



IRMSA RISK REPORT

SOUTH AFRICA RISKS 2023/24

9TH EDITION



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INSTITUTE OF RISK MANAGEMENT SOUTH AFRICA

The report and e-book are available on the IRMSA website.
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MESSAGE FROM THE PRESIDENT OF IRMSA

*Our power exists in the ability to be resilient and exploit the **limitless opportunities** hiding in our challenges.*

Without a doubt, we are facing a polycrisis that impacts our macro and micro-environment in an intertwined and interconnected way. Every day, we witness risks increasing in severity and frequency, materialising simultaneously and in some cases continuing to recur. The interconnectedness of risks is evident from the downstream ripple effects created as these risks materialise.

Just as the world began to recover from the COVID-19 pandemic, the Russia/ Ukraine war broke out which plummeted an already fragile global economy into a new crisis of high inflation, energy supply shortages, supply chain disruptions, and rapidly escalating cost-of-living in many countries.

In South Africa, the socio-economic risks continue to escalate due to persistent structural deficiencies.

The worsening energy crisis, manifesting through unprecedented levels of load-shedding, is playing out against a backdrop of other issues. In addition to these challenges, we face a divided society – a “gwara-gwara”-reality as defined in the Indlulamithi Scenarios. Stubborn high levels of unemployment and inequality, near-zero economic growth, the recent greylisting of SA, and the potential for further unrest and riots is a toxic mix leading some commentators to speculate on whether SA is on the brink of becoming a Failed State, or already is a Failed State. The impact on us as citizens who make up the individuals, families, employees (private

sector, public servants, and non-profit workers), and economic leaders of SA can't be downplayed. With SA ranking last in the latest Mental State of the World Report the current leaders take significant strain with the mental health of those they lead, including themselves. As humanity, we can only respond to so much – and it is possible that we may be reaching the breaking point if we don't turn this trend around.

We can easily become overwhelmed by negativity, which we must work hard to avoid. It is rightly said that “victory comes from finding opportunities in problems”. It is thus time for us as the individuals that make up organisations, both private and public, to be leaders at any level where we may find ourselves, and for risk professionals to identify and seize the limitless opportunities and possibilities that lie just beneath the surface of the polycrisis.

Power shortages in SA have accelerated our transition to green energy, with a booming market for solar installations and the emergence of innovation, as well as the new SMEs who remain a cornerstone for our economy, contributing a significant amount to SA's GDP growth and job creation. Instead of joining corporate SA after studying, many young people are starting their own little entities to earn their living and finding innovative ways to employ others, even if this is part of an informal economy that is not fully reflected in national statistics.



“Victory comes from finding opportunities in problems”

THABILE NYABA
IRMSA President

“Never doubt that a small group of thoughtful committed citizens can change the world.”

~Margaret Mead

The acceleration of automation and artificial intelligence is transforming the world and creating a platform for new and in-demand tech skills, presenting opportunities for our youth through tech start-ups. Electric motor vehicles have surged in popularity. Work from home technologies and videoconferencing have become an indispensable part of modern business life, with huge productivity gains and savings in time and travel. Fewer commuters mean less traffic and pollution. As a working Mom, the flexibility to work from home on occasion is a tremendous asset.

The interconnected risk landscape makes it imperative that we respond with an integrated approach, drawing on committed and deliberate multi-disciplinary collaboration and partnerships, with national and international boundaries no longer a limiting factor. We need to think and act differently if we wish to achieve different results.

This means taking bolder steps, holding each other accountable, and heightening a culture of consequence management to rebuild the trust within our systems.

While looking at this changing landscape and its many opportunities, we must think beyond anticipating risks and trying to predict the future, when it is far more useful to consider how resilient and prepared, we are to respond to any new threat; how quickly we can bounce back after disruptions, and how we can capitalise on opportunities with speed and agility. It is no longer about if, but when the crisis happens, so it is imperative to encourage and build judgement and decision-making memory

muscle – through simulations that enables, strengthens, and improves quality of decision making in times of crisis and disruption.

As IRMSA, we continue to relentlessly support risk professionals and business leaders to make risk-based decisions by providing ongoing thought leadership, training, and professional designations.

We recently developed an integrated risk management framework that enables organisations to improve decision making through the integration of strategy, risk, and resilience; and this Flagship Risk Report that provides South African risk landscape insights to business leaders, which should be integrated into their strategy setting and execution processes enhancing the quality of their decisions to ensure sustainable organisations. We are also pioneers of collaboration as witnessed by development of this Risk Report with participants and experts coming from various industries and sectors; and internationally through our affiliation with IFRIMA (the International Federation of Risk and Insurance Management Associations).

Inevitably, we will continue to live in turbulent and unpredictable times. While this may be true, we need to stay positive and remain alert to the countless opportunities that most often lie hidden in the chaos. As risk professionals within our respective organisations, let us lead our teams in uncovering and building on these opportunities in new, previously unimagined ways, remembering that the kind of leaders we are, is reflected by the people we lead.

“...uncertainty breeds limitless possibilities because when nothing is certain, anything is possible!”

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Lucidum is a network of thought leaders, advisors, and subject matter experts in the risk governance value chain[®]. We provide governance, risk management, ethics, compliance, and sustainability support to public and private corporates, small-medium enterprises, and non-profit entities. We align our solutions to our clients' need for risk governance practices to enable budget, revenue, and other strategic goals. Our optimized fee structure delivers high value outcomes at efficient prices, helping our clients achieve risk governance outcomes based on actionable decisions with the least intrusion (incorporating existing policies, people, processes, and systems where possible). Because we target decision outcomes, we can flexibly adjust implementation to suit our clients' needs without compromising good standards, while our skills transfer ensures sustainability of our solutions. We are especially passionate about building small-medium enterprises, to enhance their contribution to economic growth, job creation and a resilient society. Realising that these entities may not have the resources (time, money, and access) to appoint full time experts, we offer our services cost-effectively, to build good governance capacity over time, at a practically implementable level.

Governance	Risk	Ethics	Compliance	Sustainability
Governance Structure Board/Committee TOR Delegation of Authority Secretariat Services Combined Assurance	Policy and Framework Risk Appetite/Tolerance Risk Reporting Maturity Assessment Scenarios/Strategy	Policy and Framework Ethics Investigation Ethics Reporting Maturity Assessment Ethics Risk Assessment	Policy and Framework Compliance Universe Compliance Monitoring CRMPs Risk Integration	Policy and Framework ESG Risk Management Climate Response Plan Just Transition Plan Business Continuity

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Lorraine Smith

PREFACE

*“If you’ve been feeling confused and as though everything is impacting on you all at the same time, this is not a personal, private experience – this is actually a **collective experience.**”*

Adam Tooze

A portrait of Christopher Palm, a middle-aged man with short, light-colored hair, smiling. He is wearing a dark blue button-down shirt under a black blazer. The background is a dark, textured wall with some faint, abstract patterns.

CHRISTOPHER PALM
Chief Risk Advisor

The word ‘polycrisis’ cropped up throughout panel discussions at the World Economic Forum Annual Meeting in Davos. Experts evaluated the short- and long-term challenges facing the planet for the Forum’s Global Risks Report 2023/24. They found that the risk of polycrisis is growing – “where disparate crises interact such that the overall impact far exceeds the sum of each part.”

The theme of the 9th Edition of the IRMSA Risk Report is:

South Africa in a Polycrisis!

A polycrisis refers to a situation in which multiple crises occur simultaneously or in quick succession, creating a complex and interconnected web of crises for governments, organisations and societies. These crises may be social, economic, political, environmental, technological, or health related. They can occur at different levels, locally, regionally, and globally. A polycrisis is particularly challenging to manage, as it can create feedback loops, exacerbating existing problems, and creating new ones. For example: an energy crisis may trigger an economic crisis, which in turn can lead to social unrest and political instability.

While the specific risks identified in IRMSA's previous Risk Reports may have varied, mostly the same trends have emerged that provide motivation for the premise that South Africa is in a polycrisis and possibly entering a Failed State or onward towards a Mafia State:

- Economic challenges have consistently been identified as a major risk for South Africa over the past eight years. These challenges include no or slow economic growth or regression, high unemployment and persistent inequality.
- have also been recurring risks for South Africa, with concerns over corruption, governance, the rule of law and breakdown in public service delivery being common themes. More recently, the foreign policy of South Africa or at least the stance taken/not taken regarding global events, e.g., the war in the Ukraine.
- Social unrest has become an increasingly prominent risk in recent years, with protests and riots linked to issues such as poor service delivery, poverty and inequality, high unemployment, and unprecedented political corruption.
- Environmental risks, particularly related to climate change, extreme weather events and water scarcity, have also emerged as key concerns over the past eight years.
- Technological disruption is also an issue, particularly in the form of cyber vulnerabilities; dependencies on the Internet of Things; and the rise in artificial intelligence, automation and digital platforms.
- Climate change adaptation, as the result of continued carbon-intensive industries in SA hampering the move towards a lower-carbon economy and a Just Economic Transition. The mining and energy industries (electricity, oil, and gas) are going to be significantly impacted by this transition, with direct consequences for the economy, employment, and socio-economic levers.
- Failing public infrastructure, particularly to our large state-owned enterprises, resulting in national freight rail, electricity, and water supply failures across the country with resultant knock-on impacts on food security and the general health of the most vulnerable in society.

“Your fears never go away. You just get more comfortable ignoring them.”
Jason Ritter

The IRMSA Risk Reports repeatedly highlighted the outcomes related to these risks, which have all materialised to various degrees of consequence. South Africa continues to face a lack of ethical and visionary leadership; persistent inequality; high unemployment; and slow economic growth. In the very short term, the country will also have to find risk-response strategies to tackle the impacts of climate change; a persistent energy crisis; and a significantly increasing infrastructure crisis. A potential shift in the current political dispensation must also be factored in, to provide value in a sustainable manner very quickly. International threats and opportunities, such as changes in global trade patterns and geopolitical tensions, have also been added to the growing list of risks that South Africa needs to respond to.

Against this backdrop, the Report provides an analysis of the key risks, its consequences, causes and recommended risk response strategies. The impact of these risk elements is linked to the National Development Plan 2030 objectives and the Government Priorities for 2023. This Report also examines the interconnections between these risks, as well as their projected impacts on the three scenarios that IRMSA has developed for SA.

Also, we cannot help but ask the question: Is 2030 still realistic for the achievement of the NDP objectives and priorities? Adding to this, with the elections coming up in 2024, the possibility of changes in the political administration will further exacerbate the time spent in 'Perpetual Hangover'. Part of the scenario roadmap is a 'Call to Action'. A view on threats and opportunities that may offer an alternative road to take if we can do less of the bad and more of the good.

The key root cause to consider, is why South Africa continues to score 'own goals'. Is it because of its inaction, lack of accountability and consequence management; in essence being comfortable with mediocrity? Or it is because of a fundamental reality rooted in our past – leaving us with the misconception that ideology is all we ever needed to achieve an equal and prospering society? Is it

time for us to realise that achieving democracy was always ever just the first step in a much greater endeavour? The other challenges we were always going to face are the ones that are leading us to a polycrisis if we don't overcome them, e.g., building a physically healthy, well educated, and accountable society that knows how to prosper.

If we don't realise this, we are at risk of being "hijacked" by the cynical opportunism that makes up part of any society. Our future depends on the ability of good people to act and for everyone in society to lead where they are.

THE CALL TO ACTION IS ALL ABOUT REGAINING CONTROL. WE STILL HAVE SOME CONTROL; LET'S START LEADING WHERE WE ARE TO PREVENT A POLYCRISIS TURNING INTO A MAFIA STATE!

4

HOW TO USE **THIS REPORT**

This Report is less about analysing in more detail those risks we have known about for years, and more about what we can do very quickly to prevent them.



4.1 APPROACH

The scope of, and approach to, the compilation of the Report includes the following:

A review of the past:

This involved a review of, and a reflection on, the risks and trends emanating from the IRMSA Risk Reports over the last four years, as well as an analysis of the challenges and successes specific to the movement of the risks reported on to date.

The present:

This involved global, continental, and national risk analysis using credible data sources, along with the interviewing of subject-matter experts and business leaders to identify potential threats and opportunities across a range of risk categories, causes and consequences.

This year's approach did not centre on the technical assessment of the impact and likelihood of the risks, as the focus was on finding answers to the recurring nature of our risk profile and the various degrees of risks becoming a reality. The interconnectedness of the South African risk profile indicates a polycrisis enroute to a polyrisk of a Failed State or even a Mafia State. The ranking of the risks was less of a focus than the identification of common causes and common risk-response strategies to alter course as directed by the interconnectedness map and scenarios.

The future:

This involved the development of risk scenarios and the projection of the most likely scenario outcome based on the mapping of risk drivers and risk outcomes. It also entailed the linking of the scenarios to causes, as well as suggesting the potential changes in the scenario road map, this depending on potential risk-response strategies available for implementation.

The concept of a polycrisis and polyrisk is new to our report. The mapping of risk drivers and risk outcomes was performed to enable commentary on how the South African polycrisis could be defined and responded to, if not proactively averted.

4.2 REPORT LAYOUT

The Report is designed to be a valuable resource for policymakers, risk professionals, business leaders and decision-makers seeking to understand the threats and opportunities in South Africa and the South African market. The report provides insights and recommendations on how to respond to threats and capitalise on opportunities in the years ahead.

At the same time, this report is also intended to be a call to action. The challenges and risks facing South Africa are significant, but they are not insurmountable, provided action is taken soon.

By taking bold, decisive, and immediate action, the country can build a more resilient and prosperous future for all its citizens.

For this reason, like in all previous years, the risk conversation hinges on the National Development Plan 2030 (NDP) and the Government Priorities 2023. Staying true to the definition of risk being the effect of uncertainty on objectives (ISO 31000:2018) the report aims to contribute to a more informed and engaged public debate around the future of the country. It aims to plot out the steps needed to build a more inclusive and sustainable society. It endeavours to help business leaders in South Africa's polycrisis context to robustly challenge quality of their decision-making, as they consider their own strategies, risks, and resilience.

Above all, this report is about quality decision-making that can escalate into tangible action, fast. In other words, now is the time to do the right things that will prevent a polycrisis from turning into a Failed State or worse, a Mafia State.

The following NDP objectives (to be achieved by 2030) constitute the platform for this report's risk conversation:

- Uniting South Africans of all races and classes around a common programme to eliminate poverty and reduce inequality.
- Encourage citizens to be active in their own development, in strengthening democracy, and in holding their government accountable.
- Raising economic growth, promoting exports, and making the economy more labour absorbing.
- Focusing on key capabilities of both people and the country.
- Capabilities include skills, infrastructure, social security, strong institutions, and partnerships both within the country and with key international partners.
- Building a capable and developmental state.
- Strong leadership throughout society that work together to solve our problems.

For 2023, President Cyril Ramaphosa delivered the State of the Nation Address on 9 February 2023 and Government set the following priorities:

- Restoring energy security.
- Growing the economy and jobs.
- Building better lives.
- Fighting corruption.
- Making communities safer.
- Making government work.

4.3 NAVIGATING THE E-BOOK

This report is comprised of a message from the IRMSA President, a Preface, and an Executive Summary, that provide a quick overview of the Report. Detailed context is set out in Section 1, with the views of business thought leaders.

It represents the internal, transactional, and external environment in which South Africa is functioning. Section 2 highlights the top risks, with supporting information to allow for the understanding of the challenges and potential risk-response strategies that are recommended by the subject matter experts. Section 3 provides insights into likely scenarios for South Africa. It tracks the most likely scenario leading up to 2030, leading into Section 4 which provides potential risk response strategies allowing for an opportunity to alter course on the scenario roadmap.

4.4 FLOW

This is an interactive e-book that allows the user to navigate the document in three ways, namely:

- Considering the document page by page.
- Navigating the document by using the table of content.
- Navigating the document by using the links, hyperlinks and icons.

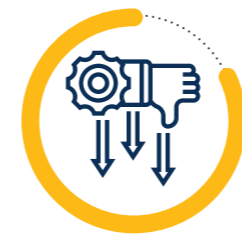
Quality decisions mean nothing if not translated into decisive, and tangible action, based on good governance, risk management and ethical leadership.

EXECUTIVE SUMMARY

South Africa, like many countries, faces a multitude of risks in the years ahead. These risks range from economic and political instability to social and environmental challenges. In our case however, the failure over many years to address these risks in manageable bits, so to speak, has resulted in the country now facing a polycrisis (i.e. the simultaneous realisation of individual risks), with the potential consequence of becoming a Failed State (some may believe that South Africa is already a Failed State) or a Mafia State.

Taking this reality into account as the country strives towards the realisation of its Vision 2030 goals, a higher level of urgency is needed to navigate these threats and opportunities in order to build a more prosperous, sustainable and inclusive future or in the worst case, to prevent a Failed State or Mafia State from materialising.

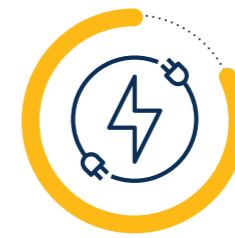
5.1 THE TOP RISKS FOR SOUTH AFRICA ARE:



FAILED STATE
(AS THE POLYCRISIS)



SYSTEMIC FAILURE
OF PUBLIC
INFRASTRUCTURE



NATIONAL GRID
FAILURE



PROLIFERATION OF
ILLICIT ECONOMIC
ACTIVITY



ECONOMIC
COLLAPSE



LARGE SCALE
DISRUPTION
OF DIGITALLY
ENABLED
SERVICES



IMPACT OF CLIMATE
CHANGE AND
CLIMATE ACTION
FAILURE



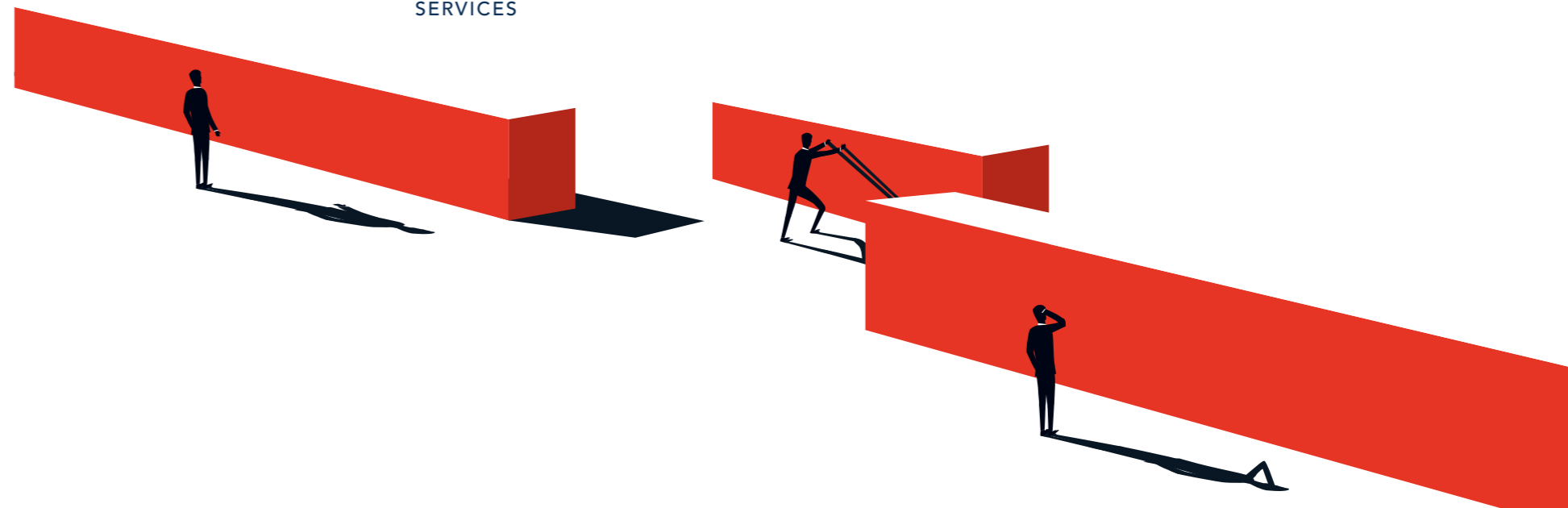
COLLAPSE
OF SOCIAL
SECURITY
SYSTEMS



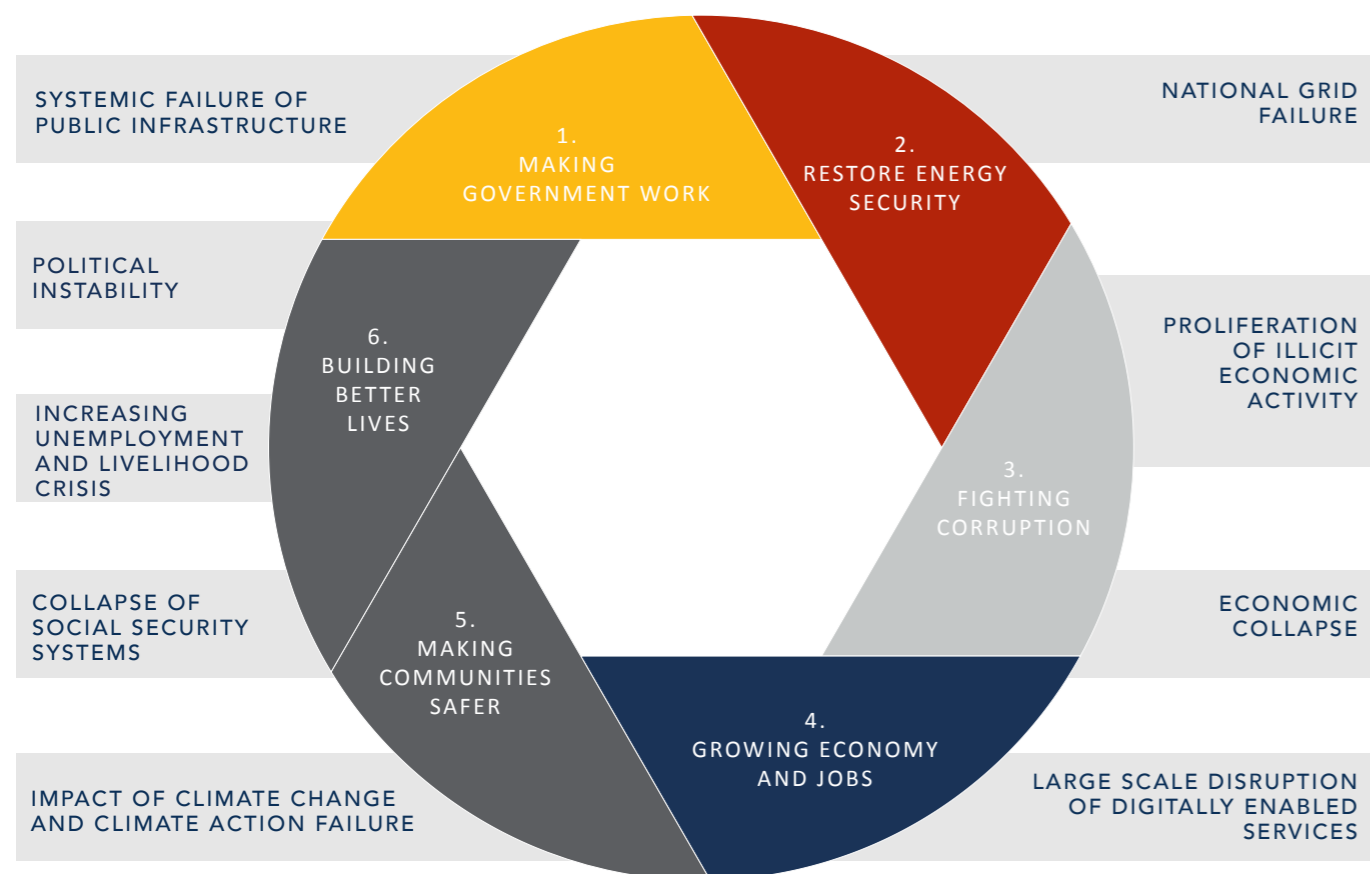
INCREASING
UNEMPLOYMENT
AND LIVELIHOOD
CRISIS



POLITICAL
INSTABILITY



5.2 SOUTH AFRICA TOP RISK PROFILE LINKED TO GOVERNMENT PRIORITIES 2023



Graphic 1: Top risks linked to Government Priorities 2023.

