The University of KwaZulu-Natal

THE INFLUENCE OF RATING AGENCIES ON SOUTH AFRICA'S GOVERNANCE AND FISCAL POLICIES.

By

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GLOSSARY OF ABREVIATIONS AND ACRONYMS

ANC - African National Congress

BRICS - Brazil, Russia, India, China and South Africa

CESR - European Commission Committee of Securities Regulations

CRAs - Credit Rating Agencies

EU - European Union

FSB - Financial Services Board

GEAR - Growth, Employment and Redistribution Plan

GDP - Gross Domestic Product

IMD - Institute for Management Development

IMF - International Monetary Fund

IOSCO - International Organisation of Security Commission

OECD – Organisation for Economic Co-operation and Development

JSB - Johannesburg Stock Exchange

UK- United Kingdom

USA - United States of America

USASEC – United States Securities Exchange Commission

RA – Rating Agencies

SA - South Africa

SOEs - State Owned Entities

S&P-Standard and Poor

StatsSA - Statistics South Africa

RDP - Reconstruction and Distribution Plan

WEF - World Economic Forum

ABSTRACT

Since 2010, South Africa (S.A) has received and endured heighted attention in the form of downgrades from Rating Agencies (RAs) who have shown serious concerns about the country's governance and fiscal policies. This was linked to the political decisions made by the governing political party, the African National Congress (ANC), and the then government, popularly referred to as the 'Zuma administration'. As a result, post 2010, RAs in S.A have become one of the key oversight institutions in determining the country's financial borrowing status and also play a key role in the country's development agenda which is informed by its fiscal policies. A country with a negative rating from RAs often finds it difficult to access capital (loans) as well as in attracting investors. When financial institutions accede to giving loans, such loans are always expensive and bear high interest rates due to fear of high-risk exposure. Within this context, this study explored the influence of RAs on South Africa's governance and fiscal policies. Underpinned by an interpretivist worldview/philosophy, the study adopted a qualitative design using a phenomenological strategy. The data was collected using in-depth, face-to face, one-on-one interviews which were recorded and guided by an interview schedule. In doing so, non-probability sampling strategy and purposive sampling technique were used. To ensure data quality control, the research ensured data trustworthiness, applying a credibility technique; and the data was analysed using thematic analysis. With the application of this methodology the study found that RAs play a critical role in ensuring that government preserves sound fiscal and governance policies. The study also established that in South Africa, RAs post 2010 played a major role in creating awareness about their existence, role and benefits within the different social spheres in the country. The study further found that methods of rating

applied by RAs does not take into cognisance the socio-economic circumstances and conditions that affect the country being rated, hence it becomes difficult for countries such as in the case of South Africa to implement the recommendations provided by RAs.

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1.1 INTRODUCTION

Over the past five years South Africa has attracted the fierce attention of rating agencies. Rating agencies have displayed concern about government commitment to adhering to sound governance through its public policies, especially fiscal policies, such having influence on government meeting its debt obligations. A public policy may be viewed as an aim of a government institution which is directed either at regulations or certain aspects of public activities or behaviour (Fox, Bayat and Ferreira, 2006). Some of these public policies relate to governance, others to social security; and yet others serve the economic interests of a country. Fiscal policy refers to government taxation and expenditure rules (Moeti, 2013). Such policy is about how government generally manages and spends its revenue in its process of governing; it is therefore vital to have policies in place. According to Moeti (2013), government taxation and spending can stimulate economic growth through the adoption of expansionary fiscal policy directed to mitigate recessions, and tax cuts, creating employment. With this premise in mind, this study endeavours to explore the influence of rating agencies on South Africa's governance and fiscal policies.

1.2 BACKGROUND OF THE STUDY

Over the last half century, global financial markets have increasingly grown indebted to the services of rating agencies, which have become gatekeepers to finance and investment for companies as well as countries. Hence, lenders and investors rely heavily on the investment confidence data for companies and countries provided by rating agencies. This makes the role of rating agencies important in governance and in fiscal policies of countries.

In South Africa, there is a robust debate about the role, effect, and objectivity of rating agencies, especially Sovereign Credit Rating Agencies. According to Finney (2009), Sovereign Credit Rating Agencies are essentially an assessment of economic conditions, fiscal policies, political stability, and governance of the country. South Africa's economy is highly dependent on foreign trade. The country produces a number of commodities which are consumed in other countries, while at the same time importing many commodities. According to Roux (2005), the high ratio of exports to total production and of imports to total spending implies that South Africa has a very open economy. According to Quantec Easy Data International (2016), for example, the trade balance between South Africa and the United Kingdom (U K) stands at R45 957 million exports, while the imports stand at R31 775 million. By contrast, the trade balance between South Africa and the United States of America (U S A) stands at R 78 970 million, while imports stand at R72 968 million. There is also a significant trade growth between South Africa and China which currently stands at R97 838 million exports while imports stand at R 199 040 million (Quantec Easy Data International, 2016).

While there has been a significant trade growth between the South Africa and Brazil, Russia, India, China, and South Africa (BRICS) countries, the trade between South Africa and European countries is much higher. The trade balance of South Africa depicts that the country still needs to enjoy the confidence of other countries, especially major trading partners (Moola, 2017). The investor confidence of these countries remains of significant value to the South African economic growth trajectory (Moola, 2017).

Since December 2015, South Africa has been under review by three of the largest international rating agencies assessing the financial worth and creditworthiness of countries and corporations. These are Moody, Standard, and Poor and Fitch. Post the 2008 financial crisis, as with many other countries, South Africa, as a gateway to Africa, and the number one investment destination in Africa, was always on the radar of rating agencies. However, the removal of the then Minister of Finance, Mr Nhlanhla Nene, in December 2015, was generally perceived as influenced by his being firm on stringent fiscal policies. The subsequent events which included the appointment and removal of several finance ministers placed doubt not only on investor confidence and the country's policy direction, but also caught the attention of rating agencies.

To date, the South African government, in particular the Ministry of Finance, has put in place strategies and programmes to boost the confidence of the rating agencies and foreign potential investors. However, the lack of stability in government institutions and the subsequent removal of the then Finance Minister, Mr Pravin Gordon, in 2017, who had replaced Mr Nene, resulted in two of the three global prominent rating agencies, Standard, and Poor and Fitch downgrading South Africa's credit status. Moody indicated that it would spend the next three months in 2017 reviewing and monitoring the latest developments and issues around governance and its position on its fiscal policies (Business Day, 2017).

Thus, the influence of rating agencies has become a significant factor for countries in determining their governance and fiscal policies (Kraussl, 2005). While sovereignty of countries remains significant, the world trade balance indicates that global financial institutions hold sway. This is because establishments such as rating agencies influence investors' confidence and further indirectly determine the level of interest rates countries pay for foreign debts (Manso, 2013). This has a great impact on the budget of the country, eventually affecting people's standard of living (Manso, 2013).

1.3 STATEMENT OF THE PROBLEM

In 2016, the Wall Street Journal (2016) identified that Moody's had placed South Africa's sovereign debt rating on review for a downgrade from investment-grade to junk status. This had been caused by continuous rising credit risk stemming from the country's weak economic and fiscal strength.

Such a situation made the downgrading of the country seen as a seriously adverse threat to its economic growth, jeopardising the country's ability to borrow and honour its debts (Mahlmann, 2013). It is said that countries that have been recently downgraded have suffered, finding it difficult not only to borrow, but also to pay foreign debts, making the attracting of foreign investor countries very difficult (Ballard-Rosa, Mosley and Wellhausen, 2016). Therefore, the rating of the country has an implication for the overall economic and social prosperity of a country.

According to Finney (2009), sovereign credit ratings are essentially about an assessment of economic conditions, fiscal policies, political stability, and governance of the country. In 2017 the South African Government, in particular the then Minister of Finance, Mr Malusi Gigaba, had been working hard to ensure that rating agencies did not downgrade the country's rating to junk status. However, Standard & Poor's (S & P), following Fitch, downgraded South Africa to junk status. As a result, some perceive the role of rating agencies as pursuing the objectives of foreign domination from Western countries, while others are of the view that rating agencies act in the best interests of foreign investors, rather than that of the citizens of the country that they are rating. In Europe, for example, Kotios, Galanos and Roukanas, 2012:5) point out:

> "In some cases, they are accused for aggressive or even for on purpose state downgrading, and conspiratorial attitude towards the euro currency and euro area member states. For example, Gysi, of German party Die Linke, spoke for 'war against the European people'. Another German Member of Euro Parliament and staff officer of German Christian Democrat Party spoke of 'currency war' and for promotion by bond credit rating agencies of 'Anglo-American political interests'. A former stockbroker, Dirk Müller said: 'I am certain that the American rating agencies are in close coordination with the American government, which in turn has been dominated for many years by Wall Street".

Most of the attention on rating agencies focuses on downgrading while there is less attention on best principles and practices from the rating processes, resulting in diverse feelings about the independence of the rating process and procedures. Kotios, Galanos and Roukanas (2012) comment that credit rating agencies are profit-making corporations paid by issuers, the principle being 'issuer- pays'. Because, according to Wighton (2009), the issuer pays, this adds a main point of argument and criticism to credit rating agencies. There is room for conflict of interest in the sense that the person or institution paying for the rating might request a more favourable assessment, resulting in tricking investors.

The argument is that government falls short when a country such as South Africa, in this case, has been downgraded, because of its reduced ability to deliver necessary services to its people (Kraussl, 2005). Along this line of argument there is a general feeling that South Africa has compromised its fiscal approach which is based on expansionary budget approach and deficit reduction programme. This limits its ability to meet the country's obligation towards social services and economic emancipation (Terreblanche, 2012:89).

The recent South African downgrades have weakened the country's trade authority amongst its global trading partners. This has had adverse implications for the future. Most of South Africa's trading partners place a high premium on fiscal prudence as a key principle influencing global trade and investments (Moola, 2017).

Nonetheless, an expansionary budgeting approach remains a critical demand for socioeconomic transformation in South Africa (Moeti, 2013). Equally so, there is a rising unemployment crisis which requires deliberate programmes to create jobs. The effect of downgrades has the potential of perpetuating or even exacerbating the already untenable adverse economic situation (Business Day, 2017). This study aims, therefore, to explore the influence of rating agencies on South Africa's governance and fiscal policies. This intention is also prompted by the belief that "the power of credit rating agencies has been ever increasing since their creation" (Luten, 2016:6).

1.4 RESEARCH OBJECTIVES OF THE STUDY

The objectives of the study are:

- To assess the role of rating agencies in the South African governance
- To explore the response of the South African government to the rating agencies
- To establish the challenges faced by government on the implementation of recommendations by rating agencies
- To provide recommendations on how government and rating agencies should cooperate in improving government and fiscal policies.

1.5 RESEARCH QUESTIONS OF THE STUDY

The study will attempt to answer the following key questions:

- What is the role of rating agencies in South African governance?
- What are the responses of the South African government on rating by rating agencies?
- What are the challenges faced by the South African government on the implementation of recommendations by rating agencies?
- What recommendations may be provided to ensure cooperation between government and rating agencies on improving government and fiscal policies?

1.6 RATIONALE FOR THE STUDY

This study was conducted because credit rating agencies have increasingly been given attention in the media. As such, they have exercised their influence, mostly negatively, since the global financial melt-down of 2007-2008. According to Luten (2016), Moody, and Standard & Poor were the main actors in the American mortgage crisis. Luten (2016) points out:

> "By giving high ratings to risky products they deceived investors into investing their money. When these products and organizations handling these products started to default on their debt, it caused a chain reaction of defaults leading to the global financial crisis" (Luten, 2016:5).

Millon and Thakor (1985), cited in Ferri and Liu (2005:285), are of the view that, "although rating agencies risk their reputation and a reputation incentive should ensure that they make the socially optimal level of investment in collecting and processing information on issuers". However, this is yet to be released. According to Ferri and Liu (2005), this is mostly because of a market structure that is monopolistic in nature, resulting from a lack of entry, hampering the efficient running of the process and reputation.

Furthermore, it is insinuated in some contemporary literature that, in emerging economies, rating agencies might be under-investing. In addition, Ferri *et al.* (2001) identified that, when the sovereign (a country) is downgraded, corporation (company) ratings are also downgraded in non- OECD countries; however, in OECD countries this does not take place (Ferri and Liu, 2005). Ferri and Liu (2005) are therefore of the view that any evidence of rating agency underinvestment in emerging countries, such as in this case, South Africa, should be worrying. Bearing particularly in mind, according to Ferri and Liu (2005), which the quality of information in these economies is usually poorer, information irregularities are stronger than in countries that are developed. This view is supported by Kotios, Galanos and Roukanas (2012:4) who are of the view that "the added value of information provided depends on their level of information's access, their manpower and their motivation for quality".

What would have happened were this study not conducted was that there would have remained limited understanding of the influence of rating agencies on state governance and fiscal policies, especially in emerging economies like that of South Africa. One must note that "credit rating agencies are perceived as powerful institutions that can influence issuer survival by affecting their access to funding markets, and their funding costs" (Kiff, Nowak and Schumacher, 2012:5). Hence, by understanding their role and influence, such can enable policymakers to make informed decisions when interacting with such institutions and exercising their constitutional obligations to their constituencies/citizenry.

1.7 CONTRIBUTION OF THE STUDY

Research has already been conducted on how national policies affect credit ratings, such as that of Afonso (2002); Afonso &Gomes (2011); Biglaiser, DeRouen & Archer (2011); Biglaiser & Staats (2012). However, Luten (2016) points out that there is a very limited body of knowledge on how credit ratings affect policies of countries. Soudis (2015) and Luten (2016) have attempted to conduct such research. Soudis (2015) conducted research into the impact of credit rating on a country's impact on neo-liberal domestic economic reform. Luten (2016) offered research on the impact of sovereign credit ratings by Standard & Poor and Moody on the austerity decision-making process by countries in the European Union. This thesis could contribute to the literature of the relationship between rating agencies, state governance, and its fiscal policies, reflecting on the case of South Africa, which is developing, and on Africa.

1.8 RESEARCH METHODOLOGY

This study is underpinned by an interpretivist worldview/philosophy. The method which it adopted is a qualitative design using a phenomenological strategy. The data was collected per in-depth, face-to face, one-on-one interviews recorded and with the assistance of an interview guide/schedule which guided the attraction of information from the relevant participants. In doing so, it was sampled via a non-probability sampling strategy and purposive sampling technique. To ensure data quality control, the research ensured data trustworthiness, applying a credibility technique; and the data was analysed using thematic analysis.

1.9 LIMITATIONS OF THE STUDY

Limitations of a study may been seen as those factors that the researcher considers before embarking on a study. Such can be feasibility, constraints, and biases, and how such would be addressed. For this study, the first constraint was accessing the relevant persons with the knowledge and information the researcher saw necessary in answering the study's questions. Because this study dealt with national policymakers, such placed constraints on the study, because of the availability of top government officials from the relevant institutions. In addition, because rating agencies are headquartered overseas, and their decisions made there by their decision-makers, it became problematic gaining access to such institutions.

These constraints were addressed through constant communication with the relevant institutions and persons. As a result, the research did not meet the minimum time frame of one year (two semesters) laid down by the university, the research being concluded in the third semester.

1.10 THESIS OVERVIEW

Chapter One: This chapter provides an introduction to the study, giving an overview. In doing so, the chapter provides the background, the objectives and research question of the study, a summary of the methods used, the rationale, and its contribution.

Chapter Two: This chapter presents the literature review. It interrogates the literature to elicit what others have said about the topic. This is guided by the study's objectives. The chapter also present the study's theoretical framework.

Chapter Three: This chapter presents the research methodology the study adopted to assist in meeting its objectives and answering its research questions. The worldview underpinning the study, the design, and strategy, are identified. In addition, the data-collection tool used, the sampling strategy and techniques adopted, together with data quality-control measures and data-analysis techniques used are also identified, and their use justified.

Chapter Four: This chapter presents the findings and analysis of the study. The findings and analysis are based on the interviews conducted. The chapter also provides a discussion of these findings in relation to the literature.

Chapter Five: This chapter is the final chapter. It provides the conclusion and recommendations of the study. Each objective is interrogated and concluded upon. The researcher also provides areas for further research relating to the topic.

1.11 CONCLUSION

This chapter has presented the overview of the study. The problem was identified, the research objectives and questions underpinning the study provided. A rationale, contribution and limitations of the study are also provided, together with the methodology used. The next chapter, Chapter Two, presents the literature review of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

The chapter provides a brief review of the existing literature on the historical background of the rating agencies, their role, and governance in South Africa. A literature review is defined as a process of gaining insight into a topic and it provides a framework for the study (Creswell, 2014). A literature review further shares the results of other studies which are closely related to the one which is undertaken (Creswell, 2009). Such a review provides the researcher with the existing information and further identifies existing gaps which therefore need attention. Thus, a literature review further confirms the relevance of the study through identifying whether the problem that the study seeks to address has been answered before.

This literature review examines how rating agencies influence state governance, and fiscal policies, how governments respond to rating agencies, and the challenges encountered therein. The organisation of the chapter includes the influence of rating agencies presented under the history and role of rating agencies, government interventions in responding to rating agencies, policy predicaments, South Africa's fiscal policy post 1994, the theoretical framework, and the summary, before concluding the chapter.

