointed Mark Kingon to handle this predicament. Kingon, Pillay and [Gene] Ravele had meetings with both [Zuma's attorney Michael] Hulley and Zuma - one was held in Durban - where the president's onus to submit his returns was (yet again) explained to him. The majority of subsequent meetings appear to have been between Kingon and Hulley.

There are a couple of reasons Zuma didn't want to submit his tax returns. The first was more than likely the predicament of the Nkandla upgrades. Much has been written about Zuma's Versailles; this sprawling symbol of corruption and sleaze that will forever be a shrine to his calamitous rule.

Legally, Zuma owed millions of rands in tax on the fringe benefits that accrued to him because of these upgrades. He has always maintained that they were security-related and that he didn't ask for them. He argued he was therefore not responsible for any taxes. As the extent of the upgrades became more apparent in 2012, the tax effects on Zuma became equally clear.

R63-MILLION TAX BILL

Fringe benefits must be declared by taxpayers, who are then taxed on these annually as a matter of course by SARS. According to the seventh schedule of the Income Tax Act, there is no doubt that Zuma owed SARS for the benefits he derived from the upgrades to Nkandla. Whether the upgrades were security-related or not is irrelevant. The fact remains that he received significant fringe benefits. Tax law determines that tax is owed whether such benefit is "voluntary or otherwise".

It thus wouldn't have helped Zuma to argue that he didn't ask for the upgrades - this didn't matter either. The public protector later found that not all the upgrades were security-related, and that Zuma had to pay for those.

SARS determined that Zuma was probably liable for taxable fringe benefits of around R145,185,235 relating to the upgrades. Taxation of this amount at a rate of 40% is R58,074,094. Because Zuma hadn't declared these fringe benefits, a penalty of 10% - amounting to R5,807,409 - would have to be added, plus additional interest. This alone would have brought his tax bill for Nkandla to R63,881,503.

By October 2013, SARS had completed its preliminary inquiries into the upgrades and other aspects of Zuma's non-compliance with tax laws. The file was kept with the VIP Taxpayer Unit, which deals with the taxes of prominent politicians, cabinet ministers and top civil servants, and locked away while SARS waited for Zuma's tax submissions. Although Michael Hulley had promised that Zuma would submit his returns, nothing was forthcoming. SARS, mainly through Kingon, kept on nagging Hulley to comply, but Hulley just kept on giving SARS the runaround.

My sources tell me that by May 2015 Zuma had still not submitted his returns. They also gave a fascinating account of an incident in early 2011 when a "donation for Nkandla" arrived on a private jet at King Shaka International Airport outside Durban. When customs inspected the cargo, they found, among other things, medical equipment on board. The shipment originated in Russia and the sender was a man by the name of Vladimir Strzhalkovsky.

An internet search revealed that Strzhalkovsky is a former KGB agent who joined the ranks of post-communist Russia's oligarchs and became one of the biggest businessmen in that country. He is the former CEO of Norilsk Nickel, the world's largest nickel and palladium producer. Strzhalkovsky received a R1.4-billion payout in 2012 to step down from Norilsk Nickel.

My sources told me that the medical equipment on board the aeroplane was a mobile clinic for Nkandla. SARS impounded the equipment because it didn't have the required clearance certificates and documents. Vivian Reddy, Zuma benefactor and friend, contacted SARS commissioner Oupa Magashula, insisting they release the shipment without following due process. Strzhalkovsky was due to visit South Africa where he would present the clinic to Zuma at Nkandla. Magashula refused to budge.

Enter the minister of state security, Siyabonga Cwele. He informed Magashula that the cargo on board Strzhalkovsky's plane concerned "state security" and that his agents were taking control of the shipment. Magashula relented because national security overrode the customs laws of SARS.

At the end of March 2011, the Russian multinational Norilsk Nickel said in a press statement that Vladimir Strzhalkovsky had visited Jacob Zuma and had handed the president a Russian mobile telemedicine laboratory at Nkandla. Siyabonga Cwele was present at the ceremony.

Norilsk said in its statement: "Jakob [sic] Zuma expressed high opinion of the Company's current projects in the country. He emphasized that South Africa is ready to proceed with supporting the participation of Norilsk Nickel in new ore extraction and processing projects in South Africa."

"But that is not the end of it," said my source. "The medical equipment wasn't all that SARS detained on that day at the airport."

"What else?"

"There was also a lot of cash on that plane. A lot.

"SARS detained the entire plane with everything on board. When Cwele moved in, he took over the whole shipment, including the money. The money was also not declared and therefore illegally imported. Its origin and destination were never determined. But I think it makes sense that the clinic and the money had the same end destination."

ON THE PAYROLL FOR R1-MILLION A MONTH

What I discovered next was almost too fantastic, implausible and far-fetched. Have you ever heard of any head of state anywhere in the universe who was, while running the affairs of his country, also an employee of a private company?

In 2010, a SARS auditor in the Durban office of the revenue collector was doing a routine tax compliance check of a security company by the name of Royal Security. The company's founding member and director is Roy Moodley, who is a public friend of Jacob Zuma and an ANC benefactor. The company has offices and security personnel in at least six provinces and says on its website it has three thousand clients and contracts with the police, First National Bank, Engen, Transnet, MTN and Telkom.

Employers are by law required to deduct tax from employees monthly and pay this over to SARS.

It was explained to me that SARS uses reconciliations to ensure that the tax that employers claim to have paid to SARS on behalf of their employees and the income declared by the same employees add up. It is a criminal offence for any employer to deduct tax from an employee and not pay this over to SARS.

The Royal Security payroll reconciliations that the SARS official scrutinized included the tax years 1 March 2009 to 28 February 2010. From what I could establish, Royal Security was not under SARS investigation and it seemed at face value to have been tax compliant.

However, one of the Royal Security employees on the reconciliation raised a red flag because the auditor was unable to determine whether tax had been deducted from his salary and paid to SARS. The employee was remunerated at an amount of R1-million per month. Income tax on that salary bracket would have been around R400,000 per month. The employee was JG Zuma, which didn't raise any unusual suspicions from the official until he searched for the details of the taxpayer on the SARS mainframe. Access to the employee's tax records and employment history was blocked.

It dawned on the official: JG Zuma, employed by Royal Security, was none other than Jacob Gedleyihlekisa Zuma, the fourth president of democratic South Africa.

FRIENDSHIP HE WON'T DISCUSS

At his 60th birthday bash at Durban's International Convention Centre in February 2014, the son of the flamboyant security tycoon Chockalingam "Roy" Moodley told the attendees that his father was the most powerful man in the country. Nobody blinked, not even Jacob Zuma, who was the guest of honor and sat at Moodley's table.

When the president delivered the keynote address at the horse-racing- themed bash, he said to Moodley: "You're a friend, comrade." He then bumbled in true Zuma style: "We have something to do with you during elections which we have discussed with you. It will be impacting on people in different ways. I want him to impact on certain people in a few months. Your friends and colleagues here vote well."

Zuma and Moodley come a long way. When the ANC leader was inaugurated as president in May 2009, Moodley was one of his VIP guests.

There have for years been rumors that he has been bankrolling both Zuma and his family.

He is also reportedly a generous contributor to the ANC and was previously ward chairperson of the organization's Umhlanga branch in KwaZulu-Natal.

When public protector Thuli Madonsela did her "State of Capture" report, she submitted a list of 42 questions to Zuma. One of the questions was about his relationship with Moodley. Zuma refused to answer her. Their friendship has nonetheless been public, warm and beneficial. Moodley is an avid racehorse owner (he had 51 winners in the 2014/15 season) and in 2010 Zuma famously won R15,000 at the Durban July and was pictured flaunting the cash alongside Moodley. The two were again pictured together at the 2016 Durban July.

News24 reported in 2016 that mystery surrounded payments of R550-million to Moodley by a tender-rich IT security company. Siyangena Technologies won disputed contracts from one of our many ailing and besieged parastatals, the Passenger Rail Agency of South Africa, worth R4-billion, and in turn paid large sums of money to companies directly linked to Moodley.

The news site said that Siyangena is co-owned by soccer boss Mario Ferreira, whose relationship with Moodley seems to involve more than just business; they are co-owners of local racehorses. The payments from Siyangena to Moodley were the third example of large, unexplained payments that Prasa contractors made to individuals closely linked to Zuma and his family.

THE PRESIDENT'S BOSS

The "JG Zuma" tax query from the Durban auditor at the regional office in Durban caused consternation at head office in Pretoria.

My sources said that Royal Security ultimately paid the taxes due to SARS on behalf of the "employee" (JG Zuma) and the matter, at least from the company's perspective, was laid to rest. Moodley paid the tax via bank transfer.

They said - and this is the crux of the matter - that Zuma was employed at the security company for at least four months after becoming president. It means that for the first

months of his presidency, Zuma's boss was Roy Moodley. These payments to Zuma must give Moodley an iron hold over Zuma.

What Zuma allegedly did was dishonest, unlawful and unconstitutional. He came close to losing his presidency after the Constitutional Court ruled in 2016 that he had failed to uphold the constitution. But this is much worse.

MORTAL DANGER

Zuma was in deep trouble, because the officials that dealt with Zuma's tax affairs - Oupa Magashula before he left SARS, Ivan Pillay, Mark Kingon, Gene Ravele and Johann van Loggerenberg - would have treated Zuma no differently from any other taxpayer.

During the meeting between Pillay and Zuma in February 2014, the SARS acting commissioner apparently stressed to the president that he could not continue to drag his feet on the Nkandla tax issue and that, unless he submitted his tax returns and declared the fringe benefit, SARS would have no choice but to advance the case to the next level.

According to internal SARS notes of the meeting, Pillay told him that whatever his answer was to be regarding Nkandla, he needed to do his tax planning on the effects of the Nkandla benefits and do so properly and soon. Otherwise it would become a problem and SARS did not want to be drawn into political fights.

Zuma was once again noncommittal about his returns and undertook to give the matter his attention.

A full-scale probe of Zuma's tax affairs posed a mortal danger to him because he couldn't afford to pay the taxes, which could ultimately have resulted in his sequestration - which would have spelt the end of his presidential reign. A South African president cannot be an unrehabilitated insolvent.

Secondly, had it come out that he was also an "employee" of a private company in the first few months of being president, he could have been "impeached" and removed from office.

Even if a generous sponsor was prepared to settle Zuma's massive tax bill, it would have unleashed donations tax. If Zuma got a loan to pay his tax bill, he would have had to show how he was repaying the loan. Through a mixture of ignorance and arrogance, the president had spun himself into a cocoon from where there was no escape.

When the Constitutional Court ruled in 2016 that Zuma must repay R7.81-million for the non-security upgrades at Nkandla, he had to scrounge South Africa's northernmost outpost to find an institution that would lend him the money. VBS Mutual Bank was set up in the former "independent" Republic of Venda and specialized in home loans for residents in the area. Zuma has a woeful credit record. Any credible financial institution would red-flag and reject his application.

My SARS sources said: "We know that Zuma fears the corruption charges. That's common knowledge. But that's nothing in comparison with his potentially huge tax bill,

the fact that his household may have received proceeds of smuggled tobacco, and those payments allegedly made by Roy Moodley. And there are others too, the Guptas and so on. He would never have survived it. He could even have been sequestered ultimately. That was his biggest fear. And he knew these guys hardly lost cases in court."

There was, of course, the last and final solution for Zuma; the ultimate way out of his tax problems. This is the one I am suggesting was the reason for the upheaval at SARS and the removal of the "Gordhan Four".

