****

**NATIONAL ASSEMBLY**

**WRITTEN REPLY**

**PARLIAMENTARY QUESTION: 2843**

**DATE OF PUBLICATION: 15 September 2017**

**Dr M J Cardo (DA) to ask the Minister of Economic Development: Len**

With reference to his statement at the 11th Annual Competition Law, Economics and Policy Conference, which took place from 30 August to 1 September 2017, that South Africa loses about R27 billion of Gross Domestic Product and 76 000 potential jobs every year due to corruption, (a) on what research are these figures based, (b) how were the figures calculated and (c) in which sectors of the economy does the corruption occur? NW3150E

**REPLY**

The information on the cost of corruption was based on an economic modeling exercise that sought to quantify the cost of the reduction in real capital spending that results from corruption and the impact on decreased spending in the SA economy on goods and services. While the full extent and thus real costs of corruption is unknown precisely because by its nature it is concealed, a calculation was done based on a scenario where corruption results in a 10% increase in costs; this increase was then modeled into the data-sets to obtain GDP and employment effects.

The purpose of the modeling exercise was to show that corruption is not a ‘victimless’ crime and that the opportunity costs of improperly and unlawfully diverting resources for private gain, comes at a significant cost to economic growth, job creation and service delivery. There is a compelling case for immediate and decisive action against corruption, based on the costs it imposes on the economy, on jobs and on the poor. The results of this modeling exercise were referred to in my speech at the 11th Annual Competition Law, Economics and Policy Conference on 31 August 2017 as well as at other public gatherings and were also shared with the Committees of the Economic Cluster, in Parliament, on 10 October 2017.

During my address to the 11th Annual Competition Law, Economics and Policy Conference on 31 August 2017, I noted the following:

*Neither corruption in the public sector (with its private sector counterparties) nor collusion between large firms are victimless crimes. Corruption takes resources away from housing, jobs, social grants, education and health facilities. Collusion increases the costs of doing business, it stunts the dynamism and competitiveness that is needed and it has a negative impact on growth and jobs.*

*A World Bank study on competition in South Africa noted the following:*

*“In the case of four cartels in maize, wheat, poultry and pharmaceuticals – products which make up 15.6% of the consumption basket of the poorest 10 percent – conservative estimates indicate that around 200 000 people stood to be lifted above the poverty line by tackling cartel overcharges”.*

*We recently began doing work to quantify the cost of corruption in the public sector, based on just a 10% increase in the price of infrastructure projects as a result of corruption...Based on our modelling, it leads to at least R27bn foregone annually in GDP and the loss of 76 000 jobs that would otherwise have been created. So corruption is not only an ethical issue, it is also a profound issue of delivery, of growth, of servicesw to the poor.*

*There are some troubling matters to address in looking at corruption and the collusion therewith by professional firms, from auditors to lawyers and others.*

*The culture of rampant acquisition is spreading so widely that the professional standards of integrity that is a hallmark of functioning institutions, are under enormous pressure. One of its outcomes is a fraying of the social compact that all societies need and unless we act with resolution, we will not build a society that achieves the vision of the constitution, indeed, we will betray it.*

*There are things we can do, practical things, while the wider battle to ensure integrity in the public and private sectors, is pursued.*

*One of the provisions in the Construction industry Settlement Agreement that I referred to earlier, is an Integrity Commitment that CEOs of the seven largest companies signed publicly and I want to briefly quote from it:*

*“ In my capacity as CEO of [name of company], I do hereby declare and affirm that:*

1. *I will conduct business, and will do everything in my power to ensure that the company and all of its associated companies (‘the Group’) conducts business in South Africa, in accordance with sound legal and ethical practice;*
2. *I will not be involved, and will do everything in my power to ensure that no one in the Group is involved, in any kind of bribery, corruption, collusion or unfair means of furthering our business interests;*
3. *I will do everything in my power to intill a culture of integrity, honesty and transparency in the Group consistent with this declaration*
4. *I will develop and actively promote codes of conduct imposing ethical and legal standards on all personnel in the Group that are aligned with international best practice for the construction industry and impose appropriate penalties on those who don’t comply; and*
5. *I will use my best efforts, and take firm steps, in line with and pursuant to my executive management authority, to expose, confront, eradicate and prevent collusion and corruption in the construction industry and in all the construction industry’s dealings with public entities, private sector institutions and with each other.”*

-END-