2.2 THE INFLUENCE OF RATING AGENCIES ON STATE GOVERNANCE

2.2.1 The history and role of rating agencies

Rating agencies emerged in 1909 when Johny Moody began to assign ratings to bonds issued by railroad companies in America (Janna Mai Nguyen and Dodo zu Knyphausen-Aufseb, 2014). These developments prompted Johny Moody to officially launch a rating agency called the Moody Investors Service (Darbelly and Partony, 2011).

> "The development of railway network and companies in U.S. in the mid-19th century, their desire in raising funds from general public and the need for objective public's information triggered the

> first credit ratings. Thereafter and particularly the global crisis of 1929, significantly increased their effect" (Kotios, Galanos and Roukanas, 2012:5).

John Knowles Fitch had already established the Fitch Publishing Company in 1913, which published financial information for the use of the investment industry. The third rating agency ─ Standard and Poor ─ was established in 1961.

Credit agencies in the 1980s only rated fifteen sovereign states (countries) according to Partnoy (1999), of which all received a perfect rating. Rating agencies are broken down into two categories: (i) recognised; and (ii) non-recognised. Among them there is also a wide disparity because they differ in scope and size (sectoral and geographical) of analysis (Elkhoury, 2008). Elkhoury (2008:1) comments:

> "There are also wide differences in their methodologies and definitions of the default risk, which renders comparison between them difficult".

More than a hundred countries today are rated by rating agencies in both developed and developing countries, and also in third-world countries (Luten, 2016). However, credit rating agencies have become extremely important for developing countries because "without a nonjunk rating from one of the big agencies sovereign bonds will hardly be bought and these countries will have trouble getting the capital needed for investments" (Luten, 2016:18).

Thus, rating agencies are independent institutions which assess the creditworthiness of countries or corporate companies (Ferri and Li-Gang Lui, 2005). The role of rating agencies is to provide information about probabilities of investment in a country or the ability of that country to repay debt it owes to either local or global institutions.

To date, there are three key or dominant rating agencies whose responsibility, among others, is to assess the credit rating of states, namely, Moody, Fitch, and Standard & Poor (Giovanni Ferri and Li-Gang Liu, 2005). The table below provides the key factors for assessing credit by two of the three leading world credit rating agencies (Standard & Poor, and Moody), also presenting their rating symbols.

Table 2.1: Key Factors for Assessing Credit

STANDARD & POOR'S RATING METHODOLOGY	MOODY'S RATING METHODOLOGY
The institutional assessment • The effectiveness, stability and predictability of the sovereign's policymaking and political institutions • The transparency and accountability of institutions as well as the coverage and reliability of statistical information • The sovereign's debt-payment culture • External security risks	**The economic strength** • Growth dynamics • Scale of the economy • National income
The economic assessment • Income levels • Growth prospects • Economic diversity and volatility	**The institutional strength** • Institutional framework and effectiveness • Policy credibility and effectiveness
The external assessment • The status of a sovereign's currency in international transactions • The country's external liquidity • The country's external position, which shows residents' assets and liabilities	**The fiscal strength** • Debt burden • Debt affordability
The fiscal assessment Fiscal performance and flexibility on debt burden	**The susceptibility to event risk** • Political risk • Government liquidity risk • Banking sector risk

	External vulnerability risk
The monetary assessment • The sovereign's ability to coordinate monetary policy with fiscal and other economic policies, to support sustainable growth • The credibility of monetary policy, measured by inflation trends, among others • Market-oriented monetary mechanisms' impact on the real economy	

Source: Compiled by author using information from Luten (2016:15-16).

The rating methodology applied by rating agencies is based on the application of quantitative and qualitative assessments of various criteria. According to Setty and Dodd (2003), the assessment criteria include political and economic indicators. In the political dimension, the assessment focuses on political stability, the history of debt-related policies, the level of democratization and qualitative functioning of government and political institutions. The assessment on economic factors includes income levels, the economic structure, global trade involvement, the level and composition of debt, flexibility, and growth trends.

Thus, in the modern international capital markets, bond credit rating agencies are seen as fundamental players, because "they act as peculiar[s] intermediates between lenders and borrowers" (Kotios, Galanos and Roukanas, 2012:4). These lenders may be corporations, states, or even private individuals and/or their respective institutions. The table below presents the rating symbols used by two dominant rating agencies.

Table 2.2: Rating Symbols

Rating symbol description	Rating symbol Standard & Poor's	Rating symbol Moody's
Extremely strong capacity to meet its financial commitments	AAA	Aaa
Positive outlook	AA+	Aa1
Very strong capacity to meet its financial commitments	AA	Aa2
Negative outlook	AA-	Aa3
Positive outlook	A+	A1
Somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher-rated countries. However, its capacity to meet its financial commitments is still strong.	A	A2
Negative outlook	A-	A3
Positive outlook	BBB+	Baa1
A country rated BBB has adequate protection parameters. Adverse economic conditions or changing circumstances are more likely to lead to weakened capacity of the country to meet its financial commitment.	BBB	Baa2
Negative outlook	BBB-	Baa3
Positive outlook	BB+	Ba1
Any countries rated below BBB- are considered to have significant speculative characteristics. A country with the BB rating facing major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the country's inadequate capacity to meet its financial commitment.	BB	Ba2
Negative outlook	BB-	Ba3
Positive outlook	B+	B1
The country is currently capable of meeting its financial commitment. Adverse business, financial or economic conditions will likely impair the country's capacity or willingness to meet its financial obligation	B	B2
Negative outlook	B-	B3
Positive outlook	CCC+	Caa1
A country rated CCC is currently vulnerable to nonpayment and has to depend on favorable business, financial and economic conditions to meet its commitments. In the event of any adverse conditions the country is not likely to be able to meet the financial commitments.	CCC	Caa2
Negative outlook	CCC-	Caa3
The country is currently highly vulnerable to nonpayment. A CC rating indicates that a default has not yet occurred but it is expected to be a relative certainty that the country will default.	CC	Ca
The country is currently highly vulnerable to nonpayment and is expected to have lower ultimate recovery changes.	C	C
A country rated D is in default.	D	N/A

Source: Standard & Poor's (2016) and Moody's (2015), cited in Luten (2016:18).

According to Kotios, Galanos and Roukanas (2012), nonetheless of great importance today is the credit evaluation of states, referred to as sovereign ratings. Kotios, Galanos and Roukanas (2012) comment:

"States are the largest customer of international capital markets with over 60% of issued loans.

> State's credit ratings were established in order to protect lenders, but primarily banks that mainly lend to states, and more generally for ensuring smooth functioning of capital markets" (Kotios, Galanos and Roukanas, 2012:4).

2.2.2 Rating agencies and state development through investment

Development is key to any country's prosperity, especially one still developing. Development may be seen as that which embodies virtually all facets of a good society, everyman's or, in this case, the country's road to Utopia (Arndt, 1987). Arndt (1987) observed that people saw development as:

> "High living standards. A rising per capita income. Increase in productivity. Mastery over nature. Freedom through control of man's environment. Economic growth. But not mere growth, growth with equity. Elimination of poverty. Basic needs satisfied. Catching up with the developed countries in technology, wealth, power status. Economic independence, self-reliance. Scope for self-fulfilment for all. Liberation, which means to human ascent" (Arndt (1987 cited in Payne and Phillips, 2010:2).

Nonetheless, development is a costly activity; and for it to take place, many resources must be available, such as finance ─ in most cases in the form of domestic or foreign investment. Through public policies governments around the world devise strategies to ensure development in their respective countries, such as attracting foreign direct investment.

Unfortunately to date, the international and domestic markets are now dependent not only on government policy but also on rating agencies to determine potential areas for investment. Hence, rating agencies have become global independent institutions assigned to access the creditworthiness of a particular country or corporate company (Cesare, 2016). Kotios, Galanos and Roukanas (2012) stress:

> "Bond credit rating agencies were established for providing investors with reasoned analysis of risks associated with a wide range of investment products such as bonds and other securities, but also for evaluating creditworthiness of government and private firms bonds" (Kotios, Galanos and Roukanas, 2012:4).

Thus, rating agencies now have the responsibility of accessing the creditworthiness of governments and corporate companies with the objective of alerting the potential investors or financial markets of the probability of that country or corporate company meeting its obligations, should it be considered for loan or investment (Bruner and Abdel, 2005). The primary task of the rating agencies is, analytically, to advise investors of risk and potential in one's country (Manso, 2013). Nonetheless, investment depends on rating agencies providing information on countries with potential economic investment. Furthermore, for investors to invest in a country, they would want assurance of political and economic stability (Manso, 2013). As a result, rating agencies play a vital role in a country's economic prosperity, hence making them key actors in influencing state public policies in countries around the world, such having a direct impact on development.

2.2.3 Ratings agencies as public policy actors in governance

The public policy environment has a number of actors, such as official policymakers: the legislature, the executive, the administrative agencies, and courts. However, there are nongovernmental participants, herein referred to as actors, such as interest groups, political parties, research institutions, and individual citizens (Anderson, 2006). Rating agencies, because they are profit driven, and represent the interests of investors, may be seen as interest groups. This is based on interest groups being able to represent a number of formations, such as, but not limited to labour, education, health, or even business (Anderson, 2006). Furthermore, although rating agencies are opinion-makers (Elkhoury, 2008), they have gained such a good standing as gatekeepers that they have even started to have political power (Sinclair 1993).

As non-government participants in public policymaking, rating agencies can put pressure on government to take a certain policy direction. As with any other non-governmental participant, rating agencies usually have no legal authority to make binding policies. However, in their position, the information they afford is used to provide pressure, and to persuade policymakers, while not deciding for them. According to Anderson (2006:57), "this is the prerogative of official policy making".

Canada was visited in the 1990s by Moody's. The rating agency let them know that they had to either increase domestic interest rates or make deep cuts in state spending, or the bond market would force them to do so by withholding capital (Luten, 2016). The Canadian government, in fear of the voters, allowed the bond market to take the initiative. This resulted in Moody's lowering their rating, resulting in the country being unable to borrow money at the level they had been used to. Finally, they were forced to cut government spending and raise domestic interest rates (implementing austerity measures) (Friedman 1995).

In another case, the Netherlands in 2013 was downgraded for the first time. Such sparked discussion in its national legislature. Parliamentarians wondered how such could have occurred, and what they could do to revert to their previous rating status before they had been downgraded (Dijsselbloem 2013).

Hence, although "rating agencies are opinion makers" (Elkhoury, 2008:2), they have an influence on state governance in a number of ways, according to Luten (2016):

> "Regulators have outsourced to credit rating agencies much of the responsibility for assessing debt risk. For investors, ratings are a screening tool that influences the composition of their portfolios as well as their investment decisions hence ratings have a political content to them" (Luten, 2016:6).

Rating agencies have been advocates of austerity measures, and have counselled governments to execute austerity measures in the past (Friedman 1995). However, Luten (2016:10) is of this view:

> "The credit rating agencies are possible contributors in the austerity decision-making process" hence credit rating agencies having a role in the decision-making process governments go through to implement austerity measures" (Luten, 2016:50).

Luten (2016) further asserts that the largest rating agencies ─ Standard & Poor and Moody, are thus most likely to have an influence on countries' national policies.

Post the 2007/8 global economic meltdown, the three major rating agencies are considered as key factors in international economics and politics (Sinclair 2008). Today it is extremely difficult for issuers to tap international financial markets without holding a rating by either Moody's, Standard & Poor, or Fitch- IBCA, the three leading rating agencies, globally (Ferri and Liu, 2005:285).

Helleiner and Pagliari (2011) assert that the influence of rating agencies over the global political economy was flagged, receiving much attention for the first time when the agenda of the newly established Group of 20 (G20) set out the need for framing policies and rules that guide the operation of the services of rating agencies. Kotios, Galanos and Roukanas (2012) sum this up thus:

> "These developments have given great impetus to relevant scientific research with a large number of publications on their role and functions on capital market organization, their links with large businesses and financial policy, the interests they may serve, the impact of their assessments, the need of auditing or replacing them, their influence on governments and economic policies, etc." (Kotios, Galanos and Roukanas, 2012:5-6).

2.2.4 Rating agencies and fiscal institutions

Research indicates that, in the presence of tight and balanced budget rules, fiscal institutions tend to incur significantly lower borrowing costs relative to states that suffer anti-deficit rules (Johnson and Kriz, 2005). This is because financial market agents who are potential lenders interpret tight and balanced budget requirements as an impediment that limits uncontrollable budget deficit. Having these tight and balanced budget requirements reduces the amount of uncertainty around government future operations. This understanding is also consistent with fiscal institutions that impose debt limitations on government. As a result, fiscal institutions that impose strict debt are likely to incur lower borrowing costs. However, this should be consistent with expenditure and tax limitations as they also have an effect on borrowing costs and the general outlook of the fiscal institutions (Joyce and Mullins, 1991; Bayoumi *et al*., 1995; Lowry and Alt, 2001; and Poterba and Rueben, 2001).

Apart from the above fiscal austerity measures necessary for a positive economic rating, fiscal transparency on sovereign risk is another critical variable that is considered by rating agencies. Kopits and Craig (1998) define fiscal transparency as openness by government functions and structures in public-sector accounts, fiscal policy intentions, and projections. This process entails the state having the capacity to provide access to reliable, understandable, timely, comprehensive, and internationally comparable information on its governance activities. This includes government information that is undertaken both within and outside the government sector. Economic agents such as financial markets and the electorate, are thus able to assess governance economic and financial position, its accurate costs and benefits associated with its activities, as well as the future and present values of all social and economic implications associated with governance (Bellas, 2010).

Along with this definition, fiscal transparency positively affects credit ratings, and this relationship is significant. There exist two channels in which this relationship may be assessed, according to Murray (2003), the first being the indirect channel which examines transparency on the basis of fiscal outcomes. The indirect channel recognises a fiscal policy system that provides incentives for policymakers to adopt better policies. Doing so eliminates rent seekers and special-interests groups to influence fiscal public policy proposals. Public recognition for public policy proposals are thus provided that are credible, enhancing public finances; thus, improving the economic outlook of fiscal institutions, and reducing the risk of sovereign ratings. The second channel recognises the effect of fiscal transparency in reducing uncertainty on governance. This allows for reduction of uncertainty from economic agents around fiscal measures which are expected to yield outcomes (Gelos and Wei, 2005; Rachel and Shin, 2008; and Cebotari, 2009).

Research suggests that the indirect transparency of fiscal outcomes is observed in developed countries. For developed countries, an increase in fiscal transparency on standard deviation is expected to increase Gross Domestic Product (GDP) by 2.4 per cent while reducing the debt to the GDP ratio by 17 per cent of total GDP (International Monetary Fund, 2012). This empirical finding is consistent with empirical research conducted by Alestina *et al*. (1999) and Alt and Lessen (2006), who found that fiscal transparency is positively correlated with lower public debt. These authors further applied the instrumental variable technique given the possibility of endogeneity amongst fiscal institutions (Staiger and Stock, 1997).

The magnitude of the indirect fiscal transparency is observed to be small for emerging economies as opposed to developed economies (Taryn, 2007). In most emerging economies the relationship between indirect fiscal outcomes and transparency is weak. This is because emerging economies comprise weak fiscal fundamentals and transparency. Empirical evidence by Hameed (2005) and Gracia *et al*. (2011) ascertain the significant effect of direct transparency on ratings. Their argument is based upon the understanding that economies that advocate the disclosure of qualitative information about fiscal risk have positive credit ratings as opposed to economies that partially disclose information on these issues. This direct effect is also explained by risk and uncertainty regarding future and current fiscal economic policies especially in developing countries. Technical and credible solvent policies, reports, market analysis, general information and data relevant to financial markets and investors are typically less abundant for developing economies (Alberto and Perotti, 1996).

2.3 GOVERNMENT INTERVENTIONS IN RESPONDING TO RATING AGENCIES

2.3.1 Austerity fiscal policy

A country reacts to the ratings it receives (Luten, 2016) through a number of ways, such as austerity measures, mostly dictated by rating agencies. Austerity, according to Luten (2016:5), is "one of the most hated and feared words in politics". Austerity is a political-economic term referring to public policies directed at reducing the government budget deficits through a number of ways such as tax increases, spending cuts, or a combination of both (Traynor and Allen, 2010; and Wesbury and Stein, 2010).

On the one hand, policy austerity measures are assumed to make the payment of debt easier. Austerity measures also demonstrate a government's fiscal discipline to creditors and credit rating agencies. On the other hand, austerity has been seen as having a negative effect on development because of cuts in government spending on public good and services. As a result, austerity measures are seen as favouring lenders rather than borrowers which creates a problem.

The problem is further compounded by rating agencies being seen as furtive institutions. Such secrecy is the main concern for many, including those that they rate and those directly affected by their rating ─ the citizens. This is a disturbing concern, especially for developing countries that need funding for further development. Kotios, Galanos and Roukanas (2012) aver:

> "Rating agencies constantly refuse in publicizing details regarding the applied methodologies and their evaluation criteria. Only recently there have been certain changes in legislation, in order to ensure greater transparency in evaluation methods" (Kotios, Galanos and Roukanas, 2012:7).

2.3.2 Legislative countermeasures

According to Luten (2016), a key point in the development of credit rating agencies is their position within regulation. White (2013) elucidates that, for example, in 1936, the United States of America (USA)'s federal bank told banks that they regulated to purchase only bonds rated with an investment grade; and such ratings had to be provided by accepted rating manuals. According to Luten (2016), this was a first signal that government had confidence in the credit rating agencies; meaning that it gave them the ability and power in decision-making on what constitutes an investment grade bond. In addition, Luten (2016) maintains:

> “Besides this, the agencies were not very involved in regulatory frameworks up until the 1970s. Since 1973 however, credit rating have been incorporated in hundreds of regulation rules. The credit crisis of the early 1970s started the trend of including credit ratings into regulation” (Luten, 2016:12).

