

## AFRICA RISK CONSULTING

### Country briefing – South Africa

20 November 2014

#### 1 Summary

*The Congress of South African Trade Unions (COSATU) expels its largest affiliate, the National Union of Metalworkers of South Africa (Numsa), causing seven other unions to declare their allegiance to Numsa. The split is a major shift in South Africa's labour movement, the ruling 'revolutionary alliance' and the country's political future. The ruling African National Congress (ANC) rallies around President Jacob Zuma (2009 – present) to acquit him of all responsibility for \$20m security upgrades to his Nkandla home. The opposition Democratic Alliance (DA) and Economic Freedom Fighters (EFF) respond by disrupting parliamentary process, prompting public order police to forcibly remove an EFF parliamentarian from the chamber. The DA files an affidavit to have charges of corruption, racketeering and money laundering against Jacob Zuma reinstated. Ratings agency Moody's downgrades South Africa's economy to Baa2, citing concerns over power shortages and a poor medium term growth outlook. Political appointments at state-owned enterprises cause several board level governance failures. South African Airways' dire finances may force a sale. The state-owned power utility, Eskom, institutes load shedding after a coal silo collapses. Finance minister Nhlanhla Nene begins a \$2 billion asset sale to finance Eskom's debt.*

#### 1.1 Numsa's exit from COSATU marks a historic political shift

The **Congress of South African Trade Unions (COSATU)**'s central executive committee (CEC) expelled its largest affiliate, the **National Union of Metalworkers of South Africa (Numsa)**, on 8 November. COSATU is the labour arm of the ruling 'revolutionary alliance' – a tripartite body comprising the ruling **African National Congress (ANC)**, the South African Communist Party (SACP) and COSATU. Numsa's expulsion came after months of infighting within COSATU's leadership over the role of the ANC and the SACP in union business. Numsa defied COSATU policy and refused to support the ANC in May's general elections.<sup>1</sup> Other affiliates accused Numsa of breaking with union protocol when organising strikes.<sup>2</sup> Numsa accuses the political parties of pursuing a neoliberal agenda that had no room for campaigning unions and said that the ANC and SACP had forced them out of COSATU.<sup>3</sup>

*"While there is no evidence that the ANC and SACP pushed Numsa out, had they wanted them to stay [in Cosatu] then they would have [remained in membership]."*<sup>4</sup>

Numsa secretary general **Irvin Jim** said that the union would challenge its expulsion in court. He said Numsa would take other steps to keep its voice relevant including establishing a united front left-wing

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<sup>1</sup> Sapa, 10 Nov 2014

<sup>2</sup> Business Day, 9 Nov 2014

<sup>3</sup> Business Day, 13 Nov 2014

<sup>4</sup> Source: businessman with ANC connections, Johannesburg

political party.<sup>5</sup> This is a veiled threat to revive the **United Democratic Front**, the anti-apartheid movement backed by COSATU in the 1980s, which dominated internal anti-apartheid politics while the formal ANC dominated the external political anti-apartheid movement. However, the union has held back on revealing precisely the form such a party would take. **Dinga Sikwebu**, head of 'united front and movement for socialism' within Numsa, said that no decisions would be taken until the union's congress in March 2015.<sup>6</sup> Numsa has also said that it will form a rival to COSATU with a new public sector service workers union that **Thobile Ntona**, former president of the **South African Democratic Teachers Union (Sadtu)**, is setting up.<sup>7</sup>

Numsa was COSATU's largest affiliate with 320,000 members, roughly 25% of the 2.2 million-member union. After the expulsion seven smaller unions announced their intention to not participate in COSATU in solidarity with Numsa's expulsion.<sup>8</sup> They are:

- the **Food and Allied Workers Union (Fawu)**;
- the **Democratic Nurses Organisation of South Africa (Denosa)**;
- the **South African Commercial Clothing and Allied Workers' Union (Saccawu)**;
- the **Communication Workers' Union (CWU)**;
- the **South African State and Allied Workers' Union (Sasawu)**;
- the **Public and Allied Workers Union of South Africa (Pawusa)**, and
- the **South African Football Players' Union (Safpu)**.<sup>9</sup>

Together the unions represent around 900,000 members but none besides Numsa have inferred that they would leave or join any congress of unions rival to COSATU.<sup>10</sup> The seven unions have called for a special national congress of COSATU to discuss the "*crisis in the union movement*" to take place in the early months of 2015.<sup>11</sup> If the congress goes ahead, it might lead to a larger and more formal split between rival union factions.

