

## AFRICA RISK CONSULTING

### Country briefing – South Africa

31 December 2013

## 1 Summary

*Former president Nelson Mandela died on 5 December. Mandela's memorial takes an unexpected turn when sections of the crowd heckle President Jacob Zuma. The National Union of Metalworkers (NUMSA) calls for Zuma to resign and withdraws its support for the ANC ahead of the 2014 election. The ANC is likely to win a comfortable, albeit diminished majority in the election. The ANC may appoint Cyril Ramaphosa as deputy national president. There is speculation that finance minister Pravin Gordhan is contemplating retiring. South Africa is a better country in which to live in 2013 than it was in 1993, but unemployment, crime and poor quality primary education must be addressed to make the gains sustainable.*

### 1.1 Mandela dies – a nation mourns and boos

South Africa's first democratically elected president, **Nelson Mandela** (1994-1999), died on 5 December 2013. In life, Mandela gained world renown for his steadfast opposition to inequality, which resulted in 27 years as a political prisoner of the *Apartheid* state and for leading South Africa through its apparently intractable divisions to democracy in 1994. His death brought into sharp relief the nation's achievements and problems. The country (and world) paused to reflect on progress made since 1994, the current situation, and on the ruling **African National Congress (ANC)** leadership's capacity to shape the future.

The state funeral comprised a memorial service at which 100 world leaders attended, a ten-day lying in state in the political capital, **Pretoria (Gauteng Province)** and a burial with full military honours including a 21-gun salute and air-force fly-past in his childhood village of **Qunu (Eastern Cape province)**, on 15 December.

The ten-day period provided the ruling ANC with an unparalleled platform from which to command national and international media attention in the run up to national elections in 2014. *"The service funeral was definitely the launch of the ANC's election campaign but one that backfired almost*

*immediately.*"<sup>1</sup> Sections of the crowd booed President **Jacob Zuma** (2009-present) and used football fan hand signals calling for a substitution each time he appeared on the overhead television screens. The crowd reaction visibly startled the ANC elite. It took the intervention of ANC's deputy president, **Cyril Ramaphosa**, who was master of ceremonies to restore a modicum of decorum.<sup>2</sup> *"The booing was so out of the blue that it was shocking. It is now very obvious that people don't like Zuma."*<sup>3</sup> The memorial was a **Johannesburg** (Gauteng) event, leading some to explain the crowd's reaction by the fact that Gauteng has imposed a highly unpopular new road toll - a peculiarly local issue. One angry woman in the crowd explained:

*"He [Zuma] must think about the people down there. We're fed up with more taxes, toll-gates, prices of food going up, while many of us got no job."*<sup>4</sup>

However others see the reaction as having wider implications:

*"Booing was very symbolical and much bigger than the ANC is trying to make out. There are widespread daily service delivery protests – up to three protests a day, protests against poor supply of water sewage, local jobs and corruption in the tender system. They are almost always violent. This is not Gauteng's middle class protesting - it is widespread in urban township protests."*<sup>5</sup>

## 1.2 The state of Zuma's ANC

Domestic media coverage of Mandela's death has buoyed the ANC's standing: it shifted the focus away from Zuma's scandal-riddled government to the 20<sup>th</sup> anniversary of the advent of democracy.<sup>6</sup> The reminder of the ANC's anti-Apartheid legacy has increased popular dissatisfaction with Zuma. Hope and change epitomised Mandela's presidency. Zuma's rise to the presidency was contentious and successive scandals have marked his first term in office. The latest is an irregular \$21m spent on his personal homestead, **Nkandla**, in rural **Kwa-Zulu Natal**, (See *ARC South Africa November 2013 Briefing*) which, while small compared to \$2.8 billion irregular public service spending in 2011-2012,<sup>7</sup> has come to represent the ANC government's deference to loyalty over competence as well as its lack of accountability and indifference to poverty. It has become shorthand for Zuma's excess and the pervasive 'bling culture'.

<sup>1</sup>South Africa Editor, business newspaper

<sup>2</sup> National newspaper editor with strong ANC links

<sup>3</sup> Ibid

<sup>4</sup> Phumzile Vilakaza quoted in 'When the world came to say goodbye to Madiba and Number One faced ultimate humiliation', Daily Maverick, 11 December 2013.