The first step for Zuma was to appoint his pal Tom Moyane as SARS commissioner. He, in turn, purged the place of anybody who could cause trouble. That, of course, wouldn't have been enough, because what if they talk, or what if they enter the system in another way? No, they had to be branded as dishonest, criminal even, crooks, untrustworthy - just in case any of them decided to say something nasty about Zuma.

SNITCHES, PIMPS, RATS ... AND THE PRESIDENT

Hold on to your seat for I'm going to take you on a short journey through gangsta land. And not just because it entails gaudy and lurid characters with high entertainment value, but because it relates directly to the events around tobacco manufacturer Yusuf Kajee, Nkandla and Jacob Zuma. It highlights Kajee's relationship with the president.

Towards the end of 2013, four unsavory characters met at the upmarket Serengeti golf estate near OR Tambo International Airport on Johannesburg's East Rand. They were convicted drug dealer Glenn Agliotti, Kajee and a business associate, Paul de Robillard, as well as a fourth person by the name of Warren who never spoke. A magistrate once placed Agliotti among the "snitches, pimps and rats" who sold their soul to avoid spending time in the slammer. Called the "Landlord", he has for years been known in the underworld as a "fixer"; the go-to guy who sets up "connections", makes problems disappear and negotiates deals.

Agliotti's biggest feat has been his cunning ability to avoid prison time. He was the man who bribed police commissioner Jackie Selebi and then turned state witness against him. In the Selebi case, he was offered immunity from prosecution in exchange for his testimony against his friend. His evidence was poor, and the judge refused his application for immunity, but he was never charged.

As Selebi commenced his 15-year prison sentence, Agliotti was charged with the 2005 assassination of mining tycoon and ANC benefactor Brett Kebble. He wriggled himself out of that predicament as well. The actual trigger-pullers had lined the witness box to tell the court that Agliotti had masterminded the killing. Agliotti admitted in court that he had perjured himself about a host of things - but so had his accusers. Everyone had lied, and therefore Agliotti got off.

Days after the refusal of his indemnity, SARS laid criminal charges against him and eventually took him down when they found that he owed more than R70-million in unpaid taxes and penalties. He pleaded poverty and was in 2013 sequestered by one of Van Loggerenberg's SARS units. The criminal charges have been languishing at the NPA ever since.

Two meetings between Agliotti, De Robillard, Kajee and "Warren" were digitally recorded by one of the men, who gave the recordings to Van Loggerenberg. He has stated publicly that he handed copies of the recordings to SARS, various investigative panels, the Hawks, the police, the NPA, the State Security Agency and the inspector-general of intelligence. I have dealt with both Agliotti and Kajee in my days as a journalist and the voices on the recordings are undoubtedly theirs.

Much of the conversation between the men is nothing but gangster-banter-shit-chit-chat. Agliotti did most of the talking and puff, swagger and rant about his magnificent feats in gangsta-land. Agliotti had arranged the meeting because he needed cronies to be part of his state-sponsored cigarette-smuggling operation.

It is easy to get overwhelmed by facts and names, but I will attempt to keep it simple.

In August 2011, State Security Agency agents and a police crime intelligence informant embarked on Project Robin to set up their own tobacco-smuggling enterprise. Among them were SSA acting head of economic intelligence Ferdi Fryer; another SSA agent, Graham Minnaar; and SSA agent and Pretoria attorney Belinda Walter. Some of them would later greatly assist Tom Moyane - and, by implication, Jacob Zuma - by plotting to discredit SARS and specifically Van Loggerenberg.

The rationale behind the project was that they could eliminate tobacco smuggling by flooding the market with even cheaper cigarettes through smuggling their own, while making a lot of money for themselves in the process. They needed a "sponsor", someone who could set up the infrastructure and in return profit from the enterprise. They decided on Tribert Ayabatwa, who has an estimated personal fortune of about R2-billion. He is a Rwandan industrialist who owns a significant property portfolio in South Africa.

Ayabatwa was charged with R55-million tax fraud in 2009 and fled to the UK, where he was arrested and faced extradition. He entered into a plea agreement with the NPA and pleaded guilty to a range of crimes. He received a suspended sentence and had to pay a huge fine and settle his enormous tax bill.

Apparently, a clause in the plea bargain prohibited Ayabatwa from trading in cigarettes for several years. Project Robin flouted this condition, but Ayabatwa initially agreed to be the sponsor. Ayabatwa was going to invest R10-million and profits of R40-million were anticipated. Ayabatwa would receive back his initial investment of R10-million, leaving a halfway split of the remaining R30-million, which would've left the SSA agents with R15-million to share among themselves.

Whether Ayabatwa knew he was collaborating with SSA agents or whether he was being played by them is something that remains unanswered, because this matter has never been properly investigated.

A month after the launch of Project Robin, Graham Minnaar said in an e-mail addressed to the other agents that he was putting the project on ice for at least six months "to build a better relationship before implementing the commercial aspects of the story". It appears that at some point the SSA agents had problems with Ayabatwa and that he withdrew as a "sponsor". They had to find a new one - which might explain Agliotti's

insistence that the project was approved by what he called the "NIA" - the National Intelligence Agency - which was renamed the SSA.

THE GANGSTER'S PROMISE

Agliotti: I have been smuggling cigarettes for thirty years. I am a fucking gangster. Cigarette game is bigger than drugs. We are all smugglers. We can make money together. The government has asked me to run a smuggling operation ... From Zuma's office there is a team in place. I will appear nowhere because I know the game.

De Robillard: Why the fuck me?

Agliotti: Because you are successful. You are in the cigarette game. Indemnity to whoever I tell them. Three-year project. Smuggle as much as you want.

De Robillard: What do you need from us?

Agliotti: Get the product and we will run it. I will give you all the protection in writing. They know I am a gangster.

Kajee: Will it be with their blessings?

Agliotti: SAPS, Hawks, SARS all the way down. We already negotiated the whole thing. Three years. That is my retirement. I said, Zuma you are going to pay. I helped you become president or you would have been arrested.

Kajee: But he is a genuine guy.

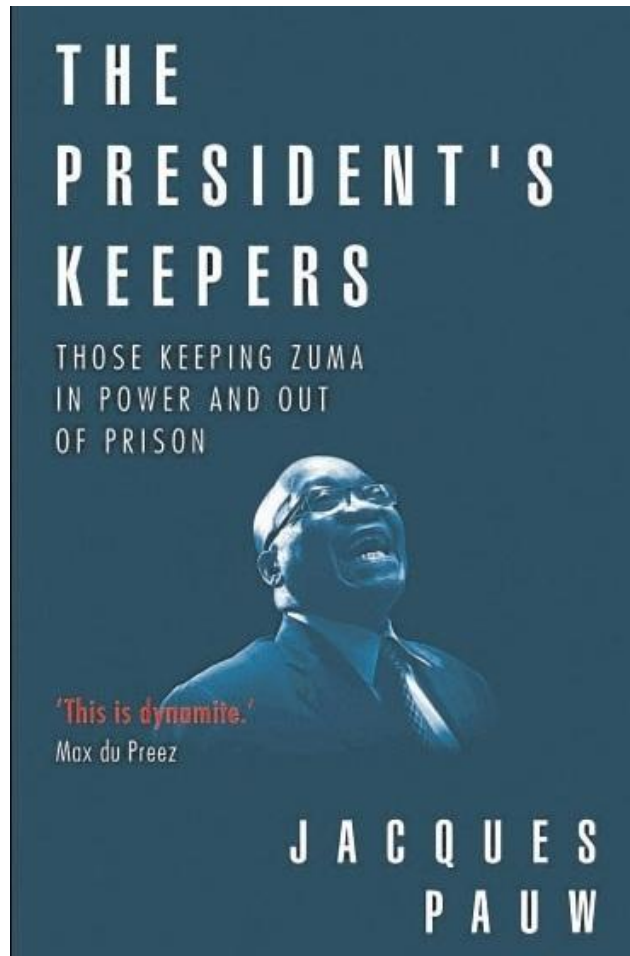
Agliotti: No, he is fine. He is a gangster like us.

De Robillard: How many do you have to shuffle a week?

Agliotti: As much as we want. It's our call. But I have three years. The best advice I can give is sell your Ferraris. I have fuck-all in my name. Not even a bank account. I have three things in my name. My three kids.

Kajee: Why did you choose us, Glenn?

Agliotti: I'll rather run with operators. You run it. I will give you the protection from the president's office.



THE BOOK REVEALS:

- How intelligence and law-enforcement agencies waged a dirty-tricks campaign to discredit top SARS officials;
- How millions of rands of taxpayers' money flowed into the accounts of bogus spies; and
- How SARS stopped tax investigations into Zuma cronies

THE BOOK KEPT UNDER LOCK AND KEY

Book kept under lock and key Jacques Pauw was a founder member of the anti-apartheid Afrikaans newspaper Vrye Weekblad, where he exposed the apartheid death squads in the late 1980s. In the President's Keepers he takes aim at the current regime with revelations so shocking that copies of the book were kept under lock and key until its release today. He had given up his career in journalism but in 2016 received a tip-off about massive corruption in the State Security Agency. 'This was the start of this book, and from there it snowballed

STATE OF THE SOUTH AFRICAN ECONOMY

By Various Authors



Three biggest credit ratings agencies, Moody's, Fitch and S&P, are shocked at state of South Africa's economy

The Finance Ministry says the big three credit ratings agencies are in "shock" at the state of South Africa's economy.

Finance Minister Malusi Gigaba spoke to all three agencies Moody's, Fitch and S&P global ratings over the phone after his maiden medium-term budget.

His spokesman Mayihlome Tshwete said they asked specific questions about the wage bill, state-owned companies and low growth.

Gigaba's painted a bleak picture of the situation the country is in on Thursday, giving what he called an honest assessment of the challenges it faces.

He's also revealed the revenue shortfall is expected to come in at R50,8 billion this year, severely eroding South Africa's financial position.

The government's hand has been forced, because without selling off some assets the bailout for SAA and the Post Office of nearly R14 billion would have blown the budget, sending a disastrous signal to investors and ratings agencies.

Gigaba said: “Additional appropriations of R13.7 billion to recapitalize the SAA and the Post Office are being made. These have been partially offset using the contingency reserve, a shortfall of R13.9 billion remains to ensure the expenditures ceiling is not breached. We have decided to expose a portion of government’s Telkom shares; we don’t take this decision lightly, but we’ve had to.”

The bailout and an expected tax revenue shortfall for this year of a whopping R50,8 billion means the budget deficit will widen to 4.3% of GDP this year, against a February budget target of 3.1%.

All Share Index vs Mining & Resources Index

A glance at the chart below will reveal the continuing demise of South Africa’s once powerful economic engine – mining. The Mining & Resource Index now flatlines against the All Share Index.



Debt vs Gross Domestic Product

In 2016 South Africa recorded government debt equivalent to 51.70 percent of the country's Gross Domestic Product. Government Debt to GDP in South Africa averaged 38.65 percent from 2000 to 2016, reaching an all-time high of 51.70 percent in 2016 and a record low of 27.80 percent in 2008.



BizNews Alec Hogg 's interview with Finance Minister Nene revealed:

Government is already paying more than R100bn to service its debt. And now by Treasury 's own estimates, that rises to more than R150bn in three years. Nene is mindful of the challenge this poses for his future Budget addresses. Hogg said 'my notes show that at one point yesterday Nene said that unless something is done to stop the debt growing, annual interest will soon overtake social grants'.

He is doubtless reminded of this fact when he pores over the graphic above – the scariest in the entire Budget pack. Only two things will fix the problem: economic growth and no more borrowing. The first requires a Government that is prepared to address a range of structural issues bedeviling the SA economy – not just Eskom. The second means running a balanced Budget, a near impossible task in a developing country '.

