

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing May 2017

---

#### South Africa Summary 19 May 2017

**Members of the Congress of South African Trade Unions (Cosatu) 'boo' president Jacob Zuma (2009-present) at a Labour Day address in Bloemfontein (Free State Province). Tripartite alliance partners the South African Communist Party (SACP) and Cosatu prepare to discuss leaving the alliance with the ruling African National Congress (ANC). The International Monetary Fund (IMF) increases its growth projections for South Africa from 0.8% to 1% of gross domestic product (GDP), citing growth in the mining sector. The government approves a request by the board of state-owned power utility Eskom to reappoint disgraced former CEO Brian Molefe, leading to widespread public criticism.**

---

#### Cosatu crowds 'boo' Zuma in Labour Day speech

Members of the **Congress of South African Trade Unions (Cosatu)** 'booed' president **Jacob Zuma** (2009-present) at a Labour Day address in **Bloemfontein (Free State Province)**, on 1 May.<sup>1</sup> This is an important public rejection of Zuma by an organisation that is supposed to be one of his close allies. Cosatu and the ruling **African National Congress (ANC)** are part of the ruling tripartite or revolutionary alliance with the **South African Communist Party (SACP)**. Cosatu called on Zuma to step down after he fired then finance minister **Pravin Gordhan** on 31 March (see *ARC Briefing South Africa March 2017*). The organisation leaked letters from Cosatu member bodies, the **National Education, Health and Allied Workers' Union (Nehawu)** and the **Communication Workers Union (CWU)**, on 26 April calling for Zuma not to address the Labour Day rally.<sup>2</sup> The unions called for a "more eligible leader" to address the rally instead.<sup>3</sup>

*"This is significant, not only does it damage Zuma's ego but it signals the beginning of the end of the tripartite alliance. Zuma will not forgive Cosatu for the slight and even if they wanted to get back into his inner circle they won't be able to."*<sup>4</sup>

Cosatu holds rallies on 1 May in every province in **South Africa**, and, since the end of apartheid, the president has traditionally attended the rally that the Cosatu president attends.<sup>5</sup> Nehawu and CWU's attempt to depart from the tradition marks a major rift between Zuma and the unions.<sup>6</sup> Zuma pushed the issue and demanded that he address the crowds, backed by Free State premier and key ally **Ace Magashula**.<sup>7</sup> Zuma gave an address before the opening of the main event, but crowds at the event 'booed' the speech for its duration.<sup>8</sup> Cosatu president and Zuma ally **S'dudo Dlamini** attempted to calm the crowd but they 'booed' him as well and he was unable to do so.<sup>9</sup> Dlamini then cancelled the main Labour Day events scheduled for after the speech.<sup>10</sup> Cosatu members also 'booed' ANC deputy secretary-general **Jessie Duarte** and chairwoman **Baleka Mbete** at rallies held in **Limpopo** and

---

<sup>1</sup> Business Day, 1 May 2017.

<sup>2</sup> Daily Maverick, 26 Apr 2017.

<sup>3</sup> Daily Maverick, 26 Apr 2017.

<sup>4</sup> Source, political analyst, Pretoria

<sup>5</sup> Daily Maverick, 26 Apr 2017.

<sup>6</sup> Daily Maverick, 26 Apr 2017.

<sup>7</sup> Daily Maverick, 26 Apr 2017.

<sup>8</sup> Business Day, 1 May 2017.

<sup>9</sup> Business Day, 1 May 2017.

<sup>10</sup> Business Day, 1 May 2017.

**KwaZulu-Natal** provinces respectively.<sup>11</sup> Deputy president **Cyril Ramaphosa**, who is reportedly Zuma's primary opponent in the ANC, received a warm welcome from Cosatu supporters in **Mpumalanga Province**.<sup>12</sup>

The practice of 'booing' and heckling speakers is politically significant in South Africa, and usually pro-Zuma factions within the ANC will shout down his critics. It is the third time that crowds have 'booed' Zuma in public, and the first time it has happened outside of the moderate leaning **Gauteng Province**.<sup>13</sup> The public humiliation of Zuma has led to his allies declaring that they will shout down his opponents, notably Ramaphosa, at their speaking engagements.<sup>14</sup> **ANC Youth League (ANCYL)** president **Collen Maine**, another prominent Zuma supporter, said that he would "not be nice"<sup>15</sup> to Ramaphosa, and former ANC armed wing **Umkhonto we Sizwe Association** chair **Kebby Maphatsoe** warned Cosatu members not to challenge the ANC.<sup>16</sup>

*"Zuma's wing of the ANC wants to fight politics like a war, they will try everything they can to hold on to the power they have."<sup>17</sup>*

This increases the possibility of major disruption at the Cosatu central committee meeting in June, and the SACP *imbizo* (extraordinary general meeting) on 22 May and their annual congress in July. However, the loudest voices at these meetings will be those allied against the president, as the SACP and Cosatu consider how to split from the tripartite alliance.