COSATU's secretary-general **Zwelinzima Vavi**, whose major power base within COSATU was Numsa, has spoken out against the CEC decision to expel Numsa and has implied that he will resign if it is upheld. On the eve of the vote against Numsa he made clear the importance he attached to the vote:

*"Guillotine of 350,000+ workers is a game changer & will have profound political and organisational implications. What is to be done?"*<sup>12</sup>

Vavi's position at COSATU is already in jeopardy as an investigation into his relationship with a junior member of staff has been reopened.<sup>13</sup> There is speculation that he might join Numsa if he leaves COSATU but he has not commented on any future moves. Media are reporting that after a special meeting on 20 November, Vavi is likely to stay with COSATU for now.<sup>14</sup>

Senior union figures have voiced their disappointment with the COSATU split in the media, arguing that the congress has become overly politicised. COSATU founding secretary-general **Jay Naidoo** wrote:

<sup>5</sup> Business Day, 9 Nov 2014

<sup>6</sup> Mail and Guardian, 14 Nov 2014

<sup>7</sup> Mail and Guardian, 14 Nov 2014

<sup>8</sup> Mail and Guardian, 10 Nov 2014

<sup>9</sup> Times, 10 Nov 2014

<sup>10</sup> Times, 10 Nov 2014

<sup>11</sup> Mail and Guardian, 10 Nov 2014

<sup>12</sup> Zwelinzima Vavi's twitter account, 8 Nov 2014

<sup>13</sup> Business Day, 15 Nov 2014

<sup>14</sup> City News, 20 Nov 2013

*“COSATU was never meant to become an unthinking adjunct of a political party. COSATU was never meant to slavishly work to maintain the status quo. COSATU was only ever meant to be an independent entity, serving workers. Nothing else, ever.”<sup>15</sup>*

Senior ANC members have also criticised the decision. Secretary-general **Gwede Mantashe** said that:

*“We reaffirm our position that the expulsion of Numsa from the federation is bad for COSATU itself, it is bad for the ANC, bad for the alliance, the progressive forces, as well as for society in general.”<sup>16</sup>*

If Numsa’s expulsion is upheld there will be a metalworkers’ union vacancy within COSATU. The **Metal and Allied Workers Union of South Africa (Mawusa)**, which is currently in the process of acquiring the permits required to join COSATU, is likely to fill this gap. Former Numsa president **Cedric Gina**, who fell out with Irvin Jim in November 2013, leads Mawusa. Mawusa is already competing with Numsa for membership in industrial areas and Jim has been visiting key factories to urge members to stay with Numsa.<sup>17</sup> Intra-union fighting has been a hallmark of South African trade unions over the last year. The **Association of Mineworkers and Construction Union (Amcu)** has decimated the **National Union of Mineworkers (NUM)**’s hold on the mining industry, notably in the platinum belt.

*“The split of Numsa from COSATU poses a real electoral threat to the ANC in industrial areas during the 2016 local elections. They will be throwing everything they have at Numsa’s members to get them back in the fold.”<sup>18</sup>*

The rationale behind a quick promotion of Mawusa to COSATU is funding. The loss of 350,000 members will put a hole in finances of up to R14m (\$1.2m) or 17% of its total income. The ANC is also reliant on funding for COSATU, especially for political campaigning, and COSATU relies on the ability to provide funding to retain its influence on government policy. The SACP is even more reliant on COSATU; it rents space in its headquarters and is allegedly three months behind on payments as it has no revenue stream of its own.<sup>19</sup> Amcu’s defeat of the NUM across the mining industry earlier this year has already depleted COSATU’s coffers and the loss of another large group of members could have a serious effect on its ability to organise. If Numsa retains its membership and attracts more unions to its cause then Jim and his allies could have enough money through subscriptions to make a united front party a well-funded political threat to the ANC.