Latest Debt vs GDP Budget projections show that the Government remains borrowed until 2019 at higher than 50,0%.

By 1994 the Apartheid Government had borrowed against South Africa's future in attempting to uphold the untenable principle of separate development. At that time, with a debt ratio of about 50% of GDP, our children were faced with a future of repaying their errant parents borrowings well into the future.

Under the conservative stewardship of first Nelson Mandela and after him Thabo Mbeki, Finance Minister Trevor Manuel managed to reel in excess expenditure and prudently repay the country 's debt.

By the time Jacob Zuma came to power in 2007, Manuel had performed a minor miracle in reducing the National Debt to Gross Domestic Product to below 30%. South Africa was once again looking attractive to foreign investors and Foreign Direct Investment, upon which the South African Economy critically relies, was looking bullish.

With Zuma at the helm the wheels came off.

Now in 2017, with a Debt to GDP ratio back up over fifty percent, our children's' futures are once more in hock. Additionally, with Zuma relentlessly pursuing a nuclear build

program, which the country does not need and certainly cannot afford, our kids, Black, Coloured, Asian and White, do not have a future in South Africa.

SA's public sector debt has exceeded levels last seen at the advent of democracy and indicates an economy on its knees.

Debt and debt-service costs are projected to rise drastically over the next three to four years. On Wednesday, the Treasury forecast an increase in the debt-to-GDP ratio to 60% by the 2020-21 fiscal year. In 1993-94, the ratio was 48.3%.

Standard Bank chief economist Goolam Ballim said the medium-term budget policy statement revealed that SA's political establishment had no clothes. "The finance minister was impressively candid about SA's dire situation. This was, however, matched by his inability to show a path to resolution."

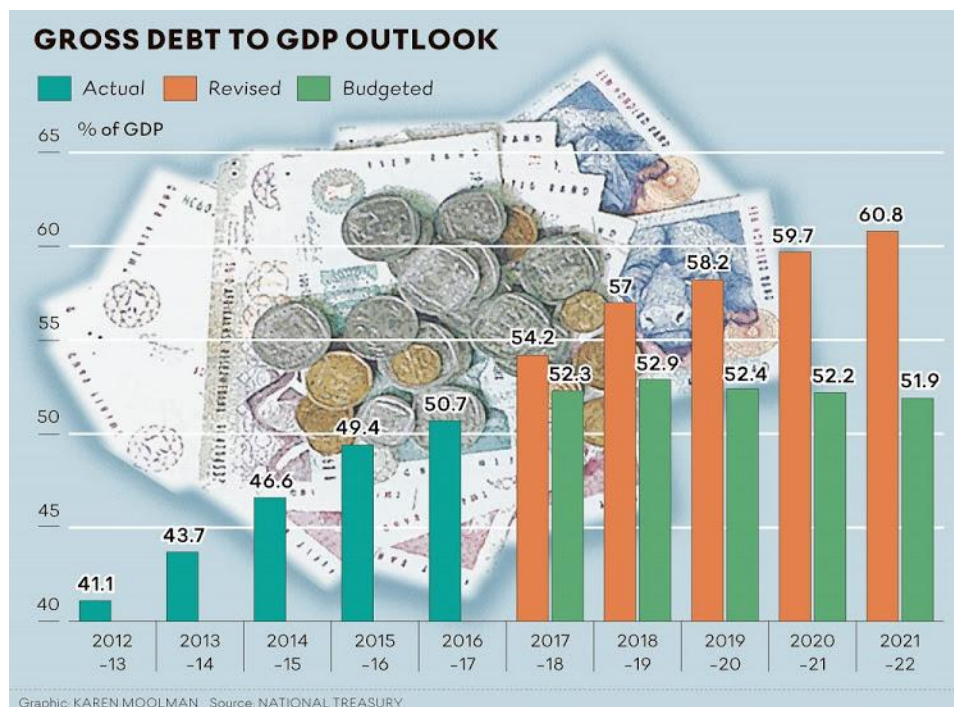
Debt-service costs will remain the fastest-growing category of public-sector expenditure over the next three years, crowding out social and economic spending.

Over the medium term, the gross borrowing requirement — the sum of budget deficits and funds required to refinance debt that matures during a year — will be nearly R1-trillion, from R248.3bn in 2017-18.

Gross loan debt is expected to increase from R2.5-trillion, or 54.2% of GDP, in the current fiscal year to R3.4-trillion, or 59.7% of GDP, in 2020-21.

"SA's economy is paralyzed singularly because of the political dysfunction," Ballim said.

ADVERTISING



"Until we glean who the next ANC leadership is going to be, we are going to remain paralyzed. Private-sector capital and investment is going to remain in recessionary mode."

Ballim said the budget had provided "no practical, plausible and implementable measures" to calm the markets. "If anything, the minister laid bare the increased propensity for credit ratings downgrades or perhaps he subtly ceded the resolution to the politicians and particularly the ANC."

John Orford, portfolio manager at Old Mutual Investment Group's MacroSolutions boutique, said bonds had weakened in the run-up to the budget.

Bond yields rose 35 basis points over the past month.

Until we glean who the next ANC leadership is going to be, we are going to remain paralyzed

"That shows there was some nervousness in the market about what to expect in the budget," Orford said.

"What we now see is a projection of debt to GDP rising sharply to 54% from the current level in 2017-18 but continuing to rise through the next four years and ending up at 61% of GDP," Orford said.

While there might be certainty following the ANC elective conference "on face value, it's a very negative budget for the bond market", he said.

"We see that in the reaction in bonds. Bond yields are up. The rand touched R14/\$ and came back a little."

Orford said it was a poor budget statement. "It doesn't credibly show an attempt to consolidate government's debt at sustainable levels. It's possible the budget in February may deliver something."

SA may need help from IMF if state debt reaches danger levels

by Justin Brown

October 25, 2017

Government debt could increase by more than 50%, or by R1.2 trillion, to danger levels over the four fiscal years ending March 2021 – and if this comes to bear it could ultimately lead the country to seek international help from organizations like the International Monetary Fund (IMF).

Finance Minister Malusi Gigaba today presented his first Medium Term Budgetary Policy Statement (MTBPS) to parliament. He was appointed as finance minister on March 31 after President Jacob Zuma reshuffled his Cabinet and fired Pravin Gordhan.

The MTBPS is a key fiscal statement and provides fiscal forecasts over a three-year time frame including estimated economic growth, tax revenue, expenditure, the budget deficit and the level of government debt.

Gigaba's MTBPS warned that gross national debt is projected to continue rising, reaching over 60% of GDP by March 2021 from over 50% earlier this year.

Debt of 60% of GDP is a red-light level for government finances while debt of 65% to 70% of GDP could see the government forced to seek international help from organizations like the IMF.

"Gross loan debt is expected to increase from R2.5 trillion or 54.2% of GDP in 2017/18 to R3.4 trillion or 59.7% of GDP in 2020/21. Absent higher economic growth or additional steps to narrow the budget deficit, the debt-to-GDP ratio is unlikely to stabilize over the medium term."

"In this context, government faces difficult choices," the National Treasury said.

"South Africa's stated policy aspirations and its social needs far exceed available public resources. Moreover, there is little space for tax increases in the current environment," the National Treasury added.

In another shock for investors, National Treasury said that the recapitalization of SAA and the South African Post Office put the government's expenditure ceiling at risk of a R3.9 billion breach.

"Government is considering the disposal of assets to offset these appropriations during the current year," the National Treasury said.

Treasury has cut its forecast for local economic growth.

For this year the government is forecasting the economy to grow by 0.7% from its forecast of 1.3% made at the February Budget Speech.

A growth rate of 0.7% for 2017 means South Africa has the slowest rate of growth – along with Brazil – among all major developed and developing economies worldwide.

The world economy is expected to grow by 3.6% this year and on average the developing world is forecast to expand by 4.6% in 2017.

For 2018, the National Treasury is forecasting growth to be 1.1% followed by growth of 1.5% in 2019 and 1.9% in 2020.

This compares with local population growth of about 1.6%.

As a result, the National Treasury said that its macroeconomic projections implied that per capita income, which indicates the average wealth per citizen, would stagnate for years to come.

"Unless decisive action is taken to chart a new course, the country could remain caught in a cycle of weak growth, mounting government debt, shrinking budgets and rising unemployment," the National Treasury said.

Debt service costs are forecast to be the fastest rising item in the government budget, increasing on average by 11% from the 2018 fiscal year through to the 2021 fiscal year. This increase compares with average increase in government expenditure of 7.3% over the same time.

Turning to inequality, the MTBPS document said that the share of total income going to the top 10% of local income earners is between 60% and 65%.

“Wealth inequality is even more pronounced,” the document said.

Gigaba said that local wealth remained highly concentrated with 95% of local wealth in the hands of 10% of the population.

The fiscal path the budget statement presents clearly cannot be sustained

by Lesiba Mothata

Mothata is executive chief economist at Alexander Forbes Investments.

October 25, 2017

Without well-considered reform in the political construct at the December ANC electoral conference, the stakes have risen for a profoundly negative economic scenario

For the first time since 1994, there is task team set up to deal with the fiscal challenges facing SA. It is led by the minister of finance who will report to President Jacob Zuma. The goal of this focused and select team is to come up with the actions needed to restore the sustainability of fiscal policy, and which will be put forward in the February 2018 budget.

Revenue shortfall

For the first time since the 2009 global financial crisis, there is an under-collection of R50.8bn, which was bigger than the market consensus of R40bn. All categories of tax revenue disappointed, with a material decline in personal income tax and value added tax (VAT). With weak growth and rising unemployment persisting in SA, the outlook remains challenging on tax collections.

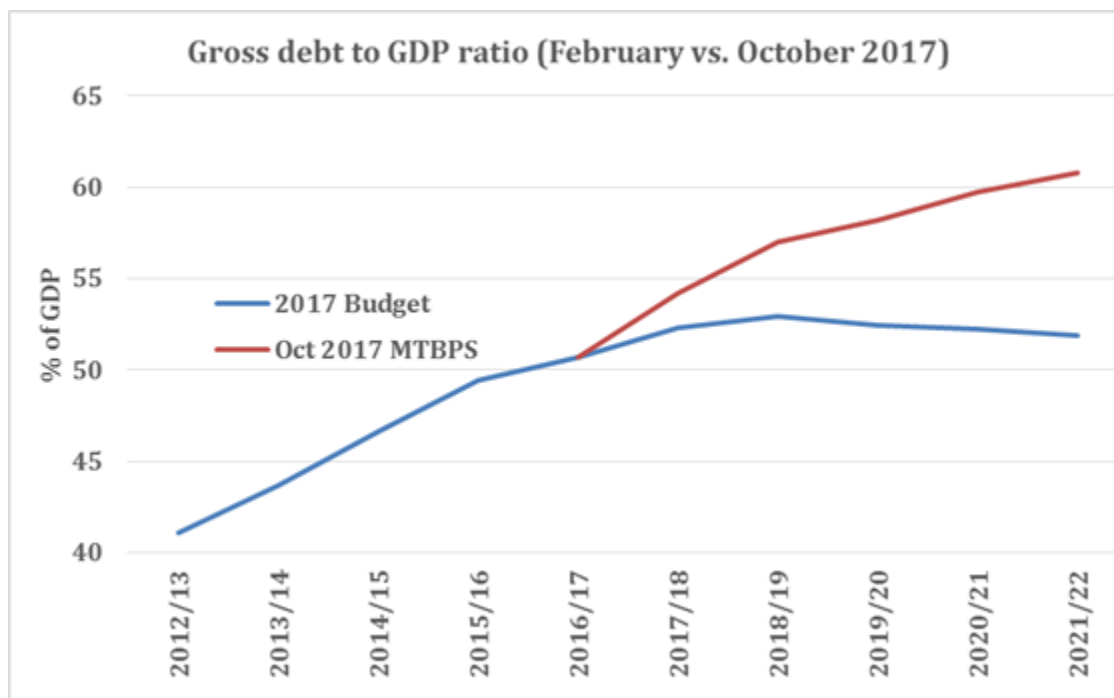
For the first time since the budget expenditure ceiling was introduced in the 2014 fiscal year, it has been breached, to the tune of R3.9bn, mainly as a result of bailouts for South African Airways (SAA) and the South African Post Office (Sapo). This will be viewed negatively by ratings agencies.

