

## AFRICA RISK CONSULTING

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#### South Africa Summary 20 January 2017

**President Jacob Zuma (2009-present) informally backs a “woman president” for South Africa during a radio interview on 12 January, and confirms that he will not seek a nomination for re-election as president of the ruling African National Congress (ANC). Zuma also calls on current front-runners to replace him – deputy president Cyril Ramaphosa and outgoing African Union (AU) chair Nkosazana Dlamini-Zuma – to reject public endorsements. Controversial parliamentary speaker, ANC chair, and close Zuma ally Baleka Mbete announces her bid to lead the ANC. Coal mining company Exxaro Resources announces plans to reduce its broad-based black economic empowerment (BBBEE) ownership from 50% to 30%. State-owned power utility and Exxaro’s largest customer Eskom criticises the move as a step backwards from empowering all South Africans. Financial services company Standard Bank Group (SBG) files an affidavit at the Pretoria High Court asking for protection against all political interference in its operations.**

#### ANC succession: Zuma won’t run but backs a ‘woman president’

President **Jacob Zuma** (2009-present) informally backed a “woman president”<sup>1</sup> for **South Africa** during a radio interview on 12 January, and confirmed that he would not seek a nomination for re-election as president of the ruling **African National Congress (ANC)**.<sup>2</sup> Approximately 4,000 ANC delegates will vote on the new president and national executive committee (NEC) of the ANC at a *lekgotla* (national conference) from 16 to 20 December this year.<sup>3</sup> The incoming ANC president will have the power to set the ANC’s policy agenda and, therefore, the policy agenda of the country.<sup>4</sup> Zuma wielded considerable influence while ANC president under interim president **Kgalema Motlanthe** (2008-2009).<sup>5</sup> Traditionally, the president of the ANC has gone on to become the candidate of the ANC in the next presidential election.<sup>6</sup>

The announcement came a week after Zuma urged contestants looking to succeed him as ANC president not to accept public endorsements on 8 January.<sup>7</sup> ANC spokesperson **Zizi Kodwa** released a statement on 9 January saying that Zuma called on deputy president **Cyril Ramaphosa** and outgoing **African Union (AU)** chair **Nkosazana Dlamini-Zuma** to reject endorsements.<sup>8</sup> Kodwa read a statement from Zuma that condemned the endorsements as

*“premature ... this only seeks to divide the party further at a time when we need unity. It is divisive and they [Ramaphosa and Dlamini-Zuma] must say, ‘not in my name’...as leaders, they must say not in my name, even if they accept nomination later when the process is officially open.”<sup>9</sup>*

<sup>1</sup> Daily Maverick, 18 Jan 2017.

<sup>2</sup> Daily Maverick, 18 Jan 2017.

<sup>3</sup> Business Day, 9 Jan 2016.

<sup>4</sup> Business Day, 9 Jan 2016.

<sup>5</sup> Business Day, 9 Jan 2016.

<sup>6</sup> Business Day, 9 Jan 2016.

<sup>7</sup> Business Day, 9 Jan 2016.

<sup>8</sup> Business Day, 9 Jan 2016.

<sup>9</sup> Business Day, 9 Jan 2016.

However, the proclamation did not stop endorsements, including from Zuma himself. In the 12 January interview Zuma ended speculation that he might seek to extend his term at the helm of the ANC. He also shifted his support away from Ramaphosa, who has the backing of the powerful **Congress of South African Trade Unions (Cosatu)**.<sup>10</sup> Zuma gave another interview that the **South African Broadcasting Company (SABC)** broadcast on 15 January confirming this, saying that:

*"People say it is a tradition that once you are the deputy president, you then become the president, that is not true."<sup>11</sup>*

