

More than an exposé: *After Dawn - Hope After State Capture* by Mcebisi Jonas

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"In October 2015, the Gupta brothers offered me the position of minister of finance in exchange for R600m¹".

This is the explosive first sentence of "After Dawn – Hope After State Capture" – the new book by former Deputy Minister of Finance, Mcebisi Jonas. From his unique vantage point as a senior member of both the ANC and the national government until 2016, he writes with astonishing frankness about the problems South Africa faces. And, perhaps most usefully, the book offers a rare, constructive perspective - with achievable actions that we as a nation can take to solve our problems and "move to a new kind of politics and economy²".

A tale of two parts

The book is separated into two main sections. Part One aims to diagnose the problems we face. Part Two is devoted to tangible solutions that allow us to chart the possible ways forward.

His starting point is that our politics and our economy are linked. Our current economic difficulties, while rooted in our shameful and divisive past, have been exacerbated by our politics, incoherent policies and an utter failure of implementation over the past 25 years.

"I think one of our biggest weaknesses as the governing party is that we have become ideologically puritanical and blinkered to the many blind spots that contradict our efforts to build a faster-growing and more equitable economy.³"

Jonas diagnoses eight economic realities, including inequality and the job crisis, our anaemic levels of economic growth and investment, our lack of competitiveness and our failure to build a capable and corruption-free state. He states that policy incoherence and uncertainty, our rigid labour policies, and our neglect to create a meaningful manufacturing sector to absorb low-skilled labour, have all damaged our growth potential.

He maps out where we have fallen short and provides ideas and possible actions that are well thought out, rigorously researched and based on examples that have worked in economies similar to ours.

He brooks no excuses for the position we find ourselves in. He compares our history to that of other countries which also suffered at the hands of colonialism (Malaysia, Vietnam and Singapore), yet notes that today, their per capita income growth rates are multiples of ours⁴. He says that "while South Africa's apartheid legacy presents a significant challenge, there are few who have had to overcome Vietnam's challenges of four periods of colonial control over 1 000 years, 54 ethnic groups, a difficult neighbourhood and topography, three

¹ Jonas, After Dawn, Preface, p xi

² Jonas, "After Dawn", Preface, p xv

³ Jonas, After Dawn, p16

⁴ Jonas, After Dawn, p5 (South Africa 37.5% per capita income growth since 1994; Singapore increased by 427% in the first 24 years after independence, Malaysia by 181% and Vietnam by 241% between 1986 and 2020).

million dead and utter infrastructure devastation during the 21 years of the American phase of its liberation struggle. Our excuses pale by comparison.”⁵

My takeaway

This book struck me on two critical issues:

- a) our failing education system, which is condemning our youth to chronic unemployment and poverty and our economy to structural low-growth and inefficiency; and
- b) the profound drain that our state-owned enterprises (SOEs) have had on our economy.

a) Education... Political pawn or enabler?

There is no debate that by most measures, South Africa’s education system is performing badly, despite relatively high spending on education as a percentage of GDP. Jonas describes our chronic societal inequality as being mirrored in our school system: the top 3% of South African high schools produce more distinctions in maths and science than the remaining 97% combined⁶. And while there have been massive resource shifts, we suffer from poor educational outcomes (by most international benchmarks) especially in the critical subjects of literacy, mathematics and physical science, where we have high drop-out rates. He adds “93% of the current expenditure of the provincial Departments of Education goes to paying employees, leaving insufficient resources for scholar transport, nutrition and learning materials⁷”.

Our education failures are rooted in:

- **Failures of policy:** since 1994, we have had no less than 161 education policy statements, numerous curriculum changes (remember OBE?) with little institutional support and monitoring, and compounded by the chronic incapacity of many of the civil servants charged with policy implementation.
- **Weaknesses in leadership and accountability** and poor quality teachers: did you know that 79% of grade 6 mathematics teachers cannot get a mark of 60% on a Grade6/7-level maths test⁸?
- **Short-term interests** (notably those of the teachers unions, mainly SADTU⁹): these stand in the way of the long-term growth and transformation of our education system. He suggests that “South Africa’s failure to properly educate its children is the result of allowing an important institution – the Department of Education – to fall under the spell of political compromise. By allowing trade unions a disproportionate say in teacher and school head appointments, politicians have mortgaged the future of generations of children in exchange for political pennies. This has got to stop if South Africa is to lift its youth out of poverty¹⁰.”