Unfortunately, however, with the all the legislation in place, the failure of large credit rating agencies to predict the 1997/8 Asian crisis and even further “the recent bankruptcies of Enron, WorldCom and Parmalat has raised questions concerning the rating process and the accountability of credit rating agencies and has prompted legislators to scrutinize rating agencies” (Elkhoury, 2008:2). Because of the critical role played by such institutions in the modern financial architecture, policymakers around the world have lately concentrated on certain issues resulting from the following concerns with regard to credit rating agencies:

• Barriers to entry and lack of competition

• Conflict of interests

• Transparency

• Accountability (Luten, 2016:6).

Ferri and Liu (2005:285) are of the view that, “if rating agencies could use their market power to extract rent from issuers, they could also use it to indulge in under-investment”. This can place corporations, states, or individuals at a disadvantage because the accuracy of the rating might be undermining the resources allocated. Luten (2016:6) also believes that rating agencies are not like other gatekeepers, because their main objective is profit. It is this profit objective that, in most cases, law-makers undoubtedly see as forming the basis of bias, unfairness, and conflict of interest in the process of credit rating. Partnoy (2006) articulates:

> “This can cause a conflict of interest when an issuer of bonds pays for the ratings. When an agency gives a bad rating, the issuer could go to a different agency. Another important factor in which credit rating agencies differ from normal gatekeepers is that they do not recognize themselves as gatekeepers, credit rating agencies describe themselves as publishing companies. This is to support the claim of the agencies that their ratings are merely opinions. This protects the agencies in case they make a wrong rating, they can hide behind the first amendment of free of speech. They do not have liability or accountability when giving a wrong rating” (Partnoy, 2006 cited in Luten, 2016:6).

According to Elkhoury (2008: 11), such issues have been put forward by a number of institutions, such as “the International Organization of Securities Commission (IOSCO), the United States Securities and Exchange Commission (SEC), the European Commission Committee of European Securities Regulations (CESR), and by the United States Congress and Senate”.

On the one hand, in the European Union (EU) the Enron and Parmalat collapse provoked discussions on credit rating agencies’ reliability; and in 2005, possible measures were proposed by the European Commission’s Technical Advisory body on Credit Rating Agencies in response to a call by Commission for Advice. On other hand, in the US, the bankruptcies of Enron, WorldCom, and Parmalat incited legislative assessment of the agencies; and much blame was particularly focused on the “high degree of concentration of the industry, which in the United States has reflected a registration and certification process in the form of NRSRO designation biased against new entrants. The effect of such concentration has been the absence of the discipline enforced by competition and a low level of innovation” (Elkhoury, 2008: 16).

Elkhoury (2008) identifies that, in the US, government legislative measures towards rating agencies include the 2006 Credit Rating Agency Reform Act. At international level, there was the publication by IOSCO of its Code of Conduct. Objectives are to develop governance rules for credit rating agencies. According to Elkhoury (2008:11), this is to ensure “the quality and integrity of the rating process, the independence of the process and the avoidance of conflict of interest and greater transparency”.

Thus, governments around the world have realised the importance of rating agencies and the role they play in both their development and economic prosperity. However, in realising this, issues have arisen, such as the concern over conflict of interest, transparency, accountability, and lack of competition in these institutions and their processes. Not all governments respond only by adhering to the advice from credit rating agencies. Some, especially in the developed world, go beyond such, by also scrutinising these institutions and their process. This has been through legislative countermeasures which seek to address issues emanating from government itself, but also, institutions that give them advice, in this case, crediting rating agencies.

2.4 GOVERNMENT CHALLENGES IN IMPLEMENTING RATING AGENCY REQUIREMENTS

2.4.1 Balancing current and future needs

The implementation of fiscal consolidation or austerity measures is not new (Luten, 2016); however, the issues arise based on the time such measures are put in place, this resulting in many challenges for governments. For example, when such measures were introduced in the middle of the 2008 financial crisis, considered the biggest such exigency (Luten, 2016), governments found it very difficult to balance current and future needs.

According to Kickert, Randma-Liiv & Savi (2013), cited in Luten (2016:5), “people that are already hurt by the crisis, are hurt even more by governments cutting spending on, for example, labour protection and social security”. In Europe, during the crisis, countries trying to survive the 2007/8 financial crisis by investing in the economy and savings banks, were downgraded swiftly (White 2013).

Because austerity policies are seen as having a negative effect on the ability and willingness of a government to address its long-term goals, countries which strive to maintain their rating grades through tight macroeconomic policies may be counterproductive for long-term investment and growth (Elkhoury, 2008: 16). This is because, in most macroeconomic models, austerity policies generally increase unemployment as government spending falls. Cutbacks in government spending reduce employment in the public domain. Additionally, tax increases can reduce consumption by cutting household purchasing power.

However, until lately, many governments adopted the Keynes theory. This is based on raising government spending during times of economic difficulty such as recessions, reducing it during prosperity times (Block-Lieb 2015). However, Block-Lieb (2015) observed that, during the 2007/8 financial meltdown, many EU countries, particularly Germany, moved to adopting austerity measures which are seen as a fiscal conservative approach to overcome recessions. Nonetheless. The methodology through which rating agencies assess a country’s creditworthiness favours austerity measures (Standard & Poor’s 2015).

2.4.2 Accepting applied rating methodologies

Rating agencies, in making their ratings, follow a methodology process that analyses both public and non-public accounting and financial data. It also assesses information about political and economic factors that could affect the capability and keenness of firms or a government to meet their obligations if at all, in a timely manner (Cantor and Packer, 1996).

One of the key issues that arises when a country or corporation is rated by a rating agency is accepting the applied rating methodology. This is because the process is seen as furtive and ambivalent. Elkhourr (2008) is of the view that the rating agencies and their process:

> "Lacks transparency and do not provide clear information about their methodologies" (Elkhoury, 2008: 16).

Hence the lack of transparency and information in the process is seen as also, ultimately, having a negative effect on the borrowing country's ability to gain access to credit, and the cost of their borrowing.

Kotios, Galanos and Roukanas (2012) express:

> "Some studies conclude that the most heavy weighted variables for these agencies to rate countries' creditability are the per capita GDP, growth rate, public debt and deficit" (Kotios, Galanos and Roukanas, 2012:7).

This is problematic to Detragiache and Spilimbergo (2001), because credit rating agencies place less focus on other factors which are of great importance, such as "liquidity, debt composition, currency imbalances, asset prices, etc." which are also vital for assessing and predicting debt crises.

Kotios, Galanos and Roukanas (2012) add that key indicators such as competitiveness and real wages are measures not used by rating agencies. Kotios, Galanos and Roukanas (2012) advise that indicators are also published by many organisations, for example, the Institute for Management Development (IMD, Lausanne) and the World Economic Forum (WEF, Geneva) for competitiveness of countries. There are also indicators of "corruption, bureaucracy and regulations, investment climate, political risks and security risks. Agencies and organizations like the World Bank, IMF, EU and the OECD publish indicators often for a number of specific issues" (Kotios, Galanos and Roukanas, 2012:3).

According to Kotios, Galanos and Roukanas (2012:4), when the financial crisis of 2007/8 hit, “within just a few months 14 trillion dollars in bonds, with high evaluation rate, were considered junk”. This chaos created in the financial market, according to Scalet and Kelly (2012), focused much attention on global mistrust of the global markets’ assessment system, used especially by credit rating agencies. Thus, evidence points to the rating stability failure during the 2007/8 global financial meltdown. More transparency is imperative, especially with the “quantitative parameters used in the rating process” (Kiff, Nowak and Schumacher, 2012:1-2).

Kotios, Galanos and Roukanas (2012:5) assert:

> “Initially they suffered aggressive criticism for their extremely favorable (inflationary) of many heavily indebted credit institutions such as Lehman Brothers”.

Luten (2016) observes that the criticisms directed at credit rating agencies are not new; and the downgrading actions of credit rating agencies have been “accused before of not being timely but instead procyclical”.

To further add to the criticism of rating agencies, Reisen (2003) argued that the Mexican financial crisis of 1994-95 proved that rating agencies were reacting to events, rather than foreseeing them, like almost everybody else. At the same time, on the other side of the globe, credit rating agencies in the late 1990s when the Asian financial crisis hit, were also highly criticised for their poor performance, hence the crisis. According to Kiff, Nowak and Schumacher (2012:3), “they were blamed of [sic] downgrading East Asian countries too late and more than the worsening in these countries’ economic fundamentals justified, exacerbating the cost of borrowing”. After the 2007/8 global financial crises, Kotios, Galanos and Roukanas (2012) credit rating agencies were linked to the poor management of US government debt, and the EU’s debt crisis. However, what provoked strong objections largely from the political side, was the deterioration of the US rating, for the first time in its history, by S&P.

Thus, the various evaluation systems (indicators) and methodologies of countries have advantages and disadvantages (Luten, 2016). This makes it challenging for some countries to accept the methodologies used, because of the political and economic implications this brings. Also, what has undermined their methodology has been the lack of trust from the side of the rated.

In summary, when examining the influence of rating agencies on state governance, one needs to start with looking firstly at the role of rating agencies, their influence on development, as well as at public policy actors in both governance and financial markets. In the history of rating agencies, there are three policy directions governments have taken in response to these institutions. Governments either adhere to adopting austerity measures, executing legislative measures to regulate their activities, or ignore them. The latter response has proved the most disastrous. There are two ways in which governments around the world have commonly responded to rating agencies. These include through either adopting austerity measures or legislative countermeasures. It is generally acknowledged that governments and corporations find it hard to accept and implement the recommendation of rating agencies. This is partially based on credit rating agencies being "accused of behaving oligopolistic" [ally] (Kiff, Nowak and Schumacher, 2012:2). The methodology they use is biased, and compromises the balance of future needs for today's circumstances, which becomes a public policy predicament for policymakers.

2.5 POLICY PREDICAMENT

2.5.1 What is a public policy?

What designates how one actor or a set of actors behaves, such as a governmental agency, an official, or a legislature in an area of activity. For example, the treasury is a policy (Anderson, 2006). Governments around the world govern through their various policies, referred to as public policies. A public policy is a process of selecting strategies and making choices (Raipa, 2002). Public policy is the means by which a government maintains order or addresses the needs of its citizens through actions defined by its constitution. Hence, a public policy may be seen as government intention, this being what government has either decided to do or not to do (Anderson, 2006: 6).

According to David Easton, a political scientist who coined the term 'authorities', in the formulation of public policies citing in Anderson (2006):

> "in a political system, namely elders, paramount chiefs, executives, legislatures, judges, administrators, councillors, monarchs, and the alike, … engage in the daily affairs of a political system, …recognized by most remembers of the system as having responsibility for these matters, taking action that is accepted as binding most of the time by most of the members as long as they act within the limits of their roles" (Anderson, 2006:7).

Public policies can range from dealing with, for instance, socio-economic issues such as health, to education, safety and security, for example, foreign, monetary, and fiscal policies that are designed by government to address the various issues facing a state. Thus, public policies are purposive courses of action followed by various government actors in dealing with a matter of concern. However, factors and non-governmental actors such as businesses, trade unions, or in this case RAs, may influence public policies (Anderson, 2006).

2.5.2 The meaning of fiscal policy

The fiscal policy is also of great significance to the rating agencies. The fiscal policy refers to government taxation and spending (Moeti, 2014). While the primary basis of fiscal policy is the provision of public goods and services, fiscal policy also refers to government taxation and expenditure processes directed at influencing economic conditions which include inflation and unemployment. Moeti (2014: 15) argues that government spending stimulates private investment, which creates employment and increases money circulation. In turn that brings upward pressure on inflation.

2.6 SOUTH AFRICA'S FISCAL POLICY POST 1994

South Africa (SA) is seen around the world as a rainbow nation, having had five constitutions from its inception as a state in 1910 to its democratization in 1994 without having experienced a civil war (Craythorne, 2006). Displaying one of the most culturally and ethnically diverse populaces makes it a true rainbow nation as envisioned by its democratic founding fathers such as Nelson Mandela and others. However, it is a country that is hampered by persistent poverty levels of historically disadvantaged South Africans (HDSA) (Van der Berg, 2011; Leibbrandt *et al*., 2012; Gradin, 2013 and; Bhorat and Van der Westhuizen, 2013). For example, education attainment and health care outcomes by Blacks is amongst the lowest compared with other race groups (Van der Berg 2007; Harris *et al*., 2011; Spaull, 2013; Barbarin and Richter, 2013). Socio-economic issues such as high unemployment levels are crippling the Black race group. Most of these challenges were induced by the Apartheid regime per its racist and discriminatory policies (Banerjee *et al*., 2008; Burns, 2012).

Towards, and during the early 1990s, the South African government faced serious fiscal challenges with impediments to its governance (Kofi, 2011). In the emergence of a democratic state, various policies were required, so as to surpass structural fiscal economic challenges. The

1994 democratically elected government developed a policy framework that was aimed at redressing the fiscal challenges. This saw the introduction of policies such as the Reconstruction and Development Plan (RDP) (Calitz and Siebrits, 2001). Amongst other policies was the introduction of the Growth, Employment and Redistribution plan (GEAR). This plan was introduced in 1996 as one of the critical instruments that served the purpose of counteracting structural fiscal challenges and realising policy objectives contained in the RDP (Heintz, 2003).

South Africa’s development policy thrives on the budget as one of the underpinning instruments initiated by government when advancing NDP and GEAR policy objectives (Zarenda, 2013). Implementing these policies through the use of the budget as an instrument required government to fulfil three of the most conflicting objectives (Department of Finance, 2000:42). According to Kaylocu (2005), the first was the tax incentives that government uses in striving to reduce tax burdens, which would in turn decrease the cost of investment, increasing job creation and the purchasing power of consumers. The second objective entailed the realization of developmental, social, and infrastructural responsibilities of government. Last, lowered interest rates and fiscal sustainability entails conditions under which the present value of future primary surpluses is equal to the current level of debt. Consistently, through the emergence of these policies and the subsequent objectives underpinning these policies, the government of SA post 1994 has taken aim at supporting sustainable growth and investment in three ways. First, it ensures a moderate level of government expenditure relative to the country’s Gross Domestic Product (GDP). This was to be achieved through the reduction of public-sector personnel expenditure and the enhancement of capital formation by the government and state-owned enterprises. Second, the government took aim at improving its savings capabilities through reducing its budget deficit and debt service costs, and also by stabilising the level of debt it incurs. Last, it reduced tax burdens across the economy, increasing the country’s tax base (Department of Finance, 2000:42 - 43).

The policy objective and implementation strategies put in place by the National Treasury were clear indications that the SA fiscal institution was a pervasive and enduring part of the financial structure of government. Such then had a direct influence on the governance of the state, its resources and developmental issues. Thus, financial markets, and the political environment informed by the country's socio-economic circumstances, remain key factors influencing the country's fiscal policies post 1994.

2.6.1 Financial markets and fiscal institutions

There is a relationship between financial markets and fiscal institutions (Bi, 2012). This relationship is best explained by understanding that government tends to be bond indebted while trying to realise public-service delivery commitments. Factors include debt limitations, tax and expenditure limitations on default risk, and credit ratings which have adverse effects on borrowing costs (Alesina, 1990). Several studies have examined this relationship between credit rating, fiscal institutions, and borrowing costs (Arellano, 2008; and; Bi and Leeper, 2010). The government pays to be rated; and when government issues a bond, rating agencies are then responsible for examining and analysing government's finances, administration, debt, and the economic outlook (Davig, 2004). This is also limited to factors such as the government's tax-rate levels, debt burden, financial conditions, and spending levels (Jaramillo and Tejada, 2011). Therefore, this implies that government bond returns are dependent upon the rating as well as on government's economic indicators tracking its performance.

Liu and Thakor (1984) ascertain that bond returns are determined by ratings independently of other economic variables. This is mainly because ratings gather information that is unavailable to the public through processes and searches that are deemed costly (Partnoy, F., 2006). Owing to this, Stiglitz (1975) regards rating agencies as screening mechanisms that enable the issuer to distinguish its superiority from others of inferior quality. In doing so, the issuer avoids the average quality pricing (Akerlof, 1970). All the mentioned factors are taken into cognisance by credit rating agencies, and fiscal institutions preside over these factors. This relationship generally implies that fiscal institutions are correlated with credit-rating agencies, meaning that credit-rating agencies impact directly on the outlook of fiscal policy.

2.6.2 South Africa's socio-economic transformation agenda post 1994

The provision of public goods and services is central to government activities (Moeti, 2014). These may be seen as public policy interventions to address socio-economic issues facing a state. The democratic government of South Africa in 1994 led by the African National Congress (ANC) and its leader, the late former president, Nelson Holihlahla Mandela, inherited a country faced with immense socio-economic issues. Many public policies had not only to be reworked but created from scratch.

South Africa, with a population of 55.7 million (StatsSA, 2016), has one of the highest unemployment rates in the world, especially amongst its youth, this standing at 26.7 per cent unemployment and 38.2 per cent youth unemployment (StatsSA, 2017), and a poverty head count of 56.8 per cent with a 27.9 poverty gap (StatsSa, 2018). To overcome some of these challenges, it is generally accepted that South Africa still needs investors to grow its economy, fighting challenges such as the high unemployment rate, for example. Therefore, the negative rating might affect the attractiveness to such investors, which in turn constrains economic growth.