Cosatu restated its endorsement of Ramaphosa, which it first announced in November, on 9 January.<sup>12</sup> Cosatu, while not technically affiliated to the ANC, is part of the tripartite or revolutionary alliance with the ANC and **South African Communist Party (SACP)** that makes up South Africa's ruling coalition.<sup>13</sup> Ramaphosa's spokesperson **Ronnie Mamoepa** said that Ramaphosa fully aligned himself with Zuma, but did not reject Cosatu's endorsement.<sup>14</sup> Ramaphosa has the backing of many of the factions within the ANC that are opposed to Zuma – notably ANC struggle veterans including Motlanthe and figures such as mining magnate **Patrice Motsepe**.<sup>15</sup> However, some see him as politically cautious and too closely aligned to business interests:

*"The old guard want Cyril in power, but younger delegates think that he is another old man who is too close to the status quo."<sup>16</sup>*

It is less clear whom Zuma intends to support with his endorsement of a female successor. Most of the media attention has focused on Dlamini-Zuma, the recently departed chair of the AU.<sup>17</sup> The **ANC Women's League (ANCWL)** formally endorsed Dlamini-Zuma as the first female candidate for the presidency of the ANC on 8 January.<sup>18</sup> The ANCWL was technically in breach of the ANC's rules, which state that affiliated organisations are not allowed to formally endorse a candidate for internal elections until the start of the electoral process three months before the vote.<sup>19</sup> The endorsement of Dlamini-Zuma comes as no surprise as ANCWL president **Bathabile Dlamini** informally endorsed Dlamini-Zuma when she took on the ANCWL role in 2015.<sup>20</sup> Dlamini-Zuma has been quietly gathering support for at least a year. She is Zuma's first wife and mother of two of his children; however, she is reportedly at odds with her former husband on a number of issues.<sup>21</sup> According to a source who knows her:

*"She is her own woman, she does not do what Jacob (Zuma) tells her to...they are divorced after all! She does not buy into his way of doing things, where it is about paying money and who you know."<sup>22</sup>*

However, Zuma may be backing a further contender – parliamentary speaker and ANC chairperson **Baleka Mbete**.<sup>23</sup> Mbete launched her campaign to lead the ANC on 15 September, claiming in an interview with the **Sunday Times** that "*many party structures*"<sup>24</sup> had approached her to do the job.<sup>25</sup> Mbete is a close ally of Zuma, and the most likely of all three candidates to maintain Zuma's

<sup>10</sup> Daily Maverick, 18 Jan 2017.

<sup>11</sup> Mail and Guardian, 15 Jan 2017.

<sup>12</sup> Mail and Guardian, 8 Jan 2016.

<sup>13</sup> Business Day, 9 Jan 2016.

<sup>14</sup> Business Day, 9 Jan 2016.

<sup>15</sup> Source, ANC insider, Johannesburg

<sup>16</sup> Source, ANC insider, Johannesburg

<sup>17</sup> Daily Maverick, 18 Jan 2017.

<sup>18</sup> Mail and Guardian, 8 Jan 2016.

<sup>19</sup> Business Day, 9 Jan 2016.

<sup>20</sup> Business Day, 9 Jan 2016.

<sup>21</sup> Source, ANC insider, Johannesburg

<sup>22</sup> Source, former newspaper editor, Johannesburg

<sup>23</sup> Daily Maverick, 18 Jan 2017.

<sup>24</sup> Daily Maverick, 18 Jan 2017.

<sup>25</sup> Daily Maverick, 18 Jan 2017.

considerable patronage networks.<sup>26</sup> As speaker Mbete has drawn continued public criticism from the opposition **Democratic Alliance (DA)** and **Economic Freedom Fighters (EFF)** for her poor handling of debates and lack of knowledge of parliamentary process. In private, many within the ANC agree:

*“Baleka Mbete as president would be a puppet for Zuma and the end of the ANC as we know it. Those against Zuma might even consider breaking away.”<sup>27</sup>*

Other possible candidates for the presidency of the ANC are: former housing and defence minister **Lindiwe Sisulu**, minister in the presidency **Jeff Radebe**, **Mpumalanga Province** premier **David Mabuza**; former president of South Africa and ANC veteran Motlanthe, and ANC treasurer **Zweli Mkhize**.<sup>28</sup>