Six actions are proposed, to shift to quality education - and in that way, allow it to act as an enabler of economic growth.

⁵ Jonas, After Dawn, p5

⁶ Jonas, After Dawn, p86

⁷ Jonas, After Dawn, p88

⁸ Jonas, After Dawn, p91

⁹ South African Democratic Teachers Union

¹⁰ Jonas, After Dawn, p95

The six actions are:

1. A new **social compact** to address the crisis, mobilising all stakeholders and role-players around a common vision and action-based set of priorities. This needs to be supported by a well-mobilised civil society that will hold government and schools to account.
2. **Teacher development and support** is needed to deal with the capacity backlogs and current “haphazard and uncoordinated approach to teacher development and teacher support¹¹”.
3. New levels of **accountability and discipline** are required: this includes dealing with non-performers in both schools and government, and assessing school and teacher performance through formal and independent audits, the results of which should be publically available.
4. **School functionality** needs improvement, with mechanisms to address the distribution and management of resources to and in schools; a greater work ethic among teachers; and regular, quality and accurate assessments and time-management on the part of all role players.
5. **Access and equity** needs to be addressed to change entrenched patterns of resource disparity, in order to support improved access to learner support materials, scholar transport, school nutrition programmes, and to reverse the chronic underspending on school infrastructure. The deteriorating relationship between teacher unions and government impacts school functionality and performance. A new role for unions is needed, as are strategic partnerships that will ultimately result in a) a professional public sector that focuses on delivery, and b) a robust civil society that holds the public sector accountable.
6. There needs to be a commitment to **experiential learning and youth employment** to equip school leavers with the competencies needed for employment.

Jonas recommends an overhaul of the entire education system, noting that it is not an easy task and that none of the ideas proposed in the book are new. All stakeholders need to put their sectoral interests aside if we are to lift our youth out of poverty and inequality - and set our economy up for growth.

b) SOEs... Captives or catalysts?

Jonas reminds us why our SOEs are important. The 11 largest SOEs are responsible for capex budgets of over R116 billion, which is equivalent to 7.6% of total annual government expenditure¹². They have strategic potential, which means they can be effective vehicles for development if they are profitable, well-managed and economically productive, and if they do not have a “crowding out” effect on the private sector.

Unfortunately, as we all now know, many SOEs have required repeated bailouts. Most are run at consistent losses, provide poor-quality services (often at high prices to users) and have been the “ground zero” of extensive looting and “siphoning of public funds to corrupt criminal networks¹³”.

¹¹ Jonas, After Dawn, p200

¹² Jonas, After Dawn, p67

¹³ Jonas, After Dawn, p77

The causes are laid out in plain language: "At the root of corruption in SOEs lies the appointment of corrupt and politically-aligned figures to management and board positions, where they have wielded their influence to facilitate grand larceny, rather than the strategic objectives of the company.¹⁴" And "politically connected but otherwise unqualified and incompetent officials used their positions of influence to manipulate government tender processes and extract profits from supply chains under their control, typically with policies like 'supplier development' and 'local content' as cover¹⁵."

We all know this, and Futuregrowth has been on the frontline of addressing these governance weaknesses since our public announcement to suspend lending to certain SOEs in August 2016¹⁶.

Something we did not know back in 2016 was that Jonas himself expressed concerns about state capture in November 2015, when he addressed his Treasury officials (he was Deputy Minister of Finance at this time):

"Unfortunately, there are things we are not debating and discussing, the elephant in the room as it were, and how this is impacting on our work. Firstly, the issue is that we have a captured state: the levels of corruption are far higher than we've been able to articulate and this is holding back a range of things. If we can't deal with SOEs in a decisive manner we are heading for a reversal We are moving backwards, the capacity of the state is regressing.¹⁷"

And while events since then have provided much documentary evidence of the malfeasance at many of our SOEs, and while Jonas correctly highlights that "fixing our SOEs is the single most important task that confronts South Africa today¹⁸", the hard choices and single-minded commitment to getting this right seem to be largely absent in our leaders in government.