All of this threatens the revolutionary alliance; labour leaders have been at odds with the ANC over many policy decisions since 1994 but their influence over policy through the alliance has kept their strong ties to government expedient. However, an attack on COSATU’s base from Numsa could drive a wedge between the two. Irvin Jim has made no secret of his desire to drive the alliance apart:

*“COSATU has become consumed by internal battles between two forces; those who continue to support the ANC and SACP with their neo liberal agenda and those who, despite their understanding of the ANC as a multi-class organisation, consciously and consistently fight for an independent, militant federation.”<sup>20</sup>*

Apart from potential political fallout, the expulsion of Numsa from COSATU will have an impact on the manufacturing sector where the majority of Numsa’s members are located. A month-long Numsa

<sup>15</sup> Daily Maverick, 16 Nov 2014

<sup>16</sup> Mail and Guardian, 10 Nov 2014

<sup>17</sup> Mail and Guardian, 18 Nov 2014

<sup>18</sup> Source: political journalist Pretoria

<sup>19</sup> Mail and Guardian, 18 Nov 2014

<sup>20</sup> Dispatch Live, 12 Nov 2014

strike in July hit the auto-manufacturing industry. The struggle between the Amcu and the NUM, where the fight for majority control of mine shafts through union membership subscriptions encouraged wildcat strike action and contributed to the five month platinum strike, has highlighted the dangers of competing unions seeking to offer members better settlements.

## 1.2 The ANC shields invisible Zuma from repeated attacks

The ANC has rallied around **President Jacob Zuma** (2009-present) to shield him from repeated political attacks. In contravention of parliamentary rules that require him to face questions in parliament every quarter, the president has not appeared in parliament since 21 August. MPs from former ANC youth leader **Julius Malema's Economic Freedom Fighters (EFF)** party routinely use parliament to harangue Zuma, notably over the money misspent on upgrading his **Nkandla** home in **KwaZulu-Natal** province. The president and deputy president **Cyril Ramaphosa** have said that Zuma will not appear before parliament until greater order is restored.<sup>21, 22</sup>

Main opposition party the **Democratic Alliance (DA)** also joined the disruptions of parliamentary process. The party filibustered a vote to exonerate the president of all culpability for the \$22m spent on "upgrading security" at Nkandla despite public protector **Thuli Madonsela's** report that found Zuma had unduly gained from spending on the project.<sup>23</sup> The ad-hoc committee on Nkandla reported back to the national assembly on 13 November. Its chairman, ANC parliamentarian **Cedric Frolick**, announced that Madonsela's findings of Zuma's culpability were invalid as she was not a security expert. He also criticised opposition members for boycotting the committee and losing their chance to have their voices heard on the issue.<sup>24</sup>

*"This is not the end of the line for Nkandla; the public protector has made clear that if she finds parliament's report to be lacking then she can launch action through the courts."<sup>25</sup>*

While the ANC successfully used its dominant position in parliament to protect Zuma from direct culpability for the Nkandla misspend, it has been unable to contain the disorder in parliament that this defence has provoked. The speaker of the house, former ANC chair and Zuma ally **Baleka Mbete**, whose responsibility it is to ensure the president appears before parliament, has not done so. Instead, she changed the order of business to limit the time available for opposition motions designed to delay a vote to accept the Nkandla decision. This led to DA and EFF calls for her resignation.<sup>26</sup> The DA parliamentary leader **Mmusi Maimane** has said that the party would no longer recognise the speaker's authority on any matters due to her lack of impartiality.<sup>27</sup>