The evidence of fiscal consolidation was expressed by maintaining the ceiling. However, breaching it indicates a lack of discipline on the expenditure side, with spending growing at a pace of more than 7% year on year. It is proposed that National

Health Insurance (NHI), a new expenditure item, be financed through adjustments to medical tax credit.

Wage bill

Compensation to public-service workers has grown more quickly than the overall budget over the past eight years, and accounted for 35% of consolidated expenditure in 2016-17, up from 33% in 2008-09. Although detail on the public-sector headcount was provided, it did not reflect the promise of consolidation introduced by previous ministers of finance.



Debt load

There is a projected slippage in the gross debt to gross domestic product (GDP) ratio over the medium term, of a full six percentage points (see graph). To stabilize the debt-to-GDP ratio below 60%, the Treasury has said that for the next decade, substantial tax hikes are needed. In the 2018-19 financial year, tax hikes of up to R40bn will need to be collected.

Debt-service costs remain the fastest-growing category of expenditure. In the next five years, 15% of main budget revenue will be spent servicing debt. This will prove to be SA's Achilles heel. At these levels, the significant risk of debt sustainability begins to surface, especially when the primary balance (the difference between total revenue and noninterest expenditure) — which was expected to be positive over the forecast horizon in the February budget — has nosedived into negative territory.

Rating downgrades

This MTBPS has increased the likelihood of additional credit-rating downgrades before the year closes and ahead of the ANC electoral conference. Substantial fiscal policy

uncertainty has been introduced by the weak economic growth outlook, altered budgeting process and deteriorating debt position.

Crisis or not?

There is a notable and material deterioration in SA's fiscal position, which will result in the 90% of debt issued in rand being downgraded to noninvestment grade, with potential capital outflows ensuing as a consequence. This has now become a base-case scenario with possible negative consequences for the rand, lofty equity markets, bonds and economic growth as a whole.

While these outcomes are undoubtedly dire, they do not represent a classical emerging-market crisis scenario, as observed elsewhere in history. The fact that SA still has fiscal policy levers to pull (VAT and corporate tax), an independent central bank, a solid and well-capitalized banking system and a cheap currency, provides comfort that the country can weather this storm. It can be argued that the markets, for some time now, have begun pricing in an outcome where SA is assigned a credit quality rating of noninvestment grade in local currency.

Clearly the fiscal path presented in this medium-term budget policy statement cannot be sustained. Much of the required changes need different political input. Without well-considered reform in the political construct at the December ANC electoral conference, the stakes have risen for a profoundly negative economic scenario, which will adversely affect the financial well-being of all South Africans.

It is during times such as these that a risk-led investment strategy is needed. Economies go through cycles, influenced by global factors and domestic political outcomes. During an investor's journey, there will be periods of bounty and those punctuated by bumps. Much of what could ensue in SA's markets and its economy will be categorized by heightened volatility.

Through all these cycles, there is a need to have a very clear objective in investments — and to stay the course for the long-term.

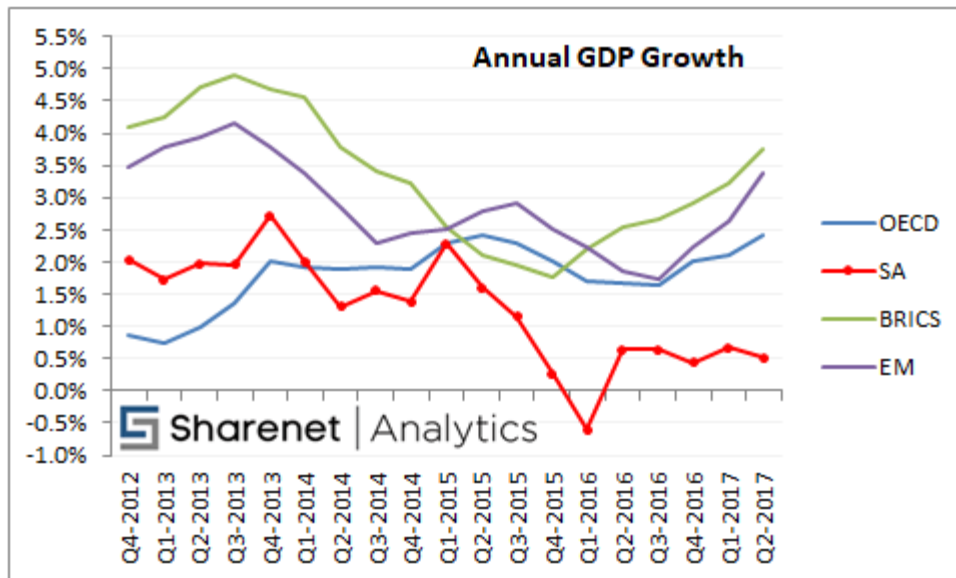
Economic Analysis

by Dwaine van Vuuren

Dwaine van Vuuren has a BSc(Hons) degree majoring in Computer Science and is a full-time trader, global investor and stock-market researcher. His passion for numbers and keen research and analytic ability has helped make his research sought after.

Annual GDP Growth

This is not just a snapshot of a once-off problem. It's a clear and persistent decoupling of SA to the global and emerging market economies, as shown below:



SA's decoupling from the global economic boom (you know we are in one, right?) is most aptly represented when one looks at Emerging Market inflows, which are projected to reach \$1 Trillion in 2017. The money is flowing into growing developing markets of which SA is clearly not qualifying due to lack of growth. And here is the direct cost of the mismanagement of our economy:

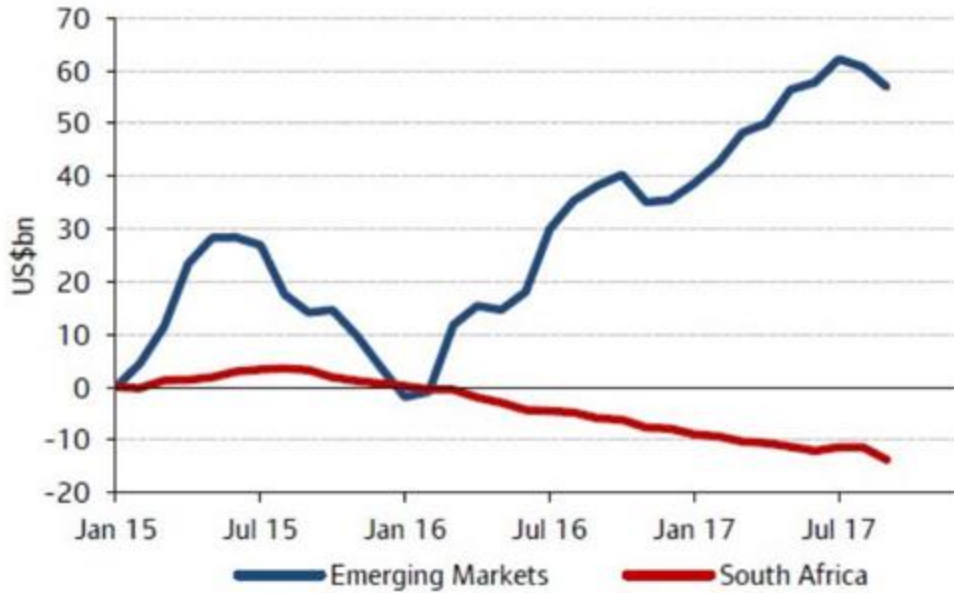
Fiscal authorities at the Treasury have performed an honest assessment of the fiscal matrix in the medium-term budget policy statement (MTBPS) and painted a worrisome picture. Contrary to the previous budget formulation processes, what came out of this MTBPS was only a diagnosis of the problems, and the fiscal hole was quantified.

The medium-term budget did not indicate how these issues would be solved. Instead, all potential actions and resolutions have been deferred to the presidential task team on fiscal policy, with an expected delivery on the outcomes in the February 2018 budget.

This represent a fundamental shift away from the budgeting framework SA has been accustomed to since 1994, and it will have negative consequences for how markets react — including potential credit-ratings downgrades.

Cumulative equity flows into Emerging Markets vs South Africa

Figure 73: Cumulative equity flows into Emerging Markets and SA



Source: IIF, SBF Securities analysis. Note: IIF Estimates used for August & Sept 2017. EM ex China

It's not rocket science what needs to be done to fix the economy and hence our horrendous unemployment. It's all been talked about, debated and agreed. Even policy documents have spelled out what needs doing. But for some reason we seem stuck in a state of paralysis, making no progress at all. It's a crying shame that we are not capitalizing on a global economic recovery windfall to redress our sorry state of affairs. We're long on talk, late on strategy and woefully short on execution.

SURVEY OF SOUTH AFRICA

The mission of the Organization for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being and economic conditions of people in all of the countries in the free world.

The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems. We work with governments to understand what drives economic, social and environmental change. We measure productivity and global flows of trade and investment. We analyze and compare data to predict future trends. We set international standards on a wide range of things, from agriculture and tax to the minimum safety standards required and the environmental impact of a variety of chemicals.



By the Organization for Economic Co-operation and Development

<http://www.oecd.org/eco/surveys/economic-survey-south-africa.htm>

Pretoria, July 24, 2017

Finding new ways to boost growth and job creation

Listed below are some of the shortcomings seen by the OECD Survey of South Africa Report released July 24, 2017.

- Short-run fiscal and monetary policies offer limited scope to boost growth.
- Bold structural reforms are needed to increase access to network sectors and services
- Improving education access and quality, reducing the cost of energy and developing transport infrastructure can boost the economy
- Deepening regional integration in the SADC will expand market size and open new opportunities for growth
- Entrepreneurship is low compared to other emerging economies
- The environment for new and small businesses is more difficult than in other countries, but reducing red tape would create jobs.

The OECD Recommends

- Set up an independent commission of experts to advise on minimum wage adjustments.
- Develop apprenticeship and internship programmes to increase youth employment.
- Limit annual wage increases in the public sector and redeploy civil servants to priority areas.
- Deepen implementation of public procurement reform and enforce sanctions for breaches of the Public Financial Management Act.
- Ensure that state-owned enterprises respect procurement and expenditure rules.
- Set up a scheme of universal student loans contingent on future incomes, with participation from banks and government guarantees.
- And in relation to Small Business
- Enact a package of reforms to reduce red tape.
- Introduce a “silence is consent rule” for licensing procedures that have low associated risks. Systematically review and reduce the stock of red tape and licensing requirements
- Open up telecommunications, energy, transport and services sectors to competition.
- Evaluate and streamline financial and non-financial support for start-ups and small businesses.
- Expand second-chance programmes for early school leavers
- Increase entrepreneurial education and work placements in the post-school education system.