One of the most pressing risks facing South Africa is an economic collapse. In recent years, the country has experienced low economic growth, ever higher unemployment, increasing poverty, and inequality, exacerbating social tensions and divisions. As the country looks to 2030, it will need to focus on policies and investments that create jobs, promote entrepreneurship and support small, medium, and micro-enterprises (SMMEs). The risk of not successfully enabling the SMME-sector is the proliferation of informal and unregulated economic activity. This will require a coordinated effort across government, the private sector and civil society, to speedily enable inclusive growth and development.

Other major challenges facing South Africa include political instability and governance failures. The country has experienced a number of high-profile corruption scandals, political infighting and policy uncertainty in recent years, leading to a loss of confidence in government, Chapter Nine institutions and the public and private sectors. The reality of an unplanned, national coalition government (if it materialises), following immediately after an era fraught with corruption (most of which has received significant media coverage) is probably the single most important key risk indicator for the risk of South Africa degenerating into a Mafia State.

This has undermined the country's democratic institutions and eroded public and international trust, making it more difficult to address other key challenges such as attracting vital foreign investment, poverty reduction and environmental sustainability.

Addressing political instability and these governance challenges will require a concerted effort to promote transparency, accountability and democratic institutions, while also strengthening the rule of law and ensuring that all citizens benefits from the principles of distributive, procedural, and restorative justice.

In addition to these economic and political risks, South Africa also faces significant social and environmental challenges. Due to inequality, poverty, unemployment and failed service delivery, social tensions are exacerbated and the risk of social unrest has increased. Leaders at all levels and in all spheres of the economy have to take cognisance of the tremendous pressures that individuals are under and the impact of this pressure on the personal and collective resilience of South Africans individually and South Africa as a country.

Addressing these challenges will require a holistic approach that focuses on education and skills development, as well as healthcare, and social safety nets, beyond social government grants and corporate social investment programmes. The fundamental fabric of physically and mentally healthy and skilled individuals who make up a resilient and prosperous citizenry cannot be taken for granted anymore – this irreplaceable building block of a future South Africa is beyond a doubt at a very fragile point in history. It will also require the investment in and speedy, sustainable execution of public infrastructure improvements, such as housing, water, sanitation and public transportation. Also, to improve living conditions, health, and skills levels, and support economic growth.

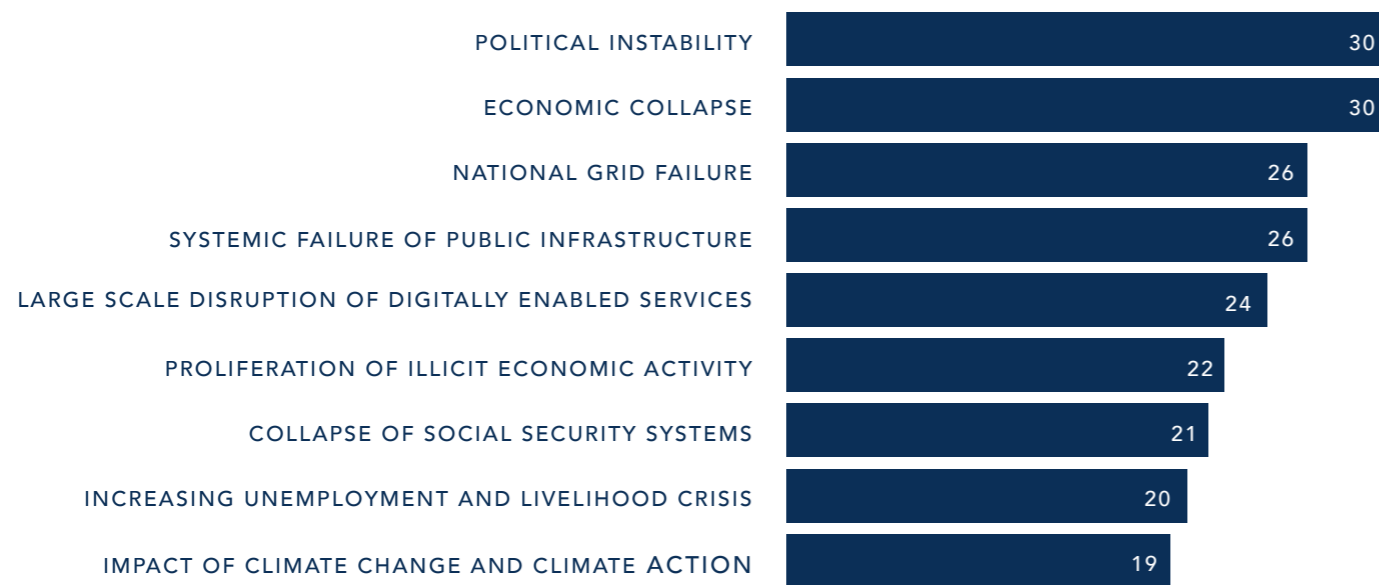
At the same time, South Africa must also confront the environmental risks associated with climate change and biodiversity loss. The country is particularly vulnerable to the impacts of climate change, including increased droughts, flooding and a rise in temperature, which will have significant economic, social and environmental consequences.

Addressing these environmental risks will require a coordinated effort to promote sustainable development and reduce greenhouse gas emissions, as well as to protect biodiversity and natural resources.

This will require an investment in renewable energy and sustainable agriculture, along with ecosystem restoration as part of a consciously managed Just Economic Transition to a lower carbon economy. Special focus will need to be placed on policies and incentives that promote green growth and sustainable development, while focusing on the principles of distributive, procedural and restorative justice during the roll-phases.

5.3 SOUTH AFRICA TOP RISKS WITH HIGHEST IMPACT ON GOVERNMENT PRIORITIES

Taking this analysis forward specific to the linking of the risk relationship with each of the Government Priorities as shown in Graphic 2 below, the risks with the most significant impact on the Government Priorities for 2023 are economic collapse, political instability, systemic failure of public infrastructure, and national grid failure.



Graphic 2: Risks with the most significant impact on the Government Priorities for 2023

5.4 GOVERNMENT PRIORITIES MOST VULNERABLE TO THE SOUTH AFRICA TOP RISKS

It is also important to understand which of the government's priorities are the most vulnerable to the top risks identified for South Africa. Looking at Graphic 3 and considering that 'building better lives' and 'making communities safer' are outcome risks, it seems plausible that they are also the most exposed to the impact of South Africa's top risks. They are followed by 'making government work', 'growing the economy', 'restoring energy security' and finally 'fighting corruption'. The argument for the management of the polycrisis cannot be made stronger because if these risks are allowed to fully materialise, the Government Priorities 2023/2030 will not be achieved and most likely turn South Africa into a Failed State or worse, a Mafia State.



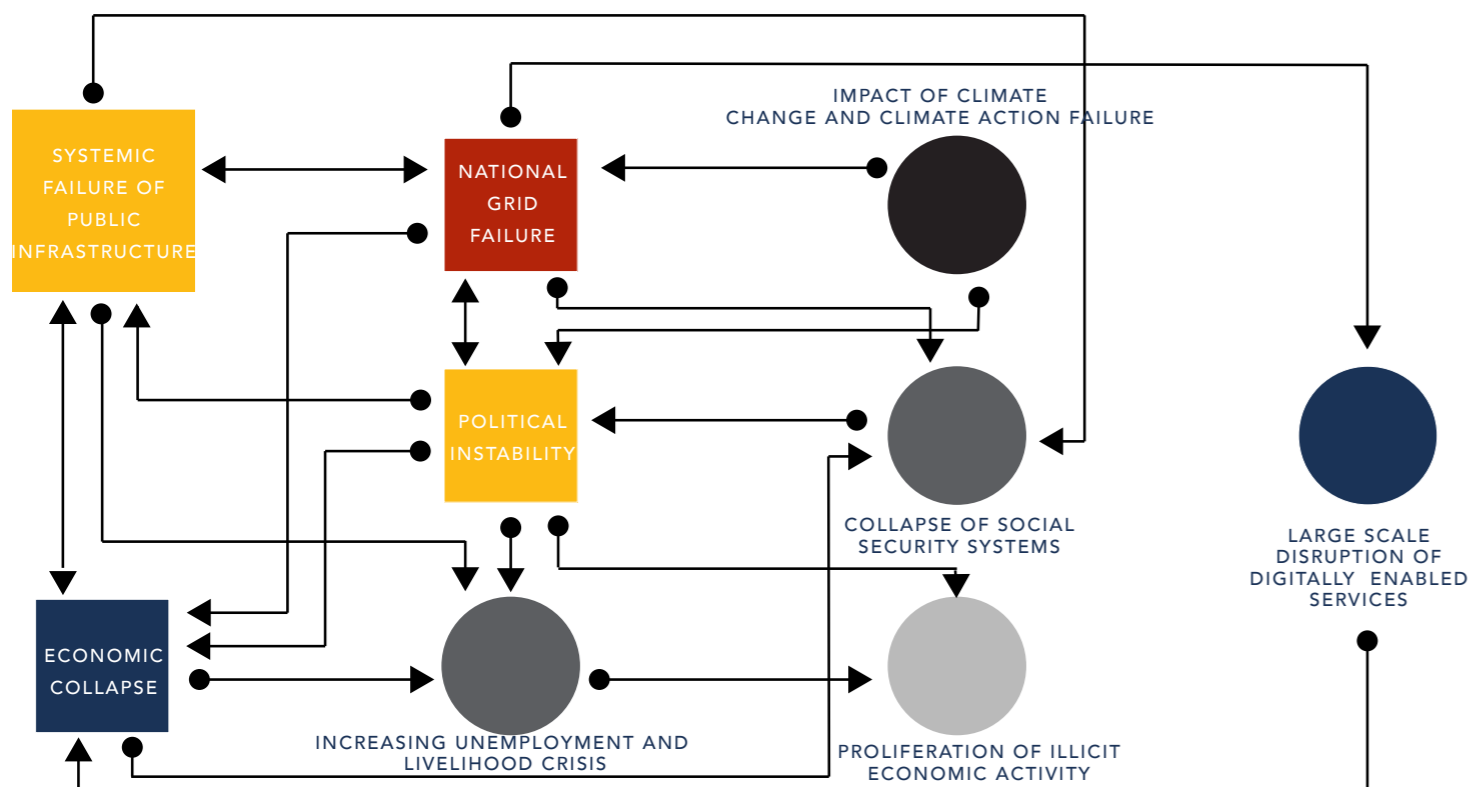
Graphic 3: Priorities that are most vulnerable to the top risks

5.5 SOUTH AFRICA'S POLYCRISIS LEADING TO A FAILED OR MAFIA STATE

Graphics 1 and 2 show the risks linked to the Government Priorities for 2023. The six priorities, when positioned in relation to each other, show a clear virtuous cycle of prioritised focus with progress in one area supporting advances in others.

Undoubtedly, the risk profile of South Africa (Graphic 4) has evolved into a polycrisis which if not managed quickly and effectively will manifest into a Failed State or worse, a Mafia State. The design and implementation of the risk-response strategies to address these interacting risks, will require trade-offs (Graphic 4) that will address some risks and exacerbate others.

This is South Africa's 'polycrisis' profile!



Graphic 4: South Africa's Polycrisis Profile.

LEGEND

	COLOURS: LINKING THE RISK TO THE GOVERNMENT PRIORITIES
	DRIVERS: RISKS THAT SIGNIFICANTLY DRIVE SOUTH AFRICA TOWARDS A POLYCRISIS
	OUTCOMES: RISKS THAT MAY HAVE A LEVEL OF INFLUENCE ON OTHER RISKS, BUT PREDOMINANTLY ARE OUTCOMES FROM THE EXTENT TO WHICH DRIVERS MATERIALISE.
	DOMINANT RELATIONSHIP (DRIVER): INFLUENCER OF OTHER RISKS
	RECEIVER RELATIONSHIP (OUTCOME): RISK INFLUENCED BY OTHER RISKS
	REITERATIVE RELATIONSHIP: RISKS ARE BOTH DRIVERS AND OUTCOMES IMPACTING OTHER RISKS BEING IMPACTED BY OTHER RISKS.

5.6 SOUTH AFRICA'S 'PERPETUAL HANGOVER'

The risks facing South Africa in the years ahead are significant and complex. They require a coordinated effort across government, the private sector and civil society to address the underlying economic, political, social and environmental challenges that are holding the country back.

Even more so than in 2022, the outcome of our analysis has South Africa slipping even deeper into the scenario of 'Perpetual Hangover'. The difference this time is that we do not see the momentum for the country moving towards 'Fake it until we make it'. That momentum has been lost; South Africa scored more 'own goals'. Also, we cannot help but ask the question: Is 2030 still realistic for the achievement of the NDP objectives and priorities?

Adding to this, with the elections coming up in 2024, the possibility of changes in the political administration will further exacerbate the time spent in 'Perpetual Hangover'. If this trend continues, the scenario of "Owning our Future" will most likely not be attainable in the lifetimes of the writers and readers of this report.

5.7 SOUTH AFRICA'S CALL TO ACTION

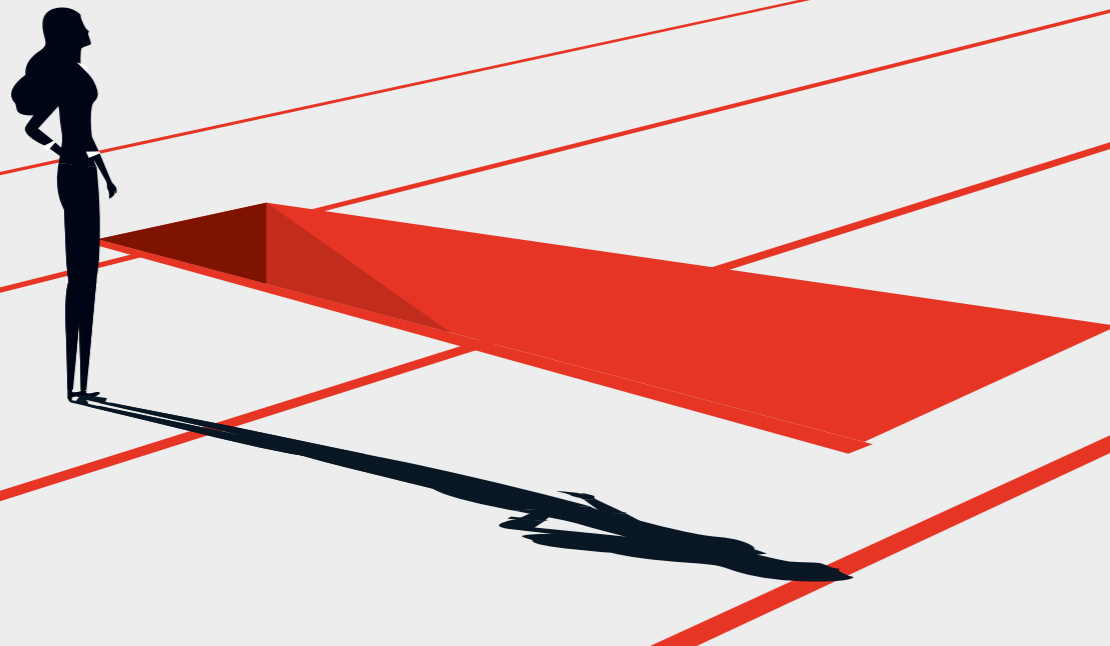
By working together to achieve inclusive growth, as well as strengthen democratic institutions and protect the environment, South Africa can build a more prosperous, sustainable and inclusive future for all of its citizens. However, this will require a commitment to short-term action based on the principles of long-term planning, as well as strategic and integrated thinking. It will require a willingness to take bold action and to address accountability, performance and consequence management.

IT WILL REQUIRE EVERY CITIZEN TO LEAD FROM WHERE HE/SHE STANDS!

Synthesising the subject matter expert opinions and suggestions, views from the business leaders interviewed, the high-level risk response strategies proposed below have the most impact and value-add in addressing the threats and opportunities that, respectively, threaten and support the building of a better future. In no particular order, these are the following:

1. Prioritise policies and investments that promote economic growth – those that stimulate job creation and economic support, particularly in sectors with high potential for job creation. These include green industries, technology, and tourism.
2. Address the high levels of inequality by implementing policies that promote greater social and economic equity. This includes progressive taxation; access to education and healthcare; and land reform.
3. Invest in education and skills development to improve the quality of the workforce, promote innovation, and increase productivity.
4. Grow entrepreneurship by supporting SMMEs creating an environment that encourages innovation; provides access to finance and business support services; simplifies bureaucratic processes, which in turn can help drive economic growth and job creation. The levels of support and enablement here must be commensurate with what the average SMME in the country can tolerate. Creating high barriers of entry into the economy based on ideological principles will not create enough economic traction for SMMEs to survive.
5. Strengthen governance and fight corruption by promoting transparency, accountability, and democratic institutions, while also strengthening the rule of law and ensuring that all citizens are treated equally before the law. Rules alone will not prevent dishonesty from materialising. A strong focus on ethical leadership (at all levels of the economy and across society) is needed as well as better protection for whistleblowers.
6. Invest in public infrastructure, particularly in digitising basic public services; energy and water; public transportation; and supporting economic growth.
7. Address climate change by promoting sustainable development, reducing greenhouse gas emissions, and protecting biodiversity and natural resources.
8. Promote innovation, as well as research and development, to support the growth of high-tech industries and increase the country's competitiveness.
9. Address the challenge of crime and violence by investing in law enforcement, improving the criminal justice system and addressing the root causes of crime.
10. Develop a comprehensive and integrated approach to risk management, including effective early-warning systems and disaster preparedness, this to deliver a risk-intelligent and resilient private and public sector.
11. Strengthen international partnerships and engage more effectively with the global community to promote trade and investment, share best practices, and collaborate on key challenges including climate change and poverty reduction. This will require a clear and sensible SA foreign policy.

SECTION 1:
SOUTH AFRICA
**RISK
CONTEXT**



ADVOCATE KEVIN MALUNGA



6.1 INTRODUCTION

A review of the past 12 months presents an opportunity for integrated risk management to come into its own. Advocate Kevin Malunga introduces the overwhelming pace of developments: “The current situation is truly awe-inspiring, as it seems to be constantly evolving with new developments every hour. From the emergence of artificial intelligence and the impact of social media to the ongoing conflict in Ukraine, there is a lot happening in the world. Amidst all of this, it feels like we are always on the edge, with the lingering threat of COVID-19 still present.”

The need for multidisciplinary conversations is highlighted by the complex effects of risks (threats and opportunities), both locally and globally. The diversity of drivers and events requires a broad understanding and an integrated response, not only from within the risk profession itself, but through a deepened engagement with other areas of specialisation.

All contributors to the conversation highlight the relationships between infrastructure, energy, economy and society. Issues such as state capture, corruption, electricity, the environment, inflation, unemployment and political will illustrate what Justice Malala referred to, in an IRMSA March webinar, as a polycrisis.

“The contradictions between energy policy, environmental policy, fiscal policy, industrial policy and the lack of a united national vision are critical to get us there.”

JUSTICE MALALA



6.2 SOUTH AFRICA IS A STUDY IN COMPLEXITY

As the risk of the electricity-supply crisis in South Africa coalesces into a status quo, international trends are exposing South Africa’s energy policy to greater scrutiny. The result of this is economic risks regarding trade constraints due to climate-change targets. Says Justice Malala, Political Commentator:

“I think the world has really changed enormously due to the Russian invasion of Ukraine.