The situation escalated during a debate over funding of the **Grand Inga Hydro Power Project III** in the **Democratic Republic of Congo (DRC)**, when opposition MPs questioned the involvement in the project of Jacob Zuma's nephew, **Khulubuse Zuma**. An unknown party called in the **South African Police Service (SAPS)** public order unit to remove EFF parliamentarian **Ngwanamakwetle Mashabela** from the chamber after she refused to withdraw a statement that Jacob Zuma was a thief. Video feeds to chamber were cut but parliamentarians tweeted images of police grabbing hold of

<sup>21</sup> Jackaranda FM, 18 Nov 2014

<sup>22</sup> Mail and Guardian, 19 Oct 2014

<sup>23</sup> Mail and Guardian, 14 Nov 2014

<sup>24</sup> City press, 14 Nov 2014

<sup>25</sup> Source, senior lawyer, Johannesburg

<sup>26</sup> Business Day, 17 Nov 2014

<sup>27</sup> Mail and Guardian 18 Nov 2014

Mashabela and forcibly removing her from the chamber. Four DA MPs claim police assaulted them as they attempted to intervene.<sup>28</sup>

*“That was a sad day for South African democracy and no party has come out of this looking good...if the parliamentary system was able to effectively hold the government to account I doubt this would have happened.”<sup>29</sup>*

There has been outcry from parliamentarians on all sides of the house over the incident. The DA MPs and Mashabela have both launched legal challenges against the police for assault. Both parties have criticised the ANC for acting in a dictatorial way and calling armed police, who answer to a government ministry, into the legislative chamber.<sup>30</sup> ANC spokesman **Zizi Kodwa** labelled the DA ‘racist’ and the EFF ‘fascist’ and publicly criticised the breach of parliamentary process.<sup>31</sup> The tensions are swiftly moving from the floor of the assembly into the courts. The EFF and the DA are suing the riot police, the ANC is suing the EFF, and the EFF is considering suing the **Parliamentary Powers and Privileges Committee**, which has found 20 EFF MPs guilty of contempt of parliament.<sup>32</sup> Cyril Ramaphosa met with leaders of 11 opposition parties on 18 November to try to forge an agreement to moderate conduct in the assembly.<sup>33</sup> In return for their cooperation, Ramaphosa offered to halt the ANC’s proceedings against the EFF and committed members of the executive to appear before the assembly.<sup>34</sup> However, the next day the EFF demanded that Zuma apologise for Nkandla and the deal fell through.<sup>35</sup>

The ANC may be less able to protect Zuma from his own past. The DA has taken further steps to reinstate the corruption, racketeering and money laundering charges against Zuma that were dropped in 2009. The charges in question relate to 783 payments that **Schabir Shaik**, Zuma’s former financial adviser, and his companies made to Zuma between 1995 and 2005 totalling R4m (\$294,000). The courts sentenced Shaik to 15 years in prison for corruption for his part in making the payments.<sup>36</sup>

The DA’s federal chair, **James Selfe**, filed a supplementary affidavit in the **North Gauteng High Court** on 9 November. The DA hopes this will ultimately overturn the decision of then acting director of public prosecutions **Mokotedi Mpshe** to drop charges against Zuma in 2009 based on an alleged ‘political conspiracy’ against him.<sup>37</sup> The DA obtained the so-called ‘spy tapes’, on which Mpshe based his allegations, in September (see *ARC South Africa September 2014 Briefing*) and claim that **Leonard McCarthy**, then head of the ‘**Scorpions**’ anti-corruption investigation unit, was involved in “*vainglorious self promotion*” when he discussed Zuma’s impending anti-corruption charges and had no actual influence over the investigation.<sup>38</sup> If the court grants leave to overturn the charges, the **National Prosecuting Authority of South Africa (NPA)** could reopen the original case against Zuma.