TIME FOR AN ECONOMIC CODESA



In the early 1980s, he established a scenario planning function in Anglo with teams in London and Johannesburg. Two members were Pierre Wack and Ted Newland who previously headed up the scenario planning department at Royal Dutch Shell and then acted as consultants to Anglo for over a decade. Using material from these teams, Mr. Sunter put together a presentation entitled 'The World and South Africa in the 1990s' which became very popular in South Africa in the mid-1980s. In it, two scenarios were offered for South Africa: the 'High Road' of negotiation leading to a political settlement and the 'Low Road' of confrontation leading to a civil war and a wasteland. South Africa took the High Road. Two highlights for Clem were a presentation to FW de Klerk and the Cabinet in 1986 and a visit to Nelson Mandela in prison to discuss the future just before his release. Since 1987, he has authored 17 books some of which have been bestsellers. His other main interests are seeking to mobilise the private sector in the war against HIV/AIDS and create a new generation of entrepreneurs in South Africa.

He was recently awarded an Honorary Doctorate by the University of Cape Town for his work in the field of scenario planning. He was also voted by leading South African CEOs as the speaker who has made the most significant contribution to, and impact on, best practice and business in South Africa. He has given scenario presentations in Europe, India, Singapore, Britain, Australia and various African countries. He has lectured at the Harvard Business School in Boston and at the Central Party School in Beijing.

Clem Sunter

December 17, 2016

That was the week that was in South Africa, to quote the title of an old British comedy series. Three finance ministers in one week must be a record of some kind and certainly proves that the future is unpredictable and beyond your control. Sometimes there are no flags to indicate an imminent drama and even a fox is taken by surprise.

One of my recent articles for this website was entitled: **The perfect storm: why waste it?** It went through all the red flags fluttering in the breeze concerning the global

economy and South Africa. Now, all of our own making, the breeze is turning into a hurricane with an epicentre not far off our shores.

So rather than write yet another negative article about the current situation, I want to stress the idea that I have been advocating in public for the last few years. We need an Economic Codesa to set our economy on a new path just like the political ones did in creating a new democracy in the early 1990s.

We achieved political freedom without economic freedom and that is a very dangerous mixture, particularly at a time of low economic growth.

We never completed the job and we still have economic apartheid dividing the haves from the have-nots. In addition, we have a national unemployment rate of around 25% which is equal to the record figure in America at the time of the Great Depression in the 1930s.

No presidential council of business advisers meeting privately behind closed doors with government ministers is going to resolve the basic problem we have of widespread exclusion from the formal economy suffered by township and rural entrepreneurs.

We need to start creating an inclusive economy right now that encourages widespread participation in the wealth creation process.

I do not mean by this an old-fashioned socialist economy driven from the centre, but I do mean a centrally conceived and agreed platform which allows the entrepreneurial spirit to flourish. I guess the best way to express my wish is that the objective of an Economic Codesa must be to construct a level playing field instead of the highly slanted one we have now.

I also totally agree with Julius Malema when he talked in the UK at my old university about employee share ownership programmes so that workers too - rather than a few politically connected individuals - can share in the capital gains of business.

I even wrote a column in February 2012 expressing the view that Esops, as these programmes are known, are top of the pops. If it works in the UK with the John Lewis chain of upmarket department stores, it can be made to work here just as effectively.

None of this is easy to achieve and it requires a big-bang event with plenty of fanfare and media coverage. Indeed, it should be beamed live on one television channel.

AFRICA'S FUTURE – SEVEN KEY TRENDS



Publish original analysis of current events in Africa, every day. ISS Today articles are authored by ISS researchers and consultants, and are published daily online by 12.00. ISS Today is our most popular product, attracting more than 320 000 online readers a year.

by the Institute for Security Studies

Opportunities for progress abound in Africa, but governments need to make more strategic investments to improve the development prospects for all on the continent. This is according to an Institute for Security Studies (ISS) report that identifies seven key trends to understanding how Africa's future could unfold over the coming decades:

- 1 Africa's population will continue to grow rapidly and remain the youngest in the world.
- 2 Levels of urbanization will keep rising, offering both opportunities and risks.
- 3 The absolute number of Africans living in extreme poverty is set to increase.
- 4 Africa's economy will continue to expand, but countries' individual performances will vary greatly.
- 5 Africa is likely to remain relatively isolated – both from the global economy and across its regions.
- 6 Conflict in Africa is causing fewer fatalities than in the 1990s, but the number of violent incidents is increasing, and violence is becoming more complex.
- 7 Popular support for democracy in Africa is likely to remain strong.

Africa's population is expected to increase from about 1.2-billion people today to over 1.8-billion in 2035. The demand for services will increase dramatically and put African governments under considerable stress. Besides these sheer numbers, the age structure of Africa's population is critical. Even in 2035, half of sub-Saharan Africa's population will be under 21, which means governments need to spend heavily on education, health care and extending basic services.

As Africa's population ages, the ratio between workers and dependents will improve – leading to a potential boost in productivity and economic growth. However, Africa's poorer economies are several decades away from experiencing a demographic dividend – and more importantly, most lack the necessary investments in human capital and job creation to capitalize on it.

Similarly, many African countries are unlikely to reap the potential benefits of urbanization unless they systematically address some of the structural hurdles, such as lack of job creation, slow economic transformation to higher productivity sectors, poverty and inequality.

On the current trajectory, population growth is likely to compound poverty in sub-Saharan Africa as it is outpacing economic growth (see Figure 1). By 2035, as many as 170-million more Africans could live in extreme poverty (less than \$1.90 a day) than today. This is if the continent’s economy grows on average around 4% per year to 2035.

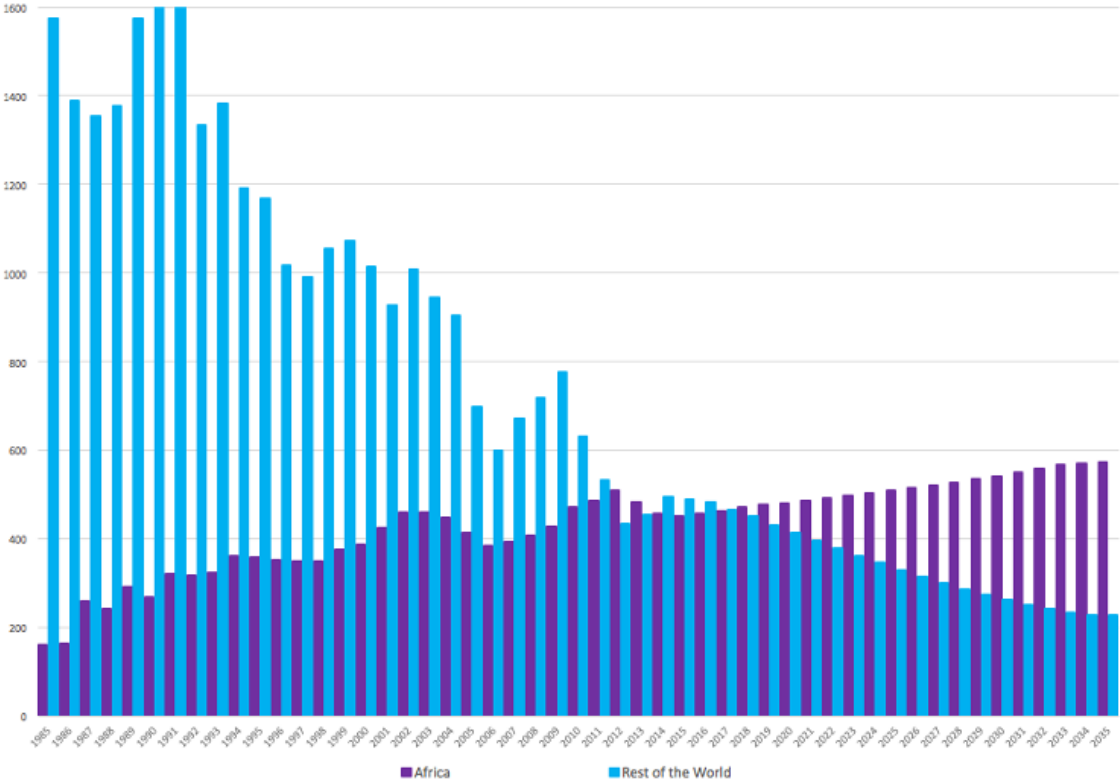


Figure 1: Population growth.

Overall, African economies need to grow much faster and make more strategic investments in human capital to reduce poverty, improve development outcomes and build adequate infrastructure.

Where will this growth come from? Much of Africa is likely to remain vulnerable to global shocks. Its oil and metal exporters will continue to be the most exposed to global price volatility. Growth in non-hydrocarbon-dependent economies – energy importers and agricultural exporters – is likely to remain stable. Current and expected growth rates for some of Africa’s agricultural exporters are in line with Asia’s fastest-growing economies.

To improve resilience against external shocks, African states need to diversify their economies and tax base, raise revenue more effectively, increase productivity, create jobs and invest in critical infrastructure and the development of human capital.

Countries also need to dismantle some of the regulatory barriers to deeper integration to facilitate the movement of goods, people and ideas across borders and create regional economies of scale. Failing that, Africa will remain isolated – both from the global economy and across its regions.

Africa’s ability to participate more in regional and global trade partly depends on improving transportation and trade infrastructure and streamlining regulations. That said, a strategy to connect Africa must also include investment in basic infrastructure, such as access to clean water, electricity and improved sanitation. These services are key components of productivity and hence growth.

Sub-Saharan Africa has the lowest levels of access to basic infrastructure anywhere in the world, and prospects for improvement are moderate compared to other developing regions (see Figure 2).

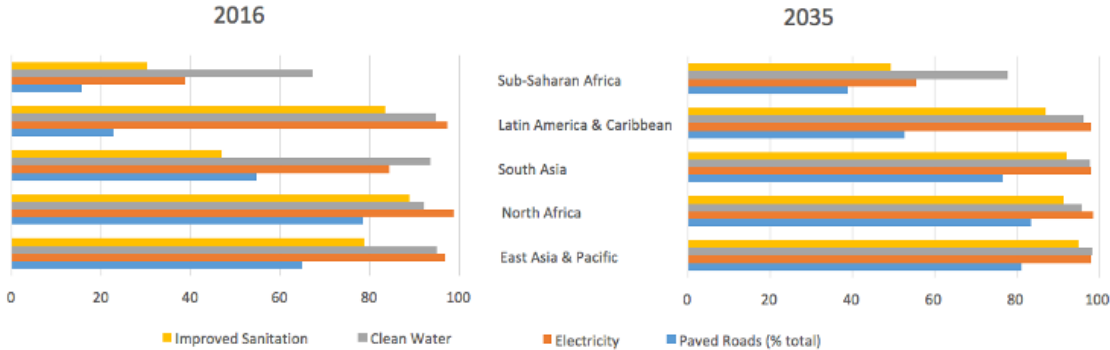


Figure 2: Basic infrastructure

Modern technology may offer a way to replace costlier forms of more basic infrastructure. However, leapfrogging the construction of roads, water supply or sewerage facilities, for example, is simply not possible.

The sixth trend identified in the ISS report is that levels of high-fatality violence in Africa are now generally comparable to those of half a century ago and are significantly lower than during the post-Cold War period. However, the continent is witnessing an increase in the number of violent incidents largely driven by riots and protests (see Figure 3). 1

In 2016, riots and protests accounted for almost 40% of total conflict events in Africa, up 10% from the previous year, followed by violence against civilians, battles and the use of improvised explosive devices. In line with the global trend, terrorist incidents are also increasing in Africa.