I think that’s created a huge disruption in global energy markets. I think it’s played no small part in allowing the US to pass the Inflation Reduction Act, which, in my view, is likely to be regarded by posterity as one of the key turning points in the battle against climate change. When the world’s largest economy pivots decisively in favour of green energy, then you know something’s going to happen.”

Malala refers to government policy in this regard, highlighting that it is a driver of uncertainty, and that many state-owned enterprises are at the receiving end of this.

PROFESSOR BONANG MOHALE

Global tension and conflict continue to revolve around the economy and supply chains. Professor Bonang Mohale, President of Business Unity South Africa, highlights that the supply of semiconductors, industrial components, energy resources, and food serves to expose the associated risks in South Africa.

South Africa remains tied to the global economy. Over the past few months, these economic trends are echoed locally in such effects as inflation, but also in the case of global political alignment and its repercussions.



6.3 THE SPECTRES OF THE PAST AND THE PRESENT

Christopher Palm, IRMSA's Chief Risk Advisor, said during the March 2023 webinar that corruption and a lack of ethical and visionary political leadership are the main barriers to moving forward on the country's systemic problems.

As far as corruption is concerned, how our leaders view and treat whistleblowing and whistleblowers will be instrumental in providing a clear message around whether we have become desensitised to white-collar crime. Specific to South Africa's political relationships with China and Russia, it is anticipated that the international community will demand clarity on these alliances. Depending on the outcome, it is expected that the country and organisational risk profiles would have to anticipate the impact of the global response manifesting itself directly in international confidence and its impact on investment, products and services.

Palm added that, further to the power of political will, the outcome of the 2024 national elections and the possibility of South Africa being governed by national coalition begs the timeous building of scenarios. We will need to role-play the potential outcomes specific to opportunities and threats that this presents. Together with this is the need to reflect and reassess our strategies. Stakeholders are changing, their objectives will be different, and it will impact on the direction and strategies that organisations may have set.

CHRISTOPHER PALM

I am hoping that sketches the picture that we are indeed in a big hole and our job is to stop digging.



DERESH LAWANGEE

Simultaneously, the local economy and society still suffer a legacy of problems that require ongoing attention. Professor Mohale, laments: "A risk we need to own is our inability, our unwillingness, our lack of know-how to implement structural economic reforms. South Africa now holds the world records for all the wrong reasons. We are the world's most unequal society, taken over from Brazil with the Gini coefficient of ,63. We now have the highest unemployment rate in the world, with an expanded definition – we're talking about almost 40%. We have the highest SME failure rate in the world and the highest gender-based violence rate in the world. We are second only to Russia in terms of suicide."

Palm reinforces this point, while demonstrating the interdependence of various drivers: "The key trends that we need to address are energy security, poverty and inequality. We need to look at job creation, particularly for the unemployed youth. We also need to look at the environment, with Eskom arguably South Africa's biggest polluter. One must consider the 297-billion litres of water that we consume every year in an arid country, just to produce electricity. There's the very high likelihood of a mega-drought hitting South Africa, impacting on the Vaal River system over the next 5 to 10 years. This considered, I think we need to start worrying about the environment, in particular the resilience of the South African environment to climate change. We need to do what is necessary to make that work."

Mohale continues this point: "One problem... is the high levels of unemployment, so that our people can have their self-respect and, indeed, their self-worth. We need to take this notion of education seriously. We have an injection of about 380,000 young graduates that enter the job market, often with inappropriate skills. If we don't address this, my submission is that the two weeks in July of a failed insurrection is going to happen again and again and again... because, at the heart of it, is the infrastructure collapse."

Deresh Lawangee, Chief Executive Officer of Rise Investments, raises a specific concern around pension funds. He suggests that the National Treasury is increasingly looking at the retirement-fund industry to solve funding and address infrastructure problems.

"Do we use pension-fund assets to compensate for government failings?" he asks. "Is it the patriotic thing to do, and how do we do that in a very low or even no-trust environment?"

KIREN MAHARAJ



6.4 THE FUTURE IS NOW

Amidst the familiarity of local problems, there is a sense of unpredictability and an anticipation of the unknown. The fast ascent of AI experimental projects, as part of technological advancement, have focussed attention on the understanding of these technologies as sources of risk.

However, it is important to be aware of technology in a larger context and beyond the sensational. Deresh explains: “I find the risk of large-scale disruption of digitally enabled services and economic activity to be particularly significant. Our heavy reliance on technology, especially with the increasing prominence of AI in various industries, raises concerns about what might happen if we become too dependent on it. Additionally, there is a pressing need for skills transformation, especially for low-skilled workers who will need to upskill themselves to keep up with AI advancements.

One emerging discipline that will be critical is prompt engineering, which involves understanding how to optimise AI for maximum benefits. However, the risk of such technological services ceasing to function properly or providing incorrect information without proper checks and balances could have severe consequences. As a leader, I believe it is crucial to be aware of and prepared for these risks.”

While these systemic aspects have been flagged by IRMSA in the previous reports, the risk of single events – for example, the possibility of a national failure of the electrical grid – cannot be solely calculated as a systemic risk. This is a test of the resilience of risk analysis itself. A sentiment reflected by all participants is the importance of excellence, integration, and agility. For example, Chairperson of the South African National Energy Association, Kiren Maharaj, explains that “A national blackout can be caused for various other reasons. We’ve seen this in many countries overseas, where they had sufficient power generation capacity available and sufficient load, and then you have a very unexpected weather storm that causes huge critical network failures. The possibility of having a blackout is always a reality.” It is clear from these diverse Black Swan events that there are no comfortable lines between risk analysis; strategic and executive action; and flash-point events or states of affairs.

To drive this point home, two large-scale drivers, namely climate change and energy, are demonstrative of the need for rigor and integration of risk analysis within all relevant aspects.

Advocate Kevin Malunga insists that a top priority is knowledge. He believes that obtaining knowledge from educational institutions is crucial. Additionally, having structures in place to keep people up to date as risk managers, as well as prepare the entire workforce, is necessary.

ALEX HETHERINGTON



6.5 INTEGRATED METHODOLOGY

Furthering this idea, Alex Hetherington from Third Line Group reinforces the need for well-researched scenario analysis. He explains that this allows threats and opportunities to be identified to build resilience. An example is how the investment community is increasingly measuring the future worth of a company in terms of its climate-change response. This may be an indicator of a shift in thinking around risk, specifically in terms of climate change but potentially opening into a broader expression.

Hetherington diagnoses the response to climate change as a measure of how much one has been exposed to its effects. In this sense, it shows that negative risk analysis as a reactive discipline presents a risk.

Professor Mohale reiterates that “Understanding risk and its management is not just about trying to anticipate the future – it’s about the level of preparedness. It’s about exercising the mental muscle to ensure that, when we are hit with something that we didn’t anticipate – like we were blindsided by the pandemic, like we were hit with the two weeks in July, like we were hit by the floods in KwaZulu-Natal during Easter and again during May – that you have gone through a process [and] you’ve got a system of dealing, of anticipating, of responding.”

Palm expands on the idea of integrated risk assessment by relying on expert knowledge: “My advice would be to listen to the people who know; the strategists, risk professionals and futurists. You’ve got to involve them and leverage their contributions when integrating the strategy, risk, and resilience conversations. Governing bodies can benefit from at least considering their recommendations and how it would play out when put into action – i.e., considering different futures. Building alternatives and robustly stress testing them so when a quick, complex decision is need, alternatives are available.

Lawangee emphasises the need for agility: “Think of this as our own organisation. There’s the ‘fail-fast’ mentality where if an employee’s attempt at something doesn’t work out, you fail fast and move on to the next thing. Failure can be a very good teacher. I think that type of environment allows you to be more agile and more responsive to risk that you can’t foresee on an excel spreadsheet – otherwise people will just be paralysed and won’t know what to do.”



CHRIS YELLAND

6.6 AREAS OF FOCUS

Deresh Lawangee, thinks that the increasing cost of capital is a risk area for businesses in the very short term. Says Lawangee: "If you get to make sure that your business is immune to that, that you can operate in that type of environment. Also, immediately with the energy crisis, you've got to make sure that your business and your operations are not going to be affected by the lack of electricity in the country."

Kiren Maharaj, expands on this statement, saying: "Again, I think that to accelerate the decarbonisation of the economy and to embrace that aggressively is a smart move to achieve energy security, but also to protect the economy and the environment."

Advocate Kevin Malunga believes that knowledge truly is power, and it is crucial to avoid simply going through the motions of compliance without fully considering the impact of our actions or inactions on risk.

Chris Yelland, well known journalist, energy expert and consultant amplifies this comment by Advocate Malunga by pointing out the fragile state of the social fabric of society in South Africa. People are worried, scared and sensitive and these fears present very real risks and consequences.

"I suggest that the social fabric of society in South Africa, right now, is very delicate and driven by very high levels of poverty, inequality and unemployment.

These are significant drivers of people's social wellbeing, mental and physical health and sense of worth. There is significant discontent on the ground, in the poor areas specifically, about feeling neglected". Yelland continues by highlighting the fact that it goes beyond just the obvious challenges such as not having access to electricity, water, housing and other services. It requires consideration of the interconnectedness of things that may seem obvious and mundane to some but for others, it leads to social bankruptcy. We need to be innovative and act with creativity if we wish to achieve different results as in the end poverty, unemployment and inequality will be fuelling a potential flashpoint.

Nerine Kahn, former Commissioner and Director at the CCMA and Managing Director of Employment Relations Exchange proposes that to achieve the NDP goal of building capabilities there needs to be a much bigger focus on developing our people capacity through education and modernising the way we educate people. "This is the single biggest risk people face as the education is limited to more and more privately educated citizens". The world is moving towards Artificial Intelligence and the poor level of education and development of people will be leaving the South African workforces behind.

Adding to the sentiments raised by Chris Yelland, Nerine says workplaces remain in many instances the only places where some generations and people get to interact in a cross cultural or cross racial environment. The need to integrate and focus on the challenges that are faced by people is critical, as this is bubbling under. Workplaces need to understand that the frustrations of the broader society are playing out in the workplace, e.g., no electricity, no water, rising cost of living, transport challenges from trains being burnt to taxi wars and the like.

Also, much is being written about mental health and the workplace and there is a higher and higher risk of people being mentally challenged from workplace stress coupled with living the day-to-day reality of life in South Africa for the ordinary worker. Nerine Kahn, former Commissioner and Director at the CCMA and Managing Director of Employment Relations Exchange proposes that to achieve the NDP goal of building capabilities there needs to be a much bigger focus on developing our people capacity through education and modernising the way we educate people. "This is the single biggest risk people face as the education is limited to more and more privately educated citizens". The world is moving towards Artificial Intelligence and the poor level of education and development of people will be leaving the South African workforces behind.

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NERINE KAHN

6.7.

CONCLUSION

The unique challenges of the South African economy, political dynamics and societal problems are set against the unavoidable backdrop of truly historic global shifts. Well-established issues, such as globalisation, climate change and power politics, are woven into the South African landscape.

The drivers that were previously identified continue to inform risk assessments and scenario analysis in a meaningful way. More generally, the unprecedented volatility of unpredictable outcomes allows agile risk managers to deepen and develop such frameworks for strategic deployment.

IRMSA's drive towards making organisations risk intelligent and resilient speaks to this complexity, and it is in this context that the report reflects on the past 12 months and considers threats and opportunities over the next 12 months.

We offer specialist support on all workplace conflicts, with a focus on your business. Through effective employee engagement, meaningful performance management reinforcement, minimizing workplace conflict & managing discipline by encouraging conversation.

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Structured guidance on retrenchment do's & don'ts in your environment.



Supporting management in employee dialogue

Patient attention to executives & management in preparing for those hard conversations

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Strategic & stakeholder conflict resolution

Strategy & guidance on workplace/community conflict.

Evaluating and implementing best practice policies

Benchmarking & simplifying all workplace policies and procedures.



INITIATING DIALOGUE AND ALIGNING WORKPLACES WHERE IT MATTERS



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SECTION 1:

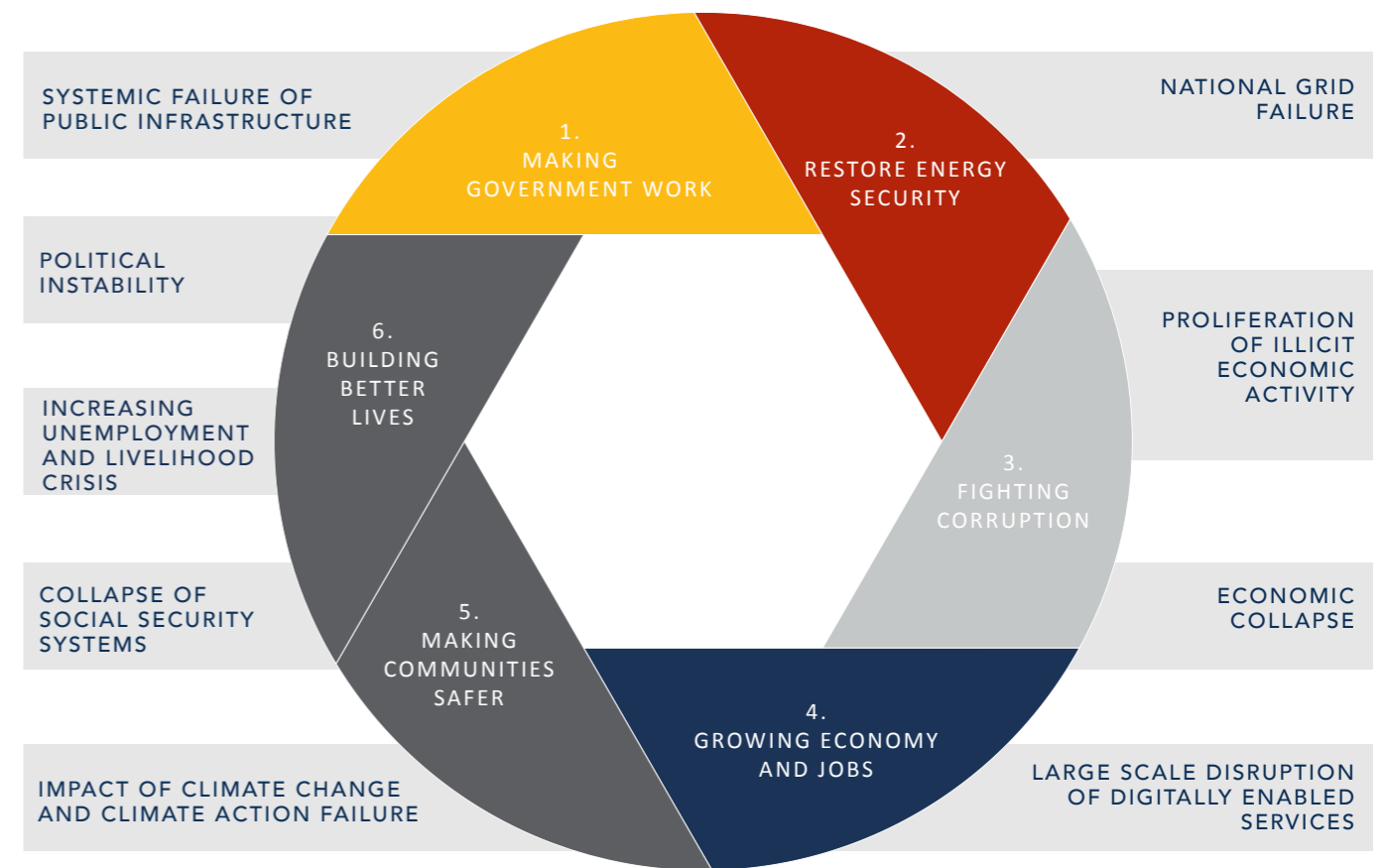
SOUTH AFRICA
**RISK
CONTEXT**



7.1 SOUTH AFRICAN PRIORITIES AND TOP RISKS 2023/24

ISO 31 000:2018 defines risk as “the effect of uncertainties on objectives.” It is therefore appropriate to start with the high-level unpacking of South Africa’s objectives for 2023. The strategic change required to move South Africa forward requires years, often decades of vision, leadership and implementation of key initiatives to grow in a sustainable manner.

If we listen to the content providers to this report, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. The risks presented in Section 2 are anchored in the priorities set by government for 2023.



Graphic 1: Top risks linked to Government Priorities 2023/24.

7.2 IRMSA SOUTH AFRICA RISKS 2023/24

The risks are detailed by subject matter experts focussing on defining the risk, highlighting the top five causes, top five consequences and suggesting five risk response strategies.

Note: It is important to recognised that for some, these risks either in totality or partially have already become reality.

7.3

FAILED STATE

All the metrics are telling us that we are a Failed State. State capture is both systemic and systematic, severely damaging our economy. Poor infrastructure, poor service delivery, corruption, together with weak governance, contributes towards the state failure of South Africa.

In the last 10 years, GDP growth of South Africa has not reached 2%. With population growth being 1.5% and GDP only growing by 1.5%, South Africa is standing still – in fact, the South African economy is going backwards.

The country is the most unequal society in the world, as well as having the highest unemployment rate in the world.

PROFESSOR BONANG MOHALE
BUSINESS UNITY SOUTH AFRICA



TOP 5 CHALLENGES TO ACHIEVING TARGETS

Collapsed infrastructure is one of the biggest contributors to a Failed State. This includes the energy infrastructure and water infrastructure that have aged due to poor governance.

Poor governance from public sector leadership. This supports the idea that the governance of the country lacks the inability to implement structural economic reforms in South Africa.

The investment into public and private infrastructure comes to nothing because of crime becoming an epidemic.

Youth unemployment, at 75%, remains a huge concern, as too many young people of employable age are sitting at home with nothing to do. This actively invites trouble amongst the youth.

Law, order, safety, and security has become an epidemic. It is largely unchecked.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

01. Investing for growth and not consumption would be the top response, followed by investing in infrastructure as that would best stimulate the economic growth of the country.

Also, investing in network industries, ports, rail, digital migration and 5G. All of these will, in turn, be an investment in a capable state, which is much easier to deal with than one that is less capable.

02. Supporting all recommendations set out by the Zondo Commission regarding state capture, focusing on law and order, as well as safety and the security of our country.

03. Replacing current leadership with ethical leaders. South Africa needs transparent and accountable leadership. Those that have transgressed need to be replaced. There needs to be consequence management.

04. For the South African economy to move forward, we need to ensure an increased GDP growth. In the last 10 years, it has not reached 2%. This can be achieved once the inflation CPI decreases and/or our interest rate can be increased

Investment is needed to increase large scale small and medium enterprise production and sales (particularly exports); which stimulates employment.

05. Invest in a capable state starting with Law-and-Order structures which need to be resurrected.

Appoint competent people and hold leaders accountable for performance.

The evidence is clear. South Africa is a Failed State. All the metrics are telling us that we are a Failed State.

What is the evidence that we are a Failed State?

- Our infrastructure has collapsed. We do not have reliable and predictable energy supply. Eskom is responsible for more than 90% of our electricity in the country. It is not just limited to energy.
- Water supply is at risk. The new term is water shedding. Water shedding not because of drought or scarcity but because of poor governance and aging infrastructure.
- Breakdown in fuel delivery to airports and general rail infrastructure.

Transnet is going to be the new Eskom if it is not already. In fact, I doubt whether by the end of this year, Transnet would not have gone back to the shareholder asking for a bailout. Lastly, Transnet's own cyberattack which again is in fact due to poor governance.

Then on to the 'business' Mafia where they're asking for equity for nothing. From mostly state-owned enterprises and state-owned companies, and then the same from construction companies specifically in KwaZulu Natal.

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Then on to the 'business' Mafia. Where they're asking for equity for nothing. From mostly state-owned enterprises and state-owned companies, but also construction companies specifically in KwaZulu Natal.

Then the two weeks in July on the 19th of July 2021. Shocked and spooked and traumatized, all of us. There are two flags. The KZN riots and floods that killed almost as many people as the failed insurrection and the rampant looting of that two weeks in July. This led to companies like Samsung having 11 warehouses and 8 factories burnt down. Two hundred malls have been destroyed. Beaches in KZN are polluted and the water quality compromised, even six beaches in the Western Cape were closed because raw sewage poured into the ocean.

Telecommunication companies are losing a lot of money. First, they had to invest in batteries to make sure that they keep their masts and towers going. In the meantime, we have crime becoming an epidemic and these batteries are stolen regularly. Together with loadshedding the batteries don't have enough power to recharge and provide adequate cell and data coverage.

South Africa is holding the world record for all the wrong reasons. We are now the most unequal society in the world. We took over from Brazil. We have the highest unemployment rate in the world with youth unemployment at 75%. We have the highest SME failure rate in the

world. We have the highest GBV rate in the world, not by a factor of two, but five times the global average. We second only to Russia in terms of our suicide rate. We are hemorrhaging scarce and critical skills. We are the most violent. We have the highest road fatalities in the world. All of those put together. I think it's a strong business case for me to say that we are not failing, we have failed – we are a Failed State.

I have five risks that are unique only to South Africa. I would say:

1. State capture is continuing because it's both systemic and systematic.
2. Lack of social economic stimulus.
3. Youth unemployment - when you have young people sitting at home with nothing to do, not only are we asking for trouble, but we are also actively inviting it.
4. The lack of a stable and reliable and predictable energy supply.
5. Lack of, or inability to implement structural economic reforms.

Professor Mohale's 90-day plan. This is where I would target my efforts and my resources:

1. Invest for growth, not for consumption. I would invest in infrastructure. Because that's what best stimulates economic growth. I will invest in network industries. Ports, rail, digital migration to 5G.
2. Invest in a capable state. Because the nine wasted years have taught us that especially for business, it's easier to deal with a capable state than the one that is less capable.
3. Support all the recommendations of the Zondo Commission.
4. Focus on fixing the structures of law and order, safety and security.
5. Measuring the things that matter - The things that we are measuring aren't the things that are telling us whether we, as South Africans are turning the corner. We are going back. The reality is that in the last 10 years GDP growth has not reached 2%. And yet the population growth is 1.5%, so if the GDP was growing only by 1.5% and the population growth is 1.5. Percent it means we are standing still. The South African economy is going backwards. So, the cost of load shedding to the economy for me is the following:

- a. At stage six, load shedding the economy loses up to R 4 billion a day. Every day. As we are shed, we wipe off an entire percentage point from our GDP.
- b. The number of small and medium enterprises that have gone under. Big businesses can buy generators and install solar systems, small businesses close their doors and contribute to unemployment. We know that SMEs are the biggest employers.