*“This is an opening shot in a case that could run for years but if the charges come back on the table then Zuma and his allies will have a far more serious legal fight than Nkandla on their hands.”<sup>39</sup>*

<sup>28</sup> Mail and Guardian, 14 Nov 2014

<sup>29</sup> Source, political journalist, Pretoria

<sup>30</sup> Daily Maverick, 14 Nov 2014

<sup>31</sup> Daily Maverick, 14 Nov 2014

<sup>32</sup> Mail and Guardian, 18 Nov 2014

<sup>33</sup> Mail and Guardian, 18 Nov 2-14

<sup>34</sup> City Press, 18 Nov 2014

<sup>35</sup> Business Day, 19 Nov 2014

<sup>36</sup> City Press, 9 Nov 2014

<sup>37</sup> City Press, 9 Nov 2014

<sup>38</sup> City Press, 9 Nov 2014

<sup>39</sup> Source, senior lawyer, Johannesburg

However, Zuma and his allies are unlikely to let go of power easily, regardless of legal charges. The media are reporting that a group of ANC provincial chairpersons loyal to Zuma (**Free State** premier **Ace Magashule**; **North West** premier **Supra Mahumapelo**; **Mpumalanga** premier **David Mabuza**; **Limpopo** premier **Stan Mathabatha** and KwaZulu-Natal premier **Senzo Mchuna**) are planning to table a proposal to extend Zuma's term by two years at the ANC's national general council (NGC) in 2015.<sup>40</sup> Their rationale is to bring the ANC president's term of office into sync with that of the head of state.<sup>41</sup>

### 1.3 Moody's downgrade highlights importance of fiscal prudence

Ratings agency **Moody's** has downgraded South Africa's sovereign bond rating to Baa2 from Baa1, keeping it one notch above a junk rating, with a change in the rating's outlook from negative to stable.<sup>42</sup> In its 6 November press release the agency cited poor medium term growth outlook, continuing energy shortages, rising interest rates, further deterioration in the investment climate, and a resulting further potential rise in the debt to GDP ratio as reasons for the downgrade.<sup>43</sup> The downgrade was the second in a year after **Standard & Poor's** downgraded government securities to BBB- in June.<sup>44</sup>

*"This downgrade is a warning shot...it keeps the markets apprised on the dangers in the medium term but acknowledges that [finance minister **Nhlanhla**] **Nene** and his team are working to turn things around."*<sup>45</sup>

Moody's also downgraded South African banks' deposit ratings from Baa2 (stable) to Baa1 (on review for downgrade) – one notch above a junk rating – on 10 November. The banks' considerable holdings of South African sovereign debt securities caused the downgrade, which applied to **Standard Bank**, **Absa Bank**, **First Rand Bank**, **NedBank** and **Investec Bank**.<sup>46</sup>

Moody's revised downwards growth estimates for 2014 to 1.4% with growth to 2.5% in 2015 and rising to the 'natural potential' rate of 3% only in 2018.<sup>47</sup> Inflation has remained stable, the consumer price index (CPI) remained steady year-on-year in October at 5.9% and up 0.2% from September 2014. This is in line with forecasts from the treasury and independent economic observers.<sup>48</sup> November has been a bad month for the rand, falling 2.6% from 11.03 to the **United States (US)** dollar on 1 November to a low point of 11.33 to the dollar on 7 November after the downgrade was announced, and recovering 1.7% to 11.13 on 18 November.<sup>49</sup>

*"I wouldn't write South Africa off as an investment target just yet, there is big potential for business...[and] a weak rand can lead to canny investments with significant pay-offs down the line...the bigger risk is the infrastructure deficit."*<sup>50</sup>

Moody's noted that their changing of the economic outlook from negative to stable reflected the policies of the treasury and other bodies to get the economy back on track, particularly the efforts to