*"If the ANC is unable to fulfil its mandate and bring people together, the movement will completely disintegrate with no capacity to rebuild itself... At this imbizo, we want to reflect on the extent of the damage. The movement must protect itself. As progressive forces, we must reimagine ourselves, correct ourselves and find our bearings."<sup>18</sup>*

The **South African Council of Churches (SACC)** will present the findings of a two-month 'unburdening panel' – its own investigation into state capture – at the SACP congress, intervening directly in South African politics for the first time since the end of apartheid.<sup>19</sup> All of this is leading up to the ANC's important *lekgotla* (national conference) in December where Ramaphosa will compete with Zuma's ex-wife, and favoured candidate, **Nkosazana Dlamini-Zuma** for the presidency of the ANC and lasting influence over the remainder of Zuma's presidency.<sup>20</sup> The tripartite alliance is looking increasingly threatened, as both the SACP and Cosatu are considering breaking with the ANC. It is likely that both will hold off actively leaving government until December, as they will be better able to support their preferred candidate from within. However, if Dlamini-Zuma wins in December, it is highly likely that Cosatu and the SACP will leave the alliance shortly afterwards, reshaping South Africa's political landscape.

## IMF raises South Africa's growth forecast to 1%

The **International Monetary Fund (IMF)** increased its forecast for South Africa's growth from 0.8% to 1% of **Gross Domestic Product (GDP)** on 19 May.<sup>21</sup> The increased forecast reflects weather and international trends and demonstrates that issues beyond South Africa's political difficulties can dictate the country's economic growth. It is a notable increase from the 0.3% growth that South Africa experienced across 2016.<sup>22</sup> An IMF delegation conducted an Article IV assessment of the country

<sup>11</sup> Rand Daily Mail, 3 May 2017.

<sup>12</sup> Rand Daily Mail, 3 May 2017.

<sup>13</sup> Business Day, 1 May 2017.

<sup>14</sup> Rand Daily Mail, 3 May 2017.

<sup>15</sup> Rand Daily Mail, 3 May 2017.

<sup>16</sup> Rand Daily Mail, 3 May 2017.

<sup>17</sup> Source, ANC insider, Johannesburg

<sup>18</sup> Daily Maverick, 18 May 2017.

<sup>19</sup> Daily Maverick, 18 May 2017.

<sup>20</sup> Daily Maverick, 2 May 2017.

<sup>21</sup> IMF press release, 19 May 2017

<sup>22</sup> Bloomberg, 19 May 2017.

during a visit from 6 to 16 May.<sup>23</sup> The IMF said the end of a region-wide drought in 2015 and 2016, the result of consecutive **El Niño** and **La Niña** weather events, would lift agricultural production.<sup>24</sup> Increasing commodity prices due to better international demand will also lead to a growth from the mining sector.<sup>25</sup> IMF delegation head **Paul Mauro** said,

*"Following last year's near-stagnation, there are signs that a modest improvement in the pace of economic growth is under way... However, the pace of recovery this year and the next is unlikely to prevent a further increase in unemployment and a continued decline in per capita incomes."*<sup>26</sup>

The increase in agricultural production will improve the prospects of commercial agriculture, and ease pressure on the cost of living as the price of staple grains is due to fall. The IMF predicted that consumer price index (CPI) inflation will fall below the 6% upper limit that the **South African Reserve Bank (SARB)** (central bank) set for 2017.<sup>27</sup> CPI inflation fell to 6.1% in April, a six-month low.<sup>28</sup> Mining production value increased to 15.5% year on year in March, up from 4.6% year on year growth in February.<sup>29</sup> This reflects an increase in the price of gold and platinum group metals (PMG), notably palladium.<sup>30</sup> The price of coal is also trading well on the futures market, sparking some hope that the price of steel may increase across 2017.<sup>31</sup> Manufacturing output also increased by 2% from February to March 2017.<sup>32</sup>