I want South Africans to look at Rwanda, also look at Zambia and China for how they are getting it right! Simply put, China has only one problem and this problem is the 1.4 billion population of its citizens. They are saying we need to do 2 things for these 1.4 billion people. We must give them jobs and the economy must grow on a sustainable basis. That found its way into policy of the National Command Council of the Communist Party.

It finds its way into the strategy of the country. It informs China's foreign policy. China looks at you and say are you going to help me solve my 1.4 billion people problem. And if it's not doing that, they are not interested because they are simply saying for us to give jobs to these 1.4 billion people what resources do we need? That's what informs the foreign policy. Let me come to Singapore.

Lee Kuan Yung looks at this and says guys we are on our own. He embarks on a strategy that does only three things. One is meritocracy. Two is pragmatism. Three is honesty. That's all. They didn't even have fresh water to the island of Singapore. It came from Malaysia. In 40 years, Singapore propelled itself into the top five highest per capita income countries in the world. By 2030 it will be the highest per capita country in the world. Rwanda, on the 27th of April 1994, when we were voting, 800,000 Tutsis were massacred by the Hutus. At the end of that month a million were dead.

Today, you go to Kigali, the capital, you've got free Wi-Fi in buses and it's clean. The President led a campaign of cleaning Rwanda. And they still do so every Saturday. South Africa needs ethical and visionary leadership. Transparent leadership. It needs, finally, accountable leadership, one of if you messed up, you own up and you must be fired.

Risk-On-Demand

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Traditional risk management approaches can be time-consuming and often lack the necessary expertise to navigate complex risk landscapes. That's why we've developed Risk-On-Demand: an innovative software solution that combines the power of cutting-edge risk software with the expert advice of seasoned risk advisors.

Comprehensive Risk Management:
Combine the power of advanced risk software with expert risk advisory services to gain a holistic understanding of your organization's risk landscape.

Empowering Your Business Through
Intelligent Risk Management.



7.4

EMPLOYMENT AND LIVELIHOOD CRISIS

South Africa's unemployment rate ranks amongst the highest both in Africa and the world. The resultant livelihood crisis due to high levels of unemployment, low wages and a lack of job opportunities leads to an existential problem whereby individuals and families become reliant on others to survive.

The current unemployment and livelihood crisis is a driving force or can be seen as a compounding factor for other challenges that confront South Africa, namely poverty and the huge inequality between the haves and the have nots. There is an increase in the cost of living and a low-growth economy. There are several challenges that face small businesses, impacting their ability to sustain operations and effectively contribute to job creation and economic growth. Unless effectively addressed, this risk leads to other risks that include spiralling crime; a breakdown in the rule of law; social polarisation and unrest; and the growth of illicit economic activities.

MPHUMELELI ZUNGU
RISK MANAGER
NATIONAL DEVELOPMENT AGENCY



TOP 5 CHALLENGES TO ACHIEVING TARGETS

Inability to leverage entrepreneurship due to a largely dysfunctional education system and poor training opportunities. Social factors that do not promote entrepreneurship as a career path of choice. A lack of access to finance and a difficult regulatory environment in South Africa.

Poor and unreliable public infrastructure due to a lack of maintenance and improvement, this because of incompetence, corruption and a lack of skills in government.

Disparities in the distribution of resources (inequality), coupled with poor educational opportunities.

Lack of economic growth in the country.

Little or no access to jobs.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

01.

The development and implementation of a national strategy on entrepreneurship. This would take the form of a unified national centre consisting of stakeholders from government and the private sector. Together, they would align commitments and provide a common goal on a macro level, as well as lead and coordinate micro-initiatives across the country.

There is an opportunity for the private sector to sponsor and support start up small business.

02.

The government needs to address the underlying causes of which addressing skills development especially on municipal levels is priority. Also prioritising investment in infrastructure and infrastructure maintenance are recommended as infrastructure is the backbone of our economy.

One of the greatest challenges of the South African educational system is to provide appropriate learning and skill sets for learners leaving the education system, so that they are employable in a world of accelerating change and volatility. While it is commendable that the aspiration of most school leavers is to study further for a white-collar job, this is unrealistic in the current environment of high unemployment and low economic growth. South Africa has a great footprint of TVET colleges, which provide programmes for a wide range of artisan studies that will equip school leavers with practical skills that they can earn a living from.

03.

Society in general should take a realistic view that there are a limited amount of 'knowledge worker' jobs available, and that the youth should focus on upskilling and traditional artisan employment opportunities. This will provide a better fit for demand, with more of the youth being employable. It will help to improve the current unemployment and livelihood crisis. The ask is for the state to continue improving and growing the TVET College footprint it already has.

04.

Two pervasive reasons for lack of economic growth remain the continual severe loadshedding by Eskom and the endemic corruption plaguing our public and private organisations, leading to high unemployment and the livelihood crisis that the country is experiencing. If not to create jobs, it is incumbent on the government to create an environment that promotes business to grow, thereby creating employment.

Of the many challenges to growing the economy of the country, government needs to make visible and significant improvements towards a more reliable power supply, as well as curbing corruption.

05.

The unemployment rate represents approximately 7.8 million South Africans of working age. If the extended definition of unemployment is applied to include those who have given up their search for employment, the unemployment rate stands at ±42.6%. Youth represent 17.84 million of South Africa's 60.6 million, of which 61% were unemployed in Q4/2022. To move the dial in the right direction, both the public and private sector can act.

- Government should create a better environment for foreign investment through less restrictive labour regulation.
- Improve the ease of doing business in South Africa, to entice multinationals to operate in the country.
- Private sector can commit to more public-private partnership initiatives to employ and train individuals that will eventually remain in the public sector with the requisite skills effectiveness and efficiency.

The employment and livelihood crisis risk are at the heart of the triple challenges (unemployment, poverty and inequality) that South Africa is faced with. In the face of the current unfavourable economic climate, the risk is on an upward trajectory. The National Development Agency (NDA) is clear on its intent to reduce these challenges; however, the external context is making it extremely difficult to do so. This includes geopolitical issues such as the war between Russia and Ukraine, as well as the trade wars between the United States of America and China. There are also several issues that contribute to this risk, for example: how the import inflation due to supply chain disruptions pushed the cost of living and wellbeing of South Africans to the brink of poverty. In South Africa, we can never fail to mention a significant contributor to this risk being Eskom, causing a high rate of unemployment (especially amongst youth and women). This in turn spills over and impacts on other issues, such as the high crime rate, gender-based violence and femicide.

There is a need for government to create a conducive environment through policies and programmes that will stimulate the economy. As much as society should not be dependent on government, it is important that they are held accountable. This involves unlocking opportunities around creating investment that will facilitate the creation of jobs. This includes ensuring that public infrastructure works efficiently (including energy). It will assist in creating a conducive environment, especially for small businesses. This will greatly assist in reducing the costs of doing business and the red tape when it comes to establishing those businesses.

Another strategy that is imperative in addressing this risk is South Africa Incorporated (SAINC) assisting in enhancing the skills of the affected youth, so that they are employable. They need to be able to create a sustainable livelihood for themselves through businesses and otherwise.

Corruption is the biggest impediment that prevents South Africa from effectively dealing with this risk, as it overshadows the efforts to deal with the employment and livelihood crises. Corruption also discourages any potential investor from doing business in the country because of the country's bad reputation and appalling track record (for example: the recent grey listing of South Africa by

the global Financial Action Task Force). One should be aware of some key risk indicators (red flags) pertaining to this risk – key risk indicators such as the poverty line report that measures the average livelihood of an ordinary South African, as well as the measures of unemployment rates in South Africa provided by the Statistics South Africa. These statistics should be studied over the long term, to identify the trends and better manage the situation.

The NDA has great potential in addressing this risk, as it deals with harnessing the power of civil society organisations (CSOs) in poor communities to eradicate poverty. It has a mandate to raise resources for civil society and to grant the necessary funding meant to assist with improving livelihoods. In addition, the following institutions could, through collective and effective efforts, assist in eradicating the employment and livelihood crisis.

- The Industrial Development Corporation (IDC), which is an organisation that deals with industrialisation by funding black-owned and empowered companies; black industrialists; women; and youth-owned and empowered enterprises.
- The National Empowerment Fund (NEF), which facilitates black economic participation by providing financial and non-financial support to black-owned and managed businesses, and by promoting a culture of savings and investment among black people.
- The Development Bank of Southern Africa (DBSA) which mobilises infrastructure development with the purpose of delivering socio-economic growth that is shared and equitable for African countries.
- Youth Employment Services (YES) is the collaboration between government and business labour, aimed at addressing the youth-unemployment crisis through BEE initiatives.

Government needs to take decisive action with strong leadership to overcome the multitude of challenges created locally and internationally for the country to reduce the risk of unemployment and livelihood crisis. The institutions can then augment government's efforts to turn around the situation to create employment and a better life for all.

7.5

MUSA KHUMALO
GROUP HEAD: SHARED SERVICES
CITY OF TSHWANE

SYSTEMIC FAILURE OF **PUBLIC INFRASTRUCTURE**

South Africa has experienced an increasing number of disruptions of essential services such as water and electricity over the last decade. Despite increased attention, these disruptions continue to occur and, in some cases, accelerate. Participation in economic activities and social inclusion are greatly affected by the failure of delivery of public infrastructure services. This is a significant hindrance to government achieving the stated objectives for the NDP. The impact of this on investor certainty is substantial, as is the ability of business and other essential services to operate.

ANDREW PIKE
HEAD OF PORTS, TRANSPORT
AND LOGISTICS
BOWMANS



TOP 5 CHALLENGES TO ACHIEVING TARGETS

Government and parastatal inefficiencies, arising from inadequate and inefficient management of local authority and parastatal infrastructure. Exacerbated, at a national level, by slow policy implementation.

The continued endemic nepotism and corruption in the public and private sector.

Lack of capacity and skills have resulted in the slow pace of digital transformation and cyber security vulnerabilities within government and SOEs.

Poor enforcement of the Cybercrimes Act 19 of 2020 and data privacy laws.

Lack of capacity and skills have resulted in the slow pace of digital transformation and cyber security vulnerabilities within government and SOEs.

Lack of infrastructure maintenance and the vandalism of infrastructure. Poor administration and corruption are the causes for lack of maintenance.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

01.

Public-Private Partnerships (PPPs) are essential for the building of capacity and skills in government and parastatals. PPPs offer the opportunity to provide capacity in the short term and the transfer of skills in the medium term, to areas that desperately need the assistance. The result is building infrastructure that is good for the economy and assists the government in improving its achievements towards the NDP objectives. Key areas that PPPs should be focusing on would be transportation and utilities such as energy and water. The existing opportunities through PPPs are to consider innovations through solar, wind and other areas, this to improve energy creation and the hydrologic cycle. The aim is to create new businesses that will not only solve problems regarding public infrastructure but boost the economy too.

02.

The recommendations by the Zondo Commission emanating from the Judicial Commission of Inquiry into Allegations of State Capture report, such as establishing an independent agency against corruption in public procurement, should be executed. Responsible individuals should be held accountable for ethical and governance failures. The National Prosecuting Authority (NPA) – which is critical to the proper functioning of South Africa’s criminal justice system and upholding of the rule of law – and the Investigating Directorate (ID), which investigates and prosecutes high-profile and complex crimes*, need to retain independence from any other organ of state and be free to continue the good work that is being done to turn the tide on continued corruption.

*Especially under the Prevention of Organised Crime Act, the Prevention and Combatting of Corrupt Activities Act and the Public Finance Management Act.

03.

The high turnover rate of accounting officers and parliamentary committees leads to gaps and shortages in the continuity of public finance management. A combination of PPP to assist with resource and skills, as well as the protection of whistle-blowers and strong and ethical leadership to curb fraud and corruption, will go a long way to improve the situation. Stronger debt-collection enforcement from municipalities, in collaboration with National Treasury assistance where appropriate, is necessary to improve the current bad debt rates incurred by SOEs providing utilities to municipalities for further distribution.

04.

In July 2021, Transnet became a victim of a ransomware attack, which caused the SOE to declare force majeure at several key container terminals, including the Ports of Durban, Ngqura, Gqeberha and Cape Town. The operational integrity of the country’s critical maritime infrastructure suffered a severe disruption leading to major delays at those ports. This negatively impacted companies and the economy. In 2012, to meet the rising threats, the South African government created a National Cybersecurity Policy Framework (NCPF). The policy sets out measures and standards for coordination across government bodies. It also began a process of greater regulation in terms of private and public entity data management. Due to a lack of capacity and skills, many government departments and SOEs are still vulnerable to cyber-attacks. The recently enacted Cybercrimes Act 19 of 2020, as well as data-privacy laws, will need to be enforced to encourage both the public and private sectors to improve their cyber-security postures. The opportunity for the country is to establish centres of excellence, to improve technology skills that will move the public sector forwards in innovation relating to digital transformation.

05.

The government should look to strengthening the regulatory framework governing, planning and budgeting for infrastructure maintenance. It should look to improving the monitoring, evaluation and reporting of the maintenance of public infrastructure. Potentially also using technology to monitor and protect infrastructure from being vandalised. PPP has a role to play in assisting with capacity and skills, to expedite maintenance that is critical. Tied to PPP, the government should look at ways to enhance the attractiveness of infrastructure projects for private funding. The opportunity is to claim back South Africa’s role as a gateway to Africa for foreign investors and businesses.

There is no question that the failure of public infrastructure presents a major risk to South African development goals. In many respects, the National Development Plan (NDP) speaks about expanding services to all parts of the country and to all its citizens. The continuous failure of infrastructure, this due to vandalism, incompetence, theft and lack of expansion, is hampering the achievements of these objectives. Almost every goal in the NDP is in some way, directly or indirectly, negatively affected by the failing infrastructure.

There are some risk-response strategies that should be implemented to effectively address this risk going forward. These strategies should include the use of technology in safeguarding infrastructure and enabling a quick response. Long-term project pipelines that can secure investments from development banks, as well as the formation of specialised agencies for infrastructure on a short-term basis (as opposed to entities with permanent arrangement) can also be considered.

Affordable alternatives to road transport, such as rail, must be factored into improving the current situation, which would mean that the rail network must improve. Initiatives such as ensuring that all road infrastructure is designed and maintained in as efficient a manner possible would have a positive impact on the economy. These initiatives would ensure the smooth, delay-free and safe operation of vehicles on the roads, thereby maximising efficiencies and minimising delays within the supply chain. On the other hand, concerning ports and harbours, strategies to improve efficiencies and minimise delays are necessary, especially when it comes to ships and other modes of transport (for example: road and rail) discharging or loading cargo.

In considering the risk of failure of public infrastructure, as well as the risk-response strategies mentioned above, one should also seek opportunities that could be leveraged to form part of the risk-response strategies. Enhanced competition and supply-chain efficiencies cannot be emphasised enough. This would result in goods getting to market quicker, in turn boosting the economy. This, of course, will work efficiently with the reduction in overall transport and other supply chain tariffs, as well as a consequent reduction on inflation drivers. Maintenance on roads to reduce wear and tear will also contribute to longevity on roads.

More Public-Private Partnerships are essential, both in the rolling out of infrastructure to supplement government capability, as well as in the leveraging of the Private Sector for the securing of infrastructure and continuity. There are some services, such as the management of harbours, airliners and telecoms, where government competency is limited. Outsourcing some of these services to the private

sector could prove beneficial. One cannot, however, shy away from the challenges posed to South Africa in effectively dealing with the risk of failure in public infrastructure. Strong labour unions have the power to push back on economic and privatisation reforms, thereby delaying the reforms significantly. Also, a lack of a coordinated response from government at different levels of administration hinders effectively dealing with this risk – every layer doing its own thing and therefore no leveraging on each other’s capacity.

Take the water crisis in Gauteng for example, where there has been no coordinated response from Rand Water or municipalities. The same applies to security and protection. Another challenge is unmitigated inward migration to cities, putting already strained infrastructure under severe pressure with no equivalent investment in the expansion and maintenance.

There are key indicators that can be regarded as indicative of the risks materialising, such as truck congestion and accidents on all major transport corridors; damages to roads; rising transport and logistics prices; increased waiting periods for berthing of ships at most ports; ships diverting to alternative ports; the number of loadshedding occurrences and power availability; water rationing; infrastructure theft and vandalism. The failure of public infrastructure can be attributed to all of these.

There are no public entities that necessarily deal with this risk particularly well. There are many statements of good intent, but we have yet to see any effective implementation. The response from the private sector is enhanced by the ability to use third-party mitigation, such as insurance; private security guards; better business continuity in instances of failure; and good communication to users.

Within the private sector, especially in the dry-bulk sector, we are seeing private entities such as exporters providing voluntary financial and operational support to the parastatal entities, this to assist them in delivering the necessary services. In addition, exporters and importers are in some instances starting to invest in their own infrastructure – for example: private sector owners of rail wagons entering ‘Hook and Haul’ agreements with Transnet Freight Rail, so that they can at least control the supply and maintenance of wagons and have some measure of influence over the supply chain.

The private sector is also willing to engage in PPPs to ensure the provision of and more efficient operations of necessary infrastructure. The government needs to take decisive action urgently, to turn around a failing public sector and better align with the NDP objectives, or it will continue down the slippery slope of lack of delivery and poor services to the citizens of the country.

7.6

ECONOMIC COLLAPSE

South Africa's growth has trended downwards since 2010, averaging just 1.7% between 2011 and 2018. In 2019, South Africa was plunged into its third recession since 1994. Precipitating factors included the global downswing following the global financial crisis; declining commodity prices; deindustrialisation; state capture (that is, systemic corruption); budgetary cuts; restrictive macroeconomic policies; slowed investment because of economic stagnation; and insufficient electricity supply and resultant blackouts, amongst others. The downward trajectory has continued over the last three years, exacerbated by elevated levels of loadshedding that have devastating economic impacts, as well as the rising cost of living due to the impact of the Russia Ukraine war.

DR AZAR JAMMINE
DIRECTOR
ECONOMETRIX



TOP 5 CHALLENGES TO ACHIEVING TARGETS

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

Ongoing corruption and incompetence are a major factor in the destruction of the economy. The quality and competence of individuals in the administration of the government has deteriorated over the past decade. On top of this, procurement fraud, middlemen and procurement paralysis all inhibit the stimulation of the economy.

Continual loadshedding and the intensification thereof, which reduces potential GDP growth by about 1.0%.

Eskom is also a key risk for government, because it isn't a sustainable entity. Government is taking on some of Eskom's debt and will have to continue doing so, which in turn limits its own ability to raise new debt for other expenditure priorities.

Infrastructure collapses due to poor maintenance, incompetence, strike action, sabotage and the construction Mafia, this leading to SOEs and municipalities not being able to meet demand.

BEE and the way it has been implemented is detrimental to the economy. BEE has been a major source of corruption and, on top of this, significantly limits investment.

BEE is, at face value, a wealth-redistribution mechanism that has long shown that it doesn't benefit the majority – only the elite.

BEE restricts investment, contributes significantly to the brain drain and increases the cost-of-service delivery significantly at the expense of the taxpayer. This contributes further to the growing inequality.

SA is very dependent on global growth. Advanced economies are expected to see pronounced growth slowdown in 2023, which will have a negative impact on the South African economy.

There must be serious consequences for corruption. Despite the cost of the Zondo Commission – over R1-billion over a period of four years – very few consequences have been enacted. Allegations of corruption continue unabated.

01. The cost of legal fees incurred in pursuing claims of fraud and corruption are exorbitant, and the legal timeframes and delays seem to suggest to criminals that crime does pay. Independent authorities such as the National Prosecuting Authority of South Africa and the Investigative Directorate should be adequately resourced to deal with criminal cases in a timely manner, this to curb fraud and corruption, as well as to illustrate to the citizens of the country that the rule of law is in place.

Loadshedding is a deterrent to new investment from business and confidence from households. Eskom is not in a position to fix the problem alone. The solution is to focus on using public-private partnerships with independent power producers to develop sustainable energy facilities.

02. In addition, Eskom should continue to employ the appropriate skills and use OEM suppliers to maximise output from existing infrastructure.

This is evidenced by the ongoing shift from rail freight to road freight. Transnet's recent strike action also highlighted how vulnerable our ports are. Much of SA's coal is now being exported from Mozambique rather than SA.

In addition, collapsing infrastructure is seen as another 'cost of doing business' and is eventually passed onto consumers.

Theoretically, with the order of magnitude of infrastructural investment projects being so massive, we could see growth rates of between 20% and 30% in capital investment, and between 4% and 6% in GDP growth, as well as the creation of a huge number of jobs. Government needs to make this happen.

03. There need to be more incentives for PPPs. This includes the transfer of skills from the private to public sector, as well as incentivising the return of skilled and experienced South Africans who have emigrated. This would definitely contribute to improving the situation. Lastly, there should be zero tolerance towards sabotage, construction Mafia, extortion and the like, with authorities instituting criminal proceedings to put a halt to this drain on the economy.

It's important to incentivise business creation and growth. A common misconception is that the economy is finite – that it has already been taken and, therefore, existing businesses need to be carved up again and again into BEE shares, this instead of BEE companies building new businesses. There are much smaller countries than South Africa with little or no natural resources who have economies that are many times bigger than South Africa's

Local factors have resulted in a dramatic increase in SA's inflation and severe interest-rate hikes, which stifle the economy. The expectation is for inflation to subside through 2023. China also appears to be reopening, which would help boost SA's prospects.