<sup>5</sup> National newspaper editor with strong ANC links

<sup>6</sup> 'Focus on Mandela a welcome distraction from Zuma's woes', Financial Mail, 6 December 2013

<sup>7</sup> 'Irregular spending tops R28bn: Gordhan', iol.co.za, 19 November 2013

*Nkandla is at the heart [of the protests]...The ANC completely underestimated the unpopularity of self-enrichment. For me this is tectonic; the plates are shifting. This has a far greater destabilising potential... for the ANC... rather than the country.”<sup>8</sup>*

Polls confirm that Nkandla has eroded the public’s trust and confidence in Zuma and has led to a drop in support for the ANC. Over a five-year period, trust and confidence in Zuma dropped from a score of 257 to 37, while the number of respondents who have “no confidence” in the ANC has increased from 12% in 2009 to 31% in December 2013.<sup>9</sup>

The justice, security and police ministers – all Zuma loyalists – led an inter-ministerial task team to investigate spending on Nkandla security upgrades. The report absolved Zuma of any responsibility and therefore costs.<sup>10</sup> However, it concedes that none of the contractors were security-cleared or had the experience to design and build high-security installations; there were procedural flaws in appointing service providers and possible overpricing and collusion. Few of the contracts were tendered due to “*sensitivity around the president’s security*”. But with Orwellian phraseology the inter-ministerial report claims the swimming pool built is actually a ‘fire pool’ to fight fires; the amphitheatre is in fact a four meter-high curved retaining wall with steps.<sup>11</sup> The public protector’s office headed by **Thuli Madonsela** will release results of its separate enquiry in January 2014, which will detail the extent of Zuma’s knowledge and influence over the upgrades.<sup>12</sup>

### 1.3 ANC leadership

There are signs that the ANC is re-considering its decision to re-elect Zuma as party president at its national conference in **Mangaung** in December 2012. The party’s national executive committee subsequently nominated him the party’s presidential nominee for 2014; Zuma is due to launch the ANC’s 2014 election manifesto on 11 January 2014. If the public protector finds Zuma’s behavior wanting, Nkandla will pursue him to elections. However, the public booing, low popularity ratings and ever present scandal means that there is a remote chance that the ANC may seek to replace him ahead of the 2014 election campaign (see above).

*“I am hearing more and more the idea of a ‘dignified exit’ for Zuma. He is an election liability. But this is countered by the heavy influence of KwaZulu-Natal (KZN) members in the party’s National*

<sup>8</sup> Editor, national newspaper with close ANC links

<sup>9</sup> ‘Is Zuma becoming too much of a liability?’, City Press, 1 December 2013

<sup>10</sup> ‘Nkandla upgrades all for the sake of security, says state task team’, Bdlive, 19 December 2013; “Investigation Report - Prestige Project A: Security Measures President’s Private Residence: Nkandla”

<sup>11</sup> ‘ibid

<sup>12</sup> ‘ANC fires Nkandla salvo’, enca.co.za, 3 December 2013



*Executive Committee and the ANC as a whole. Many of the key posts in the NEC, security organs, state-owned enterprises are from KZN.”<sup>13</sup>*

Former **National Union of Mineworkers (NUM)** leader-turned-billionaire businessman, Cyril Ramaphosa emerged during the funeral process as a potential front-runner to step into the breach. Mandela had earmarked Ramaphosa as his successor in 1999 but the party overruled him to elect **Thabo Mbeki** (1999-2008). As a former unionist Ramaphosa still commands significant cachet within the labour movements and his global business exposure since 1997-1998 will mean he is attuned to global economics, its drivers and trends. Party insiders see him as sensible and committed to the non-racial spirit of early party politics.

*“He MC’d the memorial and the funeral and looked presidential. (As deputy ANC president) he would be the natural successor to Zuma. **Zweli Mkhize**, the treasurer general, would then be the deputy president of the ANC.”<sup>14</sup>*

However, Ramaphosa’s early elevation is not unanimous:

*“There is a snowball’s chance in hell that Cyril Ramaphosa will get to be deputy president of the country. He is too much of a threat (to Zuma). I would be surprised if Cyril gets the job.”<sup>15</sup>*

A practical compromise is possible where Ramaphosa (65) replaces national deputy president **Kgalema Motlanthe** during 2014 to assume a more prime ministerial role.