However, the IMF was cautious about South Africa's debt burden which is due to rise to 48% of GDP by 2019.<sup>33</sup> The delegation met finance minister **Malusi Gigaba** and welcomed his affirmation of continued fiscal goals, which target a reduction in the budget deficit to 2.6% of GDP by 2020 from 3.6% in 2017.<sup>34</sup> It expressed concern that potential spending on infrastructure projects and by SOEs could increase the debt burden at a time when borrowing in external currency would be expensive for South Africa.<sup>35</sup> It said that the government needed to both stimulate growth while making the economy more inclusive, which will require reforms of the labour market and improved governance at SOEs.<sup>36</sup>

South Africa has a mature and developed economy, which gives it a measure of resilience to the shifting politics that have damaged its international standing. Easing pressure on consumer spending and a revitalisation of the mining industry could drive growth up beyond 1%. However, Zuma and Gigaba's plans to extract greater value from companies – so called radical economic transformation – could hold this back, keeping growth at around 1% for the short to medium term.

### Government approves Molefe reappointment as Eskom CEO

The government approved a request by the board of state-owned power utility **Eskom** to reappoint disgraced former CEO **Brian Molefe** on 13 May.<sup>37</sup> Former public protector **Thuli Madonsela** named Molefe as an official who was "owned"<sup>38</sup> by the **Gupta** family in her state capture report leading to his resignation (see *ARC Briefing South Africa January 2017*). Zuma's move to reappoint him shows a disregard for public opinion, as well as an attempt to reinstate a Gupta ally to ensure the build of a

<sup>23</sup> Bloomberg, 19 May 2017.

<sup>24</sup> Bloomberg, 19 May 2017.

<sup>25</sup> IMF press release, 19 May 2017.

<sup>26</sup> IMF press release, 19 May 2017.

<sup>27</sup> Bloomberg, 19 May 2017.

<sup>28</sup> The Herald, 21 Apr 2017.

<sup>29</sup> Business Day, 7 May 2017.

<sup>30</sup> Business Day, 7 May 2017.

<sup>31</sup> Business Day, 7 May 2017.

<sup>32</sup> Business Day, 7 May 2017.

<sup>33</sup> IMF press release, 19 May 2017.

<sup>34</sup> IMF press release, 19 May 2017.

<sup>35</sup> IMF press release, 19 May 2017.

<sup>36</sup> IMF press release, 19 May 2017.

<sup>37</sup> Daily Maverick, 14 May 2017.

<sup>38</sup> Rand Daily Mail, 15 May 2017.

nuclear power plant. The decision to reappoint Molefe bypassed the ANC whose appointments committee is usually in charge of selecting the heads of leading state-owned enterprises.<sup>39</sup> The ANC issued a condemnation of the move just hours after state enterprises minister **Lynne Brown** announced the appointment.<sup>40</sup>

*"The ANC condemns the unfortunate and reckless decision taken by the Board of Directors of Eskom to reinstate Brian Molefe."*<sup>41</sup>

The board justified the decision to reappoint Molefe as the only way to avoid paying Molefe a 30m rand (\$2.2m) pension, which he was due under retrenchment regulations.<sup>42</sup> However, given the government has underwritten Eskom debts of over \$500m in the last two years, local sources believe that this was a pretext:

*"Zuma does not care anymore. This is to get the nuclear deal back on track and make sure the Guptas retain their grip on South Africa ... even the ANC knows it and is now in open war with the presidency."*<sup>43</sup>

The **Western Cape High Court** struck down two determinations by former energy minister **Tina Joemat-Pettersson** that laid the ground for the nuclear procurement programme on 26 April.<sup>44</sup> Eskom attempted to commission the construction of five nuclear power plants with a total output of 9,600MW of energy in December 2015 and December 2016.<sup>45</sup> The court said that both determinations were unconstitutional and invalid, and also found that a nuclear co-operation deal that Zuma signed with **Russian** officials in 2015 was unlawful and unconstitutional.<sup>46</sup> Non-governmental organisations (NGOs) **Earthlife Africa** and the **Southern African Faith Communities' Environment Institute (SAFCEI)** brought the case against the energy department, Eskom, Joemat-Pettersson and Zuma in December 2016.<sup>47</sup> The first determination was that South Africa required 9,600MW of nuclear energy and that the energy department should acquire it.<sup>48</sup> The second determination instructed Eskom to act to procure it.<sup>49</sup> The **National Energy Regulator of South Africa (NERSA)** approved both regulations, but the court ruled that NERSA's concurrence was:

*"... procedurally unfair, irrational and in breach of the National Energy Regulator Act as it did not involve any public participation."*<sup>50</sup>

The court ordered the energy department to disregard the South Africa-Russia nuclear agreement, and other agreements with the **United States (US)** and **South Korea** on the basis that they were unlawful.<sup>51</sup> It also ordered Eskom to disregard a request for information, which is still out for public review, on the procurement process.<sup>52</sup> However, energy minister **Mmamoloko Kubayi** announced on 15 May – following Molefe's appointment – that the energy ministry would start a new nuclear programme, pursuing just one new power plant build instead of five.<sup>53</sup>

Former mining minister **Ngoaka Ramatlhodi** placed further pressure on Molefe, telling investigative journalists on 16 May that he would testify under oath that Molefe had attempted to get him to

<sup>39</sup> Daily Maverick, 14 May 2017.

<sup>40</sup> Daily Maverick, 14 May 2017.

<sup>41</sup> Times, 13 May 2017.

<sup>42</sup> Times, 13 May 2017.

<sup>43</sup> Source, political analyst, Pretoria

<sup>44</sup> Business Day, 26 Apr 2017.

<sup>45</sup> Business Day, 26 Apr 2017.

<sup>46</sup> Business Day, 26 Apr 2017.

<sup>47</sup> Business Day, 26 Apr 2017

<sup>48</sup> Business Day, 26 Apr 2017.

<sup>49</sup> Business Day, 26 Apr 2017.

<sup>50</sup> Business Day, 26 Apr 2017.

<sup>51</sup> Business Day, 26 Apr 2017.

<sup>52</sup> Business Day, 26 Apr 2017.

<sup>53</sup> Rand Daily Mail, 15 May 2017.

blackmail **Switzerland**-based commodities trader **Glencore**.<sup>54</sup> The revelations give context to the actions of Ramatlhodi's replacement, **Mosebenzi Zwane**, who suspended **Optimum Coal**'s mining licence until Glencore was forced to sell it to Gupta-controlled **Oakbay Investments**. Ramatlhodi told the media that Molefe and Zuma ally **Sipho 'Ben' Ngubane** approached him in 2015 to revoke Optimum's licence – which he declined to do.<sup>55</sup> Zuma moved Ramatlhodi to the public services portfolio several weeks after and brought in Zwane, who has strong links to the Gupta family.<sup>56</sup> Zwane carried out the suspension and, according to sources who worked for Optimum, lifted it as soon as the Gupta family purchased the company:

*“That sudden decision to start using Optimum again must have been taken the instant that the Gupta family made their offer to buy up Optimum. I remember it was on about the 12 December (2015) that the trucks started arriving – and the announcement that the Guptas had bought Optimum came on 13 December. That is not a coincidence.”<sup>57</sup>*

Molefe's appointment shows the flip side of patronage networks. He manipulated the licensing and ownership of Optimum Coal, allowing the Gupta family and Zuma to gain. However, he took the fall for doing so in public and is now looking to Zuma and the Guptas to provide for him. Zuma appointed him to parliament in February and allegedly considered him for the job of finance minister. However, when this was politically untenable, the president had to look for a new position. The decision of the courts to shut down the power deal is a major threat to Zuma, as sources within the ANC report that the nuclear deal will enrich him personally. This gave him the justification needed to reappoint Molefe no matter the public opinion fall out. Zuma is banking on the public outcry having little impact on the internal ANC elections, or the 2019 elections. However, with major pushback from within the ANC, he may have miscalculated this move.

---

<sup>54</sup> Amabhungane, 16 May 2017.

<sup>55</sup> Amabhungane, 16 May 2017.

<sup>56</sup> Amabhungane, 16 May 2017.

<sup>57</sup> Multiple sources: Source, former optimum manager, South Africa; Bloomberg, 7 Aug 2015.

---

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.briefing.africariskconsulting.com](http://www.briefing.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)