05. India is expected to grow at 6.8% in 2023 vs China at 5.2%. Should South Africa learn from the "India" strategy. This could be a major opportunity for South Africa and we should not be bullied by BRICS.

The country should provide solutions to challenges inhibiting economic growth within its borders and not rely on external factors to provide relief.

Mitigation
 Uncertainty
 Strategic
 Proactive
 Opportunity
 Continuity
 Sustainability
 Recovery
 Compliance
 Culture
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 Growth
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State capture and corruption together, with external factors and other internal factors, have severely damaged the economy, where one is likely to see economic growth subsiding in 2023. Forecasts are that economic growth in 2022 will have achieved somewhere between 1½% and 2%. When we look at 2023, we're looking at a figure closer to 1% and, at best, 1½%, and the possibility of a full-scale recession in the meantime. There is no sign of the South African economy collapsing completely. It's degenerating gradually, but it's not collapsing.

The South African economy was doing reasonably well between 2004 and 2007, and the country managed to record growth more than 5% per year. In part, that was due to a commodities-price boom, but it was also due to solid fiscal and monetary management of the economy.

South Africa was impacted by the 2008 global financial crisis, but not as seriously as other countries. In part, this was because in 2007 the country was able to generate sufficient growth in government revenue to bring our government debt down to 21% of GDP, which is exceptionally low. The economy contracted by 1.5% in 2009, which was less of a contraction than most other countries. In 2010, it recovered quite nicely.

Since then, we have seen a progressive slowdown, especially from about 2013 onwards. There are reports of slowdown in the rate of growth, including negative growth in 2016 and again in 2020 with the COVID crisis. 2021 saw a big recovery, but off very low base from 2020 in line with everyone else. However, we now sit at a dismal growth rate of 2% or less. Some of the main reasons are to follow.

In 2009, Jacob Zuma became president of the country and it saw resources being diverted towards enriching a few, and one of the key vehicles through which this was enacted was the state-owned enterprises – Eskom in particular. The problems at Eskom arose prior to the Zuma presidency, when during the Mbeki regime no new power stations were commissioned to be built back in 1998. Essentially, however, during the Zuma presidency government institutions were hollowed out and the resources of the country were redirected, resulting in the systematic crippling of the entire economy. Post COVID-19, there has been a dramatic build-up

of demand for goods and services. Combined with a shortage of supply (especially in China where a lot of production facilities have been interrupted), this has resulted in the highest inflation rate in the world in more than 40 years. This is exacerbated by the Russian invasion of Ukraine, which has resulted in food and fuel prices rising even more steeply than they might otherwise have done. This results in a perfect storm of inflation that has built up. Central banks have now been compelled, led by the United States, to start increasing interest rates very sharply, having a massively negative impact on the world economy.

On top of this, China – which is the biggest single driver of world economic growth in recent years – has reinitiated COVID-19 lockdown restrictions, imposing headwinds on global economic growth. That means lower commodity prices. This poses a threat to the South African economy despite the increase in the price of coal, which helps compensate for the decline in other commodity prices. A further inhibitor of economic growth for SA is the lack of an efficiently functioning rail or port infrastructure.

Domestically, there are several major headwinds. The obvious one is loadshedding and the intensification thereof. For every stage of loadshedding, the economy arguably loses R500-million a day. The second headwind is that we too have suffered from an increase in inflation due to higher fuel and food prices, albeit not as much as many other countries, which has compelled the South African Reserve Bank to raise the repo rate sharply to 7.25% at the end of January 2023.

The longer-term factors are more insidious. The major one is corruption and state capture. Until such time as we eliminate that, resources will still be channelled to those who are considered 'powerful'. In addition, the administration of the government and the quality and competence of individuals has deteriorated over the past decade. This has been further exacerbated by an exodus of skilled people overseas. This has led to a shortage of skills in many areas of the economy, but also a deterioration in the quality of the roll-out of public services. The lack of delivery by municipalities is prevalent in many parts of the country.

Theoretically, the order of magnitude of pledged infrastructural investment projects is so massive that, if they were to come to fruition, it would be a total game-changer in the economic performance of the South African economy. We could see growth rates of between 20% and 30% in capital investment, and between 4% and 6% in GDP growth. This would result in the creation of a huge number of jobs. But there has been a singular failure in our ability to translate the intentions to embark upon major infrastructural investment into actual action in that regard.

Sadly, we haven't seen that investment flowing through the economy in any large measure due to issues such as procurement fraud and corruption. We've also seen the development of all sorts of Mafia (so-called 'business forums'), especially in the construction sector. They threaten violence and intimidation if they don't profit from the intended projects. Sabotage and intimidation have infiltrated our economy in a significant way, preventing infrastructural projects from commencing.

Other big headwinds underlying the economy are on the labour front. Our educational system is largely dysfunctional and not producing the skills that it ought to. South African schools, particularly in rural areas, are entrenched in dysfunction with little to no resource allocation. They are ill-supported to provide children with opportunities to excel academically, resulting in school leavers probably not being employable in the growth sectors of the job market (such as technology).

The unemployment rate has been increasing for over a decade now, but the rate of increase in unemployment has been accelerating progressively in recent years. Hand in hand with that increase in inequality, one has a toxic mix (militant trade unions), which creates a very adversarial environment between workers and employers – especially in the public sector with the result of more and more strike action. This is inimical to economic growth, with less and less incentive for employers – especially in the private sector – to take on employees on a full-time basis. So, what we've seen is a progressive move towards more capital intensity. More and more businesses can operate through digital means rather than employing people, but it does mean that the unemployment rate has simply been escalating. The government is overregulating the economy in

such a way that small business finds it very difficult to establish itself and to survive. Small businesses could be creating proportionately far more jobs than big businesses do. All these factors are contributing towards holding back economic growth and investment, as well as the desire to invest.

Another big challenge we have is that low economic growth creates higher inequality and more and more capacity for social unrest. On the other side, you've got the government security services becoming more and more inept and incapable of controlling any violence and unrest that takes place.

While there is no sign of the South African economy collapsing completely, it is degenerating gradually. In the best-case scenarios, we are looking at an economic growth rate from 1 to 1½% for at least another two years or so. Then there is a worst-case scenario, in which the country continues to degenerate towards total economic collapse. Other African countries are starting to take over where South Africa used to be the leader, especially in transportation and port services.

Greylisting of South Africa by global financial crime watchdog, the Financial Action Task Force (FATF) for not fully complying with international standards around the prevention of money laundering, terrorist financing and proliferation financing could discourage foreign investors from doing business in South Africa, which could in turn affect South Africa's GDP by approximately 1-3%.

In addition, should South Africa face censure due to its stance on Russia's invasion of Ukraine, in the worst-case scenario, where both the USA and EU withdraw from their respective trade deals, R443 billion worth of exports will be placed on the line. To add to this, the Rand has collapsed and not only are foreigners moving out of South African assets, but local investors are also moving out of South African assets.

Infrastructural investment and structural reforms have been promised by the ruling party. These are key to unlocking some of the potential within the economy. With national elections around the corner and the spectre of coalition politics ruling the country, we need to be optimistic that decisions will be made for the good of the country and its citizens.

7.7

BRUCE ANDERSON
CHIEF OPERATIONS OFFICER
WOLFPACK



LARGE-SCALE INTERRUPTION OF **DIGITALLY ENABLED SERVICES**

The country's digital ecosystem has become a critical enabler of economic development. Digital technologies are enabling inclusive economic participation and global economic competition. Failure to build secure, resilient and reliable digital services could result in large-scale outages and threaten South Africa's social, economic and development goals. The increasingly foundational role of digital transformation means that the benefits of becoming a fully digitally enabled society and economy outweighs the costs.

KERISSA VARMA
CYBER SECURITY MANAGING EXECUTIVE
VODACOM GROUP



TOP 5 CHALLENGES TO ACHIEVING TARGETS

Failure to resolve the energy crisis that is resulting in persistent service outages and degradation in the quality of digital services.

Lack of investment in digital infrastructure required to support digital services and lower costs of access (communications networks, data centres, security centres).

Restrictive or inadequate policies that do not promote investment, competition and local innovations.

Inadequate response to cyber-crimes and crimes to critical infrastructure. For example: online scams, ransomware extortion, the theft of power cables and the theft of cell phone tower batteries. The negative economic environment and rising cost of living has given rise to illicit economic activity.

Failure to develop local specialist digital skills that are required to support business objectives (for example: security, data analytics, programming skills, etc.)

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

01. Accelerate the execution of the national strategy to restructure the national power utility and introduce new players in energy generation, while transitioning the country to renewable energy sources. Private enterprises are to seek opportunities to become less reliant on state-provided energy.

02. Leverage strong private-public partnerships to promote local digital infrastructure investment.
Provide regulation, incentives and favourable policies for private-sector participation, to enable competitive and universally accessible digital services.

03. Review, amend or create national policies to support digital transformation. This would include ensuring that fair intellectual-property laws and data-protection regulation is in place.

A step further would be to introduce compelling subsidies and grants in the technology sector, as an effective way to increase innovation and productivity.

04. Clear and visible action taken by the regulators for cyber and technology-related crimes.

A dedicated policing effort, to secure digital infrastructure.
Increased multi-sector and international collaboration to better respond to threats (for example: intelligence centres).

05. Strengthen partnership between academia and industry to identify and develop skills required, with a focus on science, technology, research and entrepreneurship.

Strategic partnership with international industries to enable knowledge transfer and secondary innovations. State-sponsored digital awareness and education initiatives for ordinary citizens.

South Africa's Global Digital Competitiveness ranking increased by two positions to 58th in 2022, this according to the IMD World Competitiveness Centre. The biggest gains were in training and education, with significant drops in technology capital investment from the previous year. The digital-competitiveness ranking indicates a country's ability to adopt digital technologies as a key driver for economic transformation. The lack of capital investment in technology infrastructure is indicative of the proliferating digital-service outages that South Africa experienced in 2022. This has been affecting financial, communication and e-government services, resulting in millions of rands in losses for the economy. Failure of infrastructure was identified as the 4th top country risk for South Africa by the World Economic Forum in 2022, indicative of the pivotal role of digital infrastructure as a key economic driver.

E-Commerce in South Africa is expected to grow by 150% to reach R225 billion by the year 2025. This will be driven by consumer trends accelerated by the COVID-19 pandemic, which saw many users shift to digital as well as digital adoption, fuelled by internet penetration and decreasing connectivity costs. The national government also aims to digitise government services through its e-strategy. This will begin with the building of a strong broadband backbone for all its sites, supporting a number of initiatives such as free Wi-Fi, online booking systems, digital licences, etc. As businesses become increasingly digital, the threat to the national economy from digital outages is becoming increasingly pronounced.

This past year, we evidenced monumental digital outages that South Africa experienced with devastating consequences for citizens and businesses. Banks suffered outages that left users unable to access digital channels and ATMs for days, while the national government suffered outages that left citizens unable to access civic services such as IDs, passports, and licenses. A leading credit bureau had services and personal information compromised by hackers, with ransom demands following. These outages were over and above international services outages that affected the biggest instant-messaging platforms, Cloud services, and content-delivery networks used by millions of people. Post-mortem

investigations have revealed the biggest drivers for these outages were:

- **Unreliable energy supply** – The country's energy crisis, which is the result of dilapidated infrastructure and poor planning, has led to rolling blackouts becoming a common occurrence in the country. Energy shortages resulted in outages of critical infrastructure, service unavailability and general degradation of services. Service providers not only incurred millions in revenue losses, but sourcing alternative energy such as generators and batteries led to millions of increased operational costs too.
- **Cyber-security breaches** – Technology networks continue to become more complex and distributed, with increasing numbers of 3rd parties, as well as an increased number of users working from home, thereby increasing vulnerabilities for technology users. This has increased the threat landscape for cyber security teams to manage. Ransomware attacks have also increased. They are now being offered as a service. This has made attacks easier to access, more targeted and requiring little skills to perpetuate. Additionally, the geopolitical wars have become new motives for state-type actors, organised actors and politically motivated persons committing attacks. Bitcoin has made it harder to trace the illicit flow of proceeds from these malicious activities. All of the aforementioned has resulted in cyber insurance being more difficult to secure from insurers and more expensive than before. This has resulted in increased costs of doing business.
- **Technological agility** – The rate of technological change, particularly over the past 36 months, has outpaced the ability of organisations to keep up. User demands have exponentially increased. Businesses have sought to develop new services. In response, technology vendors have developed new technologies and disruptive technologies have entered the markets. IT & cyber teams are struggling to acquire new technology and develop skills, as well as implement and adapt to these new needs.

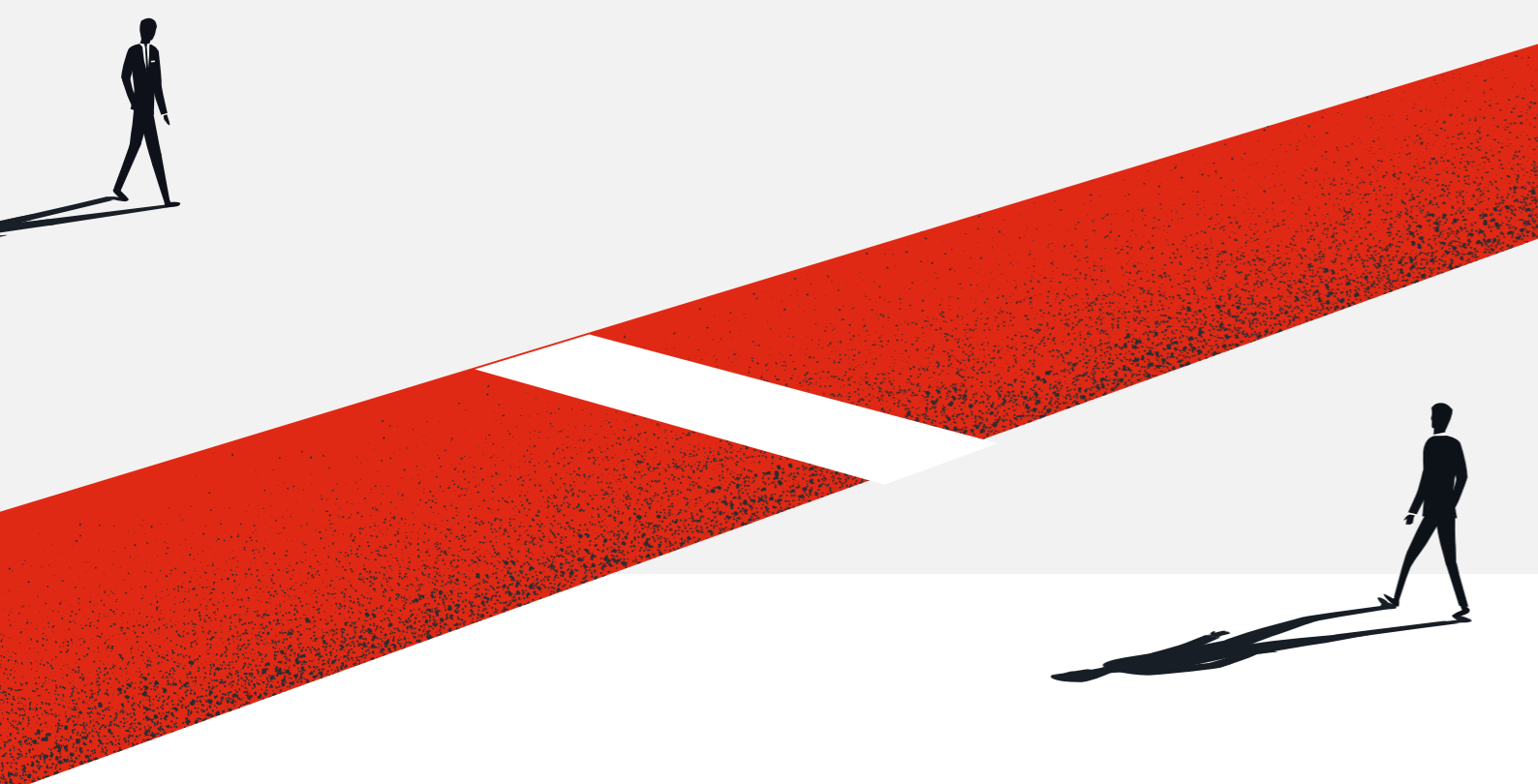
The national government has characteristically responded with strong policy positions on these issues. A 'new-new' presidential multi-pronged energy plan to resolve the energy crisis by improving current energy generation capacity, accelerating the purchase of new generation capacity and investing in renewable energy was put in place with international funding in the Just Energy Transition Partnership (JETP).

A Cyber Crimes Act was proclaimed 1 December 2021, aimed at empowering law enforcement agencies in fighting cyber-crimes by codifying them and setting punishment and penalties. A National Infrastructure Plan for 2050 (NIP 2050) was launched. It seeks to invest in digital infrastructure, achieving affordable broadband of 10Mbps to all citizens and 100Mbps to all government buildings by 2030. While these are excellent steps in the right direction, national government's political will and ability to follow through and implement these policies is what will yield the desired results. Perceptively and welcomingly, a common thread in the policies is the critical role of private-public cooperation, which will

be required in driving innovations and funding, and executing these ambitious goals.

The prospects for a prosperous digital economy in South Africa remain promising, despite all the threats the country faces. Digital solutions will allow us to address key socio-economic challenges such as health, employment, education and security. However, achieving these goals will require developing a secure, resilient digital network. Such a network would be enabled by an agile policy framework investment in: digital infrastructure; innovative financing with private and citizenry partnerships to fund local digital solutions; and development of advanced technology skills that will enable problem-solving for local challenges. Central must be a focus on digital inclusivity to mitigate the risk of digital inequality raised by the World Economic Forum and set as a strategic priority for the government's policy.

Our digital transformation, like the energy transition, must leave no person behind.



We proactively incorporate risk management in pursuit of our values, purpose and ambition to enhance shared value and accelerate our transition. Our approach to risk management is intricately connected to our corporate strategy and plays a crucial role in promoting good corporate governance and effective leadership. It is an integral part of our company's management at all levels, integrated into our decision-making processes and daily operations. By effectively managing risks, we unlock the potential benefits of opportunities.

The following five statements are key in supporting the execution of the Risk Management Process:

- 1 Our Purpose and strategic ambitions are core to everything we do in Sasol.
- 2 Managing risk is fundamental to how the Group is managed.
- 3 We drive towards embedding risk management into key decision-making processes and day-to-day activities.
- 4 We understand that risk management is a dynamic process considering the ever-changing context within which we operate.
- 5 We proactively manage risk in order to minimise downside potential, and capitalise on upside potential.

www.sasol.com



SASOL

7.8

IMPACT OF CLIMATE CHANGE & **CLIMATE ACTION**

The risk of an inadequate response to current and future climate change impacts will remain a risk for the country for at least the next 10 years, with consequences that will continue to contribute towards and exacerbate most of the systemic risks already faced in South Africa. Commitments made to reduce the green house (CO₂) numbers by 2050 on the one hand address the National Development Plan targets specific to health. On the other hand, this impacts directly on the economy, unemployment and food scarcity (including the cost of living). These consequences in turn drive increased crime, fraud and corruption, as well as social bankruptcy and negative foreign investment.

ALEX HETHERINGTON
THIRD LINE GROUP



TOP 5 CHALLENGES TO ACHIEVING TARGETS

Continued carbon-intensive industries in South Africa hampering the move towards a low-carbon economy in the country. The mining and energy industry (electricity, oil and gas) are going to be significantly impacted by this transition.

An increase in cross-border tariffs because South Africa is not transitioning quickly enough according to global just transitioning standards.

An inadequate response to climate change, leading to greater inequality and unemployment and resulting in social bankruptcy and unrest.

An increase in severe weather conditions due to climate change impacting the economy and public safety.

An inadequate response to adopting new and innovative ways of doing business by carbon-intensive companies creating a continued health risk to the public.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

Honest and well-researched scenario analysis needs to be performed by all that take the climate risk seriously. There needs to be a partnership with corporates to get a well-informed landscape/context as to what the threats and opportunities are under different climate change scenarios.

Timeous review and alignment of company strategies in line with the lessons learnt from the risks and scenario analysis will benefit the early adopters. They will be in a position to generate success in the early adoption of this transition of decarbonisation by:

01.

- Dealing with difficult and significant policy changes way in advance.
- Future-proofing their technology interventions and investments.
- Quick alignment to expected consumer behaviour changes.

The world is moving much faster on the just transition to a low-carbon economy than South Africa, which brings measures like cross-border carbon tariffs into play. In addition, this slower rate of transition may result in the global markets penalising our exports. This would reduce our export potential, resulting in job losses and further inhibiting the South African economy.

02.

Committing to the reduction in fossil fuels calls for investment in renewable energies and related technologies. This includes the introduction of electric vehicles in both the private and public domains, including transportation specific to sea, air and rail.

There are extremely close correlations between the impacts of climate change and the consequences of greater inequality. Climate change is going to impact the poor, more vulnerable areas of our population. In the case of floods and the areas that are going to get hotter and drier, rural communities and those dependent on subsistence agriculture are going to be impacted severely.

03.

All organisations, including local government, the private sector and civil societies, have to start looking at the physical implications of their operations as a result of committing to climate-change adaptation. Continuous risk and scenario analysis will provide the insight and foresight needed to look at the different threats and opportunities that will present themselves.

The rise in extreme weather events such as floods and droughts may increasingly disrupt infrastructure (road, rail and sea/ports) in that the supply logistics of goods are either delayed, damaged and/or routed differently, impacting on cost. It also has a negative outcome on exports and food security, as well as public health and safety.

04.

The public and private sector can learn from the investor community. The investor community understand the threats and opportunities that climate change presents, as well as the impact it may have on the future value of companies. They are asking the right questions and are expecting companies to report on their climate change response strategies, plans and targets. They are requesting insights to be reported based on what has been learnt from their risk analysis and scenario work.