An austerity fiscal policy approach which is seen as favourable by rating agencies might not only undermine government's capacity to deliver essential services to its citizenry, according to Kraussl (2005). A decrease in government spending would negatively affect private investment which is needed to create employment. Government spending stimulates private investment, because both private income and private business benefit from government contracts (programmes and projects) (Moeti, 2014).

Thus, although rating agencies estimate the probability of a government, for example, such as South Africa, meeting its loan obligations, they are not part of the purchase or sale procedure of securities (Kotios, Galanos and Roukanas, 2012:4). However, rating agencies may have an impact on the country's socio-economic transformation agenda. This is based on their ratings which not only "have broad implications in international financial markets" but also domestic ones (Kotios, Galanos and Roukanas, 2012:4).

Since December 2015, countries such as South Africa have been under review by three of the biggest international rating agencies that assess the financial worth and creditworthiness of countries and corporations. There is a dominant view in South Africa's public discourse that the Minister of Finance determines fiscal policies that the country follows. As such, there are also contending views whether South Africa needs to adhere to an austerity fiscal approach or to adopt an expansionary budget approach (Terreblance, 2012: 82).

On one hand, the austerity fiscal policy approach emphasises economic growth and reducing government debt. On the other hand, the expansionary approach is viewed as an essential anchor for the much-needed socio-economic transformation programme, given the country's history of Apartheid rule. This contentious socio-economic transformation debate has sharpened differences amongst the various sectors of society, and further resulted in differing perceptions of the rating agencies.

2.6.3 Rating agencies and South Africa's political environment and governance

The Helen Suzman Foundation (2016) stresses that a country with a better credit rating yields cheaper borrowing advantages in the international capital markets. Therefore, South Africa needs to consider how it could enhance its governance and fiscal policies to avoid further downgrades and restore its creditworthiness, while pursuing its domestic socio-economic obligations. Hence the primary requirement for creditworthiness is sound governance and fiscal discipline.

According to Huffington Post (2017), South Africa to date is paying 13 cents of every 1 Rand it collects in revenue in interest payments to foreign creditors (13%). International financial institutions such as banks and rating agencies are of the view that developed countries should not have debt exceeding 70 per cent of their gross domestic product (GDP). Developing nations such as South Africa ought not to have debt of more than 50 per cent of GDP (CNBC Africa, 2017). However, South Africa's debt-to-GDP ratio is currently at 50,7 per cent and increasing by 11 per cent annually (Huffington Post, 2017).

The current rating process in South Africa is said to be as a result of governance and fiscal policies. As with all other countries, in South Africa the government is responsible for the laws and policies that govern the country. National government in South Africa is responsible for fiscal policy decisions (Moeti, 2014). The president, who is the executive head, together with the cabinet, are deemed custodians of the laws and respective policies of the country (Section 84 of the Constitution of the Republic of South Africa, 1996).

Trade, as well as the business environment, is influenced by legislation and political directions issued by the national government. According to Erasmus, Strydom and Rudansky-Kloppers (2016: 137) the government intervenes in the macro-environment and determines legislation, taxation, annual budget, export and import tariffs. There are contentious debates in South Africa about which budgetary framework the country needs to pursue. The debates around and removal of Ministers of Finance have been interpreted as a cause of political instability which has attracted the attention of RAs. Erasmus, Strydom and Rudansky-Kloppers (2016: 137) argue that the current political dispensation in South Africa has resulted in segmented power bases, with far-reaching consequences for the business environment.

Governance is essentially about management and implementation of legislation or laws that govern the country. Fox, Schwella and Wissink (2006: 108) highlight that public policy is adopted by government. Once adopted, the administrative arm of the government has a responsibility to implement the adopted policy. Therefore, the government contributes to the governance system by proclaiming laws and policies, and further monitoring the implementation. On the other hand, the administration implements such laws and policies. However, instability at a political level affects the governance, as it creates uncertainty about the policy direction that must be implemented. This in turn affects the governance system of the country.

When governance in a country is seen as weak or unstable, the uncertainty it creates has a negative effective on its public policies, both current and proposed. Public policies affect a number of people, from ordinary citizens, to civil societies, to business people both domestic and international, as well as other states. As a result, institutions such as rating agencies, who are seen as gatekeepers to investors, play a vital role in influencing public policies. Although public policies emerge as responses to policy demands made by various actors, some demands may call for action. While others specify a desired action (Anderson, 2006). Elkhoury (2008) is of this view:

> "Although precise information is not available on the way in which macroeconomic policies are taken into consideration by credit rating agencies in establishing sovereign ratings, it is reasonable to assume that orthodox policies focusing on the reduction of inflation and government budget deficits are favoured. There is a risk, therefore, that in order to avoid rating downgrades, borrowing countries adopt policies that address the short-term concerns of portfolio investors, even when they are in conflict with long-term development needs. However, this is an issue which has not been the subject of systematic research" (Elkhoury, 2008: 11).

It is from this premise that the influence of rating agencies on state governance is gauged, because such an influence has a direct effect on a country's socio-economic agenda.

In summary, the attention that rating agencies receive is as a result of the key role they play, not only in the financial markets, but also in the development of states. This is asserted by Sinclair (1993), who acknowledges that the dominant credit rating agencies (S&P, Moody's and Fitch) have a major influence on the international political economy. This is the case in South Africa as assumed by this study. The literature shows that rating agencies have an audacious form of influence based on the inimitable gatekeeping role they have on investment funds that affect states. This literature review concurs with such a conclusion. Furthermore, when examining the methodology of the credit rating agencies, it can be determined that the agencies favour countries that implement an approach underpinned by austerity measures. This is asserted by Luten (2016), who expresses that more austerity leads to better or more favourable ratings, which is the message rating agencies portray.

Besides establishing whether credit-rating agencies have a role in the decision-making process, Luten (2016) is of the view that a framework already exists. This is based on the works of Savi (2013) and Kickert, Randma-Liiv (2015). Although earlier research on how a change in policies can influence credit, Luten (2016) and Soudis (2015) take the opposite view. Soundis (2015) concludes that there is no evidence that rating actions directly affect domestic policy; while Luten (2016) expresses that credit-rating agencies could have a role in the austerity decisionmaking process of governments. This study concurs with such, using the case of South Africa, scrutinising its governance and fiscal policies.

South Africa, post 1994, has gone through rapid policy changes that aim to change its socioeconomic standing for its majority left underdeveloped by the Apartheid government. In doing so, the budget supported by fiscal policies directed at allocation of huge amounts of spending has played a key role in addressing development backlogs such as education, healthcare, and road infrastructure, to mention a few. As a result, austerity measures recommended by rating agencies may be seen as undermining South Africa's developmental agenda. Hence a country such as South Africa has fiscal policies influenced not only by government and the political environment, but also by the development circumstances of itself and people.

2.7 THEORETICAL FRAMEWORK

Du Plooy-Cilliers, Davis and Bezuidenhout (2014: 14) define the theoretical framework as an instrument that guides the research in that it refers to internal and external parts of appropriateness of assumptions, concepts, and procedures regulating the study. Hence, this converts a theoretical framework to a procedural guide that identifies the general observations, concepts, hypotheses, and relationships of the study variables.

According to Neuman (2011), there are various types of theories. Some describe the phenomenon, explaining the behaviour of the phenomenon, and others examine the relationships among the various phenomena involved in the study. Neuman (2011) further alludes to the theoretical framework identifying three processes, namely, the causal, structural, and interpretive explanations of the research. The main function of the theoretical framework is to help delineate the scope of the research, to develop the guiding principles of research, to identify key concepts which need attention, to identify the main variables involved in the research and their relationship, to provide a guide on how to collect, analyse, and interpret the data of the research; and, most critically, to identify the main questions that the researcher seeks to answer in studying a particular phenomenon (Du Plooy-Colliers, 2014).

This study adopted the stakeholder engagement theory as the guiding outline. The stakeholder engagement theory is the measurement applicable to examining a complex and unpredictable public phenomenon wherein relationships between various sectors are intensely involved (Luoma-aho, 2015). The nature of the study is complex, given the effect of the rating processes and its impact on the country. The phenomenon which is the rating influence of governance and fiscal policies is also complex and furthermore, unpredictable, which necessitates the application of the stakeholder engagement theory. More critically, the relationships of the stakeholders involved, especially the South African government, rating agencies and investors, are of critical importance, and could have unintended consequences if not properly managed. Freedman, Harrison, Wicks, Parmar and de Colle (2010) indicate that most people, in most cases, take full responsibility for decisions taken through engagement. In line with this theoretical framework, key stakeholders involved will include:

- The three rating agencies that are currently conducting a review of South Africa’s credit status

- The South African government, which is responsible for governance and policies of the country which are the subjects of the review by the rating agencies
- The investors who are influenced by the rating outcomes conducted by the rating agencies on South Africa’s status
- The regulatory bodies which oversee rating agencies and investment such as the Financial Services Board and the Johannesburg Stock Exchange
- The South African citizenry, who are ultimately affected whether negatively or positively by the outcome of the rating processes.

The relationship of these stakeholders is interdependent and requires an objective decisionmaking process. The research design employs a phenomenological philosophy, and will follow qualitative research methods.

2.8 CONCLUSION

The purpose of this chapter was to review literature, discovering what others have said on the topic, and identifying the gaps. This process was guided by the research objectives of the study. In doing so, the role of rating agencies was identified, as was their influence on state governance, and the challenges governments face when dealing with rating agencies. The next chapter presents the methodology that was adopted by this study to assist it in meeting its objectives.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

The aim of this chapter is to present the philosophical assumptions or worldviews underpinning the study. The chapter also presents the methodology that was applied, necessary to assisting the researcher in meeting the study's objectives. As a result, the research design, research strategy, the data-collection tool, sampling strategy, and techniques, as well as the data analysis technique adopted is presented, together with the reasoning behind it. Such was necessary in exploring the influence of rating agencies (RA) on South Africa's governance and fiscal policies. Before such, the study explores the concept of research.

3.2 UNDERSTANDING RESEARCH

Research, according to Leedy and Ormrod (2014:2), is "a systematic process of collecting, analysing, and interpreting information-data- in order to increase our understanding of a phenomenon about which we are interested or concerned". Thus, research may be seen as human everyday activity for understanding one's being and one's environment. In this regard, Davis (2014) identifies two types of research: basic/pure research, and applied research. Davis (2014:73-75) differentiates between the two types of research in that pure/basic research is:

> "research that is conducted to generate new knowledge" while applied research "is to investigate practical issues in order to find solution(sic) that can be implemented in practice."

This study may be considered pure research because it seeks to gain insight into the influence of RAs on South Africa's governance and fiscal policies by means of an exploration. The issue of the influence of RAs in South Africa is a new phenomenon post 1994 ─ the democratic dispensation ─ hence the past half-a-decade has brought much concern and debate. As a result, this study seeks to explore the related issues by providing new knowledge and understanding on the phenomenon.

3.3 PHILOSOPHICAL ASSUMPTIONS UNDERPINNING THE STUDY

There are two dominant philosophies of knowledge development based on the nature of the trajectory the study seeks to pursue; two opposing but equally important major research philosophies that have been identified from the Western tradition of science. These are the positivist 'sometimes called scientific', and the interpretivist 'also known as anti-positivist or phenomenology' (Galliers, 1991). Research philosophies are sometimes referred to as research paradigms, worldviews or traditions (Du Plooy-Cilliers, 2014). According to Bryman (2012:630), cited in Du Plooy (2014:19), a paradigm is:

> "a cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done, and how results should be interpreted."

This study adopted an interpretivist worldview. Interpretivist studies are also referred to as phenomenological studies, the researcher being interested in subjective experiences (Smith, 2003 in Fox, Martin and Green, 2007:15). To Cohen and Manion (1987), cited in Remenyi, Williams, Money and Swartz (1998:34):

> "Phenomenology is a theoretical point of view that advocate the study of direct experience taken at face value; and one which sees behaviour as determined by the phenomena of experience rather than by external, objective and physically described reality."

Hence, phenomenology may be seen as that which is inclined towards ideas that influence the human experience as a critical source of data, as alluded to by positivists. It is for this reason that this study adopts the interpretivist worldview. This entails studying views, perceptions, and opinions of people such as government policymakers who are involved in the governance and polices directed at addressing the role of RAs in South Africa. The study is not taking an approach pursuing a quantitative design such as econometrics. It touches on economics, as it would be the case with conservative positivists, nonetheless, such does not render the study of less value. Hence the study seeks to:

> "...investigate individuals' perceptions and meaning they give to a phenomenon" (Fox, Martin and Green, 2007:16).

According to Creswell (2014), before a researcher plans a study, he or she must consider the worldview assumption that would underpin the study, such being related to or influencing the research design and procedures of the research. As a result, the next section presents the methodology that is influenced by or related to this interpretivist/phenomenological study.

3.4 RESEARCH DESIGN

The research design defines how the data will be collected, analysed and interpreted (Creswell, 2014). There are three research methods, namely, qualitative, quantitative, and mixed methods research (Creswell, 2009). The mixed methods borrows elements of both quantitative and qualitative research (Babbie, 2008), while quantitative and qualitative methods are distinct from each other, mainly owing to the distinct philosophical assumptions underpinning them. According to Du Plooy-Cilliers, Davis and Bezuidenhout (2014: 14), the difference between these two methods is that "quantitative is applies (sic) to the use of statistical data while qualitative research is guided by interpretive data".

Mouton and Marias (1990: 157 - 163) are of the view that researchers with technical experience in numerical data handing and analysis and those who read journals that are statistically oriented are more likely to adopt a quantitative research design. Researchers who have interpretive experience and study journals that are narrative in nature are more likely to adopt a qualitative research design (Mouton and Marias, 1990). Another noticeable distinction between these two designs is that, on the one hand, quantitative research uses closed-ended questions which are quantitative and/or hypothesis guided. On other hand, qualitative research uses open-ended questions which are qualitative interview questions (Creswell, 2014:4). Fox and Bayat (2007) noted that where rules and procedures are clearly defined and there is less ambiguity, the quantitative method is applied; while, where one is studying a specific phenomenon in-depth, a qualitative method is needed (Fox and Bayat, 2007). This makes qualitative design mostly exploratory in nature, which allows for studying ambiguous events or problems (Fox and Bayat, 2007). Nonetheless, where the study is about a problem that develops from the literature, and variables are clearly identified, a quantitative design is appropriate (Fox and Bayat, 2007: 66).

A scientific enquiry on the influence of RAs on the South African government and fiscal policies requires interacting with policymakers and analysing policies, and the political environment. This task calls for an in-depth understanding of the issues which cannot be achieved numerically, but rather, through intensive interaction with individuals concerned. Such interaction requires interpretive skills which are found under qualitative research. According to Danies, Gow and Larcker (2008: 6), the basic government rating by RAs examines governance dimensions such as anti-takeovers, political stability, and the government structure. Furthermore, the use of qualitative research is informed by the fact that qualitative research seeks to describe and understand human behaviour. It also focuses on understanding social action as opposed to attempting to generalise on population (Welman and Kruger, 2001). Qualitative research requires a maximum level of creative thinking which is rarely required in quantitative research. For qualitative researchers, it is important to have perfect writing skills. The success of the research is highly dependent on how the final product of the research structure informs the actual findings. This requires good writing skills which enable the researcher to package information in a logical and comprehensible manner (Fox and Bayat, 2007:67).

3.5 RESEARCH STRATEGY

Research strategies are types of approaches which are part of the research design (Cresswell, 2009). A research strategy, according to Bryman (2008), is the general plan that the researcher uses to conduct research. This describes what the researcher will do to probe and answer the research questions. In line with this definition, Creswell (2014) notes that a research strategy serves to provide an overall direction on how the process of research will proceed. Furthermore, Saunders *et al.* (2009) indicated that the proper research strategy should be selected guided by the research questions and objectives, the level of existing knowledge on the problem or phenomenon that is being researched, the amount of time as well as resources available for conducting the research, and last, the philosophical orientation of the researcher.

There are various research strategies which are found under each of the three research designs. Creswell (2009) identified survey or non-experimental research and experimental research as two strategies within the quantitative research design. He identifies five strategies as part of qualitative research design: ethnography, grounded theory, case study, phenomenology, and narrative research strategy. Mixed methods research has sequential, concurrent, and transformative research strategies (Creswell, 2009).

The use of surveys in non-experimental strategy as part of quantitative design entails studying trends, behaviour, and views of the population through the use of statistical descriptions (Creswell, 2009: 12). It includes cross-sectional and longitudinal research which is conducted through structured questionnaires. The aim is to generalise about a population using a sample (Creswell, 2009).
As part of qualitative method, du Plooy-Cilliers (2015: 176) defines ethnography as a "research strategy that is based on the description of cultural setting that the researcher is interested in investigating. It allows the researcher to conduct a detailed study on the life of a specific cultural or religious group. It is about studying the topics direct from participant's structural orientation". However, ethnography strategy is time-consuming as it is conducted over a prolonged period, and is expensive as it requires the researcher to live in that particular area over a certain prolonged period to observe the cultural behaviour of the group being studied.