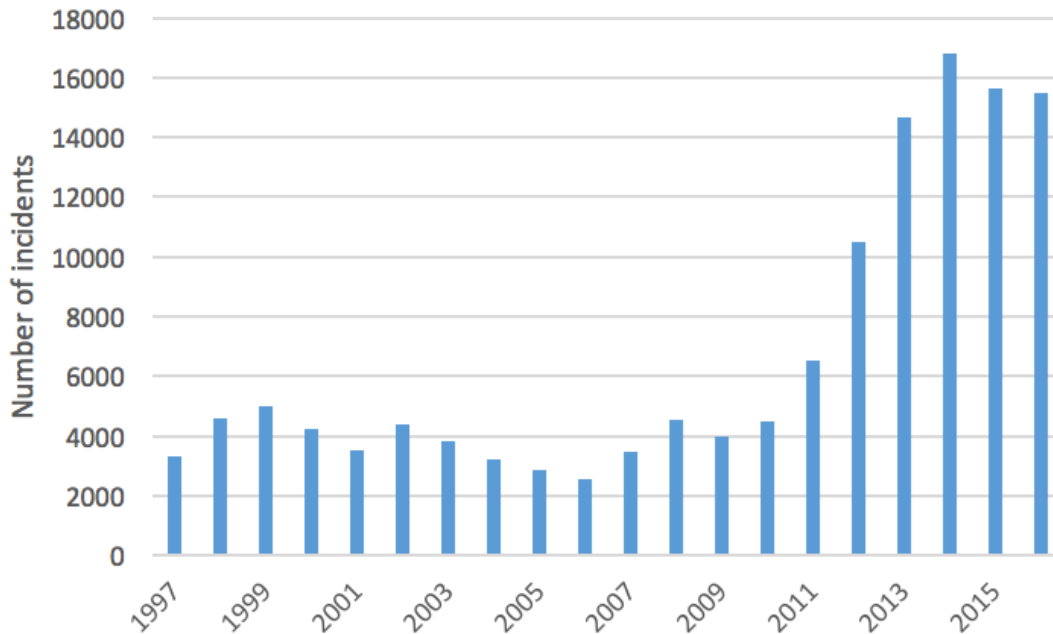


Figure 3: Violent incidents

Politically motivated violence, however, will not necessarily affect Africans more than profit-motivated violence. The increasing levels of criminal violence in Southern Africa, West Africa, North Africa and the Sahel are expected to cause more deaths than armed conflict in the medium-term future.

Africa’s high conflict burden requires continued investment in conflict prevention, control of arms, security-sector reform, the rule of law and regional forces. In the face of capacity constraints and ongoing democratic transitions, the international community will continue to be a key player in Africa’s future security. 1

The last trend identified in the ISS report is that popular support for democracy in Africa is likely to remain robust – even when essential elements of democratic accountability on the continent are often absent. While democracy still isn’t the dominant form of government in Africa, unlike the global trend, levels of democracy in sub-Saharan Africa have improved. In fact, Africa is relatively more democratic than could be expected given its generally low levels of GDP per capita. 1

Many African countries are under pressure to increase inclusion when the foundations of sufficient security and state capacity upon which to build democracy are still fragile. The issue is not a choice between democracy and development, but how to steadily advance inclusion at a pace commensurate with social and economic development.

While the challenges may seem overwhelming, this research points to areas that African governments could leverage to capitalize on the enormous potential that exists on the continent. **DM**

Julia Bello-Schünemann is a Senior Researcher and Zachary Donnenfeld, a Researcher, African Futures and Innovation, ISS Pretoria

RESTORE HOPE TO SOUTH AFRICA'S DEMOCRACY



This is an edited version of the opening address at the Confronting Inequality conference in Johannesburg, convened by the Institute for African Alternatives in association with the UN Economic Commission for Africa. Motlanthe had been a student activist, trade unionist and member of the ANC's military wing, Umkhonto we Sizwe, during the struggle against apartheid. Today, Motlanthe, a left-leaning intellectual, is seen as a highly skilled political operator within the politics of South Africa, and a key figure behind the success of Zuma.¹ Motlanthe was South Africa's first Northern Sotho-speaking president.¹

Kgalema Motlanthe is a former president of South Africa

by Kgalema Motlanthe

In his book *The Price of Inequality*, Joseph Stiglitz writes: “Countries around the world provide frightening examples of what happens to societies when they reach the level of inequality toward which we are moving. It is not a pretty picture: countries where the rich live in gated communities, waited upon by hordes of low-income workers; unstable political systems where populists promise the masses a better life, only to disappoint. Perhaps most importantly, there is an absence of hope. In these countries, the poor know that their prospects of emerging from poverty, let alone making it to the top, are minuscule. This is not something we should be striving for.”

It is not difficult to relate the South African present to this picture of a vastly unequal society. Frequent descriptions of contemporary life are rooted in a “tale of two cities” - narrative that reveals the stark differences that underscore life within our borders.

This is a bleak depiction. But rather than being weighed down by the morass it represents, I am emboldened by the aims of today's gathering [the Confronting Inequality conference], which is born out of hope that the future that we imagined at the founding of our democracy can be attained.

This hope, however, is not one underscored by naivety or attempts to disregard the material reality and political circumstances that contribute to its current state. It is born of a shared belief that a better future is possible.

The background paper for this conference, written by Professor Ben Turok, commences with an unambiguous exploration of the consequences of inequality. It is founded on the belief that when societies, for a vast array of reasons, begin to take the shape of the contours defined by Stiglitz, the threat of violence invades everyday realities and threatens to engulf the better part of the affected world in its long shadow.

Turok emphasizes this fact, drawing on the work of French economist Thomas Piketty, who states: “We also know from historical experience that extreme inequality of the kind of levels we observe in South Africa is not good for development and growth, and it can also lead to violent reactions and violent events. And we all have in mind the very violent episodes at Marikana... and we know from historical experience that if inequality is not addressed through peaceful means and peaceful democratic institutions it’s always potentially a source of violence. And, of course, this can happen again.”

The echoes of these statements are found in a recent Oxfam report that noted: “Left unchecked, growing inequality threatens to pull our societies apart. It increases crime and insecurity, and undermines the fight to end poverty. It leaves more people living in fear and fewer in hope.”

Frequently violence is evident in what have been termed “service delivery protests’, but takes wider form. It is evident in continuing commuter bus and taxi unrest. It rears its head in the responses to student protests at our universities. There are numerous ways in which it invades every day, and reveals societal rifts that blur the distinctions between the past and the present, perhaps because the past is so present.

Considering these three quotes in chorus, it becomes evident that the restoration of hope in our democracy should be a fundamental aim. Driven not by speech acts, it should be re-established through the systematic economic, political and social inclusion in the body politic of those presently and historically excluded.

We find increasing critique of Simon Smith Kuznets’s assumption that inequality will naturally even out as countries develop, without any interference. The reality does not reflect such a smooth, linear development.

The South African example, for instance, has proven that much intervention is required to create the equal, just and free society that is central to our Constitution. Many other global examples have thrown into question the ability of the neoliberal market and capitalist system’s ability to achieve democracy’s aims, when by its very design its competitive nature can contribute significantly to inequality.

A dual economy, in which a formal and an informal economy exist side by side and create vastly distinct experiences of citizenship, marks our reality. As a result, we find that the task of fully realizing freedom is still one that we must ardently pursue. Economic marginalization remains a pressing challenge.

With the benefit of hindsight, we can now say that, in the initial democratic days, the following question should have been phrased: How do we define the new national cause beyond 1994 and which array of social forces should be mobilized to pursue it?

There is a simple saying that says: “When you know better, you do better.” We can rephrase this: When you know better, you have the capacity to do better. As Piketty stresses: “We still know too little about inequality” ... Our aim should be to contribute to a more informed democratic discussion about inequality.

Similarly, Anna Orthofer writes: “Despite the concerns about the persisting economic disparities since the end of apartheid, existing research has focused almost exclusively on income inequality.”

A larger picture needs to be attained that gives a greater in-depth view on the factors affecting present inequality. Dealing with the failure of formal rights and the mechanisms that ensure them, institutions that sustain, enforce and legislate them are required to fully realize democracy.

As we strive to address this, it would be remiss not to consider the roles and responsibilities of the institutions of democracy. The current state of our institutions is shaped by historical forces. It is evident that we are faced with a crisis of institutions that affects multiple sites — government, public universities and the private sector.

The term “state capture” continues to dominate public discourse on governance, showing how the interference of nepotistic relations and tainted business transactions can affect the workings of the state and the inability of government to meet its social responsibilities.

We are required to both question and critique the government’s role in alleviating poverty, inequality and unemployment, as well as consider our collective responsibility and agency in contributing towards their redress and rebuilding our society on new terms.

We know, from the work of multiple economists and social theorists, that multiple factors influence the present state of local and global inequality. These include the state of the global economy, the present design of the economic system, historical and structural features, and unearned benefits that accompany various forms of privilege. What then, could be the possible way out of the bleak picture painted by the economists I have mentioned?

As Turok writes: “Current mechanisms of welfare grants and public spending are not doing enough to confront inequality in our economy. Other more ambitious solutions may be needed to resolve the structural constraints that continue to frustrate inclusive development.” Our current policy framework clearly fails to fully comprehend and address the challenges of inequality.

In keeping with a solutions-oriented mind-set, I offer one site that must be considered: education. The introduction of the Bantu Education Act of 1953 stratified South African education in a racial hierarchy. The present effect of this is evident in the statistician general’s report on the social profile of vulnerable groups between 2002 and 2012. It

revealed a startling decline in educational attendance beyond 15 and 16 years of age. This reality significantly affects the country's black and coloured communities.

It is important to remember, here, that we are speaking at the base level of basic education, which is further complicated by access to higher education and training institutions. In thinking about inequality, basic education demands our direct address. Failure to access and sustain adequate education skews access to opportunities long after initial enrolment. It could be said to touch every aspect of life, with effects beyond generations.

A further report on educational enrolment and achievement for 2016 by StatsSA states: "Differences in intergenerational mobility have remained significant across population groups. The same families tend to constitute the most educated group from one generation to the next. Economists refer to this as the under-education trap, as some families remain unskilled from one generation to the next."

We cannot map out solutions emboldened only by a set of untested assumptions. Our conversations must be underscored by the realization that there are real human lives beneath data and academic terminology. The people most affected by the scourge of inequality must be kept in mind as we seek to "normalize freedom" and create a country that can truly claim freedom, justice and equality as its reality.

THE NATIONAL DEVELOPMENT PLAN CAN BE RESUSCITATED— HERE'S HOW

Steven Friedman is a South African academic, newspaper columnist, widely quoted public intellectual, activist, former trade unionist and journalist. He holds a doctorate in Literature from Rhodes University and directs the Centre for the Study of Democracy, a joint project by Rhodes University and the University of Johannesburg. His book *Building Tomorrow Today: African Workers in Trade Unions 1970-1984* has been described as a classic South African text. He has written regular opinion pieces for *Thought Leader* and *The New Age* and currently writes a weekly column for *Business Day*.



By Steven Friedman

Something is surely wrong when many influential people endorse or reject a document none of them have read. The document is South Africa's National Development Plan, which was adopted by Parliament five years ago and is the product of a National Planning Commission which was led by former finance minister Trevor Manuel and current deputy president Cyril Ramaphosa.

The National Development Plan has become almost an article of faith for business leaders and business friendly commentators. In what has become a knee jerk reaction, they routinely demand that the government "implement it". In an equally knee-jerk reaction, unionists, activists and commentators on the left denounce the plan as a programme to appease business by sacrificing workers and the poor to the market.