<sup>40</sup> Mail and Guardian, 21 Nov 2014

<sup>41</sup> Mail and Guardian, 21 Nov 2014

<sup>42</sup> Moody's press release, 6 Nov 2014

<sup>43</sup> Moody's press release, 10 Nov 2014

<sup>44</sup> FT, 6 Nov 2014

<sup>45</sup> Source: developmental economist, Johannesburg

<sup>46</sup> Moody's press release, 10 Nov 2014

<sup>47</sup> Moody's press release, 6 Nov 2014

<sup>48</sup> Business Day, 19 Nov 2014

<sup>49</sup> XE.com

<sup>50</sup> Source, private equity investor, London

curb the public wage bill in order to protect infrastructure spending.<sup>51</sup> The ratings could be revised upwards if a successful programme of public spending reform is implemented over the coming months. The treasury responded to the downgrade and affirmed its commitment to fiscal prudence, noting the difficult investment environment. Last month's interim budget statement outlined a programme of spending cuts but they will not be introduced until after the next budget in February.<sup>52</sup>

## 1.4 SOEs suffer the full effect of ANC 'deployments' or political appointments

Political interference and poor corporate governance continue to be a problem, particularly in state-owned enterprises (SOEs), many of which are in precarious financial positions. This stems largely from the ANC's policy – implemented in earnest during Zuma's administration – of 'deploying' political appointees to senior posts at state-owned enterprises.

*"SOE's are dragged down by political appointments at the top... they don't employ bad people; they suffer from bad governance...appointments need to be based on competence not connections."<sup>53</sup>*

Energy minister and Zuma loyalist **Tina Joemat-Pettersson** has pushed through nominations for a new board of **PetroSA**, the state-owned petroleum company, despite objections from the current chairperson **Brenda Madumise**.<sup>54</sup> Amongst the appointees to the board was **Matthew Tobias**, former PetroSA head of legal, who had been out of the company for less than 10 months and was part of a law firm acting as the counter-party in PetroSA's \$1.6 billion deal to buy energy company **Engen** from **Malaysian** oil company **Petronas**. Another contested appointment was **Tshepo Kgadima**, the CEO of **Lontohcoal**, who is implicated in a deal that allegedly defrauded former cabinet minister and diplomat **Zola Skweyiya** and his family of more than R3.6m (\$328,000).<sup>55</sup> However, despite protests from Madumise, the appointments have gone through.

At the **South African Broadcasting Corporation (SABC)**, chair **Ellen Tshabalala** reinstated **Hlaudi Motsoeneng** as CEO for just nine days after a court order forced him to step down (see *ARC South Africa October 2014 Briefing*). Tshabalala reinstated Motsoeneng to provide cover for the new acting CEO **Anton Heunis** who had fallen ill.<sup>56</sup> During this time Motsoeneng promoted his allies within the organisation. Head of compliance **Sully Motsweni**, who is named in the public protector's report for receiving an irregular salary increase from Motsoeneng, will be appointed group executive of stakeholder relations and provinces.<sup>57</sup> Tshabalala, who is close to Motsoeneng and Jacob Zuma, is under pressure to resign after it was revealed that she falsified her academic qualifications when applying for the job. The SABC now has to appoint another CEO and, if Tshabalala's opponents manage to get her to resign, it may have to appoint another chair as well.

In the latest scandal to hit **South African Airways (SAA)**, chair **Dudu Myeni** suspended the CEO, **Monwabisi Kalawe**, twice in the course of November. Both Myeni and Kalawe have accused each other of procurement irregularities and poor governance. Public enterprises minister **Lynne Brown** has had to intervene regularly in the dispute, firing six board members allied to Kalawe in October, and ordered Myeni to reinstate Kalawe on 13 November or face suspension herself.<sup>58</sup> Brown has