Another qualitative research strategy is grounded theory. Du Plooy-Cilliers (2015: 178) describes grounded theory as the theory that has developed contrary to studying existing literature. It is essentially about drawing data to support a particular argument on a topic. Grounded theory is often used to collect data which, in turn, is explored as part of developing a particular philosophy or ideology. It also involves studying human behaviour through collecting data using semi-structured interviews, field interviews, and observation of participants' social interaction. Qualitative research also uses the case study strategy or approach. According to Du Plooy-Cilliers (2015: 178 - 179), the case study is about describing and understanding a phenomenon in a particular context. It allows deep exploration of an ordinary setting, providing space for detailed understanding of the lived experiences of participants.

However, this study adopted a phenomenological research strategy to describe expected "lived experience" of a phenomenon by those that participated in the study on the influence of RAs on South Africa's governance and fiscal policies. A phenomenological strategy is a qualitative strategy which studies the real experiences of people of a certain phenomenon (Creswell, 2011).

It is about how, in essence, people cognate with one particular phenomenon, based on their experiences (Creswell, 2009).

3.6 TARGET POPULATION

A population is a totality of the group of people or elements from which the research will draw a sample (Babbie, 2008). Du Plooy-Cilliers (2015: 132) states that, in determining the population, the researcher needs to separate the target population from the available population. The available population are the people who, in terms of time and location, can be available as participants in the research (Du Plooy-Cilliers, 2015). The target population are people who meet requirements of the research in terms of being accessible and having information about the topic which is being researched (Du Plooy-Cilliers, 2015). This study identified its target population from the institutions that participated in the study. These were individuals who were knowledgeable of the rating process, governance, and fiscal issues in South Africa.

3.6.1 Sampling strategy

Sampling is the selection of units or people from the population who will be participants in the research (Creswell, 2014). There are two sampling strategies: probability and non-probability sampling. Probability sampling is used as part of the quantitative research method while nonprobability sampling is often used in qualitative studies. Probability sampling restricts the influence and bias of the researcher in selecting the participants; while in non-probability sampling, there is greater possibility for the researcher to influence the selection of the participants (Du Plooy-Cilliers, 2015).

Non-probability sampling refers to it being impossible to decide on who constitutes the entire population; or when it is not easy to gain access to the whole population. It may not be easy to have access to the entire population because the research question requires participants with a particular background, for instance, students. The sample then is carefully selected from the accessible population through the recommendation or the decision of the researcher. The findings from non-probability sampling are not generalised to the population. The results from non-probability sampling are not considered as reliable as those of probability sampling: it is believed that the researcher can influence the selection and results. Non-probability is used to draw a sample with common characteristics, where not all people may be easily accessed (Du Plooy-Cilliers, 2015: 138). This study adopted a non-probability sampling strategy. The nonprobability sampling is a sampling strategy in which the samples are gathered in a process that does not give all the individuals in the population an equal opportunity of being sampled (Yin, 2009).

3.6.2 Sampling technique

This study adopted a purposive sampling technique which is part of a non-probability sampling strategy. This occurs when the researcher purposefully selects the participants/elements which he or she wishes to include in the sample, based on a list of characteristics (Pascoe, 2014). The literature (Creswell, 2011; Babbie, 2008; Fox and Bayat, 2007) indicates that there are a number of reasons which lead to sampling a population when conducting research. Among the reasons is that it would be impossible and unmanageable to include all citizens as participants or elements in the research. It is enormously costly to conduct research on many participants, in other words, the whole population.

In selecting the units to make up the sample in this study, the researcher needed to ensure that people who were participants had the relevant experience on the topic of the research. Du Plooy-Cilliers (2015: 132) also adds that the research question or research problem helps to determine who would be the best participants in the research. The first step towards sampling should be deciding on what is needed to gain relevant information on the research question. Hence the characteristics, such as job title and role in the relevant institutions participating in the study informed the purposive sampling technique.

3.7 DATA COLLECTION

Data collection involves identifying the tools or research instruments that were used to collect data during the process of the research. The collection of data is another crucial stage in the research process. If the collection of data is incorrectly performed, this will result in inaccurate results which will produce invalid findings (Creswell, 2014). There are various tools/instruments which are applicable in the research for the collection of data. For example, the qualitative design has five tools for collecting data: observation, in-depth interviews, focusgroups, qualitative content analysis, and historical research (Creswell, 2014). The five tools for collecting data under the qualitative design mentioned above allow a researcher either to observe, interrogate secondary data relating to the topic, or pose direct questions to participants in the research. Nonetheless, interviews may be one-on-one or focus groups. The latter are a valuable means of information, allowing the researcher to interpret the information from the direct answers of participants. Literature shows that in-depth interviews are conducted on a specific group or individual (Du Plooy-Cilliers, 2014).

Hence this study used nine (9) in-depth interviews to enable it to achieve its objectives. The participants came from various South African institutions, both private and public. The table below provides these institutions together with the number of interviews held.

Table 3: Sampled Institutions and Interviews

	Public Institutions	**Number of Interviews**
1.	South African National Department of Finance	1
2.	South African Financial Services Board	2
3.	South African Reserve Bank	1
	Private Institutions	**Number of Interviews**
1.	Standard & Poor	1
2.	Moody's	2
3.	Johannesburg Stock Exchange	2

3.7.1 Interview administration

The interviews were semi-structured and conducted using an interview guide/schedule. The questions on the interview guide were open-ended. The reason for interviews is that they are vibrant and provide rich data: interviewees were given questions that are open-ended, allowing the researcher to share their knowledge and/or views on the subject under question (Braun and Clarke, 2006). The reason for the use of semi-structured interviews and an interview guide was that the researcher wished to follow a carefully worded list of questions to keep the interviews focused on the study. The researcher also used the questions on the interview guide to remind him of key questions that needed to be addressed (Mthuli, 2014).

In addition, the interviews were audio-recorded. The reason for using an audio-recorder was that taking many notes during the interview was going to be distracting and could have interrupted the free flow of the conversation (Mthuli, 2014). Using an audio-recorder instead of relying on notes and memory has the advantage of capturing information accurately, and of the interviewer being able to replay the interview at a later stage for further clarity (Kvale and Brinkmann, 2009).

3.8 DATA QUALITY CONTROL

Researchers place great significance on data quality control so as to ensure reliability and validity of the results. Hence, for this study, in line with this notion and being a qualitative philosophy, the researcher needed to ensure reliability and validity of the data and findings of the study. In research, if the research methodology is unreliable, and invalid, identifying a problem, developing questions, and conducting a literature review has no merit (Koonin, 2014). This process is underpinned by ensuring data quality control in the research process. Reliability is therefore:

> "describing a quality of something or someone that is 'dependable' or 'trustworthy'" (Giannatasio, 2008: 109) while validity in a study is much complex. Nonetheless, according to Yin (2011): a valid study is that which has properly collected and interpreted its data, so that the conclusions accurately reflect and represent the real world (or laboratory) that was studied" (Yin, 2011:78)".

To Du Plooy (2014), validity is about determining whether the research measured what it intended to measure. It is about the extent to which the instrument selected really reproduced the reality of the constructs that were being measured. Koonin (2014) is of the view that, because quantitative designs focus on the measurability of results, reliability and validity is applicable to them. Qualitative designs strive to give an in-depth perception of a phenomena, and thus the concept of trustworthiness is their measurement of reliability and validity (Koonin, 2014). This notion is also expressed by Lietz and Zayas (2010). Hence this study, in striving to achieve data quality control, ensured data trustworthiness.

3.8.1 Trustworthiness

The ability to present data findings and results in a sound, credible, and objective manner affords trustworthiness in qualitative design (Krefting, 1991). However, qualitative researchers use a variety of techniques to achieve trustworthiness of their data, such as the use of credibility, transferability, dependability, and confirmability of the research findings (Koonin, 2014:258259). In this study, trustworthiness was supported by the transparent methodology adopted. In addition, to ensure further trustworthiness, credibility was upheld through the 'strict' sampling process. In other words, only persons who had met predetermined characteristics were purposefully sampled. This included the institutions they came from, the purpose of these institutions, the role each participant played, and the broader understanding of the phenomenon under enquiry.

3.9 DATA ANALYSIS

According to Corbin and Strauss (2007), data analysis comes about through a process of interpreting and examining data so as to draw meaning, gain understanding, and develop empirical knowledge. The data analysis techniques are techniques which are used to analyse data collected by the researcher. There are a number of techniques for analysing data from a qualitative design. These are thematic analysis, qualitative content analysis, matrix analysis, conversation analysis, and discourse analysis, to mention a few. This study adopted thematic analysis to analyse data.

3.9.1 Thematic analysis

Thematic analysis is the most common form of analysis in qualitative research. It emphasises pinpointing, examining, and recording patterns (or 'themes') within data (du Plooy-Cilliers, 2014). Themes are patterns across data sets that are important to the description of a phenomenon and are associated with a specific research question. According to Braun and Clarke (2006), themes offer an accessible and theoretically flexible approach to analysing qualitative data. One of the benefits of thematic analysis is its flexibility.

The thematic technique was relevant for this study, as it was expected that interviews would cover a wide range of factors on rating agencies and fiscal policies of the country. After interviews were conducted, the information was gathered according to specific themes. This process began by the transcribing of the recorded interviews onto paper. After the transcription process, the data was coded, and themes emerged in accordance with each objective of the study.

3.10 ETHICAL CONSIDERATIONS

Professional and academic institutions place the highest impetus and responsibility on researchers to preserve ethical standards when conducting research. The ethical considerations require respect and protection of human dignity, the right to choose to participate in the research, privacy and confidentiality. According to Du Plooy-Cilliers (2014), an ethical standard is an essential feature of integrity. A researcher must act with integrity and adhere to ethical principles and the required professional standards.

As part of upholding ethical standards in research, at the beginning of this study the researcher applied for an ethical clearance to the University of KwaZulu-Natal Research Ethics Committee. The application included the ethical clearance outline on how the researcher intended to ensure that ethical standards required were preserved.

After the identification of potential participants in the research, the researcher wrote to each of them requesting their participation in the research and informing them of their right to accept or decline the request. At the beginning of the data-collection sessions, the researcher informed the participants of the objectives of the research and further presented his identity and an authorization letter from the associated institution, as well as the contact details of the supervisors of the research project. The researcher further informed the participants that:

- The participation was voluntary
- The participants reserved the right to withdraw at any point from participation should they feel unprotected or their privacy infringed
- Their responses would be kept confidential
- Their identities would not be disclosed; instead, their names would be coded to maintain their anonymity
- The participants would be informed of the nature and objectives of the study
- There was no compensation offered for information collected from them or for their contribution to the study
- Once the research was completed it would remain the property of the institution.

Following the above, the researcher presented each participant with a consent form. The consent form is an instrument used to confirm that the participants in the research understand the purpose and nature of the study and are well informed of their right to participate in the study or withdraw at any point without any negative consequences. The consent form also sets the procedure to be followed in the research project (Alderson & Goodey, 1998).

3.11 CONCLUSION

This chapter has presented both the philosophical and methodological assumptions underpinning the study. Through its interpretative worldview, the design and strategy, as well as the data-collection instrument were identified. In addition, this chapter provided the ways in which data quality control was ensured, and the ethical considerations followed. As a result, this chapter outlined key underlining features that enabled the study to achieve its overall objectives. The next chapter, Chapter Four, presents the findings of the study, which are in accordance with the research methodology presented above.

CHAPTER FOUR
PRESENTATION OF FINDINGS, ANALYSIS, AND DISCUSSION

4.1. INTRODUCTION

The previous chapter, Chapter Three, provided the research philosophical approach applied in the study. This chapter now presents the findings of the study in accordance with the research objectives and applied methodology. The findings of this study are based on a qualitative design with a strong predisposition towards thematic analysis. The nature of the data, therefore 'predetermined' the method of analysis. To accentuate a point already covered by the datacollection technique, data was collected through semi-structured interviews, which were clustered, according to common issues raised by various participants, into common themes. Before the data is presented, the chapter opens by providing a bibliography of the participants in the study.

4.2. PARTICIPANTS' BIBLIOGRAPHIES

The participants in the study were drawn through the use of a purposive sampling technique which allowed the researcher to identify and select relevant participants. The participants were identified based on their professional and academic knowledge of the research topic. According to Du Plooy-Cilliers (2014), the advantage of purposive sampling methods is that it ensures that each participant provides the study with practical and relevant data.

The participants were drawn from rating agencies and institutions whose work relates to or connects with that of the rating agencies. As a result, participants were drawn from international credit-rating institutions (rating agencies) in South Africa, the South African Department of Finance, South Africa's Financial Services Board, the Johannesburg Stock Exchange, and the South African Reserve Bank. All participants, correspondingly, held postgraduate qualifications, and were familiar with required ethical standards of the research.

4.3 OVERVIEW OF THE FINDINGS

To analyse and present the data, the study used thematic analysis. The table below presents an overview of the themes in relation to the objectives and research questions of the study.

Table 4.1: Overview of the findings

RESEARCH OBJECTIVE	QUESTION	THEMES
To assess the role of rating agencies in the South African government	What is the role of rating agencies in South African government?	1. Determining the creditworthiness of the South African government 2. Investment gatekeeping 3. Creating awareness 4. Exerting pressure
To explore the response of the South African government to the rating agencies	What is the response of the South African government to the rating by rating agencies?	1. Cooperation with the process 2. Enhancing of a cohesive response from all stakeholders 3. Campaigning to restore business confidence
To establish the challenges faced by government on the implementation of recommendations by rating agencies	What are the challenges faced by the South African government on the implementation of recommendations by rating agencies?	1. Weak institutions and corruption 2. Lack of economic growth 3. Limited budget within huge socio-economic demands

To provide recommendations on ways in which government and rating agencies should cooperate in improving government and fiscal policies	What recommendations could be provided to ensure cooperation between government and rating agencies in improving government and fiscal policies?	1. Build strong institutions and fight corruption 2. Vigorous efforts to stimulate economic growth

4.4 DATA PRESENTATION, ANALYSIS, AND DISCUSSION

This section presents the data collected and synthesised in accordance with themes and in line with the objectives of the study. After the data collected is presented, the views expressed by the participants are identified, followed by a discussion of the findings. In line with its aim and objectives, the findings of the study reveal the following:

4.4.1The role of rating agencies in South Africa's governance and fiscal policies

The intent of this objective was to explore the role played by rating agencies in South Africa's governance and fiscal policies. The study found that at least from 2010, rating agencies have become a prominent participant in influencing the kind of fiscal and governance policies South Africa should implement. Rating agencies do not directly prescribe policy advice for government, but they do so indirectly through their rating processes, findings, and recommendations. These come with great influence because of the economic implications they have and which the government cannot ignore. The rating agencies determine the creditworthiness of the country; and further play a role of being gatekeepers for investors. The study also found that rating agencies play a huge role in the creation of awareness and in educating the civil society to actively participate in shaping the fiscal and governance policies of the country.

4.4.1 (a) Creditworthiness of South Africa

In general terms, creditworthiness is a projection of the financial status of a person, entity, or country. In terms of a country, it is about the projection of whether the country can meet its financial obligations; such obligations would include providing services to the citizens and furthermore, to pay the country’s debts. Some of the debts would be from local institutions such as investment companies, while other debts would be from global financial institutions such as the World Bank or International Monitory Fund.

In this regard, the study found the role of rating agencies that of determinants of creditworthiness of an issuer to pay back its debts. When government’s expenditure exceeds its current financial balance, it may need to borrow money to meet its budget deficit. The role of rating agencies is then to determine the ability of the government to pay back the borrowed money, that is, to service the debt. This was expressed by a participant who said that:

> “*The role of the rating agencies is to provide an assessment on the ability and the willingness of the government to pay its debt on time and in full*” (**Interviewee 1**).

Another participant indicated:

> “*…the rating agencies only conduct an assessment to determine whether the country will be able to pay its debts in the future. In fact, any country that needs to borrow money or that wants investors has to go through an assessment by rating agencies. Rating Agencies do not tell government what to do or give policy advice they only determine whether the country will be able to pay its debts as per the conditions of the debts*” **(Interviewee 3).**

According to another participant, rating agencies focus on a specific mandate:

> “*…they assess the ability of the country to pay or rather services its debts according to the terms and conditions. They focus on the creditworthiness and determine whether international financial institutions will get their money back in case they lend South Africa their money*” **(Interviewee 4).**

The study further found that it is South Africa’s government that solicits the services of the rating agencies. The government needs rating agencies to assess its creditworthiness so that it becomes easy to borrow money when there is a need. One of the participants presented this point, saying:

> “*It is the government that enlisted the rating agencies back in 1994, and for as long as it has a possibility of borrowing money it needs rating agencies to affirm its status. If South Africa is serious about attracting more investors it needs rating agencies. Investors no longer conduct assessment of countries to determine the possibility of yielding returns*

when they invest but they dependent on the information from rating agencies" **(Interviewee 4).**

Another participant stated:

"*There are countries that are not rated, these are countries that do not need to borrow money or to get affirmation for investors. But it is unavoidable for countries that borrow from international financial institutions to not have rating agencies. So we, as South Africa, also need them whether their process is uncomfortable or not but they are needed because we cannot rate ourselves. If we were to rate ourselves institution will take that as an objective assessment*" (**Interviewee 5).**

The findings of the study confirm the literature in that, while initially the responsibility of the rating agencies is to analyse risks associated with investment products, they also assess the creditworthiness of government, also referred to as a sovereign rating. The literature highlighted the point raised by Kotios, Galanos and Roukanas (2012), who express that, while rating agencies were initially established to provide investors with reasoned analysis of risks involved in specific investment products, they have later assumed an added role of assessing the creditworthiness of governments.