The ANC succession race is out in the open. The ANC cannot formally make endorsements yet, but all its delegates will now focus on who succeeds Zuma and shapes the party’s policy until the next election. Zuma throwing his weight behind a female candidate is perhaps more an attack on Ramaphosa than an endorsement of Dlamini-Zuma. Dlamini-Zuma is reportedly not part of the president’s network of supporters, unlike Mbete who may suffer a fall from grace without Zuma to support her. With three candidates currently at the front of the race, any two could split the support of either the pro-Zuma or anti-Zuma camps. For business, a Ramaphosa succession still looks most likely to deliver both stability and growth. Any Zuma-aligned candidates – Radebe and Mabuza, for example – will retain the status quo and Mbete, with her consistently poor reputation for corruption and ineffectiveness could make things even worse.

### **Exxaro Resources to reduce BBBEE share to 30%**

South Africa-based coal mining company **Exxaro Resources** announced on 3 January that it would reduce its broad-based black economic empowerment (BBBEE) ownership from 50% to 30%.<sup>29</sup> BBBEE is the government’s mechanism for redistributing wealth to historically disadvantaged South Africans by mandating major companies to reserve a stake for their ownership.<sup>30</sup> Exxaro’s move to reduce its BBBEE ownership stake, which remains above the legal requirement, is a direct challenge to the spirit of the government’s empowerment policy. **Main Street 333**, a BBBEE entity, owned 51.9% of Exxaro. Main Street 333’s shares were placed in a 10-year lock when the company was incorporated, and this expired in November 2016.<sup>31</sup> Exxaro’s shareholders voted on 2 January to buy back the shares for 3.5 billion rand (R) (\$260m), and to then create a new holding company that would own 30% of the shares instead.<sup>32</sup>

Exxaro’s shareholders made the decision to change policy following state-owned power utility **Eskom**’s increased order for coal to fuel the new **Medupi** and **Kusile** power plants.<sup>33</sup> Eskom plans to order a total of 60 million tonnes per annum of coal to power the two, and estimated in 2013 that this would require the development of 11 additional coalmines.<sup>34</sup> Currently Exxaro’s **Grootegeluk** mine in Mpumalanga struggles to supply coal to Medupi, which is close to full operating capacity. Exxaro argues that the demand increase means it needs to raise further funds to increase its supply, something it cannot do via a BBBEE discounted stake.<sup>35</sup> Exxaro’s market capitalisation of \$2.2 billion would place the means to raise further capital beyond the reach of empowerment funds.<sup>36</sup>

<sup>26</sup> Daily Maverick, 18 Jan 2017.

<sup>27</sup> Source, ANC insider, Johannesburg

<sup>28</sup> Sunday Times, 15 Jan 2017.

<sup>29</sup> Financial Mail, 3 Jan 2017.

<sup>30</sup> Financial Mail, 3 Jan 2017.

<sup>31</sup> Business Day, 2 Jan 2017.

<sup>32</sup> Business Day, 2 Jan 2017.

<sup>33</sup> Financial Mail, 3 Jan 2017.

<sup>34</sup> Financial Mail, 3 Jan 2017.

<sup>35</sup> Financial Mail, 3 Jan 2017.

<sup>36</sup> Financial Mail, 3 Jan 2017.