But the plan's praise singers in the market place and its opponents in unions and citizens' organizations have something important in common: neither has ever read the document which runs to almost 500 pages. If they had, they would know that the label they pin on it does not fit. The plan is not a clear step-by-step programme for change. It is a broad, sometimes internally contradictory, document which is a basis for negotiation far more than a road map.

Those who see the National Development Plan as a coherent document seem to have forgotten the political battle which was triggered when it was initiated by President Thabo Mbeki's administration shortly before Mbeki was removed from office.

The ANC's alliance partners, the Congress of South African Trade Unions and the South African Communist Party, blamed Mbeki and Manuel for appeasing business. As

Cosatu noted in a document released in late 2009, they believed that Manuel would use the National Planning Commission to impose a business-friendly approach on government and the alliance.

They suspected, probably correctly, that the Mbeki government had wanted the commission to become the centre of government planning. After Mbeki was replaced by Jacob Zuma, they mobilized successfully against this and the result was an agreement that the commission would simply provide support to government and that the NDP would be not a detailed plan but a broad vision for where the country would want to be in 2030. So, the National Development Plan is not a firm plan because it was never meant to be one.

A mixed bag

Those who see the plan as a route map tend also to forget that the men and women sitting on the commission represented a range of interests and that it was, therefore, a compromise between them. This partly explains why it offers something to everyone – a point which is clear to anyone who takes the trouble to read it.

One who did is former South African Communist Party deputy general secretary Jeremy Cronin. In a reply to left-wing unions who saw the plan as the work of the devil, Cronin argued that it was impossible to endorse or reject the entire document because both the opponents and friends of the market could find support for their positions in it.

Cronin rejected the chapter on the economy, which he saw as too friendly to markets, but endorsed the chapter which saw a key role for the state in changing the shape of the cities and sections which suggested a strong government role in development. If Cronin worked for the Chamber of Business, he would no doubt have endorsed the economic chapter and rejected the passages on the state's role. The key point in his analysis, however, was that, whichever side of the economic debate you were on, you would find passages in the plan to endorse and others to oppose.

The point was illustrated some years ago when organized agriculture denounced a government proposal for regional land redistribution committees. This, it turned out, came not from the left of the union movement or the friends of state capture but from the 'business friendly' National Development Plan.

Why do both sides endorse or reject the National Development Plan without bothering to read it? The answer may well lie in the personalized nature of South African politics.

Business and its supporters trust Manuel and Ramaphosa and so they assume that they must have produced a strongly market friendly document. The left distrust them and so they assume the same thing. This might be amusing if it did not prompt a sterile debate which does nothing to focus minds on what needs to change if the economy is to grow and include many more people.

Useful bits and pieces

Even if the National Development Plan was a clear map, it contains so many ideas for change that not even the most efficient government in the world could implement it in less than a decade or two. Given this, when parliament – and the government –

promised to implement the plan they could not possibly have been committing to implementing all of it. If they were serious about implementing its economic and social proposals, they would have needed to signal clearly which ones they favored. And, since this would inevitably have affected the interests of key economic interest groups, they would have needed to negotiate the changes with them.

The government has not done this and, so it seems likely that what it does mean is that it will seek to implement those sections of the plan which affect it directly.

The plan might offer something to everyone on social and economic issues, but it does also have a clear way to improve how government functions. By endorsing the document, the government was surely agreeing to take the steps the plan recommended when it discussed how to build a “capable state”. So, it makes sense to hold the government to account for the degree to which it has – or has not – implemented the plan’s recommendations on fixing itself.

For the rest, it would make more sense to insist that the government signal clearly which other sections of the document it plans to implement than to insist that it implement (or reject) all of it.

This offers a key to the role the National Development Plan could play in moving South Africa forward. Business, labour and other interest groups are far more likely to find the plan useful if they identify those sections they would like to see implemented and then pressed the government to act on them, using the fact that they appear in the document as a lever.

They will obviously face opposition from those with differing interests but that is how democracy works. The National Development Plan would then be a catalyst for debate and negotiation on details, not a take it or leave it recipe.

Five years on, the National Development Plan could help focus attention on economic change. But only if both sides stop seeing it as a fetish rather than a way of starting a conversation.

This article was first published in The Conversation.

THE FOURTH INDUSTRIAL REVOLUTION – WHAT IT MEANS, HOW TO RESPOND



Professor Klaus Schwab is a German Economist, best known as the Founder and Executive Chairman of The World Economic Forum.

Dr. Schwab holds a Doctorate in Economics (Summa Cum Laude) from The University of Fribourg, a Doctorate in Engineering from The Swiss Federal Institute of Technology and a Master of Public Administration from The John F. Kennedy School of Government at Harvard University. He has been the Recipient of Seven Honorary Doctorates and is an Honorary Professor of The Ben-Gurion University of Israel and The China Foreign Affairs University.

January 14, 2017

By Klaus Schwab

Latest Articles

We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet know just how it will unfold, but one thing is clear: the response to it must be integrated and comprehensive, involving all stakeholders of the global polity, from the public and private sectors to academia and civil society.

The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.

There are three reasons why today's transformations represent not merely a prolongation of the Third Industrial Revolution but rather the arrival of a Fourth and distinct one: velocity, scope, and systems impact. The speed of current breakthroughs has no historical precedent. When compared with previous industrial revolutions, the Fourth is evolving at an exponential rather than a linear pace. Moreover, it is disrupting

almost every industry in every country. And the breadth and depth of these changes herald the transformation of entire systems of production, management, and governance.

The possibilities of billions of people connected by mobile devices, with unprecedented processing power, storage capacity, and access to knowledge, are unlimited. And these possibilities will be multiplied by emerging technology breakthroughs in fields such as artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing.

Already, artificial intelligence is all around us, from self-driving cars and drones to virtual assistants and software that translate or invest. Impressive progress has been made in AI in recent years, driven by exponential increases in computing power and by the availability of vast amounts of data, from software used to discover new drugs to algorithms used to predict our cultural interests. Digital fabrication technologies, meanwhile, are interacting with the biological world on a daily basis. Engineers, designers, and architects are combining computational design, additive manufacturing, materials engineering, and synthetic biology to pioneer a symbiosis between microorganisms, our bodies, the products we consume, and even the buildings we inhabit.

Challenges and opportunities

Like the revolutions that preceded it, the Fourth Industrial Revolution has the potential to raise global income levels and improve the quality of life for populations around the world. To date, those who have gained the most from it have been consumers able to afford and access the digital world; technology has made possible new products and services that increase the efficiency and pleasure of our personal lives. Ordering a cab, booking a flight, buying a product, making a payment, listening to music, watching a film, or playing a game—any of these can now be done remotely.

In the future, technological innovation will also lead to a supply-side miracle, with long-term gains in efficiency and productivity. Transportation and communication costs will drop, logistics and global supply chains will become more effective, and the cost of trade will diminish, all of which will open new markets and drive economic growth.

At the same time, as the economists Erik Brynjolfsson and Andrew McAfee have pointed out, the revolution could yield greater inequality, particularly in its potential to disrupt labour markets. As automation substitutes for labour across the entire economy, the net displacement of workers by machines might exacerbate the gap between returns to capital and returns to labour. On the other hand, it is also possible that the displacement of workers by technology will, in aggregate, result in a net increase in safe and rewarding jobs.

We cannot foresee at this point which scenario is likely to emerge, and history suggests that the outcome is likely to be some combination of the two. However, I am convinced of one thing—that in the future, talent, more than capital, will represent the critical factor of production. This will give rise to a job market increasingly segregated into “low-

skill/low-pay” and “high-skill/high-pay” segments, which in turn will lead to an increase in social tensions.

In addition to being a key economic concern, inequality represents the greatest societal concern associated with the Fourth Industrial Revolution. The largest beneficiaries of innovation tend to be the providers of intellectual and physical capital—the innovators, shareholders, and investors—which explains the rising gap in wealth between those dependent on capital versus labour. Technology is therefore one of the main reasons why incomes have stagnated, or even decreased, for a majority of the population in high-income countries: the demand for highly skilled workers has increased while the demand for workers with less education and lower skills has decreased. The result is a job market with a strong demand at the high and low ends, but a hollowing out of the middle.

This helps explain why so many workers are disillusioned and fearful that their own real incomes and those of their children will continue to stagnate. It also helps explain why middle classes around the world are increasingly experiencing a pervasive sense of dissatisfaction and unfairness. A winner-takes-all economy that offers only limited access to the middle class is a recipe for democratic malaise and dereliction.

Discontent can also be fuelled by the pervasiveness of digital technologies and the dynamics of information sharing typified by social media. More than 30 percent of the global population now uses social media platforms to connect, learn, and share information. In an ideal world, these interactions would provide an opportunity for cross-cultural understanding and cohesion. However, they can also create and propagate unrealistic expectations as to what constitutes success for an individual or a group, as well as offer opportunities for extreme ideas and ideologies to spread.

The impact on business

An underlying theme in my conversations with global CEOs and senior business executives is that the acceleration of innovation and the velocity of disruption are hard to comprehend or anticipate and that these drivers constitute a source of constant surprise, even for the best connected and most well informed. Indeed, across all industries, there is clear evidence that the technologies that underpin the Fourth Industrial Revolution are having a major impact on businesses.

On the supply side, many industries are seeing the introduction of new technologies that create entirely new ways of serving existing needs and significantly disrupt existing industry value chains. Disruption is also flowing from agile, innovative competitors who, thanks to access to global digital platforms for research, development, marketing, sales, and distribution, can oust well-established incumbents faster than ever by improving the quality, speed, or price at which value is delivered.

Major shifts on the demand side are also occurring, as growing transparency, consumer engagement, and new patterns of consumer behaviour (increasingly built upon access to mobile networks and data) force companies to adapt the way they design, market, and deliver products and services.

A key trend is the development of technology-enabled platforms that combine both demand and supply to disrupt existing industry structures, such as those we see within the “sharing” or “on demand” economy. These technology platforms, rendered easy to use by the smartphone, convene people, assets, and data—thus creating entirely new ways of consuming goods and services in the process. In addition, they lower the barriers for businesses and individuals to create wealth, altering the personal and professional environments of workers. These new platform businesses are rapidly multiplying into many new services, ranging from laundry to shopping, from chores to parking, from massages to travel.

overall, there are four main effects that the Fourth Industrial Revolution has on business—on customer expectations, on product enhancement, on collaborative innovation, and on organizational forms. Whether consumers or businesses, customers are increasingly at the epicentre of the economy, which is all about improving how customers are served. Physical products and services, moreover, can now be enhanced with digital capabilities that increase their value. New technologies make assets more durable and resilient, while data and analytics are transforming how they are maintained. A world of customer experiences, data-based services, and asset performance through analytics, meanwhile, requires new forms of collaboration, particularly given the speed at which innovation and disruption are taking place. And the emergence of global platforms and other new business models, finally, means that talent, culture, and organizational forms will have to be rethought.

Overall, the inexorable shift from simple digitization (the Third Industrial Revolution) to innovation based on combinations of technologies (the Fourth Industrial Revolution) is forcing companies to re-examine the way they do business. The bottom line, however, is the same: business leaders and senior executives need to understand their changing environment, challenge the assumptions of their operating teams, and relentlessly and continuously innovate.

The impact on government

As the physical, digital, and biological worlds continue to converge, new technologies and platforms will increasingly enable citizens to engage with governments, voice their opinions, coordinate their efforts, and even circumvent the supervision of public authorities. Simultaneously, governments will gain new technological powers to increase their control over populations, based on pervasive surveillance systems and the ability to control digital infrastructure. overall, however, governments will increasingly face pressure to change their current approach to public engagement and policymaking, as their central role of conducting policy diminishes owing to new sources of competition and the redistribution and decentralization of power that new technologies make possible.