The findings further concurred with literature in that countries with rating agencies have a much higher potential for borrowing. The Hellen Suzman Foundation (2016) stresses that a country with a favourable or good credit rating is at an advantage to access lower borrowing rates in the global capital markets. Hence, South Africa needs rating agencies to constantly evaluate and affirm its creditworthiness.

4.4.1 (b) Investment gatekeeping

Investment gatekeepers may be seen as individuals or institutions that influence or direct investors on potential investment destinations. These institutions provide investors with information about countries that have a conducive environment for investments, suggesting where investments could yield the highest returns. The study found that rating agencies are part of those institutions. They also hold more influence in giving direction for investment through providing information on countries which have prolific investment climates. Investors use rating agency reports to determine the risks associated with a particular investment bond market or country. One of the participants highlighted:

> "*...foreign investors can only invest in our market with ease as long as they are guaranteed that their investments will grow hence they depend on rating agencies that scout potential countries for investment*" **(Interviewee 4).**

Another participant expressed the same view**:**

> "The *rating process on its own is a communication to investors and creditors. It is a simple and transparent message about the economic opportunities and risks, it is also a message to creditors on the ability of a particular country or company to pay back the borrowed money in time*" **(Interviewee 2).**

A similar point was also emphasised by another participant:

> "*So if the rating agencies say you are in a junk status, investors will not invest in you because you are a junk. But we have to distinguished those who invest in specific sector of the economy such as mining or any other sector, they will not care about ratings they simple need the mining right. However, institutions that lends government money need the ratings because they need some kind of guarantee that they will be paid back. If government does not pay then that institution loses its money*" **(Interviewee 5)**

The finding of the study that rating agencies have become investment gatekeepers is corroborated by the literature. According to Bruner and Abdel (2005), rating agencies now have the responsibility of accessing the creditworthiness of government and corporate companies. The aim is to alert potential investors as well as the financial markets of the probability of that country or corporate company's meeting its obligations, should it be considered for a loan or investment.

The literature underlines that rating agencies are highly significant for countries that need investment. Ferri and Li-Gang Lui (2005) indicate that credit-rating agencies nowadays rate more than a hundred developed and developing countries. However, rating agencies are extremely important for developing countries, because without a non-junk status issued by one of the big rating agencies, no one will ever buy sovereign bonds in those countries. This will result in a lack of investment for such a country. Moreover, the evolution of rating agencies has earned them the status of being economic gatekeepers and they have even begun to enjoy political power (Sinclair, 1993).

4.4.1 (c) Creating awareness

Creating awareness is essentially about educating the civil society such as professional bodies and other community organisations on a particular phenomenon or matter. In this regard, creating awareness refers to the role played by rating agencies in enlightening civil society about the need for government to uphold sound and prudent fiscal and governance policies. In South Africa, rating agencies have played a vital role in creating awareness among the civil society and the community to participate in ensuring that government preserves sound fiscal and governance policies. While rating agencies started rating South Africa in 1994, it took until 2010 for the community to understand their role and become more vocal on government implementation of prudent fiscal policies and good governance (RMB Global Markets Research, 2016).

According to the participants, rating agencies were not known to ordinary people; and the issue of governance and fiscal policies that conform to world standards was and remained a distant topic or issue to many ordinary South Africans. One participant articulated:

> "*rating agencies played a very important role in highlighting issues that were concerning them with regards to the development of the country. There are some things that politicians, analysts, journalists and ordinary business people also highlighted but there is something about the independence which was brought by agencies. I think they played quite a big impact in the focus on the need for certain policies, they were very clear on what needs to happen on fiscal discipline, on governance of the state owned enterprises and on the issue of the continued rising deficit and debt*" **(Interviewee 6).**

A similar statement was echoed by another participants:

> "*There were times when these things were like precluded from the people but now you are listening to people on the 702, SAFM or Power FM and you find ordinary people articulating what it means and how we could potentially deal with the impact of ratings. The burden of credit quality has to fall on every single person because implications are quite high, and eventually there was definitely an appreciation across the board*" **(Interviewee 4).**

Literature provides evidence of rating agencies actively interacting with governments around the world. Furthermore, in many countries, the influence of rating agencies forces government to adhere to certain policies. For instance, Moody's in 1990 prescribed to Canada to either introduce intense cuts in government expenditure or increase national interest rates or face bond markets withholding their capital (Luten, 2016).

However, there is no contribution by rating agencies in creating awareness amongst civil society. It is understandable that, in the case of South Africa, there is no extensive historical literature on the role of rating agencies, given that they started rating the country in 1994 after the first democratic elections. However, the role they have played as part of creating awareness especially among civil society structures cannot simply be downplayed into peripheral bygones. Hence this study, amongst others things, acknowledges such an unprecedented and fundamental contribution.

4.4.1 (d) Exerting pressure

Exerting pressure is about assigning more prominence and stressing the importance of a particular matter. This is done by sharing more information through various media platforms and various community engagements. Through these forums people become educated and aware of the matter at hand, and begin to engage with relevant authorities to correct what is of concern in that particular matter.

The consistent engagement by rating agencies with South Africa's government has exerted pressure on government to review its approach on issues relating to fiscal policy prudence and governance. One participant indicated:

> "…*Because of certain failures and lack of robust interrogation, rating agencies started to assume their prominence and so their discipline with regard to how they looked at our debt which suddenly increased and therefore the last five years have been formally intense from rating agency perspective but this would be completely in line with what happened during the global financial crisis. So they upped their game when South Africa started to hit trouble with regards to the fiscal positions*" **(Interviewee 6).**

Another participant volunteered a similar observation:

"*Rating agencies began to engage us consistently and said there is a widening gap between the expenditure and budget deficit. They also raised concern about the lack of income generating and that the country was continuously supplementing income with debt. So eventually, government started to look at cutting expenditure which was not taken serious before. This was the pressure exerted to us but they were not telling us things that were hidden, all they did was to tell us facts we knew but ignored*" **(Interviewee 5).**

The pressure exerted on South Africa's government and various stakeholders to straighten up all policies and government systems is consistent with observations captured in the literature. The pressure exerted on the South African government is equivalent to the level enforced in many developing countries. Alsakka & Gwilym (2012) reflect that sovereign ratings are highly critical of emerging economies, since risk is greater and information is usually lower than in developed countries. It is further observed that credit risk fluctuates frequently in developing countries, leading to unpredictability.

4.4.2 The response of the South African government to rating agencies

The intention of this objective was to explore the response of the South African government to rating agencies. The study established that South Africa is characterised by various opinions on the role of the rating agencies. On the one hand, there were those who questioned the motives of the rating agencies. On the other hand, there were those with the view that South Africa must listen to and be prepared to improve on the shortcomings identified by rating agencies. In principle, however, the South African government took a decision to cooperate with the rating agencies and work towards restoring investment confidence.

4.4.2 (a) Cooperation with the process

The concept of cooperation is generally defined as the voluntary effort towards meeting desired expectations. The effort of the South African government in cooperating with the rating agencies during the rating processes is examined, taking meaningful steps in implementing the recommendations from the rating agencies.

The study found that, initially, there were differing views and perceptions of the motives behind the rating processes. Eventually, consensus was reached on ensuring cooperation with the rating process, implementing the recommendations. A participant commented:

> "*The Government tried to maintain and protect relations with rating agencies even though there were voices that would question that Treasury was beginning to listen too much to these agencies at the expense of the need of the people. But the government in general, including other departments cooperated and would always avail themselves for specific session that Treasury would arrange to meet rating agencies*" (**Interviewee 5).**

Another participant reflected similar sentiments:

> "*The Government responded very well and arranged briefing session where rating agencies would engage with the required stakeholders, and further arranged conferences to discuss some pertinent issues in detail. Even when the rating process is conduct, rating agencies would submit to government the preliminary reports and the government will make necessary input including providing information that could have been omitted*" **(Interviewee 1).**

Yet another participant asserted that there was more cooperation, but further identified that it was not an easy process:

> "*The relationship in such a kind of engagement would most be defined as a hate and love situation. Hate in that, the process of rating is a thorough going assessment which besides being intense, it would be defined by attitude, issues of professionalism and objective. Love in that, we had to cooperate as the rating process was in our own interests as well. Any assessment which involved personalities comes with human behaviour, but after all there was greater cooperation*" **(Interviewee 6).**

Evidence suggests that, in many countries, when the rating process is introduced for the first time, or there is a potential for a downgrade, the relationship between the rating agencies and government tends to be strained and tense. The contention is influenced by the fear of being subjected to scrutiny. The literature indicates that the recent European sovereign downgrades received criticism; rating agencies were accused of setting the timing of the rating, those downgrades stimulating insecurity in the financial markets, compromising those countries' abilities to access funding (Kiff, Nowak, and Schumacher, 2012).

4.4.2 (b) Develop common response from all stakeholders

The concept of common response is about different people or organisations synergising their views and approaches on a particular matter and agreeing on how they will pursue a joint approach irrespective of their differing interests. In the context of this study, the concept is used to refer to a joint approach development of various South African stakeholders in response to the rating process conducted by the rating agencies.

The study found that, when South Africa was going through a tough period after rating agencies had downgraded the country ratings' standard, all stakeholders worked together to ensure that the country was spared further downgrades. They also worked to improve its standing.

A participant indicated:

> "*...it was a difficult time and strangely we all worked together with serious commitment, government, business and labour, we all would meet under the leadership of the Minister of Finance and develop an approach to engage with rating agencies*" **(Interviewee 6).**

Another participant offered:

> "*It was in the interest of not just a particular sector but all of us. This was not just a treat to government but business was declining, workers had long been losing jobs. We all said irrespective of our different interests the bigger picture by then was to save the country from being downgraded further into junk. We all knew it was also going be difficult to bounce back*" **(Interviewee 4).**

Yet another participant identified:

> "*…we began to work together, instead of being competing interests, we synergised ideas and put the country first. Besides developing common messages and approach towards engagement with the rating agencies, there was also an establishment of CEO forum, where CEOs of big companies will meet with the Minister of Finance and develop strategic interventions. The establishment of the CEOs forum was crucial because some of these CEOs are from international companies so when they interact with their counterparts and with their Head Offices, of which most of them are in London or New York, they expressed a well-informed message*" **(Interviewee 5).**

The South African common response by all stakeholders has been one of the few unprecedented interventions ever employed in dealing with or responding to rating agencies. When countries are subjected to rating processes, various stakeholders tend to place individual or sectoral interests above everything and neglect the need to work together to solve whatever concern raised by rating agencies.

When Canada was subjected to the rating process by Moody in 1990, government was advised either to increase domestic interest rates or make deep cuts in state spending or the bond market. Instead of applying this advice, the Canadian government resolved to ignore the rating outcome and its recommendation, fearing that they would lose support from voters (Friedman, 1995). The literature further indicates that, when the Netherlands was downgraded in 2013, serious tension arose among parliamentarians and political analysts. Business erupted and they could not understand how it happened that they were downgraded and left without a joint approach towards addressing the causal factors of the problem (Dijssebloem: 2013).

The common approach developed by South Africa in response to the rating process is a lesson that underscores that short-term sectoral interests should not overwhelm to a point where they cannot see the common jeopardy. The second fundamental lesson is that, irrespective of different interests, working together could help and benefit all sectors. It is therefore important not to elevate the selfish interests of one sector at the expense of others, where all could cooperate.

4.4.2 (c) Restoration of investor confidence

Investor confidence is a level of trust that provides assurance to the business community that, should they invest in a particular country or sector, their investment is safe, and the maximum benefit will be yielded. This trust is generated by sound and prudent social, political, and economic policies that govern a country.

Essentially, the core of such policies should be to uphold socio-political stability, good governance, and sound financial management. Countries with a governance system that embraces these elements stand a better chance of attracting more investment.

The rating agencies play a critical role in assessing the governance system through sovereign rating. Literature suggests that, if a country continues to be downgraded to sub-investment level, it finds it difficult to attract investors and to borrow. South Africa has always wanted to sustain high investor confidence so that investors consider investing in the country's economy. South Africa's government, post 1994s democratic elections, adopted a strategy to undertake campaigns to build and maintain high investor confidence. This was conducted through a concerted programme wherein government embarked on trade visits to countries with potential investors.

The study found that, in response to rating agencies and the ongoing rating processes, the South African government, in particular the National Department of Finance, developed a programme of roadshows. This entailed the minister visiting certain countries to address business leaders, assuring them that South Africa was still a favourable destination for investment. These roadshows also included visits and meetings with rating agencies in their respective head offices abroad.

All participants agreed that this was an important response to rating agencies. One participant stated:

> "…*we would arrange meetings with investors, rating agencies and key economic institutions to allay fears and restore business confidence so that they would continue to consider our country for investment. Not that we were dismissing what the ratings agencies would have said about our sovereign rating status but we were more on identifying what we were going to do to address what would have been said by rating agencies. And as the time went by, we realised the need to include other stakeholders such as business and labour. So from 2015 when the Minister of Finance was undertaking roadshows, leaders of Business Association of South Africa (BUSA), and union leaders joined him*" **(Interviewee 4).**

Another participant emphasised this point:

> "*We started this strategy long time ago, in 1999 when Madiba [former President Nelson Mandela] was visiting America we just requested him to pass by New York and we arranged courtesy visit to some rating agencies headquarters and further organised meetings with key business leaders. So from 2015 given the persistent adverse opinions from rating agencies, rising debt and slow economic growth we had to intensify*

roadshows and further included all sectors, such a business and unions to also speak for themselves with investors" **(Interviewee 5).**

Various writings in the literature attest to the importance of countries sustaining investor confidence if they are to enjoy good and attractive investments. According to Ko (2017), investor confidence is based on investors' perception of the attractiveness of their investment opportunities in terms of perceived risks and expected returns. This is pertaining both to the prospects of issuers and the prospect of expropriation by other market participants. Thus, if investors hold negative perceptions of investing in South Africa they will be reluctant to invest, opting to look for other countries to invest in. As such, it was important for South Africa to address perceptions that emerged from the effect of rating downgrades. Thus, the study confirmed that the roadshows conducted by the National Minister of Finance and all other stakeholders on restoration of confidence were crucial to safeguarding the country's economic prosperity.

Hlomendlini (2017) indicates that the junk bond grade would place South African foreign currency ranking to below investment grade. The risk related to this is that, because of the cabinet reshuffle which places policy assurance at risk, businesses would have decided to withdraw their investments that would otherwise have provided the highly-desired economic growth. This implies that the future immediate outlook of South Africa would be negative, which inherently means that any investor who chooses to invest in South Africa would be exposed to a short-term risk, because they might not generate desired returns on their investment.

4.4.3 Challenges faced by government in implementing recommendations of rating agencies

The aim of this objective was to examine challenges faced by the South African government in implementing the recommendations of the rating agencies. The study found that South Africa's inability to implement recommendations of the rating agencies was caused by weak government institutions, high maladministration and corruption, increase in government debt arising from varied socio-economic demands of the citizens, and the subdued economic growth owing to lack of industrialization, and to depreciation of export commodity value.

4.4.3(a) Weak government institutions lead to maladministration and corruption

The concept of weak government institutions refers to governmental or organisational structures that are not firm, always vulnerable to manipulation and corrupt practices. In this study this concept is used to illustrate weak government structures that are manipulated through corrupt practices for individuals' selfish benefits.

Sound and prudent governance and fiscal policies require strong institutions that would uphold the value of good governance, and the rule of law, and preserve best practices at all times. Once government institutions are compromised by wasteful expenditure, maladministration, and corrupt practices, they tend to serve other interests rather than those of the people.

The study found that the key challenges that affected South Africa's ability to implement the recommendations of the rating agencies were weak government institutions which led to the failure of good governance, and corrupt practices. For government structures to uphold good governance and prudent financial management, they need to be independent and not be implemented by ulterior motives. They need to act in accordance with the prescripts of the law, doing so without fear or favour.

All participants agreed that the rating agencies have been raising serious concerns about weak government institutions and rising allegations of corrupt practices, rising government debt, and lack of economic growth. This assertion was expressed by a participant:

> "*Rating agencies had a consistent focus on institutions of governance. They always warned about weak institutions and rising level of corrupt practices. But mostly they did not tell us of things we did not know. What they did was to confirm reports we knew about corruption in state owned institutions, as well as attempt to capture National Treasury and the failure of governance because of corruption and state capture*" (**Interviewee 5).**

In further outlining this view another participant offered:

> "*South Africa's problems, of late, are about weak institutions which give effect to corruption, when there is abuse and interference with structures that run the country people employed to oversee those structures either get co-opted and become part of the problem or they resist and then they will be fired from work. At the end it becomes easy*

to do corrupt practices, as that happens, the expected services are compromised and the economy suffers" **(Interviewee 6).**

One of the participants provided the researcher with a research report conducted by Future Growth, titled *SOE Governance Unmasked*, which examined in detail the functionality of stateowned institutions (SOEs). The report established that the financial, operational, and overall governance environment of SOEs has deteriorated materially since 2013. The notable governance failures by some SOEs and corporations is a clear sign that South Africa is a risky investment destination – which results in increases in the country's cost of capital, reducing economic growth and opportunity for all. "The need for meaning, and prompt SOE reform is now more acute" (Future Growth, 2018). The interviewee recommended:

"…*significant improvements in SOEs governance is urgently required on the following areas; standards of accountability, transparency, compliance with the law, oversight by the executive authority and a greater participation of investors and civil society in providing oversight*" **(Interviewee 6)**.