These investment companies are moving towards expecting companies to financially quantify their threats and opportunities, as well as how they may unfold and translate into growth and sustainability moving forward.

Compliance to the Bill of Rights from 1995 demands the right for individuals to live in a healthy environment specific to factors such as air quality. Some cities and towns, especially towns that are known for producing coal and/or electricity, are negatively impacted by emissions and the subsequent air quality. Again, there is a dichotomy of addressing compliance to basic human rights and the shutting down of industry and associated employment, as well as the cost to transform or transition.

05.

The funding for a just transition will be critical in expecting South Africa to drive towards making the climate-change targets committed to by the government. Some funding will be derived from sponsors and some from investors. The risk-response strategies asked for by both public and private organisations are to prove that they are going to be as profitable or productive in the future as they are now, under different climatic scenarios. In essence: what is the cost to do business into the future? Investment for restructuring and adopting new technologies will be critical for that change.

It is important for organisations trying to understand climate risk to not only look at climate risk as a standalone item, but also at how it impacts other risks that appear on the risk matrix. It has the potential to impact almost everything else. The thing about climate change in South Africa is that it is filled with competing tensions.

There is an extremely close correlation between the impacts of climate change and the consequences to greater inequality. Climate change is going to impact the more vulnerable areas of our population. Either with an increase in floods or areas that are getting hotter and drier, rural communities are severely impacted, particularly those that are in one way or another dependent on subsistence agriculture.

An additional element to this risk that should be taken very seriously is not to view the risk of climate action failure in isolation. South Africa a highly carbon-intensive economy. At the 2015 Paris Agreement, South Africa committed to nationally determined contributions, which are greenhouse gas emission reduction targets, from a national perspective. Finance that has been committed by other nations to enable the just energy transition programs is linked to South Africa achieving the reduction targets.

On the other hand, there is tremendous tension around the just transition and the move towards a low carbon economy, as it will produce winners and

losers. The mining and energy industries, where key exposures will be most significantly impacted if targets are met, will result in the country ending up with multibillion Rand redundant state-owned assets. As far as the South African coal industry is concerned, when one drives towards a net 0 carbon footprint by 2050, which is the scenario the world is trying to achieve, it means that there will no longer be any coal mines or coal-powered generation in South Africa.

Climate change is currently one of the biggest risks globally. One could argue, as with most of the risks in this report, that they are in some way, shape or form already unfolding. There are already numerous initiatives in process, but these contest with other priorities such as unemployment, a struggling economy, loadshedding and being one of the biggest emitters of CO2 on the African continent.

The world is moving at a quicker pace than South Africa in the transition of becoming decarbonised and using 100% renewable energy to clamp down on the pressures of climate change.

Lastly, the World Economic Forum's 2022 report contains climate risk under South Africa's risk radar. Climate change exacerbates other risks. From a risk management perspective, this is a risk we cannot ignore. Talk needs to be replaced by actual engagement.

7.9

GEOPOLITICAL INSTABILITY

Global geopolitics is currently being defined by deep, significant shifts in power structures that are reshaping historical systems and alliances, as well as creating instability and uncertainty. South Africa's stance in being neutral to global geopolitics or aligning with specific alliances can increase that instability and uncertainty locally with a significant impact on the economy.

GRAEME CODRINGTON
CHIEF EXECUTIVE OFFICER,
SCENARIO PLANNER
TOMORROWTODAY GLOBAL



TOP 5 CHALLENGES TO ACHIEVING TARGETS



Shifting global alliances and the danger of South Africa 'picking the wrong side'.

The disruption of supply chains, significant variations in prices (of both imports and exports) and the inability to forecast shipping costs.

Global instability may affect FDI in South Africa. It may even lead to capital flight and a decline in business confidence. With foreign investors already jittery, any signs of upheaval in South Africa could be exacerbated and have a knee-jerk reaction.

Social media and modern communication tools allow people to quickly build momentum for a cause, which translates into real-world actions and impact more than ever before.

Deep fake technologies (both video and audio) will be used for both scamming/phishing and for brand attacks or smearing. This will include targeting key persons and operations by faking statements (public and private).

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES



South Africa has attempted to remain neutral in all these conflicts (although this is increasingly difficult, as even being neutral sometimes means being deemed to have picked a side). South Africa remains a trading and political partner with every world power, although recently some republicans in the USA tabled a (relatively toothless) motion against SA, and the SA government appears to be taking a stronger pro-Palestinian stance.

- 01.** It's important to develop scenarios for how you would deal with significant shifts in global power, including regional conflicts and international blockades/sanctions. Consider especially (and do an audit of) direct impacts on employees and operations, as well as implications for insurance, communication, markets and supply chains. Shifting global power bases may require your organisation to take a values-based stand for or against issues that will create divisions in your customer base and staff. For example, when Russia invaded Ukraine, many companies chose to close their stores in Russia and exit the country. What would you do? Where are your moral, ethical and socially responsible red lines – and would you live out your values if these were crossed?

South Africa remains well placed as a potential business partner with every other country in the world. Take advantage of the opportunity to seek out diverse partners in different regions to spread geopolitical risk.

- 02.** Inflation is causing geopolitical upheaval, especially in regions where inflation has been negligible for an extended period before COVID-19. It's important to anticipate and plan for more disruptions in global supply chains, with associated cost fluctuations. Consider near-shoring, diversifying or integrating supply chains where feasible, to exercise more control and mitigate risk. Build more redundancies into your supply chain. South Africans understand the impact of inflation on business and can provide much-needed insights and planning assistance to international partners.

- 03.** Traditional sources of FDI may be less inclined to invest in South Africa in the next year or two, due to political instability (real or perceived) leading up to the national elections in 2024. It may be better to seek out investors with mandates to invest in developing markets, as well as highlight the attractiveness of South Africa as opposed to other BRICS, CIVITS and G-20 developing nations. Be proactive in providing on-the-ground insights to foreign partners and investors, so they are not spooked by news reports.

- 04.** Activists who target companies and industries (and, increasingly in the future, also the individuals who head them up) will continue to have global influence. Develop pre-emptive campaigns in old-school media and online to create positive brand equity. Track social media mentions of your brand, as well as key hashtags associated with your organisation and your industry. Be prepared to respond to activists.

Cyber-terrorism is likely to increase dramatically in the next few years, especially the hijacking of key systems for ransom, along with activist hackers using cyber-attacks to make ideological statements.

- 05.** Enhance your cyber security systems and regularly stress-test them. Have adequate back-up and restore plans. Train all staff in cyber security, including entry-level protections against phishing, scams and deep fakes. Update your team's skills in using the latest technologies, especially AI-driven apps and tools (don't just ban them – rather empower your team to use them wisely and safely).

Specifically, have a plan to be able to verify fake audio and video. Know how you will counter them if they start to go viral.

It would be easy to look just at surface changes and engage only with the symptoms of global geopolitics shifts, while ignoring or missing the underlying structural changes that will define a new era over the next decade or so. We are in a 'hinge era' period of history, characterised by disruptive change; sharp corrections; pendulum swings in policy; systems stress; and unprecedented threats and opportunities.

A few key factors illustrate this 'hinge era' concept of history:

- **Politics** in key global countries threaten to be exceptionally unstable for the foreseeable future, with very few exceptions. The US, UK, Canada, Australia, France, Italy, Nigeria and Brazil, for example, are as ideologically divided as they've ever been, with new governments bringing the potential of significant shifts in policy. There are even major concerns around democracy itself in some of these countries (as there might be in South Africa if the ANC fails to win a majority in the 2024 elections) and quite significant increases in far right-wing political groups. Countries like Russia, India, China, Turkey and the Philippines, on the other hand, are run by ageing autocratic leaders who possibly feel the urgency of the end of their time in power, with potential power struggles by successors causing global ripples.
- **Global economic systems** are undergoing deep structural change. It might be too much of an oversimplification, but capitalism and communism – the two dominant ideologies of the last two centuries – have failed to deliver 'a better life for all' (mainly caused by the same issue: the rich have taken too much out of the systems and wealth inequality continues to grow everywhere). New systems will emerge – not just improvements or amalgams of existing ones –

but, until that happens, we will continue to live with the chaotic ending of the current systems.

- **Demographic** changes happen slowly, but when they reach key tipping points their influence can shift societies. India is now the most populous nation in the world. China is reversing its one-child policy to allow for more children. Africa's family sizes are reducing. All around the world, women are getting married later and having fewer children. More people are living alone than at any other time in history. These and other shifts in demographics are beginning to cause significant changes in the demand for goods and services; in the availability of workers; in demands on public services and infrastructure; and in society itself.
- **Technology-enabled activism**, including cyber terrorism, will likely increase in the next few years. Where these are linked to nation states, global geopolitics will be directly impacted with rising tensions and hostilities between nations. This is most likely going to center on the USA, Russia and China, who all use cyber warfare on each other already. A host of other nations will continue their involvement, including Iran, Israel, North Korea, India, France and the UK. The less direct uses of technology, specifically social media (#hashtag activism) in the hands of individuals or campaigns can quickly stir up an online mob to attack organisations and damage reputations. As a result, cyber technology remains one of the most powerful forces for destabilising the global geopolitical system.

Geopolitical instability in the world in the 2020s is structural and era-shifting, leading to significant ideological changes after periods of chaotic transition, as well as destabilising power plays in local and regional arenas that will have global effects.



JACO DE JAGER
ASSOCIATION OF CERTIFIED
FRAUD EXAMINERS (ACFE) SA

7.10

PROLIFERATION OF ILLICIT **ECONOMIC ACTIVITY**

South Africa is among the top 20 countries in the world affected by illicit outflows. Illicit and counterfeit trade fuels organised crime and is a growing threat to South Africa's economy, exacerbating the already high rate of unemployment, poverty and inequality together with already having been greylisted.



ADV. ANDY MOTHIBI
SPECIAL INVESTIGATING UNIT SA



TOP 5 CHALLENGES TO ACHIEVING TARGETS

Already stretched law enforcement agencies unable to respond to infringements and the enforcement of rules against illicit trade.

Lack of investment in digital infrastructure required to support digital services and lower costs of access (communications networks, data centres, security centres).

A lack of public education and awareness as to the negative impact of illicit activities impacting the moral fibre of society.

Continued endemic corruption undermining the activities of the institutions which are trying to curb illicit trade.

Inadequate transaction monitoring in the financial sector.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

Illicit trade is thriving because of its links to organised crime, which has become more sophisticated over the years, making it even more difficult for the already stretched law enforcement agencies to bring perpetrators to justice. Intensified collaborative efforts and the use of a multi-stakeholder approach between the relevant government departments, agencies, law enforcement, business and communities would improve the situation.

01.

In addition, the capacity of the state to lead these efforts should receive priority through the appointment of skilled personnel and the appropriation of budgets that enable the implementation of effective measures to prevent, detect and effectively prosecute these crimes.

The successful prosecution of offenders is often a challenge due to, amongst other reasons, the courts or legal system processing large volumes of cases. There is often a backlog that dates back years, impacting the ability to timeously process cases and secure deterrent sentences. The government needs to prioritise clearing the court-system backlog, to ensure that offending parties are timeously brought to book. Further, the rehabilitation and reintegration of past offenders to prevent a return to illegal activities is necessary.

02.

Illicit activities tend to be penetrative and impact the fibre of society. It is a concern that there are no formal measures in place to educate civil society on the impact of the illicit economy, both through formal and informal education systems. Civic organisations and professional bodies should assist with providing material and platforms to create awareness and provide an introduction of material on the dangers of the illicit economy through the formal education system.

03.

Corruption combined with weak capacity and vested interest neutralises the political will to decisively address this risk. Instead, corruption has undermined the state's capacity and provided criminal elements with power and influence over the very institutions meant to combat it. Decisive action should be taken in implementing and following through the recommendations of the State Capture Report to investigate and prosecute perpetrators of systemic corruption. This should serve as a deterrent to would-be perpetrators.

04.

At the end of 2022, the Financial Action Task Force (FATF) placed South Africa on the so-called grey list. This was a necessary step for the country to tighten up the financial system to protect against money laundering and the financing of terrorism and weapons of mass destruction in line with FATF's standards. At the end of November 2022, Schedule 1 of the Financial Intelligence Centre Act (FICA, 2001) was amended to add several new categories of accountable institutions for compliance with FICA with significant penalties, including imprisonment for a period not exceeding 15 years or a fine not exceeding R100-million.

05.

The Financial Intelligence Centre will be monitoring the new accountable institutions, to ensure compliance, get South Africa off the grey list as soon as possible and reduce illicit financial transactions.

According to meridian.org, "illicit economy, whether in the form of human trafficking, arms smuggling, counterfeiting, money laundering, cybercrime, or illegal wildlife trade, is a force stealing stability from communities, causing corruption, impacting national security, and destabilising the lives of so many around the globe". SARS recommends that every South African help stem the growth of illicit economic activities by refusing to buy counterfeit goods or contraband cigarettes; reporting poaching incidents to SARS, the police and the Department of Environmental Affairs; and reporting informal trade in precious stones such as diamonds to SARS and the police.

While SARS has made above-budget revenue recoveries from illicit economic activities, there is still a lot that is going unhindered, such as: the scrap-metal industry; illegal mining; border-post crime syndicates; the healthcare system; Eskom; the theft of resources such as cable and coal; local and national government tenders; home affairs; and the transport system, among others.

The rationale for developing and implementing the Integrated Social Crime Prevention Strategy (ISCPS) is to enable government departments to respond to crime-related issues in a coordinated and focused manner, specifically looking at issues causing crime. The ISCPS has put together various frameworks for troubled sectors. It has executed investigations (with some still in progress) and defined several response strategies to fight the illicit economy. Professional bodies and civic organisations can assist in driving awareness on illegal economic activities. The education system needs to incorporate lessons on various types of illicit trades and how the public can prevent, as well as report, such activities.

Government needs to be at the forefront, with a strong political will to stamp out illicit activities and corruption. More resources need to be provided to government departments to enable them to operate efficiently and eliminate kickbacks in the system. Infrastructure and equipment also require consistent maintenance to keep them functioning at optimum capacity, this to curb corruption and illegal activities through lack of monitoring during downtime.

Appropriate staffing with individuals who are well skilled and committed to curbing criminal activities is necessary for progress. In addition, zero tolerance for illegal activities would see punitive sentences on individuals and entities involved in illicit activities, thereby deterring would-be perpetrators.

Related to this, there is a need for relevant legislation that supports a strong stance, which is enforced through relevant government departments including the security forces and the legal system. The financial sector requires better transaction monitoring to identify financial flows from illegal activities and corruption.

Food scarcity in the country, as well as the available arable land, presents an opportunity for individuals reforming from illicit activities to be given an opportunity to acquire much-needed farming skills so that they have a new and legal source of income through farming.

It is only through collective efforts with the public and private sectors, together with civil society, that we will have a chance to effectively implement global solutions to combat the interconnected illicit economies.

7.11

COLLAPSE OF **SOCIAL SECURITY**

Since South Africa adopted its post-apartheid constitution in 1996, the country has made important strides in realising the right to social security and in reducing poverty and inequality. Policies, legislation and administrative infrastructure have enabled the government to create an expansive social security system which is the bedrock of human rights protection. However, several gaps in the system and particularly, in execution, along with the ever-growing number of those who rely on social assistance due to the rising cost of living, South Africa's debt burden, high levels of unemployment, poverty and inequality; the sustainability of these systems in the medium to long-term is at risk.

TAKI NETSHITENZHE
CHIEF OFFICER AND EXTERNAL
AFFAIRS DIRECTOR
VODACOM SOUTH AFRICA



TOP 5 CHALLENGES TO ACHIEVING TARGETS



Social and economic challenges driven by various macro factors continue to rise further deepening structural unemployment and exacerbating the poverty and inequality challenges.

High fiscal deficit that continues to rise on a yearly basis.

Increasing number of unemployed graduates that depend on government assistance.

The ongoing energy crisis and general risk of collapse of other public infrastructure places a huge operational cost burden on business and in particular, SMEs who play a critical role in stimulating economic activity.

Government's reluctance to maximise private sector participation to address socio-economic challenges.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES



01. Effective collaboration between the government, private sector and civil society could result in a pooling of resources to address unemployment, through sustainable means that reduce dependence on the State and free up financial resources to enable government to reduce the country's debt burden and provide basic services

02. Effective collaboration between the government, private sector and civil society could result in a pooling of resources to address unemployment, through sustainable means that reduce dependence on the State and free up financial resources to enable government to reduce the country's debt burden and provide basic services

03. Higher education institutions to prioritise entrepreneurship in their programme offerings, as well as vocational skills training.

04. Development and implementation of sound country levels plans for new technologies that have the potential of being localised to spur economic growth through projects such as green hydrogen and storage.

05. Define a private sector participation framework while investing in building a capable state through the employment of skilled personnel in government. This should result in a capable developmental state that works alongside a dynamic and agile private sector, complementing each other. Such a framework could include stepping up public private partnerships that include the transfer of skills from the private to the public sector, as well as incentivising the return of skilled and experienced South Africans that have emigrated.

It cannot be argued that there is a direct correlation between persistently high and ever-increasing levels of unemployment, poverty and inequality, and the country's crime rate, corruption, illicit economic activities, societal polarisation and even unrest. To cite an example of this correlation, Vodacom has spent approximately 3 billion Rand to replace stolen batteries because of vandalism, which also resulted in the death of some of security officers. These being structural issues, they also need to be addressed through sound structural reforms to break the cycle.

Regardless, Vodacom continues to be exemplary in demonstrating the active role of the private sector in driving socio-economic transformation in the country. Through various outreach programs that focus on improving children's mental well-being and happiness index, the company targets children affected by gender-based violence in schools. These programs have resulted in improved academic performance and a decrease in the dropout rate among students in the schools to which they reach out.

Taki Netshitenzhe said, "Education is the key to reaching vision 2030, and the problem at the moment is that we are producing more graduates in all levels than the economy can provide jobs for, and this is where private-public partnerships would assist. Our educational emphasis is on producing graduates who will end up in an office job; the country lacks low-level skills; we need more graduates who can work with their hands. We need graduates who know how to work with electricity, as well as those who can build or do plumbing. We should balance the intake of graduates from colleges and universities, which will help reduce the number of qualified graduates sitting at home. We must also recognize that education is more than just following government-

approved curricula. Vodacom, in collaboration with CISCO, Microsoft, and SETA, has launched initiatives to train learners beginning in high school and equip them with industry-required skills. We then approach our partners and clients about job opportunities, or we simply employ them in our foundations where these skills are required.

We should also be cautious about encouraging entrepreneurship, because while we want more entrepreneurs, we should also be aware of the challenges that come with accessing and managing funds and therefore, there should be programmes aimed at equipping recipients with financial management skills to ensure sustainability".

"Collaboration between the state and the private sector is the key to addressing this risk sustainably", said Taki. To effectively measure success in these partnerships, roles must be clearly defined, monitored, and evaluated. Businesses must work with the government to use their revenues to support sustainable development and bring the NDP's Vision 2030 one step closer to reality. Policies that hold both businesses and governments accountable must be developed. Communities must also protect infrastructure by reporting vandalism and theft crimes, especially during times of societal unrest".

In conclusion, education and collaboration between the government and the private sector are the only ways to accelerate the process of addressing our societal issues. These collaborations will reduce the number of young people who rely on government assistance to make ends meet, lowering the national debt, increasing GDP, encouraging sustainable development, and improving the country's social security system.



CHRIS YELLAND
CONSULTANT

7.12

NATIONAL GRID FAILURE

A national energy grid failure would result in widespread power outages across the country. This means that homes, businesses, hospitals, and other critical infrastructure would lose access to electricity. The duration of the outage is different from stages 1 to say 8. It may take several days or even weeks, depending on the nature and extent of the failure to reenergise the network which will lead to extended disruption of essential services such as water supply, communication systems, transportation, and emergency services. Without electricity, water treatment plants may not be able to operate, communication networks could go down, traffic lights may cease to function, and hospitals may struggle to provide necessary medical care. This can lead to a breakdown of normal functioning in society and pose risks to public safety.



KIREN MAHARAJ
CHAIRPERSON OF THE
SOUTH AFRICAN NATIONAL ENERGY ASSOCIATION

TOP 5 CHALLENGES TO ACHIEVING TARGETS

If the demand for electricity exceeds the available supply, it can strain the grid and potentially lead to failures.

Inadequate power generation capacity, especially during peak demand periods, can overload the grid and cause blackouts or rolling power outages to manage the load.

Insufficient investment in power generation infrastructure or delays in upgrading existing facilities can contribute to this issue.

Natural disasters such as hurricanes, earthquakes, floods, or severe storms can damage power infrastructure, including transmission lines, substations, and power plants.

Equipment failure and the possibility of human error, whether genuine or intentional. Mistakes made during maintenance, repairs, or operational procedures can have catastrophic consequences to equipment failure and cascading outages.

Equipment failure and the possibility of human error, whether genuine or intentional. Mistakes made during maintenance, repairs, or operational procedures can have catastrophic consequences to equipment failure and cascading outage

Cyberattacks. The increasing reliance on digital systems and interconnected infrastructure makes the electricity grid vulnerable to cyber-attacks. Malicious actors, such as hackers or state-sponsored entities, may target power systems to disrupt operations.

TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES

01.

Aggressive execution of the independent power producer procurement programme. Demand Management and Energy Efficiency: Promoting energy efficiency and demand management initiatives can alleviate stress on the grid. Encouraging consumers to adopt energy-efficient practices, such as using energy-saving appliances and implementing demand response programs, can help balance supply and demand. By reducing peak demand, the risk of overloading the grid and potential failures can be minimized.

02.

Grid Resiliency and Redundancy: Enhancing grid resiliency involves building redundancy and backup systems to minimize the impact of failures. This includes installing alternative power sources, such as renewable energy systems and distributed generation, to provide backup power during emergencies. Creating a robust transmission and distribution network with multiple pathways can also help mitigate the risk of a single point of failure.