<sup>51</sup> Moody's press release, 6 Nov 2014

<sup>52</sup> FT, 6 Nov 2014

<sup>53</sup> Source: South African Revenue Service, Pretoria

<sup>54</sup> Business Day, 13 Nov 2014

<sup>55</sup> Business Day, 13 Nov 2014

<sup>56</sup> Fin24, 16 Nov 2014

<sup>57</sup> Times, 16 Nov 2014

<sup>58</sup> Business Day, 7 Nov 2014

appointed new board members to mediate between Myeni and Kalawe but a standoff continues. The government is attempting to raise \$200m in investment for SAA but business sources doubt whether anyone would be willing to invest in its current structure.<sup>59</sup> The government's last bail-out of the company ran out in September. Commentators in the media speculate that SAA will be the first state-owned enterprise to be liquidated and sold off in its entirety.<sup>60</sup>

*"The government simply doesn't have the money to keep on propping up SAA...with Eskom it will sell off assets to keep the power on but in times of crisis it is hard to justify an airline as a necessary public utility...soon there will be no other choice but to sell."*<sup>61</sup>

## 1.5 Power crisis has economic repercussions for state and business

Eskom's problems have continued in November. The state-owned power utility had to implement load shedding across 2-4 November after a coal silo at the **Majuba** power plant collapsed onto a conveyor belt.<sup>62</sup> Majuba, in Mpumalanga province, is Eskom's second largest power plant with an installed capacity of 4,110 megawatts (MW). The collapsed silo took the majority of its output offline and caused nationwide load shedding.<sup>63</sup> Sources within the industry say that this points to a repeated failure to invest in power infrastructure and to manage existing upgrade projects:

*"This is not an 'accident' but the probable result of repeated mistakes – the coal silo collapsed because no upgrade work has been done on Majuba since 2001 and the fact that it took out power to the whole country shows that South Africa's power is still on the knife-edge."*<sup>64</sup>

The load shedding had a negative impact for businesses. Load shedding is not so frequent an occurrence that most businesses have generators, so when Eskom announced the black-outs, on a Sunday, many businesses were unprepared.

*"We had a generator in our [Johannesburg] Jo'burg site but in Cape Town we couldn't function, we lost tens of thousands of rand overnight."*<sup>65</sup>

The **South African Chamber of Commerce and Industry (Sacci)** has called on Eskom to give greater warning of blackouts so that businesses can plan around them.<sup>66</sup> However, the greater economic effect is the deterrent that regular power outages have on foreign investment. Moody's specifically cited power outages as a reason for its downgrade of South Africa's economy (see above).

Despite South Africa's infrastructure investment deficit, Eskom is heavily in debt. The SOE needs to sell \$2 billion in assets to cover its rising debt burden while maintaining a budget to invest in South Africa's power system. Finance minister Nhlamhla Nene announced that the government would be seeking non-essential asset sales from across its portfolio to try and raise this shortfall.<sup>67</sup> But this is only the beginning. Eskom has a funding gap of \$20 billion over the next five years and the government may have to consider selling essential assets to keep the power on. Privatisation is a

<sup>59</sup> Business Day, 7 Nov 2014

<sup>60</sup> Business Day, 17 Nov 2014

<sup>61</sup> Source: business journalist, Johannesburg

<sup>62</sup> Independent, 4 Nov 2014

<sup>63</sup> Independent, 4 Nov 2014

<sup>64</sup> Source: power sector consultant, Cape Town

<sup>65</sup> Source: small business owner, Johannesburg

<sup>66</sup> Independent, 4 Nov 2014

<sup>67</sup> FT, 3 Nov 2014

politically charged word in South African politics and the treasury has assiduously avoided using it. With \$20 billion to raise, it may become inevitable.<sup>68</sup>

## 2 Implications

The labour movement in South Africa is inextricably linked to its political and economic future. Tectonic shifts will have wide ranging repercussions. It is not possible to tell at this juncture whether Numsa's efforts to form either an alternative labour congress to COSATU or to revive a united front labour party will be successful but things are not going back to the way they were before.

Irvin Jim is a determined and experienced union activist and will fight tooth and nail to keep workers in Numsa. With a recent favourable settlement in the auto industry under his belt, Mawusa will have a hard time drawing members back into COSATU. The prospect of a special national congress of COSATU leading to a much larger split in the labour movement strengthens Numsa's position, as do the public comments of old union hands such as Naidoo criticising the right-leaning direction of the ANC and the rest of the alliance.