The findings of the study presented highlight the issue of weak government institutions as one problem that has caused South Africa to find difficulty in implementing the rating agencies' recommendations. There are various studies that attest to this point. According to RoseAckerman (2004), all political structures must reconcile the relationship between public power and private capital. Those that fail pose the threat of a dysfunctional government captured by capital interests. Corruption is one of the key symptoms of a failure in which private capital willingness-to-pay overpowers public goals.

The added effect of weak institutions is their failure to ensure economic growth. According to Kaufmann and Kraay (2002), sound macro-economic policy instructions demand an effective, functional government, which is what is lacking in most countries engulfed by corruption. Such government institutions tend to focus on individuals' interests, ignoring the broader economic perspective.

4.4.3 (b) Subdued economic growth

The notion of subdued economic growth implies slow and inactive economic activity which results in the failure to create employment, lack of generating revenue for government, and low returns for commercial organisations. In terms of the rating methodology, the economic performance forms one of the critical indicators. Rating agencies assess whether or not the economy is growing. When rating agencies find that the economy is not growing they record this as a serious concern, which affects the country's rating status.

The study found that one of the challenges faced by the South African government in implementing the recommendation of the rating agencies was lack of economic growth. When the economic crisis hit in 2008, South Africa's economy encountered a downward spiral, and since then, has been persistently underperforming. This evidence was presented by a participant:

> "*The performance of the economy is one very important indicator when it comes to the rating process. Over a period of time, rating agencies have been indicating that the economy of South Africa is not growing, instead it is contracting*" **(Interviewee 3).**

This viewpoint was further highlighted by another participant:

> "*Economic growth is one of the key indicators in the rating process, and in our case the rating agencies have been engaging with some ministers in the economic cluster. The economic growth needs the stimulation of all sectors such trade, infrastructure development, mining, tourism, small business. So, the economic growth is expected to come from all sectors, and without growth the rating agencies would always highlight that as a negative indicators for us*" **(Interviewee 4).**

The study further found that South Africa's failure to grow the economy impacts negatively on its creditworthiness. Since the 2008 global financial crisis, South Africa's economy has failed to grow at a favourable rate, hindering the potential for collecting more revenue. This has placed constraints on the country's ability to pay its debts. A participant stressed:

> "*South Africa does not have fiscal challenge but has a challenge of economic growth. When the economy is not growing there is nowhere to collect more revenue, there are no additional jobs created, and we are not able to meet the ever-growing needs of our people. The failure to grow the economy means you will be unable to effectively also service your debts and that creates doubts about your credit worthiness*" **(Interviewee 5).**

Respondents further linked the work of rating agencies and South Africa's lack of economic growth to the historic economic structure of the country. In support of this connection, the indication was that, since the 2008 global financial crisis, South Africa's economy has suffered immensely owing to its dependence on economic sectors whose commodity prices have declined. The South African economy is highly dependent on mineral exports which declined in 2008. One of the participants in the study maintained:

> "*The economy has contracted since 2007. South Africa's economic growth hinges on a number of factors; our economy is small and largely dependent on raw commodities that are exported to other countries, once the value of those commodities is hampered and goes down the economy gets seriously affected. Therefore, since the price of mineral resources, especially gold, went down the economy has been underperforming. This is the economic structural issue which needs consideration, but the rating process does not consider such issues because rating agencies focus is on growth which is at the core of potential of benefits for investors of those institutions that borrow us money. Rating agencies look at key industries of the economy and further examine whether government has mitigating strategies should such industries collapsed and then make a conclusion. They also warned that if the economy is not growing consequently the budget will grow*" **(Interviewee 6).**

The findings of the study confirm literature comments that slow economic growth is central to the rating process; and the failure to stimulate economic growth leads to adverse rating opinions. Kotois, Galanos and Rounas (2012) argue that key indicators such as a competitive economy is part of a focal area which is assessed by rating agencies.

This study thus has found that failure to have favourable and sustainable economic growth has had a ripple effect on South Africa. This is used by rating agencies as part of the key indicators for assessment. Also, the lack of economic growth undermines the country's ability to attract more investors. Furthermore, the failure of the economy leads to fluctuations of the currency. Hlomendlini (2017) argues that, for the agricultural sector, the downgrade will hurt farmers badly. This would lead to an immediate upsurge of inflation, which would have a damaging impact on competitiveness. Production costs become higher, and exportation would yield lower returns.

4.4.3 (c) Insufficient budget to meet the country's socio-economic demands

The budget is a framework of planning and allocating funds for specific needs. People draw up a budget for their households. Equally, the government has to develop a budget to meet the needs of the country. Once the needs of the country go beyond the available budget, this results in a budget deficit. Government must thereafter reprioritise needs to be met in that financial year or choose to borrow funding from lending institutions to bridge the funding gap.

South Africa has enormous demands that relate to the provision of social and economic needs of the country. Most rural areas and townships are affected by huge basic services backlogs such as the provision of water, electricity, roads, sanitation, schools, and health-care facilities. The backlogs affect areas that are predominantly populated by Blacks. Development in these areas was not prioritised and was neglected before 1994 by the Apartheid government which governed the country.

While government post 1994 has been attempting to rectify this by prioritising development in areas such as townships and rural areas that were previously underdeveloped by providing basic services, financial constraints remain a challenge. The budget has not allowed full dispensation of such services at once. Thus, most of South Africa's budget should address and correct inequalities of the past, funding communities that are less privileged.

The study established that, coupled with an economic decline, South Africa faces great demands on social spending which lead to an increase in the budget. These demands spread across key sectors such as health, education, housing, road infrastructure, and social security.
A budget increase leads to a deficit, which adds to South Africa's already existing debt. These demands have not come only through government assessment, but are presented by various social formations holding expectations that government must cater for their interests. Such formations include amahlali basemnjondolo (people staying in shacks), the #Fees Must Fall movement (the formation of a student movement demanding free tertiary education), and many more issue-based organisations.

In the light of high demands with insufficient budget the government finds itself compelled to borrow more, which results in an increase in government debt. This point was repeatedly stressed by many participants. One of the participants commented:

"*…although rating agencies follow their methodology but unfortunately it does look on the socio-political environment permeating on all amongst the society. If government funds free education because of the pressure from the so called "fees must fall", rating agencies do not look on that but they primary focus on whether the government would have enough budget to cater for free higher education*" **(Interviewee 3)**.

Another participant iterated:

"*The fact that the government has to meet the socio-economic demands of the vast and different sectors majority is correct but that should not be done in a manner that leads to budget deficit. Because once the country accumulate budget deficit the rating agencies been to raises concerns. Rating agencies simple ask as to where are we going to get the allocation to cover budget deficit and thereafter they would give us adverse rating opinion. Indeed, our country has many demands from different sectors of the society but as government in trying to those demands we should not overstretch our limit*". **(Interviewee 4)**.

The effects of competing demands within the limited budget were also identified by another participant:

"*In 2005 to 2006, our country registered its first surplus though it was not a big surplus it was half a percent of the then GDP. We started offsetting the deficit and we tried to build reserves as part of preparing for any shortfall that would arise in future. But other formations, especially the labour and civil movement, were strongly arguing that the surplus must be spent on the programmes to uplift the poor. In 2008 the global financial crisis hit us and all of that revenue disappeared and could not continue to reduce our debt. With the new administration in 2009, there was still a space to continue on an expansionary budget fiscal policy including making big announcements on infrastructure spending. On the other side, there was a strong view that instead of infrastructure let's try and reduce the debt but the final decision was to continue with infrastructure development. So that revenue was finished and now we stacked in a situation where we got no option but contain expenditure. In that the government obvious cannot meet all demands, while we know the background of our country with the majority living in poor but we cannot meet all demands simultaneously*" **(Interviewee 5).**

The findings of the study provided evidence that South Africa faces a challenge of vast and varied socio-economic demands on a limited budget. The findings indicate that, in mitigating the impact of rating agencies and the growing debt, the government is trapped in a situation in which it has to adhere to fiscal consolidation which is essentially focused on reducing budget deficits and debts, while at the same time trying to intervene in addressing the socio-economic demands of the people of South Africa.

The findings of the study assert that rating agencies are inclined towards austerity measures which are based on curbing expenditure rather than prioritising the social needs of the citizens of a country. Literature suggests that rating agencies undermine government interventions which deliver services to its citizenry. Kraussl (2005) observed that rating agencies reduce government spending to avoid over-expenditure and increasing debt.

In the case of South Africa, fiscal consolidation and curbing expenditure means that government would not adequately intervene in addressing poverty and underdevelopment through increased spending, while 56.8 % of people in the country live below the poverty line (StatsSA, 2017), and the majority live in underdeveloped areas. Therefore, recommendations are made by rating agencies concerning the budget deficit and the increasing government debt, while there is a huge backlog in service delivery. This results in high demands for services to address poverty and underdevelopment, imposing a major challenge and impact on South Africa's governance and fiscal policies.

4.4.4 Improving cooperation between the South African government and rating agencies

The aim of this objective was to explore possible recommendations on how the South African government and rating agencies should cooperate in improving governance and fiscal policies within the country. The study established that South Africa needs to strengthen its government structures, build resilience, grow the economy, and further strive to continuously develop and improve its relationship with rating agencies. This would enable RAs to understand South Africa's socio-economic issues as part of cooperation, working collectively towards improving governance and fiscal policies.

4.4.4 (a) Strengthening government institutional structures

The concept of strengthening government institutional structures refers to building strong, capable, and independent government structures. The study found that, amongst South Africa's challenges is its weak structures, which are prone to manipulation and corrupt practices. The participants in the study recommended that South Africa and rating agencies cooperate, working collectively towards improving governance and fiscal policies in the country. South Africa must build and strengthen governance institutional structures. A participant pronounced: "*If South Africa would build strong governance structures that are firmly entrenched on the values and principles envisaged in the country's constitution, a lot would be better, it would easily uproot corruption and state capture. It would mean more resources go towards services, it would build professionalism and efficiency so that things are done on time and accordingly. That will increase even economic productivity, because the weaknesses of the state goes further to even demoralise private corporations*" **(Interviewee 3).**

A similar sentiment was expressed by another participant:

> "*Rating agencies are part of global institutions, if they raise issues it is up to us to either accept or correct what they say is wrong or to deny. The issue is whether what they are saying is factual or not. For now rating agencies have been raising things we see and know. We need strong structures that will not bend to all sort of things like maladministration and corruption*" **(Interviewee 4).**

The findings of the study were based on evidence presented pointing to building strong, capable, and independent government structures. A key recommendation was to enhance cooperation between the government and rating agencies in improving South Africa's governance and fiscal policies. Furthermore, all the participants recommended that South Africa build strong, capable, and independent structures in order to eliminate corrupt practices. Corruption results in the abuse and waste of limited government resources that are meant for services sorely needed in the country, especially by those previously disadvantaged, living in rural areas and townships. Literature asserts that corruption is a collaboration of public representatives and/or bureaucracy with the private firms to appropriate state resources, by illegal means, for themselves (Rose-Ackerman, 2004). For South Africa and rating agencies to cooperate in improving governance and fiscal policies within the country, the government must build and strengthen its governance institutional structures, further ensuring that it functions fairly without fear, independently, and without any influence.

4.4.4 (b) Building resilience and growing the economy

The concept of resilience and growing the economy means having a strong economic structure which possesses the capacity to withstand internal and external threats, while at the same time sustaining progression. The study established that, amongst the recommendations that could be made to improve cooperation between the South African government and rating agencies, so to improve the governance and fiscal policies of the country is by ensuring resilience and growing of the economy. A participant strongly recommended this:

> "*South Africa needs to grow its economy, but as long as the economy is not growing it will be difficult to build cooperation with rating agencies. The process of building a strong economy needs the government to ensure that there is a conducive environment to attract investment and ensure industrial growth*" **(Interviewee 5).**

Another participant added:

> "*Economic growth remains a solution for two reasons; it would help South Africa to improve cooperation with rating agencies, as it would enhance the rating status, and it would help grow revenue and create employment as a result unemployment will gradually decrease. The more the economy grows the better. When economy grows government gets more revenue, which in this case is needed to provide services to the poor who are living in impoverish areas*" **(Interviewee 1).**

The findings of the study establish that South Africa must become resilient and grow the economy. This is affirmed in the literature, in that most countries with successful economies have better ratings and do not finding it difficult to implement recommendations made by rating agencies. According to Hlomendlini (2017), for South Africa to grow its economy, it must enhance its investment status and attract more investors. Furthermore, for South Africa to grow its economy, it must ensure that it pays much more attention to production. Any resilient economy does not depend much on export commodity markets. As a country heavily dependent on exportation of commodities, South Africa must focus on building capacity to ensure processing of such commodities. Furthermore, it must stimulate growth in other, secondary sectors, as part of diversification of its economy (Page & Hewitt, 2001).

4.5 CONCLUSION

This chapter presented the findings and analysis based on data collected from interviews. The chapter also provided a discussion on each of the findings, detailing whether it confirms the literature or identifies gaps within the literature. In cases in which gaps were identified, this chapter also provided an analysis on such, identifying that pertinent literature does not exist. This enquiry would therefore be a critical contribution to the body of knowledge. The next chapter, Chapter Five, is the final chapter of the study. It provides the conclusion and recommendations of the study.

CHAPTER FIVE
CONCLUSION & RECOMMENDATIONS

5.1. INTRODUCTION

This chapter, Chapter Five, plays a crucial role in a study. The previous chapter, Chapter Four, presented the findings, discussions, and analysis of the study. This chapter is the final chapter; hence it presents the conclusion and recommendations, together with further areas for research based on the data presented and analysed in the previous chapter. In addition, some limitations that emerged during the study have been identified and presented.

5.2. SUMMARY OF THE RESEARCH OBJECTIVES

The focus of the study was to explore the impact of the rating agencies on South Africa's governance and fiscal policies. This was promoted by a number of factors such as the recent downgrade of South Africa, specifically, from 2010. It was then that the South African sociopolitical landscape was characterised by a preponderance of rating agencies appearing to be exerting a certain amount of pressure on governance and fiscal policies of the country. As a result, this study makes the following conclusions based on its objectives:

5.3 CONCLUSIONS 5.3.1 Conclusions aligned to Objective One: The role of rating agencies in South Africa's governance

This objective aimed at examining the role rating agencies play in South Africa's governance and fiscal policies. In doing so, the study found that the primary role of rating agencies was not only to rate the country's markets and businesses in terms of their creditworthiness, but also to rate South Africa's creditworthiness as a country. Such constitutes the sovereign credit rating, thus determining whether the government is willing to pay, and whether it has the ability to repay money borrowed from investors and lending institutions on time and in full.

The study found that, since 2010, South Africa's creditworthiness has been diminishing. This has been caused by weak government institutions which permitted corrupt practices, the lack of economic growth, and a limited budget with many competing socio-economic demands.
The study further found that the rating agencies have played a significant role in indirectly influencing the governance and fiscal policies of South Africa. In addition, the study established that rating agencies play a major role in creating awareness amongst civil society on their role, the role they should play in ensuring that government adopts and upholds the implementation of sound governance and prudent fiscal policies.

The findings also revealed that rating agencies play a role as a pressure group, exerting pressure on government to implement good governance policies through building up governance structures, making them strong, effective, and independent of any influence or manipulation. Another role played is ensuring that South Africa's government adopts fiscal consolidation policies. This is about curbing the budget expenditure and the country's debts.

Last, the findings reveal that rating agencies serve not only as gatekeepers for investors but also for taxpayers. The investors depend on the report provided by the rating agencies to determine whether or not the country is conducive to investment. If the country has adverse rating reports, investors will be hesitant to invest, opting rather to invest in other countries. The role played by rating agencies in South Africa's governance was found to be one of regulating potential investors. Thus, if government ignores reports of rating agencies it will find it difficult to attract investors.

5.3.2 Conclusions aligned to Objective Two: The response of the South African government to rating agencies

Governments around the world tend to respond differently to rating agencies, especially under difficult socio-economic times. They can either react or respond or both, but this tends to bear some consequences for both parties. The purpose of this objective was to explore how South Africa's government responded to the rating agencies during the heightened rating period. The study established that, notwithstanding discomfort that emerged among some in government, South Africa's government cooperated with the rating agencies.

South Africa's approach vis-à-vis rating agencies was characterised by a great sense of cooperation. The government, in particular the Minister of Finance, was assigned the task of liaising with relating agencies, ensuring that they receive all the necessary information during their assessment process. South Africa's Department of Finance has become the coordination point linking rating agencies with various institutions they wished to meet.

5.3.3 Conclusions aligned to Objective Three: South Africa's challenges in implementing recommendations by rating agencies

The purpose of this objective was to explore the challenges faced by the South African government in implementing the recommendations of rating agencies. While in practise, rating agencies do not issue policy advice or recommendations, once they issue their report in the form of a rating opinion, the government or company being rated is expected to address whatever was identified as a concern by rating agencies.

The study discovered that the South African government found it difficult to implement the recommendations of rating agencies. The various reasons included but were not limited to the socio-economic standing of many South Africans, and the weak governance structures, which fed into maladministration and corruption. The study found that rating agencies had been raising concerns about government institutions, in particular state-owned enterprises and how they were being run. Thus, the main concern was seen as weak governance structures and processes which exposed institutions to manipulation, maladministration, and corruption. This even gave rise to the perception that some of the SOEs were captured by certain business firms and prominent business people.