03.

Regular Maintenance and Upgrades: Implementing a comprehensive maintenance program is crucial to identify and address potential issues before they lead to failures. Regular inspections, testing, and replacement of aging or faulty equipment can significantly reduce the risk of grid failures. Upgrading and modernizing infrastructure, including substations, transformers, and control systems, helps improve reliability and resilience.

04.

Investment in Grid Infrastructure: Adequate investment in the electricity grid infrastructure is essential for its reliability and resilience. This includes funding for infrastructure expansion, reinforcement, and upgrades to accommodate increasing demand and emerging technologies. Investing in smart grid technologies, advanced sensors, and automation can enhance monitoring and control capabilities, enabling proactive detection of issues and swift response.

05.

Enhanced Cybersecurity Measures: Strengthening cybersecurity measures is crucial to protect the grid from cyber-attacks. Implementing robust security protocols, including encryption, intrusion detection systems, and network segmentation, helps safeguard critical infrastructure. Regular vulnerability assessments, employee training on cybersecurity best practices, and collaboration with cybersecurity experts can help identify and mitigate potential threats.



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CHRIS YELLAND:

Being at stage six loadshedding for very extended periods means we've had to reduce demand by 6000 megawatts regularly, which is very significant and that has resulted in loss of power for up to eight hours a day. So I think at last, it's starting to really hurt and it has really woken up the politicians. A politician just recently shared that South Africa is on the brink of a national blackout. It's not true. It is false. It is the kind of political rhetoric that is dangerous. I would say that Eskom and the country are better prepared now than in 2008. In other words, the risk of a national blackout then was much higher than it is now.

Why? Because we are very well experienced. We have loadshedding schedules, national control protocols and many other measures that Eskom have put in place governing the levers that is at their disposal to prevent a national grid failure. The risk of a national blackout is when there is a sudden drop in supply, or a sudden increase in demand that you don't respond to. In other words, you don't take the necessary action to bring supply and demand in balance. There are a whole load of levers to bring supply and demand in balance. Some of them are fairly slow responses that requiring human intervention. Others are automatic responses that occur automatically within a fraction of a second, or within a second or within 10 seconds.

The consequences however of this risk materialising are so big that insurance companies who are in the risk business have decided that they're not going to cover this risk because the risk is too big for them and will create a financial sustainability risk to them. The Banking Association of South Africa is starting to take an industry wide look as to what would happen if there was a national blackout to the banking and financial sector. Even though it is a low probability event, to have emergency plans in place is critical. I would say one should start thinking what would it mean for one's business if it went without power for two weeks and what risk response strategies should be put in place.

So there are three different scenarios that one might want to consider, perhaps a pessimistic scenario, a realistic scenario and an optimistic scenario. If one was without power for more than a day, batteries, laptops, home batteries, ATMs and telecoms towers would probably become unavailable. So one can also then imagine an environment where there's no lights at night where there's no phones, you can't communicate. No more water in the taps because the pumps don't have electricity to pump water into the reservoirs. You wouldn't be able to buy food as shops would be shut. They can't sell on credit, cash only and you wouldn't be able to buy petrol, petrol pumps wouldn't be working. I suggest that in an environment like that one could expect massive social unrest and looting.

KIREN MAHARAJ:

It is important not to be to single-minded with respect to the causes of a national grid failure. It could also be caused by natural disasters such as hurricanes, earthquakes, floods, or severe storms can damage power infrastructure, including transmission lines, substations, and power plants. We are quite aware of equipment failure but we should also consider cyberattacks. The increasing reliance on digital systems and interconnected infrastructure makes the electricity grid vulnerable to cyber-attacks.

Malicious actors, such as hackers or state-sponsored entities, may target power systems to disrupt operations. Lastly, do not ignore the possibility of human error, whether genuine or intentional. Human error can contribute to grid failures. Mistakes made during maintenance, repairs, or operational procedures can have catastrophic consequences to equipment failure and cascading outages.

We need to prevent a national electricity grid failure at all costs and several risk treatment strategies can be implemented. Here are five key lessons that have been learnt from other countries regarding national electricity grid failures. These lessons have been drawn from various real-world incidents and case studies:

- Lessons from the 2003 Northeast Blackout (United States): The 2003 Northeast Blackout was one of the most extensive power outages in U.S. history, affecting millions of people across the North-eastern United States and parts of Canada. This event highlighted the importance of improved situational awareness, real-time monitoring, and communication between grid operators to detect and respond to grid disturbances effectively. It emphasized the need for coordinated regional response and led to the development of more robust protocols and procedures for grid reliability and emergency management.
- Lessons from the Fukushima Daiichi Nuclear Disaster (Japan): The Fukushima Daiichi nuclear disaster in 2011, triggered by a massive earthquake and tsunami, resulted in the shutdown of multiple nuclear reactors and prolonged power outages in the region. This event emphasized the need for diversification

in energy sources, particularly reducing reliance on nuclear power, and placing greater emphasis on renewable energy and distributed generation. It highlighted the importance of incorporating seismic resilience and safety measures in critical power infrastructure.

- Lessons from the 2014 Ukraine Power Grid Cyber Attack: The cyber-attack on Ukraine's power grid in 2014 demonstrated the vulnerabilities of critical infrastructure to cyber threats. The incident highlighted the need for robust cybersecurity measures, including network segmentation, regular system patching, employee training on cyber hygiene, and improved incident response capabilities. It underscored the importance of information sharing and collaboration between the energy sector and cybersecurity experts to detect and mitigate cyber threats effectively.
- Lessons from the Great East Japan Earthquake (Japan): The Great East Japan Earthquake in 2011 caused extensive damage to the power infrastructure, leading to widespread power outages. The event highlighted the importance of incorporating earthquake-resistant designs and construction techniques in power facilities, transmission lines, and substations located in seismically active regions. It also underscored the significance of community-level resilience, including microgrid systems, to ensure localized power supply during emergencies.
- Lessons from the 1998 Ice Storm (Canada): The 1998 Ice Storm in Eastern Canada caused prolonged power outages due to ice build-up on power lines and infrastructure damage. This event emphasized the importance of proactive tree trimming and vegetation management around power lines to reduce the risk of damage during severe weather conditions. It also highlighted the need for improved coordination between utilities, emergency response agencies, and community organizations to efficiently allocate resources and support affected populations.

These lessons learned highlight the importance of various aspects such as situational awareness, diversification of energy sources, cybersecurity measures, infrastructure resilience, and effective coordination and communication.

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SECTION 3:

SOUTH AFRICA SCENARIOS



8.1 INTRODUCTION

In a complex business environment, decision-makers are expected to create, grow and protect value for the company and its stakeholders. In response to this growing complexity and in a world of accelerating change – emphasised by advancements in technology, global connectedness and growing social consciousness – leaders need to incorporate a holistic approach to decision-making to survive and thrive in a sustainable way.

Too often, leadership concerns themselves with hindsight and insight, without applying foresight in a structured and integrated manner. Scenario planning is one of those future-looking processes that entails a complete assessment of the threats and opportunities, as well as the resulting impacts on the organisation, the society and the environment over the short, medium and long term.

Scenario planning creates agility and flexibility, which in turn allows for innovation and creativity even in crisis. This is because scenario planning requires the consideration of alternative futures, systems thinking and key risk indicators, enabling reliable and fast decision-making.

Leaders must think holistically to enable the country to survive and thrive in a sustainable way.

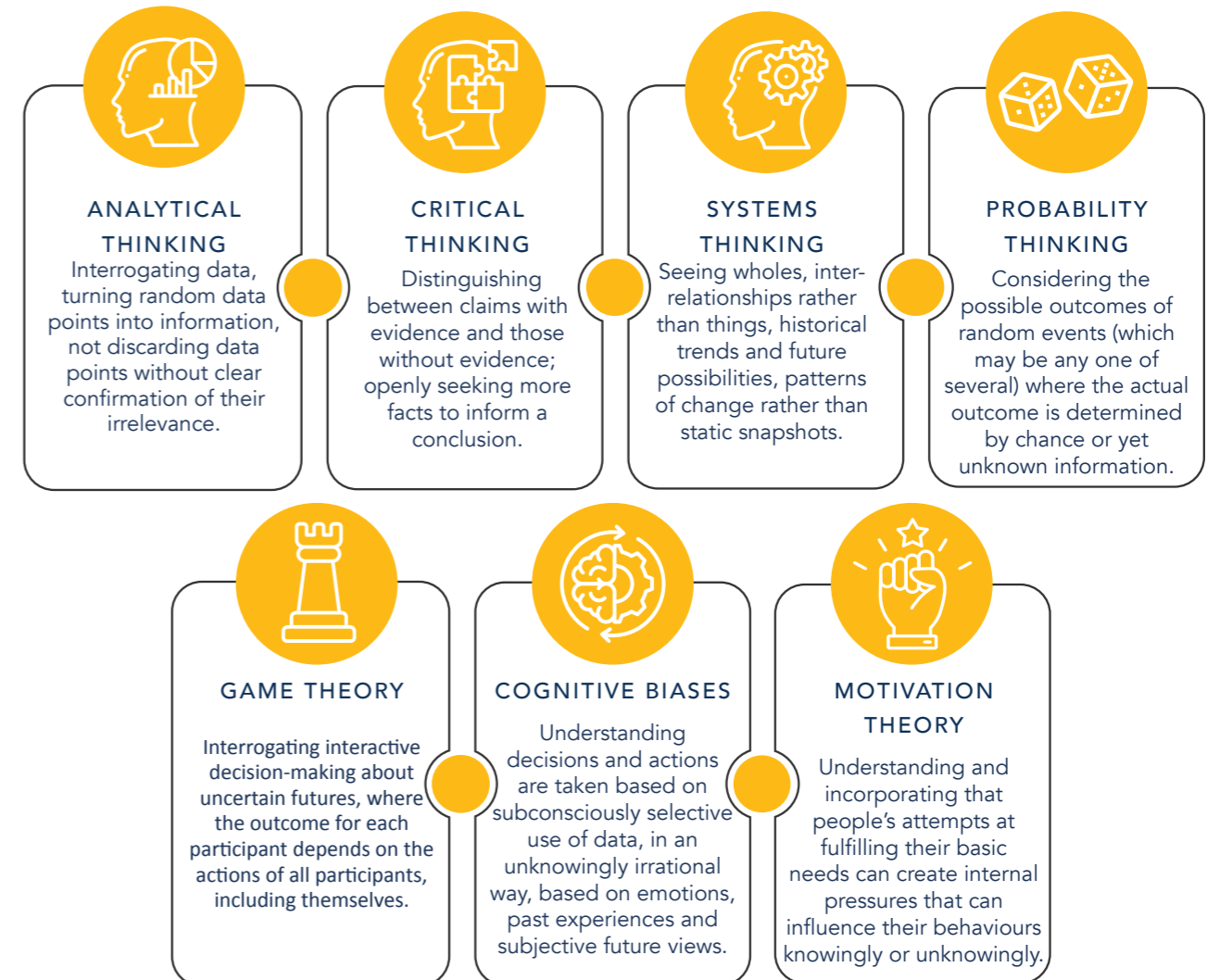


Table 1: Elements of Holistic Thinking

8.2 HOW DO WE CREATE A FUTURE IN WHICH ALL CITIZENS CAN PROSPER?

Scenario analysis involves exploring multiple possible future outcomes, rather than predicting one. In this report, as in our 2022 and 2021 reports, we reaffirm our belief that risk management is a key driver of our country's ability to create a future in which all citizens can prosper. The need to drive a focused, coherent approach to scenario planning, strategy definition, strategy implementation, risk management and risk responses across all sectors of our economy remains imperative.

Scenario planning is the starting point in the process of creating our future. It helps us to understand:

- The likely scenarios that may materialise for South Africa and for our organisations.
- How our individual strategies could contribute or detract from our collective, sustainable success.
- How risk appetite is the link between strategy and the scenarios we actively strive to influence.
- How we can implement risk-response strategies that would influence a preferred scenario to materialise. The aim is to enable us to prosper if one scenario, or a combination of defined scenarios, becomes our reality.

8.3 IRMSA'S SCENARIOS FOR SOUTH AFRICA

'OUR SOLD-OUT FUTURE'	'PERPETUAL HANGOVER'	'FAKE IT UNTIL WE MAKE IT OR NOT?'	'OWNING OUR FUTURE'
State, business, civil, and criminal leaders control various aspects of our lives. We survive despite, not because, of these leaders. We are no longer surprised by Institutional failures. The national coalition government is dysfunctional and out of touch with us. National policy and international relations are rooted in the past, instead of enabling our future. We yearn for clean water, reliable electricity, rudimentary education, and basic healthcare. African Growth and Opportunity Act (AGOA) is long forgotten, the Rand has tanked, with rampant unemployment, inequality, and an ever-increasing death toll due to food shortages and unmitigated natural disasters.	Short-termism is amplified by historically focused ideologies and relationships. An economically and mentally exhausted citizenry barely manages to prevent dissent into chaos, supported by some business and civil society leaders trying their best. Impractical national policies continue to degrade the foundations of economic growth and revival.	Despite understanding the consequences of being in a 'Perpetual Hangover', we don't take decisions to make things right. Younger voices become more vocal, and they become changemakers, even if not yet fully understood by the majority, or by the "old guard". We receive our circumstances, instead of shaping our future. The majority continue to hope for the best, not realising that no one is coming – that we are the leaders we have been waiting for.	We jealously protect our national well-being. We take individual and collective charge of our future. We work to eliminate the noise in the system that distracts us from our common purpose. We build national consensus to drive a resilient society. We optimise our limited resources to achieve a common goal across all sectors of our economy. *This scenario is no longer plausible or achievable by 2030.

"The perfect scenario is when you are living your dream – when you have found your gift and when you are working to bring it to perfection. The worst scenario is when you do not know the purpose of your day-to-day existence."

Sunday Adelaja

The IRMSA scenarios are influenced and informed by key risk drivers or key risk indicators if you will. These drivers, depending on their adequacy and effectiveness (relevance and performance), determine the scenario outcomes. There are ten drivers attributed to the scenarios.

They are:

- | | |
|---------------------------|---------------------|
| 1. LEADERSHIP | 2. SERVICE DELIVERY |
| 3. INSTITUTIONAL CAPACITY | 4. EQUALITY |
| 5. POLITICS | 6. ECONOMY |
| 7. SOCIAL COHESION | 8. GLOBAL TRENDS |
| 9. NATIONAL POLICY | 10. CLIMATE CHANGE |

Based on the information presented in Sections 1 and 2, the current performance of each driver is qualitatively gauged and applied to depict the most likely scenario South Africa is in. Each driver contributes to the prediction on how the NDP objectives 2030 and the NDP priorities for 2023 may be achieved.

	'OUR SOLD-OUT FUTURE'	'PERPETUAL HANGOVER'	'FAKE IT UNTIL WE MAKE IT OR NOT?'	'OWNING OUR FUTURE'	CONSEQUENCE FOR NDP PRIORITIES FOR 2023/30
LEADERSHIP CAPACITY	There is either apathy or distinct conflict between various leaders in powerful positions. Those citizens that do not actively support any of the existing leaders either avoid becoming embroiled in conflict, or work with a few business or civil entities trying to make a difference.	Leadership for sustainable prosperity across society is a spectacle of the past. Proponents of sustainability and good governance are vilified as counter revolutionary. The income divide between the 'haves' and the 'have nots' spirals out of control.	Younger people take up leadership roles where they are, not waiting for those in higher positions to lead in their interest. Those in traditional leadership roles either resist or promote a refreshed vision that puts SA first. There is no clear sense as yet of when renewal will manifest.	Visionary and committed leaders in the right positions, work together in cohesive structures without fear or favour, to promote sustainable prosperity while embedding accountability and good governance in the interest of all South Africans.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
INSTITUTIONAL CAPACITY	National, provincial, local, and public entity performances are dismal with poor audit outcomes across the board. The fiscus runs out of the capacity to bail out those in the worst positions. Hospitals and schools are mostly dysfunctional with the added burden on society to carry the most vulnerable.	The State is weaker and more divided than before. Fragmentation, factionalism, and confusion prevent visible action against wrongdoers. Austerity measures make way for attempts to show value before the 2024 elections. Healthcare and education outcomes continues to weaken.	Populist ideologies seem to lose favour, and SOEs' performance stabilises, but too slowly to achieve NDP 2030 goals. Healthcare and education outcomes improve too slowly to make an immediate difference. Internal dominate at the cost of action that will benefit citizens.	Leaders involved in corruption are prosecuted successfully. Poorly performing institutions start to improve. Privatisation of State-owned entities gain momentum. Improved institutional performance kickstarts improvement in healthcare, education, and economic growth.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
POLITICS	Internal and coalition factions impede national, provincial, and local governments. National policies and actions aimed at improving anything are directly delayed or prevented by partisan interests, with law enforcement agencies unable to remain independent and becoming increasingly irrelevant.	Factions within, and across various parties deepen, while economic and social challenges spiral out of control. Corruption in all parties start to drive introspective coalition arrangements to the detriment of the fight against corruption and improving livelihoods.	Factional coalitions disrupt most national, provincial, and local governments. Internal conflicts disrupt attempts at improving the lot of the most vulnerable in society. Most initiatives aim to influence the voting public before the 2024 elections instead of sustainable improvement.	Leading political parties collaborate constructively in coalitions, based on an understanding that SA has run out of the luxury to play to partisan populism. Politicians either work to improve the lot of the most vulnerable or support a more competent state machinery to bring about socio-economic reforms.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
SOCIAL COHESION	Compelled into social resilience over decades, an exhausted society can't tolerate any more strain. Inequality, food insecurity, rampant crime, and populist rhetoric bombard vulnerable citizens beyond restraint. Without a unified cause and credible leaders, anarchy is imminent.	Public rhetoric stubbornly clinging to racial drivers as the reasons for economic and social failures play on a mentally exhausted citizenry's weakness. Racial tensions and victimhood stoke rising levels of violent protests. Social resentment spirals into irreconcilable conflict.	Society takes a general, although not yet complete stand against racial tensions still strained by economic hardship. Individuals and SMEs achieving success through focus on real vs populist issues become more visible, driving economic benefit and cohesion.	A younger generation, less tied to a racially divided past, start to get on with their lives, striving for prosperity in more relaxed social relationships. Acceptance of the need to work together across economic divides leads to slow, but natural re-distribution of resources.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
NATIONAL POLICY	Political factionalism and increased organised crime across the public and private sectors preclude the development and implementation of any coherent national policy. National policy eventually becomes irrelevant to the average citizen's expectations of a better life.	Populist ideology and malicious compliance (masquerading as transformation and progress) at the cost of performance, precludes the potential for a growth-focused reformist policy stance. Dissenting voices pleading for modern, non-racially divided policies to deliver the future, are vociferously silenced.	National energy, environmental, fiscal, industrial policies remain confused, reflecting the lack of a national vision. This forces society to find alternative ways to survive, thereby dissenting into a Quasi-State, through a general process of self-determination slowly permeating the landscape.	Deregulation and elimination of bureaucracy opens the economy. Unquestionable commitment to eliminating corruption at SOCs, mining, and land reform initiatives starts to deliver empowerment and land to more people. The private sector can contribute on economically viable principles.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
					Making government work

Table 3: IRMSA scenarios – 3 scenarios and 10 flags (key drivers)

	'OUR SOLD-OUT FUTURE'	'PERPETUAL HANGOVER'	'FAKE IT UNTIL WE MAKE IT OR NOT?'	'OWNING OUR FUTURE'	CONSEQUENCE FOR NDP PRIORITIES FOR 2023/30
SERVICE DELIVERY	Civil protests deteriorate into full blown social unrest and riots, with violent racial undertones leading to loss of life and destruction of assets. Decades of social pressure, exacerbated by inequality and poor living conditions, lead to a complete dissolution of SA's social fabric and breakdown of the rule of law.	Service delivery and infrastructure maintenance suffer while citizens gradually succumb to lowering their expectations of basic services. Deterioration in clean water, insufficient electricity, and the disintegration of road, rail, and port infrastructure lead to increasing food shortages, illness, and deaths.	The private sector spends increasingly on electricity, gas, and water to compensate for the lack of traditionally government-derived services – feeding into increased spend on manufacturing and transportation to move goods. Private households benefit from tax incentives to access basic services.	Progressive policy changes are effectively implemented. An efficient civil service arises, irrespective of the political party in power. People and organisations do things for themselves, and the government helps to create the conditions for them to do so.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
					Making government work
INEQUALITY	Severe economic hardship leads to immense pressure on the majority of citizens. This stokes racial tensions, already amplified by lack of services, job losses, and basic humanitarian needs. The situation is ripe for a social uprising that will be difficult to contain, should it ignite.	Two classes of South Africans exist: one within the walls and one outside the walls. They have little to do with each other. Unemployment continues to rise as South Africans compete over scarce jobs, exacerbated by an increase in xenophobic attacks and fake news.	Citizens are forced to fend for themselves and support each other as the need for survival cuts across racial lines. This drives an informal economy which leads to a small, but noticeable improvement in the material conditions of almost all South Africans.	An equitable land reform solution is found, driving high-volume, quality agricultural products and increased manufacturing. Collaboration with the informal sector encourages entrepreneurship, leading to improved living conditions and formal economic growth.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
					Making government work
ECONOMY	The economy goes into a deep, long-lasting recession. The country faces a debt spiral, with the Rand suffering against the major currencies over a prolonged period. Together with internal economic challenges, global pressures affect the SA economy negatively in the longer term. Economic hardship affects the most vulnerable in society extensively.	The economy stagnates until recession hits. The State pursues reckless, out-of-date, socialist, and market-unfriendly policies. Ratings downgrades, greylisting and capital flight drives inflation, government debt, and interest rates up, exacerbated by a global economic contraction.	The economy declines and bilateral agreements aimed at staving off foreign economic policy changes, come under severe strain. Self-sufficiency drives entrepreneurship as a survival mechanism. Although society takes care of its own needs, SA is unable to improve its investment ratings.	The global economy recovers, and SA approaches a 5% growth rate. Business confidence increases and austerity measures leads to improved foreign direct investment and investment ratings. SA's middle class recovers, while mineral beneficiation and increased manufacturing make SA less reliant on imports.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
					Making government work
GLOBAL TRENDS	Active positioning by various countries, driven by ideological and economic interests, escalate to involve most of the major world powers, leaving smaller countries to scramble to position themselves. Free trade and the flow of people are severely disrupted with severe negative economic impact.	Regional wars escalate to involve more previously non-protagonist countries, with resultant strain on international relationships and trade blocks. Previously non-aligned countries position for or against various sides, with resultant negative predictions for future trade agreements and economic impacts.	Markets deteriorate slowly but consistently, with less options to mitigate deeper and longer-lasting impacts on the global economy. Global economic policy changes negatively impact SA, amplified by international responses to the country's stance on international relationships.	Still deeply divided, global leaders manage to prevent a chaotic deterioration into pervasive global conflict. Economic growth remain subdued, but intergovernmental trade and other agreements remain intact. Negotiations towards a less polarised world order remain peaceful and constructive.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
					Making government work
CLIMATE CHANGE	The accelerated impacts of climate change events such as droughts, fires, and floods on living conditions and food security, increasing urbanisation and inequality, make a proactive response to climate change almost impossible. The spiralling cost of responding to climate change induced events precludes all proactive spend.	No coordinated solution for the dire humanitarian impacts of climate change is forthcoming. Any effort to address climate change either falls victim to political or corrupt opportunism or are seen as an unaffordable luxury, conflicting with the immediate need to improve inequality and economic hardship.	Internal opportunism and global nationalism, prevents SA from accessing developmental funding to turn around its dependency on fossil fuels, and to demonstrate that net zero is feasible by 2050. National policy makes it increasingly difficult for the private sector to produce economically viable energy alternatives.	SA benefits from cohesive international cooperation on climate change by demonstrating its ability to implement projects that will deliver net zero by 2050. Clean energy products reach the market, thanks to progressive national policy. Renewable energy contributes to national and regional energy and food security.	Restore energy security
					Growing the economy and jobs
					Building better lives
					Fighting corruption
					Making communities safer
					Making government work

8.4 CONCLUSION

The IRMSA Scenario Dashboard, Table 4 below demonstrates that all the ten flags, except the 'Global trends' flag, will lead to non-achievement of our national objectives. Arguably, the reality is that most of our problems are internal, meaning that they are within our control. We must be able to do collective introspection and change our internal dialogue as a country, to prevent the risks that we face from triggering the flags that will make our worst-case scenarios become our reality.