He recommends some urgent, pragmatic and feasible actions to restore our SOEs to profitability and effectiveness:

1. **Fix Eskom:** Easier said than done? But all the actions needed to fix Eskom have been talked about for years (breaking Eskom's monopoly and separating it into generation, transmission and distribution entities; selling non-core assets and older power stations; shifting towards renewable energy; and injecting private participation in the energy industry). While slowly starting to gain some momentum, real commitment to these steps is lacking. The policy confusion and flip-flopping cited throughout the book continues to this day. Just the other day (17 February 2020), the media reported that the Minister of Energy, Gwede Mantashe, had contradicted the President Ramaphosa's remarks (in his SONA address of 13 February) on the urgency for executing on further renewable energy. The theme throughout the book is that urgent action is critical. Without action, we will not be able to fix our economy and our society.

¹⁴ Jonas, After Dawn, p78

¹⁵ Jonas, After Dawn, p78

¹⁶ <https://www.futuregrowth.co.za/newsroom/enter-the-bond-market/>

¹⁷ Jonas, After Dawn, p66

¹⁸ Jonas, After Dawn, p82

2. **Redefine the role of SOEs:** This is needed a) to provide direction and prioritisation to SOEs' dual (and often conflicting) mandates, (which contain commercial objectives as well as broader developmental/policy objectives); and b) how the social/developmental objectives should be funded. Jonas argues that the point of SOEs is to "operate as successful and profitable commercial enterprises, allowing them to invest some of their earnings in public goods and to reduce the cost of direct services to citizens. The point is not for them to make a loss, or to take on unsustainable levels of debt in pursuit of apparent public policy goals. Equally, their objective should be to provide infrastructure and services of the highest possible quality and the lowest possible cost.¹⁹" He urges government to redefine the mandates of SOEs to allow for this.
3. **Improve governance and accountability:** To do this, conflicting regulations, policy and legislation needs to be clarified; there needs to be co-ordinated oversight between the ministries and departments responsible for SOEs - and the trend of politicised, incompetent or inexperienced appointments needs to stop. A single piece of legislation is needed, to bring together all existing SOE regulations in a single coherent document. This legislation should also establish a central authority to pool the shareholder responsibilities of the state, and to exercise active oversight. Fixing the appointment process of boards and executives is described as the most urgent task.
4. **Focus on strategic companies:** The argument here is that the "government does not have the capacity to actively and effectively manage the current portfolio of SOEs²⁰". Government should rather focus selectively on a few strategic companies that can be globally competitive and those that are essential to the objectives of the state. These decisions need to be made without regard for the short-term political imperatives of powerful constituencies. At all stages, policy dogmatism is to be avoided and "pragmatism must be placed above expedience and doctrine."²¹

How do we get off the road to nowhere?

Jonas concludes by describing three national obsessions around which, he believes, we need to build consensus and mobilise. These are:

1. An obsession with **inclusive growth**;
2. An obsession with **quality public education and training**; and
3. An obsession with a **stronger, more capable and less corrupt state**.

He closes by making two suggestions: a) that South Africa's poor record of executing policy and plans within government requires immediate attention; and b) that we require a special kind of leadership to walk into this New Dawn. We need leadership that is able to make the hard choices urgently needed, to placate the growing impatience of citizens, and not to succumb to populist policies that will "take us nowhere on the broader journey of restructuring the economy and society²²".

We couldn't agree more. The time for action, clarity, cohesion and certainty is long overdue.

¹⁹ Jonas, After Dawn, p188

²⁰ Jonas, After Dawn, p192

²¹ Jonas, After Dawn, p193

²² Jonas, After Dawn, p257

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