Ultimately, the ability of government systems and public authorities to adapt will determine their survival. If they prove capable of embracing a world of disruptive change, subjecting their structures to the levels of transparency and efficiency that will enable them to maintain their competitive edge, they will endure. If they cannot evolve, they will face increasing trouble.

This will be particularly true in the realm of regulation. Current systems of public policy and decision-making evolved alongside the Second Industrial Revolution, when decision-makers had time to study a specific issue and develop the necessary response or appropriate regulatory framework. The whole process was designed to be linear and mechanistic, following a strict “top down” approach.

But such an approach is no longer feasible. Given the Fourth Industrial Revolution’s rapid pace of change and broad impacts, legislators and regulators are being challenged to an unprecedented degree and for the most part are proving unable to cope.

How, then, can they preserve the interest of the consumers and the public at large while continuing to support innovation and technological development? By embracing “agile” governance, just as the private sector has increasingly adopted agile responses to software development and business operations more generally. This means regulators must continuously adapt to a new, fast-changing environment, reinventing themselves so they can truly understand what it is they are regulating. To do so, governments and regulatory agencies will need to collaborate closely with business and civil society.

The Fourth Industrial Revolution will also profoundly impact the nature of national and international security, affecting both the probability and the nature of conflict. The history of warfare and international security is the history of technological innovation, and today is no exception. Modern conflicts involving states are increasingly “hybrid” in nature, combining traditional battlefield techniques with elements previously associated with nonstate actors. The distinction between war and peace, combatant and non-combatant, and even violence and nonviolence (think cyberwarfare) is becoming uncomfortably blurry.

As this process takes place and new technologies such as autonomous or biological weapons become easier to use, individuals and small groups will increasingly join states in can cause mass harm. This new vulnerability will lead to new fears. But at the same time, advances in technology will create the potential to reduce the scale or impact of violence, through the development of new modes of protection, for example, or greater precision in targeting.

The impact on people

The Fourth Industrial Revolution, finally, will change not only what we do but also who we are. It will affect our identity and all the issues associated with it: our sense of privacy, our notions of ownership, our consumption patterns, the time we devote to work and leisure, and how we develop our careers, cultivate our skills, meet people, and nurture relationships. It is already changing our health and leading to a “quantified” self, and sooner than we think it may lead to human augmentation. The list is endless because it is bound only by our imagination.

I am a great enthusiast and early adopter of technology, but sometimes I wonder whether the inexorable integration of technology in our lives could diminish some of our quintessential human capacities, such as compassion and cooperation. Our relationship with our smartphones is a case in point. Constant connection may deprive us of one of

life's most important assets: the time to pause, reflect, and engage in meaningful conversation.

One of the greatest individual challenges posed by new information technologies is privacy. We instinctively understand why it is so essential, yet the tracking and sharing of information about us is a crucial part of the new connectivity. Debates about fundamental issues such as the impact on our inner lives of the loss of control over our data will only intensify in the years ahead. Similarly, the revolutions occurring in biotechnology and AI, which are redefining what it means to be human by pushing back the current thresholds of life span, health, cognition, and capabilities, will compel us to redefine our moral and ethical boundaries.

Shaping the future

Neither technology nor the disruption that comes with it is an exogenous force over which humans have no control. All of us are responsible for guiding its evolution, in the decisions we make on a daily basis as citizens, consumers, and investors. We should thus grasp the opportunity and power we have to shape the Fourth Industrial Revolution and direct it toward a future that reflects our common objectives and values.

To do this, however, we must develop a comprehensive and globally shared view of how technology is affecting our lives and reshaping our economic, social, cultural, and human environments. There has never been a time of greater promise, or one of greater potential peril. Today's decision-makers, however, are too often trapped in traditional, linear thinking, or too absorbed by the multiple crises demanding their attention, to think strategically about the forces of disruption and innovation shaping our future.

In the end, it all comes down to people and values. We need to shape a future that works for all of us by putting people first and empowering them. In its most pessimistic, dehumanized form, the Fourth Industrial Revolution may indeed have the potential to "robotize" humanity and thus to deprive us of our heart and soul. But as a complement to the best parts of human nature—creativity, empathy, stewardship—it can also lift humanity into a new collective and moral consciousness based on a shared sense of destiny. It is incumbent on us all to make sure the latter prevails.

This article was first published in Foreign Affairs

An African perspective by Monde Mawasha

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September 25, 2017

According to the World Economic Forum, the rise of the Fourth Industrial Revolution (FIR) is adding intricacy to future economies and their employment outcomes. It's

understood that the FIR is equivalent to unexplored growth in the digitalisation and internet connectivity.

Digitalisation and internet connectivity can drive Africa forward. This would enable innovation, propel new business models and improve the delivery of public services.

When looking at the FIR, it generally has a disruptive effect on all economies. However, there are three aspects which need to be considered when it comes to Africa:

1. Development of digital skills is pre-eminent,
2. Public-private partnerships are powerful levers for development and
3. Industries are being rattled digitally.

Development of digital skills is pre-eminent

Africa has become more stressed by services and less dependent on commodities. The African continent must cultivate digital skills as part of transitioning its population from low-skill and low pay jobs to high-skill and high pay jobs.

A practical example of how this could be done is highlighted in the *'The Future of Jobs and skills in Africa'* report. The report suggests that, to prepare for the future of work, the region (Africa) must expand its high-skilled talent pool by developing future-ready curricula, with a large portion of that focusing on STEM education - interdisciplinary approach to learning where rigorous academic concepts are coupled with real-world.

Public-private partnerships are powerful levers for development

A key part of the Fourth Industrial Revolution in terms of Africa would be that inclusive growth receives attention. Inclusive growth is a 'concept that advances equitable opportunities for economic participants during economic growth with benefits inclined by every section of society.'

There are three areas which African leaders need to delve into to deal with the new challenges while addressing inclusive growth. Mobile related technology is bridging the continent in unprecedented ways. At least 70% of the African continent now has access to mobile technology. By having this digital infrastructure, it allows new opportunities for poor Africans situated in rural and informal economies.

Secondly, an area that needs to receive attention from African leaders is disruptions that effect manufacturing technology. Disruptions being that internet of things and 3D printing are liberalising access to technology and decentralising production. Furthermore, emerging African investors are re-imagining solutions suited to the African context.

For African innovators to develop, policy-makers need to provide a conducive intellectual property regime which would make it easier to do business competitively.

Industries are being rattled digitally

Looking at the technological readiness of Africa, a lot of progress has been made. Mobile phone penetration is one of those areas in which Africa has made a large

improvement. Investments into the grid infrastructure have also made it possible for mobile penetration to be possible.

According to Akinwumi Ayodeji Adesina, President of African Development Bank, “One of the greatest priorities for the continent is universal electrification to allow digital technology to play its role in transforming lives”.

Due to Africans being able to gain access to mobile-phone technology it has equipped them with new tools for managing their businesses and households. Although Africa is moving forward in terms of mobile-phone technology it is lagging in terms of broadband speed as only 1.4% of Africans have a fixed broadband connection.

Graça Machel stated that it is crucial that the Fourth Industrial Revolution does not leave anyone behind. The three previous revolutions left Africans behind and women were abandoned. Including women will make business and common sense because women make up half of the African population and bring different skills and perceptions to bear on challenges.

In conclusion, the Fourth Industrial Revolution can be used by Africa to become a full player in the world economy, however, it must be **“impatient and ambitious”** to achieve this goal.

Technology offers a “transformative power” and this will push the African continent forward if they invest in it

It is thus, paramount that South African IPAs, IDZs and SEZs be cognisant that South Africa’s dominance in both the African and global FDI markets may be inconceivable unless investment promotion efforts are focused on engaging with the government and investors, with a specific focus on improving the FDI policy related frameworks within the South African economy.

The 10 skills you need to thrive in the Fourth Industrial Revolution

Five years from now, over one-third of skills (35%) that are considered important in today’s workforce will have changed.

By 2020, the Fourth Industrial Revolution will have brought us advanced robotics and autonomous transport, artificial intelligence and machine learning, advanced materials, biotechnology and genomics.

These developments will transform the way we live, and the way we work. Some jobs will disappear, others will grow and jobs that don’t even exist today will become commonplace. What is certain is that the future workforce will need to align its skillset to keep pace.

A new Forum report, *The Future of Jobs*, looks at the employment, skills and workforce strategy for the future.

The report asked chief human resources and strategy officers from leading global employers what the current shifts mean, specifically for employment, skills and recruitment across industries and geographies.

What skills will change most?

Creativity will become one of the top three skills workers will need. With the avalanche of new products, new technologies and new ways of working, workers are going to have to become more creative to benefit from these changes. Robots may help us get to where we want to be faster, but they can't be as creative as humans (yet).

Whereas negotiation and flexibility are high on the list of skills for 2015, in 2020 they will begin to drop from the top 10 as machines, using masses of data, begin to make our decisions for us. A survey done by the World Economic Forum's Global Agenda Council on the Future of Software and Society shows people expect artificial intelligence machines to be part of a company's board of directors by 2026.

Top Ten Skills

In 2015

- 1. Complex Problem Solving**
- 2. Co-ordinating with Others**
- 3. People Management**
- 4. Critical Thinking**
- 5. Negotiation**
- 6. Quality Control**
- 7. Service Orientation**
- 8. Judgement & Decision Making**
- 9. Active Listening**
- 10. Creativity**

In 2020

- 1. Complex Problem Solving**
- 2. Critical Thinking**
- 3. Creativity**
- 4. People Management**
- 5. Co-ordinating with Others**
- 6. Emotional Intelligence**

7. **Judgement & Decision Making**
8. **Service Orientation**
9. **Negotiation**
10. **Cognitive Flexibility**

Key quotes from the World Economic Forum in Davos styled 'Mastering the Fourth Industrial Revolution'

'We must develop a comprehensive and globally shared view of how technology is affecting our lives and reshaping our economic, social, cultural and human environments. There has never been a time of greater promise or greater peril'

Professor Klaus Schwab Founder and Executive Chairman of the World Economic Forum.

'Imagine a robot capable of treating Ebola patients or cleaning up nuclear waste'.

Dileep George Artificial Intelligence and Neuroscience Researcher.

'Mexico is one of the only nations whose constitution recognizes the right of its people to a broadband internet connection'.

Enrique Pena Nieto President of Mexico.

'For many people the smartphone is the first and only computer they have'.

Inga Beale Chief Executive Officer Lloyds.

'The Fourth Industrial Revolution is still in its nascent state. But with the swift pace of change and disruption to business and society, the time to join in is now'.

Gary Coleman Global Industry and Senior Client Advisor Deloitte Consulting.

'Any skilled engineer can take control remotely of any connected 'thing'. Society has not yet realized the incredible scenarios this capability creates'.

Andre Kudelski Chairman and Chief Executive Officer Kudelski Group.

'You cannot wait until the house burns down to buy fire insurance on it. We cannot wait until there are massive dislocations in our society to prepare for the Fourth Industrial Revolution'.

Robert J Shiller 2013 Nobel Laureat in Economics and Professor of Economics, Yale University.

'For people with a disability, the Fourth Industrial Revolution will give us superpowers'.

Birgit Skarsten Double Paralympic athlete and World Rowing Champion from Norway.

'Digitalization is the main reason just over half of the companies on the Fortune 500 have disappeared since 2000'.

Pierre Nanterme Chief Executive Officer of Accenture.

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