Without manufacturing and mining workers, COSATU becomes an exclusively public sector umbrella union and loses legitimacy as the single face of the labour movement. An alternative to COSATU, however small at first, will sever the tie between the ANC and a united union movement for the first time since the end of apartheid. This in turn makes the revolutionary alliance less a partnership of different concerns and more a cluster of underfunded labour bodies hanging onto the ANC for influence. The emergence of an alternative left-wing workers party may leave the ANC fighting 2016 local elections on multiple fronts. South Africa's small but growing urban middle class will have more reasons than ever to question the received wisdom of voting ANC no questions asked. Workers in the same areas may now also have a viable ANC alternative. This puts the ANC in danger of losing control of key metropolitan areas such as the manufacturing base of **East London (Eastern Cape)**.

However, the ANC and COSATU are powerful organisations with significant pull. Many unions would hesitate before going directly against the ANC. The public sector unions that have great sway within COSATU rely on the party for their continued employment. The power and vested interests in the status quo have not gone away with Numsa's expulsion, but they will have to act to preserve an alliance that has been crucial to successive democratic victories. The COSATU special national congress in 2015 and the upcoming 2016 local elections will be the first litmus tests for what change has actually occurred.

The parliamentary farce is a result of the ANC's patronage politics. Zuma demands unwavering loyalty from his appointed officials. There was never any doubt that they would shield him from all responsibility over illicitly profiting from state funds. The speaker is unable or unwilling to act impartially and call the president into the house. She casts aside parliamentary procedure. Opposition parties, seeing that the rules don't apply to the ANC, have no reason to play by the rules themselves. The EFF reflects this kind of politics – the party would not exist if Malema had not been ousted from the ANC for stepping out of line and criticising Zuma. However, despite the significant media coverage, the EFF's tactics and any other opposition disruptions will have a limited effect on the ANC as their fairly elected majority allows them to legislate as they wish.

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<sup>68</sup> FT, 3 Nov 2014

The real challenge comes from the affidavit the DA has filed to get the corruption case against Zuma reopened. The ANC will fight to have it dropped, but the DA has won the last few rounds in this decade-long struggle and appears to hold the stronger cards. That the payments exist has already been proved in court, and the 'spy tapes' debunk the 'political conspiracy' argument for not filing charges against Zuma. If charges are re-instated, it will give Zuma's enemies in the ANC – and he has many – another reason to seek his unseating at their congress in 2017. This, and the loss of the united support of the labour movement could prove a fatal blow to his support within the party. Senior ANC sources are already hinting at knives being sharpened. All factions have until 2017 to manoeuvre for control of the party. All the while there are serious and difficult decisions for the ANC to make over the economic future of the country.

The government has a serious problem with SOEs. Not only do many of them have perpetual governance issues but they are also indebted and inefficient. Eskom may warrant a \$2 billion asset sale to bail it out but SAA will have to go. Moody's downgrade is a warning from the international markets that South Africa needs to be fiscally prudent if it is to remain an attractive prospect for investors. The only viable option is for Nene to implement further asset sales – privatisation in all but name. Political interference issues are yet another reminder of the culture of patronage that has pervaded the Zuma-era ANC. Lynne Brown is doing a solid job of trying to control the public fallouts of these appointments but the problem is too large for one good minister to handle. Greater private interests in state-owned enterprises will require board seats, bringing some more experienced hands to the table.

This brings the ANC into conflict with its considerable left-leaning membership and the unions. The treasury and its allies must make the case for selling off some assets to make SOEs function better for the South African people. Not only does stable infrastructure encourage much needed investment but it also affords South Africans a better quality of life. Whether this line of argument is successful will be most easily read in the budget next February – if the necessary fiscal measures are not taken then the medium term outlook gets worse for everyone.