LEGEND: IMPACT ON NDP PRIORITIES 2030		WILL REGRESS SIGNIFICANTLY	WILL NOT ACHIEVE	MAY ACHIEVE	WILL ACHIEVE					
KEY SCENARIO DRIVER (FLAG)	CONSEQUENCE FOR NDP OBJECTIVES AND PRIORITIES						MOST LIKELY SCENARIO OUTCOME 2023			
	RESTORE ENERGY SECURITY	GROWING THE ECONOMY AND JOBS	BUILDING BETTER LIVES	FIGHTING CORRUPTION	MAKING COMMUNITIES SAFER	MAKING GOVERNMENT WORK	'OUR SOLD-OUT FUTURE'	'PERPETUAL HANGOVER'	'FAKE IT UNTIL WE MAKE IT'	OWNING OUR FUTURE'
LEADERSHIP CAPACITY	Red	Yellow	Yellow	Red	Yellow	Red		Down Arrow		
INSTITUTIONAL CAPACITY	Yellow	Yellow	Yellow	Red	Yellow	Red		Down Arrow		
POLITICS	Yellow	Yellow	Yellow	Black	Black	Black	Down Arrow			
SOCIAL COHESION	Yellow	Yellow	Yellow	Red	Red	Yellow			Down Arrow	
NATIONAL POLICY	Red	Red	Red	Black	Red	Black		Down Arrow		SOLD OUT
SERVICE DELIVERY	Red	Yellow	Yellow	Red	Yellow	Black			Down Arrow	
INEQUALITY	Black	Black	Black	Black	Black	Black	Down Arrow			
ECONOMY	Red	Yellow	Yellow	Black	Red	Black		Down Arrow		
GLOBAL TRENDS	Red	Black	Black	Red	Red	Yellow		Down Arrow		
CLIMATE CHANGE	Black	Yellow	Red	Black	Black	Red	Down Arrow			

Table 4: IRMSA scenarios – 10 flags (key drivers) impact on country objectives – Summary

8.4.1 MOST LIKELY SCENARIO FOR 2023/24

The outcome of our analysis has South Africa precariously clinging to our 2022 'Perpetual Hangover'-scenario, with a significant chance of slipping into 'Our Sold-Out Future' over the next twelve to eighteen months. We have only two indicators still driving towards a 'Fake It Until We Make It'-scenario. Unfortunately, the 'Owning Our Future'-scenario seems out of reach by 2030. Also, the target date for achieving the NDP Priorities has been moved out to 2035. With the elections coming up in 2024, the risk of coalition government will further exacerbate the time spent in 'Perpetual hangover' and may firmly push us into 'Our Sold-Out Future'.

'Perpetual Hangover' – with a warning to avoid selling out our future at all costs: Short-termism is amplified by historically focused ideologies and relationships. As we face political instability and unrest, fuelled by social bankruptcy, increasing economic woes, corruption, and a lack of trust in the State, an economically and mentally exhausted citizenry barely manages to prevent dissent into chaos.

Protests and strikes become more frequent, leading to further disruptions to the economy and social services. Investors become wary, leading to reduced foreign investment and an economic downturn. Poverty and unemployment increase, and the overall standard of living declines. Energy shortages become more frequent and extended for longer periods, leading to increased reliance on expensive and environmentally damaging fossil fuels. There is increasing speculation of a national grid failure, however catastrophic that may be. National policies are impractical and continue to degrade the foundations needed for economic growth and societal revival. In addition, the impacts of climate change, including increased droughts and flooding, leads to reduced agricultural production and increased food prices.

8.4.2 SUGGESTED RISK-RESPONSE STRATEGIES TO CHANGE SCENARIO OUTCOME

As suggested in our previous reports, the risks facing South Africa in the years ahead are significant and complex. They require a coordinated effort across government, the private sector and civil society to address the underlying economic, political, social, technological, and environmental challenges that are holding the country back. By working together to promote inclusive growth, strengthen democratic institutions and protect the environment, South Africa can build a more prosperous, sustainable, and inclusive future for all its citizens. However, this will require a commitment to long-term planning and strategic and integrated thinking, as well as the willingness to take bold action and to address accountability, performance, and consequence management.

Our challenge going forward will be to 'change the engines as the plane is flying, while trying to make a safe landing'.

9



SECTION 4:

IRMSA'S CALL TO ACTION

9.1 INTRODUCTION

A call to action invokes a sense of urgency. However, the gravity of our current crisis requires more than emotive appeals. The importance of disciplined, informed and considered action brings this weight to bear on leadership and the risk professional.

At the height of state capture, Henley Business School Africa conceptualised corporate activism as a movement for change, but also as a bulwark mitigating against the risk of a repeat of the corporate collusion that had been such an enabler for the corruption that swept through our body politic.

Professor Jon Foster-Pedley, Dean and Director of Henley Business School Africa says that we simply can't leave as important a project as our national renewal to the politicians, not if we want to have a say in how this brave new, post COVID, post kleptocracy should look. The key to it remains corporate activism, speaking truth to power at every turn.

It is a tough and very frightening prospect. We have seen what happens to whistle blowers in this country, but we dare not let up now. South Africa is a country almost perpetually, and precariously, between 10 to 12 and five to 12 on the Doomsday Clock.

Miraculously, we seem to manage to squeeze the hands back from meeting one another on the clock every time, but for our children's sake and their children's children we must do so much more. **Teaching managers about the consequences of their actions** is critical. That was the first phase of corporate activism, but the next must be **educating the directors about their responsibilities and getting them to become active participants in board meetings**, not mute and pliable cyphers.

The selection of company directors is critical to the creation of a corporate culture that is ethical and rooted in good governance, not just for the employees but the shareholders and the broader community in which the company operates. As the pillars of ESG (Environmental, Social and Governance) weigh ever heavier on the minds of investors and upon the shoulders of those who lead companies, directors play an increasingly vital role.

Unfortunately, as we have seen during the state capture era, the composition of boards can often be a green light for unethical and even criminal practice when candidates are selected without a full knowledge and understanding of their fiduciary duties. **The selection of the right board chair** is perhaps even more important because we all know how easy it is for a committee of incredibly clever people to act very stupidly if they are not properly led and the meetings are not correctly facilitated.

Business is the engine room of the economy, and it will be the driver of its radical transformation, and, in the process, business will help reduce inequality faster, more fundamentally and more sustainably than any government initiative or doctrine will ever achieve. The true dawn after this age of darkness will ultimately rise into the zenith of a bright new day, but it cannot happen without everyone working towards it in a committed, comprehensive and calculated fashion. And it all starts with education.

We must build the leaders who build the businesses that build Africa, but the reality is managers are only as good as their senior managers who are only as good as their C-suite. And the C-suite needs to be kept in check by their board, because we all know that a fish rots from the head.

South Africa is a country with immense untapped potential, of which our human resources are our greatest treasure. We must unlock their potential to finally achieve the promise of this much vaunted African Century, but we can only do this through education, minimising the risk of leaders taking shortcuts for personal gain rather than laying the foundations for a nation's enduring prosperity. If we are ever to prevent a repetition of the kleptocracy as painstakingly pointed out by Chief Justice Raymond Zondo during his commission of inquiry, we must make sure that **everyone in this country understand the true consequences of corruption and collusion.**



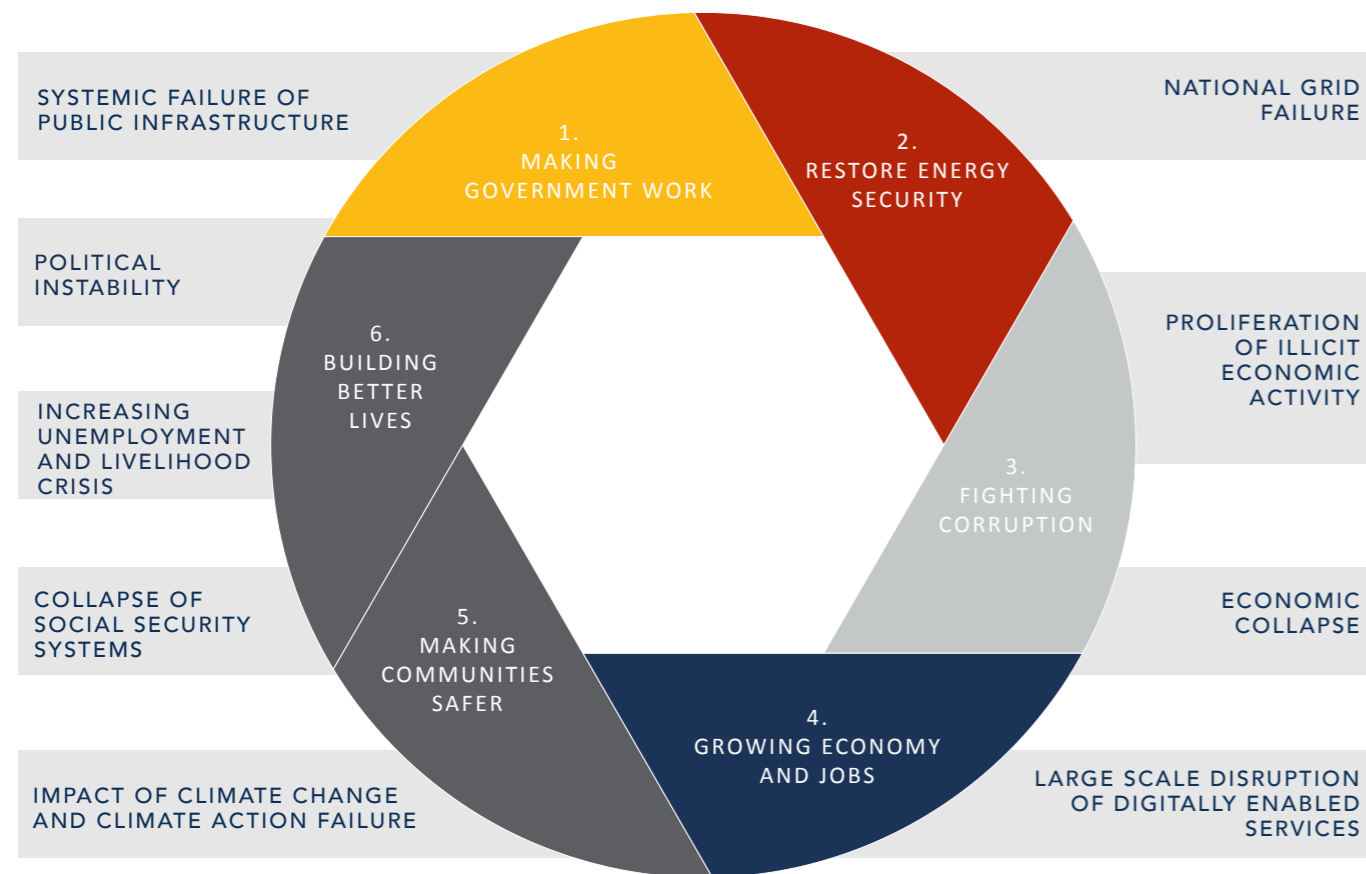
**PROFESSOR
JON FOSTER-PEDLEY**

9.2 CHANGING DIRECTION

Even more so than in 2022, the outcome of our analysis has South Africa slipping even deeper into the scenario of 'Perpetual Hangover'. The difference this time is that we do not see the momentum for the country moving towards 'Fake it until we make it'. That momentum has been lost; South Africa scored and is scoring more 'own goals'.

It is IRMSA's conviction that if South Africa is going to change direction, decisively, it will require complete leadership commitment. Only then will the risk-response strategies proposed below have the most impact and value-add in addressing the risk that threatens and supports the building of a better future – 2033: Better Days! (item 9.3).

9.2.1 SOUTH AFRICA TOP RISK RESPONSE STRATEGIES LINKED TO GOVERNMENT PRIORITIES 2023



Graphic 1: Top risks linked to Government Priorities 2023.

9.2.2 ELEVEN RISK-RESPONSE STRATEGIES TO CREATE SOUTH AFRICA 2033: BETTER DAYS!

The eleven risk-response strategies proposed below are aligned to Graphic 1: Top risks linked to Government Priorities 2023.

1. Prioritise policies and investments that promote economic growth, as well as stimulate job creation and economic support, particularly in sectors with high potential for job creation, such as green industries, technology and tourism.
2. Address the high levels of inequality by implementing policies that promote greater social and economic equity, such as progressive taxation; access to education and healthcare; and land reform.
3. Invest in education and skills development to improve the quality of the workforce, promote innovation and increase productivity.
4. Support entrepreneurship and SMMEs by creating an environment that encourages innovation; provides access to finance and business support services; and simplifies bureaucratic processes, which in turn can help drive economic growth and job creation.
5. Strengthen governance and fight corruption by promoting transparency, accountability and democratic institutions, while also strengthening the rule of law and ensuring that all citizens are treated equally before the law.
6. Invest in public infrastructure – particularly in digitising basic public services; energy and water; and public transportation – and support economic growth.
7. Address the challenge of climate change by promoting sustainable development, reducing greenhouse gas emissions and protecting biodiversity and natural resources.
8. Promote innovation, as well as research and development, to support the growth of high-tech industries and increase the country's competitiveness.
9. Address the challenge of crime and violence by investing in law enforcement, improving the criminal justice system and addressing the root causes of crime.
10. Develop a comprehensive and integrated approach to risk management, including effective early-warning systems and disaster preparedness, this to deliver a risk-intelligent and resilient private and public sector.
11. South Africa needs to strengthen its international partnerships and engage more effectively with the global community, this to promote trade and investment; share best practices; and collaborate on key challenges such as climate change and poverty reduction. This will include a clear global foreign policy.

“South African Leadership headed the call from IRMSA in 2023/24 and through sheer commitment to ethical, visionary and consequence-based leadership supported by innovative and decisive action enabled a relatively quick change in direction.

Of course, the eleven risk response strategies proposed by IRMSA had the desired impact resulting in the above.”

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2033: BETTER DAYS!

It is 2033, and South Africa's 65 million people are in a good place; not a utopia at all, but significantly better than back in 2023. Internationally, the economic power shift from the West to the rest continues to favour China and, increasingly so, India.

Socio-economic conditions across the African continent still lag the rest of the world but are nonetheless better than in 2023.

In South Africa, a social compact, formed after a turbulent 2024 and 2025, is still holding strong. During deliberations, important stakeholders agreed that they disagree on certain matters but could agree on many others. They made compromises that resulted in a newly shared national vision.

The autonomy, integrity, and competence of South Africa's democratic institutions are protected jealously. During the second half of the 2020s, a renewed commitment (also the result of the strong social compact) was made to the institutions that protect and support our constitutional democracy. Now, the Chapter 9 institutions and other structures provide efficient substance to the constitutional rights of South Africa's people, and to strengthen our democracy.

South Africans at all levels of leadership are held accountable for their decisions. Across government, business, and other bodies, leaders are held up to scrutiny. Moreover, the leaders themselves accept their accountability to be responsible leaders that make appropriate decisions. This is seeping through to communities and individuals across the country. South Africa improved its scores on the Global Trustworthiness Index on all indicators.

An institutional renaissance occurred. It was a decade-long very tough journey, but since the early 2030s the legacy of state capture and other malpractices have been ameliorated. More work still needs to be done on a continuous basis but, here in 2033, it is better days.

Over the past decade, a virtuous cycle could be seen in action. The strong social compact had a positive effect on social cohesion. Social cohesion improved and, as

it improved, one could sense increasing tolerance and shared goodwill between the people of South Africa. In its turn, the increasing levels of tolerance and shared goodwill had a positive influence on social cohesion.

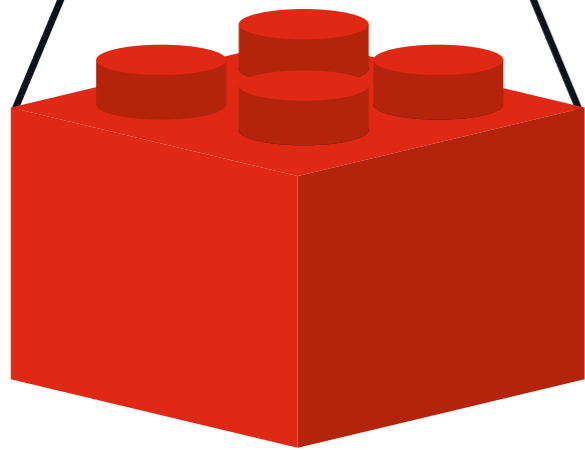
There is still a lot of room to grow, but the education and skills development outputs are becoming more aligned with the demands of a 4IR economy. These improved skills levels position South Africa's people as competitive options when considering how to better leverage our natural resources. Many more of our natural resources are benefited within our borders than before. Our global competitiveness is at its highest level in more than three decades.

Greater collaboration between government and the private sector across a variety of functions contribute to a healthy economic system. The entrepreneurial spirit of especially young adults is unleashed through concerted efforts aimed at facilitating and supporting their endeavours.

South Africa's economic growth is hovering around 4% per year now. It consistently increased over the past decade, from its low 2022 levels. This broadened the tax base through organic growth. Moreover, government is spending this money in an appropriate and efficient manner.

The increasing amounts of taxes paid, enable Government to sustain social security systems and to protect the most vulnerable.

Over the past decade the gradual levelling off, and decline in, the government's debt-to-GDP ratio increasingly freed up resources for investment in much-needed infrastructure. The digital network is functional, efficient, integrated, and increasingly inclusive. Furthermore, South Africa's credit risk ratings returned to investment status recently, and the Financial Action Task Force grey-listing early in 2023 is a distant memory. The water and energy infrastructure systems are improving. The energy crisis of the early 2020s sensitised decision makers, and therefore measures to avert a similar crisis in the water infrastructure systems were put in place from 2024 onward.



10

ACKNOWLEDGEMENTS

The Institute of Risk Management South Africa would like to express its gratitude to all the organisations, partners and sponsors as well as the committees, workgroups and individuals who have contributed to the completion of this report. Their invaluable support, guidance, and assistance have been instrumental in shaping this work, and the Institute is recognising their contributions.

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9th Edition**

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REFERENCES AND ABBREVIATIONS

ANNEXURES

AI	Artificial Intelligence
AGOA	African Growth and Opportunity Act
B-BBEE	Broad-Based Black Economic Empowerment
bn	Billion
BUSA	Business Unity South Africa
CEO	Chief Executive Officer
COVID-19	Pandemic disease caused by coronavirus 2 (SARS-CoV-2)
CPI	Consumer Price Index
CRO	Chief Risk Officer
ERRP	Economic Recovery and Reconstruction Plan
ESG	Environmental, Social and Governance
IRMSA	Institute of Risk Management South Africa
m	Million
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategy Framework (2019 – 2024)
NDA	National Development Agency
NDP	National Development Plan Vision 2030
OEM	Original Equipment Manufacturer
PFMA	Public Finance Management Act
POPIA	Protection of Personal Information Act
PPP	Public-Private Partnership
SA	South Africa
SARB	South African Reserve Bank
SARS	South African Revenue Service
SAQA	South African Qualifications Authority
SME	Small and Medium Sized Enterprises
SOC	State-Owned Company
SOE	State-Owned Enterprise
SPV	Special-Purpose Vehicle
tn	Trillion
State Capture Report	Judicial Commission of Inquiry into State Capture Report