However, Eskom argues the buyback is an attempt to move backwards on empowering South Africans, and that the company could leverage its local assets in a rand denominated raise to cover the costs.<sup>37</sup> Acting Eskom CEO **Matshela Koko** accused Exxaro of “*showing Eskom the middle finger*”<sup>38</sup> with the move.<sup>39</sup> State-owned enterprises such as Eskom are obliged by law to take the level of empowerment of companies bidding for tenders into account.<sup>40</sup> Eskom has not accepted tenders from any company with less than 50% empowered ownership since 2012.<sup>41</sup> However if Exxaro moves its ownership down to 30%, Eskom will be forced to compromise as it is not financially viable to import coal from elsewhere.<sup>42</sup> According to a local source:

*“This is the first major challenge to BBBEE regulations from a company which has the leverage to do so. Critics of BBBEE have said for a long time that companies would start to do this, but the government cannot back down from the policy – it has put too much behind it.”<sup>43</sup>*

As the government continues to fail to promote growth and a positive environment for business, the larger companies operating in South Africa are beginning to push back. Exxaro reducing its BBBEE stake shows a lack of confidence in the current systems to improve the macroeconomic situation. Those within and without the private sector have long been sceptical of the ability of BBBEE to either redistribute wealth or to create better conditions for growth. However, the government has put too much into BBBEE to back down and will need to push back against companies reducing empowerment stakes. Technically the government has little legal recourse to do so, however it will use the leverage it has to prevent companies with high empowerment stakes from moving them back to the mandatory minimum.

### Standard Bank files anti-corruption affidavit

Financial services company **Standard Bank Group (SBG)** filed an affidavit at the **Pretoria High Court** on 20 December, asking for protection against all political interference in its operations.<sup>44</sup> Political interference in business is a major risk of doing business in South Africa and corporates are wary of getting caught in the crossfire of political struggles. The affidavit requests that the court rule that no member of the executive have any power to interfere in the relationship between a bank and its client.<sup>45</sup> It is a document in support of a filing by finance minister **Pravin Gordhan**’s application for the court to declare he does not have any authority to intervene in the relationship between banks and their clients.<sup>46</sup>

Gordhan’s original filing revealed that the **Gupta** family attempted to pressure Gordhan into making SBG re-open their accounts. SBG and other banks froze Gupta accounts after allegations of an improper relationship between the family and president Zuma surfaced (see *ARC Briefing South Africa October 2016*).<sup>47</sup> The SBG affidavit reveals that Standard Bank came under pressure from the ruling ANC, cabinet ministers and other political figures to re-open the accounts.<sup>48</sup> SBG met ANC secretary-general **Gwede Mantashe**, his deputy **Jessie Duarte** and the head of the ANC’s economic transformation committee **Enoch Godongwana** in April. It also met mineral resources minister **Mosebenzi Zwane** and labour minister **Mildred Oliphant** in May, along with Zuma’s spokesperson **Jimmy Manyi** in May. At both meetings SBG claims that these figures:

<sup>37</sup> Financial Mail, 3 Jan 2017.

<sup>38</sup> Financial Mail, 3 Jan 2017.

<sup>39</sup> Financial Mail, 3 Jan 2017.

<sup>40</sup> Financial Mail, 3 Jan 2017.

<sup>41</sup> Business Day, 2 Jan 2017.

<sup>42</sup> Business Day, 2 Jan 2017.

<sup>43</sup> Source, financial journalist, Johannesburg

<sup>44</sup> Rand Daily Mail, 20 Dec 2016.

<sup>45</sup> Rand Daily Mail, 20 Dec 2016.

<sup>46</sup> Rand Daily Mail, 20 Dec 2016.

<sup>47</sup> Rand Daily Mail, 20 Dec 2016.

<sup>48</sup> Rand Daily Mail, 20 Dec 2016.

*“... wanted to secure an outcome favourable to [Gupta-controlled mining company] **Oakbay [Resources]**, by using their political and executive power.”<sup>49</sup>*

The courts remain the part of the state that holds government to account. SBG and Gordhan are attempting to effectively force Zuma’s hand to cut off the Gupta family from sources of finance. It is also part of a wider corporate culture that is attempting to draw back its engagement from government, the ANC and Zuma. Companies can gain from a positive interaction with government in South Africa. However, many find that the current administration will attempt to pressure them into potentially difficult situations. Zuma promised to fix the relationship between government and business in 2016 – he appears to have done no such thing.

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<sup>49</sup> Rand Daily Mail, 20 Dec 2016.