The study found that another challenge for the South African government in implementing the recommendations of the rating agencies was lack of economic growth. The lack of economic growth is attributed to the economic structure, which is dependent on export commodity prices, as South Africa continues to export raw material. Since 2007, when the economy was hit by the global financial crisis, the South African economy has declined and has never fully recovered. The rating agencies have been consistent about South Africa's slow economic growth; and the country remains faced with a serious difficultly in addressing this challenge.

The third challenge faced by the South African government in implementing the recommendations from the rating agencies was that government had a limited budget in an environment wherein there were many competing social and economic wants and demands from its very diverse citizenry. South Africa emerged from a prolonged era of Apartheid, during which the majority of the population, the Blacks, were denied human rights and access to basic services, while the White minority enjoyed access to all services and enjoyed not only human rights but a privileged standard of living. Correcting and striking a balance between these has been very difficult and problematic in South Africa. This has been mainly a result of the backlog faced by the current government, which requires high budget allocations in a vast number of underdeveloped areas neglected by the Apartheid government's development agenda, for the provision of basic services such water, electricity, roads, infrastructure, schools, and health facilities.

South Africa's budget is severely limited, hence meeting the country's diverse needs and demands has proven difficult, especially when some institutions are weak, with maladministration, wastage, and corruption high and unchecked. This has created serious competing demands from all facets of the populace, and in some cases, these demands have been expressed through protracted protests, which in turn affect the functioning of various state organs and other institutions. On the one hand, an example of such was the striking of students in tertiary institutions, referred to as the #Fees Must Fall movement. Once government acceded to these demands this led to an increase in the fiscal budget allocation. Thereafter, additional spending that had not been budgeted for would be required. On the other hand, those who are well-off, who live in developed areas, prefer that government invest more in resources in areas that stimulate the economy such as information technology, developing facilities, and curbing the budget to ensure economic stability. As a result, this study found that the South African government found it problematic to manage these varied socio-economic needs and demands. One of the indicators used by rating agencies is the budget growth. If a country's budgetary needs lead it to a budget deficit, government must be transparent, revealing not only to its citizenry how it intends to fund such a deficit but also informing the broader stakeholders or interested parties, such as rating agencies.

5.3.4 Conclusions aligned to Objective Four: Government and rating agencies' cooperation in improving governance and fiscal policies

The purpose of this objective was to examine recommendations on how the government and rating agencies could cooperate to improve South Africa's governance and fiscal policies. The study found that South Africa has always been cooperative with rating agencies and their rating processes; and that, while the rating process might have been conducted by individuals with subjective views, the processes have generally been fair and have followed the prescribed methodology.

The study found that the better cooperation between South Africa and rating agencies in improving governance and fiscal policies might be permanently addressed only if South Africa were to attend to the challenge of its weakened good governance. This refers to institutions that always permit corrupt practices to remain unchecked. Improving its economic growth would result in a positive future economic outlook for the country. South Africa needs to build strong, resilient, and independent government institutions, in which government departments would be led by professional and competent people of impeccable integrity. This would ensure that South Africa's government policies were implemented without interference from political leaders, influential business people, and individuals.

The study also found that, if South Africa addresses its governance issues by instilling good governance practices in its institutions, it would also be able to adhere to its financial policies.

If budgetary plans are insufficient to cover all demands required to be addressed, in government institutions led by people with integrity, budgetary needs prioritization would be followed, and key needs of society would be prioritised rather than being squandered for individual benefit.

The study further established that, for South Africa and rating agencies to improve cooperation and ensure good governance and fiscal policies, South Africa needs to pro-actively address its weak economic growth. The study identified that economic performance was identified as a key indicator used by rating agencies when conducting the rating process. South Africa needs to ensure that its economic performance improves. The study found that the cause of South Africa's weak economic performance is high dependence on export markets, in which South Africa trades its commodities. This has rendered the country's economy highly dependent on the exchange value. When the global economy faces challenges, South Africa suffers, and when South Africa's currency depreciates, the economy suffers again. While South Africa's economy is not strong, the country has a vast number of rich mineral commodities which could be processed in the country rather than being exported in their raw form for processing abroad. The study found that economic growth would also contribute towards augmenting the budget. As a result, the government would increase its allocations towards meeting many socioeconomic demands of the citizenry. The economic growth would also come with increased investment. As a result, more jobs would be created to address the high unemployment challenge, especially amongst the country's youth.

5.3 RECOMMENDATIONS

5.3.1 Recommendations aligned to Objective One: The role of rating agencies on South Africa's governance

The study revealed that, since 2010, South Africa's creditworthiness has been diminishing. Rating agencies play a key role as a pressure group forcing government to implement good governance policies. RAs indirectly influence the governance and fiscal policies of South Africa. RAs act as a pressure group to save taxpayer's monies. The study suggests that it is imperative for government clearly to understand the role of rating agencies. Government should also reflect on its own governance, its institutions, and the related recommendations made by rating agencies. This would be beneficial for the government and rating agencies, but also for the investors and for the broader economy of South Africa.

5.3.2 Recommendations aligned to Objective Two: The response of the South African government to rating agencies

In view of the finding that South Africa's approach towards rating agencies required cooperation, the study recommends that South Africa continue to develop and strengthen by means of a joint stakeholders' approach. This would be not only as a strategy in response to rating agencies and their sovereign rating of the country, but also in responding to other pressing issues on the broader African continent. Last, the South African government should also continuously engage with various global business leaders not only in times of need, to maintain their confidence in the country.

5.3.3 Recommendations aligned to Objective Three: South Africa's challenges in implementing recommendations by rating agencies

The study revealed that South Africa and its public institutions and organisations, especially SOEs, are faced with weak governance structures which negatively impact on the overall rating of the country. The study recommends that more stringent measures be put in place to address issues of weak governance. This may be achieved through instilling accountability and leadership informed by values and the rule of law.

Considering that lack of economic growth for the country emerged as a challenge, and in view of the fact that a limited budget was a critical challenge, the study recommends that the government reflect on its governance, its current policies of addressing lack of and slow economic growth, and why such have produced little or no change post the global 2008 economic crises. In doing so, government would be better positioned to craft effective policies that seek not only to find a balance between the country's needs and wants, correcting the socio-economic inequalities of its past, but those that do not compromise today's economic integrity and prosperity.

5.3.4 Recommendations aligned to Objective Four: Government and rating agencies' cooperation in improving governance & fiscal policies

Drawing from the findings that improved cooperation was key in improving governance and fiscal policies, the study recommends that South Africa's government should always see the recommendations made by rating agencies in a positive rather than in a negative light. This would result in the country improving its relationship with rating agencies. Such would also not be limited to improving good governance and economic growth in South Africa. Issues that are and have been raised by rating agencies in South Africa, such as weak governance and structures, maladministration, corruption, and wasteful expenditure, have had a negative impact on good governance and economic growth of the country.

5.4 CONTRIBUTION TO THE SUBJECT AND THE BODY OF KNOWLEDGE

The primary contribution of the study is the understanding of the influence of rating agencies on governance and fiscal policies in a country, using South Africa as a point of reference. The governance and fiscal policies are wide and immense, but in essence they determine the manner in which the country is governed. The exploration of the role of the rating agencies in South Africa's governance and fiscal policies examined the impact rating agencies could impose on one country's governance policies as a whole. The case of South Africa has greatly broadened the body of knowledge on the topic, because first, it is an African reflection. Second, South Africa is a developing country and third, a country that has endured vast socio-economic changes from its inception in 1912. South Africa has had five constitutions without a civil war. Currently, it is fraught with socio-economic challenges of the past. Today it remains committed to addressing its development agenda for its diverse citizenry in a pro-active manner.

The many studies conducted on rating agencies as found in the literature prove that there has not been dedicated academic research examining the impact of rating agencies on governance and fiscal policies in South Africa, let alone Africa. Thus, this study has produced supplementary knowledge on the challenges of the rating methodology versus the material conditions of the country; the impact of rating agencies on the country's sovereignty, and rating agencies as a pressure group. Other aspects that the study has contributed to are:

5.4.1 Rating methodology versus the material condition of the country

The study has produced knowledge on how the methodology used by rating agencies tends to neglect the real conditions prevailing in a country. For example, South Africa has been a divided country in terms of its races and race relations, where Blacks were oppressed for many decades under the Apartheid system through its laws and policies. It is a matter of fact that, during that period, Blacks, who constitute more than 75% of the population of the country, were denied human rights and were given far fewer services by the then Apartheid government. The post-Apartheid government intervention, in spending more than it has budgeted for in the provision of services, sought to address the disparities of the past which are under-development of Black areas that were systemically disadvantaged by the Apartheid regime.

Another factor is that the government, in providing basic services, is offering a genuine and desired intervention that complements efforts of reconciliation and deepening democracy. However, the provision of such services imposes a need for additional budget increases to the government, which currently, the government does not have. This results in budget deficits, and rating agencies also use such to conclude that the country's creditworthiness is diminishing. This becomes supplementary knowledge, adding to the body of knowledge that rating agencies are biased towards austerity and budget consolation policy, irrespective of real conditions existing in a country. This may lead to many countries finding it difficult to cooperate with rating agencies: the rating methodology tends to ignore their prevalent challenges and efforts to address such challenges, simply basing their rating on fiscal consolidation.

5.4.2 Rating agencies curtailing country's sovereign power

The study has contributed to the body of knowledge through revealing the impact rating agencies could have on the country's sovereignty. The principle of sovereign power of a country is assessed by the extent to which a country determines its domestic laws and policies. As long as such laws and principles promote the values of democracy and respect for human rights, no other country, international organisation, or individual has the authority to challenge the government. However, this study, based on the findings, has revealed that the role rating agencies play includes a power component. Through their rating of countries and recommendations made, such a process has an influence on the decision-making of a government, eventually having an effect on a country's sovereign decision-making processes. The study made an essential contribution through proving that, despite a country having its own policies for the development of its citizenry, if such policies are not endorsed or seen in a positive manner by rating agencies, the country could find it difficult to implement them.

Thus, the study reflects that the powers exercised by rating agencies curtail the country's sovereignty. Government can no longer govern and make decisions independently, needing to conform to the prescripts of the rating agencies in the form of recommendations.

5.4.3 Effectiveness of partnership

Last but not least, the study made a valuable contribution to the effectiveness of partnerships of various stakeholders in protecting the interests of South Africa. One of the findings provided by the study is that various stakeholders, who ordinarily hold different interests, came together into partnership and worked towards ensuring that the country was not downgraded to junk status. In most cases, workers, through unions, and employers, do not have similar interests; and as a result, they are in constant conflict. However, in the case of South Africa, when they all realised the imminent danger of being downgraded, they put aside their differences and interests, working together under a strategy to protect the country's rating status.

5.5 AREAS FOR FURTHER RESEARCH

Based on the findings of this study, it is recommended that further research should explore various other aspects of the influence of rating agencies, especially post the 2008 financial crisis; and the role rating agencies played in influencing policy direction prior to and post the economic melt-down.

Furthermore, in any country, there are various actors in the public policy process, such as traditional pressure groups, for example, trade unions, who influence government policy direction. However, the role and influence of rating agencies as actors in the policy process remain under-researched.

Lastly, rating agencies are seen as gatekeepers for investors. This role may therefore be seen as influential, especially when agencies rate countries that are in desperate need of direct foreign investment. The findings of this study show that the rating process might not only have an influence on the governance of a country, but also, on its development and resource allocation. Further research in this area would prove beneficial because of the implications rating agencies might have for development.

5.6 CONCLUSION

The study explored the impact of rating agencies on South Africa's governance and fiscal policies. The study produced evidence that attests to the importance of rating agencies for South Africa's ability to borrow funds from international institutions and to further position itself as an attractive investment destination for investors. The findings of the study show that South Africa needs to maintain effective cooperation with rating agencies and work towards constant improvement of its implementation of governance and fiscal policies. This may be achieved through ensuring good governance. Good governance would effectively address issues of wasteful and irregular expenditure, maladministration, and corruption that remains unchecked in the country.

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APPENDIXES

ETHICAL CLEARANCE

UNIVERSITY OF KWAZULU-NATAL

INYUVESI YAKWAZULU-NATALI

1 November 2017

Mr Sihle Zikalala 216073536
Graduate School of Business and Leadership
Westville Campus

Dear Mr Zikalala

Protocol reference number: HSS/1643/017M
Project title: Exploring the impact of rating agencies on South Africa's governance and fiscal policies.

Full Approval – Expedited Application

In response to your application received 4 September 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

[redacted]

Dr Shenuka Singh (Chair)
Humanities & Social Sciences Research Ethics Committee

/pm

cc Supervisor: Dr E Mutambara and Mr Siyanda A Mthuli
cc. Aacademic Leader Research: Dr Muhammad Hoque
cc. School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee
Dr Shenuka Singh (Chair)
Westville Campus, Govan Mbeki Building
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INFORMED CONSENT FORMS

UKZN HUMANITIES AND SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE (HSSREC)

APPLICATION FOR ETHICS APPROVAL
For research with human participants

Information Sheet and Consent to Participate in Research

Date:

Greetings,

My name is Sihle Zikalala a Master of Commerce Student from the University of KwaZuluNatal, Graduate School of Business and Leadership. My contact details are as follows: Tel: 032 941 5987 & email: zikalalaihle@gmail.com.

You are being invited to consider participating in a study that involves research titled:
Exploring the impact of Rating Agencies on South Africa's Governance and Fiscal Policies. The aim and purpose of this research is to:

- Assess the role rating agencies in South African Government
- Explore the response of South African government to the rating agencies,
- Establish the challenges faced by government towards the implementation of recommendations by rating agencies, and
- Provide recommendations on how government and rating agencies should cooperate towards improving government and fiscal policies.

This study has been ethically reviewed and approved by the UKZN Humanities and Social Sciences Research Ethics Committee (approval number……………………………). In the event of any problems or concerns/questions you may contact the I the researcher at (032 941 5987 or zikalalaihle@gmail.com) or the UKZN Humanities & Social Sciences Research Ethics Committee, contact details as follows:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION
Research Office, Westville Campus
Govan Mbeki Building
Private Bag X 54001
Durban 4000 KwaZulu-Natal, SOUTH AFRICA
Tel: 27 31 2604557- Fax: 27 31 2604609
Email: HSSREC@ukzn.ac.za

Your participation in the study is voluntary and by participating, you are granting the researcher permission to use your responses. You may refuse to participate or withdraw from the study at any time with no negative consequence. There will be no monetary gain from participating in the study. Your anonymity will be maintained by the researcher and the School of Management, I.T. & Governance and your responses will not be used for any purposes outside of this study.

All data, both electronic and hard copy, will be securely stored during the study and archived for 5 years. After this time, all data will be destroyed. If you have any questions or concerns about participating in the study, please contact me or my research supervisor at the numbers listed above.

Sincerely,
Sihle Zikalala

………………………………………..

CONSENT TO PARTICIPATE

I ………………………………………………………………………. have been informed about the study entitled: Exploring the impact of Rating Agencies on South Africa's Governance and Fiscal Policies by Sihle Zikalala 032 941 5987 & email: zikalalaihle@gmail.com

I understand the purpose and procedures of the study. I have been given an opportunity to ask questions about the study and have had answers to my satisfaction.

I declare that my participation in this study is entirely voluntary and that I may withdraw at any time without affecting any of the benefits that I usually am entitled to.

I have been informed about any available compensation or medical treatment if injury occurs to me as a result of study-related procedures.

If I have any further questions/concerns or queries related to the study I understand that I may contact the researcher at (provide details).

If I have any questions or concerns about my rights as a study participant, or if I am concerned about an aspect of the study or the researchers then I may contact:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION
Research Office, Westville Campus
Govan Mbeki Building
Private Bag X 54001
Durban
4000
KwaZulu-Natal, SOUTH AFRICA
Tel: 27 31 2604557 - Fax: 27 31 2604609
Email: HSSREC@ukzn.ac.za

Additional consent, where applicable. I hereby provide consent to:

Audio-record my interview / focus group discussion YES / NO
Video-record my interview / focus group discussion YES / NO
Use of my photographs for research purposes YES / NO

______________________ ______________________

Signature of Participant Date

______________________ ______________________

Signature of Witness Date
(Where applicable)

______________________ ______________________

Signature of Translator Date
(Where applicable)

INTERVIEW SCHEDULE/GUIDE

Exploring the impact of Rating Agencies on South Africa's Governance and Fiscal Policies.

1. What is the process followed by rating agencies when they conduct rating process?

2. How has been the process of rating South African Government, are there unique experiences that have prevailed during the rating process?

3. Do the rating agencies balance the country’s policy priorities with the rating criteria when conducting the rating process?

4. What has been the response of the South African Government to the rating process?

5. What has been the attitude of rating agencies during the ratings process?

6. What has been the impact of rating process to South African Government and the economy of the country in large?

7. How could the rating agencies and South African Government improve their cooperation on the rating process in a way that accommodates the interests of both parties?

8. What are lessons learnt by South Africa Government and rating agencies from the rating processes that have been conducted?

TURN IT IN REPORT

THE INFLUENCE OF RATING AGENCIES ON SOUTH AFRICA'S GOVERNANCE AND FISCAL POLICIES

ORIGINALITY REPORT

7%	6%	2%	0%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

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2	www.scribd.com Internet Source	1%
3	www.economic.upit.ro Internet Source	<1%
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6	www.wikiomni.com Internet Source	<1%
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8	Mai Nguyen, Janna, and Dodo zu Knyphausen-Aufseß. "The Impact of Sovereign Credit Ratings on Corporations: A Literature Review	<1%