#### 1.4 Policy drifts while....

Zuma’s government expends much of its energy trying to hold together the divergent interests within the tripartite alliance and cabinet and perpetuate a facade of unity. This constant balancing act results in policy stagnation and contradiction. Officially the ANC controls national government and does not need to share power. However, the ANC is not homogenous and Zuma presides over a *de facto* coalition cabinet with contesting policy perspectives. For instance, former finance minister and current national planning minister **Trevor Manuel** has led a fiscally conservative grouping that preaches targeted inflation and social development through economic growth. At the other end of the spectrum is economic development minister **Ebrahim Patel**, a former unionist who opposed **Walmart’s** \$2.4 billion takeover of **Massmart** in 2011. Patel published the **New Economic Growth Path** in 2010 to counter Manuel’s more market friendly **National Development Plan**. Patel’s plan

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<sup>13</sup> National newspaper editor with strong ANC links

<sup>14</sup> National newspaper editor with strong ANC links

<sup>15</sup> Business news editor

calls for an interventionist government to stimulate growth and create employment. To wit, Zuma endorsed Patel's plan in 2010 and made the National Development Plan the centerpiece of his Manguang address in December 2012.

## 1.5 ....the tri-partite alliance fissures

Meanwhile, the tripartite alliance and cornerstone of 20 years of policy debate and democratic government is starting to fracture. The 'revolutionary alliance' is made up of the ANC, **South African Communist Party (SACP)** and **Congress of South African Trade Unions (COSATU)**.<sup>16</sup> COSATU traditionally brings 1.8m members to the ANC but on 20 December the 330 000 member-strong **National Union of Metalworkers of South Africa (Numsa)** announced it was withdrawing its support for the ANC's 2014 election campaign. Numsa called on Zuma to resign, saying his administration is "*steeped in corruption, patronage and nepotism.*"<sup>17</sup> Numsa claims that since 1994 COSATU's alliance with the ANC has not benefited the working classes. It is considering forming a 'socialist' worker's party and may contest the 2014 general elections.

*"The working class is used by the ANC as voting fodder."*<sup>18</sup>

COSATU campaigned for Zuma in 2009 but its secretary general, **Zwelinzima Vavi** has become an ardent government critic, accusing the "*corrupt political elite turning the country into a full blown predatory state*".<sup>19</sup> In August 2012 the **South African Police Service (SAPS)** killed 34 **Lonmin** miners at **Marikana (Northwest Province)** in an action that exposed the coziness of organised labour to the ANC government and major companies. NUM founder and billionaire Cyril Ramaphosa was on the Lonmin board at the time of the shootings and has come to represent the multiple overlapping interests.

In August, COSATU suspended Vavi for having an extra-marital affair with a junior staff member and for bringing the organisation into disrepute. Vavi's supporters, including Numsa's secretary general **Irvin Jim**, see his suspension as part of a political conspiracy to neutralise a vocal critic of Zuma's administration. COSATU and the ANC government have differed sharply over the **Employment Incentive Act** (legislation that will offer companies that employ young people tax breaks), the implementation of the unpopular tolling of Gauteng's freeways (see *ARC South Africa October 2013 Briefing*) and the 'neo-liberal' **National Development Programme** (the state's long term planning strategy). Numsa wants greater state intervention in the economy.

<sup>16</sup> COSATU website

<sup>17</sup> 'Metal workers union wants Zuma out', BDlive, 20 December 2013

<sup>18</sup> Irvin Jim, speaking at Numsa's special congress, 20 December 2013

<sup>19</sup> 'Political hyenas in feeding frenzy - Vavi', News24, 26 August 2010

COSATU must also contend with the rampant rival **Association of Mineworkers and Construction Union (Amcu)**. Formed in 1999, Amcu is not officially politically affiliated and its declared objective is to better represent workers rights. Amcu has replaced the older ANC-aligned NUM as majority union at Lonmin, **Sibanye Gold** and **Anglo Platinum**.<sup>20</sup> It has pushed for greater concessions, pursued rigid objectives in negotiations and grown its membership.

*“The strikes will continue until after the elections. The unions are trying to show that each is stronger than the next. But in fact the unions are fragmenting. Numsa is targeting the National Union of Mineworkers (NUM). If it succeeds it will then challenge the COSATU leadership – **S’dumo Dlamini** (COSATU president) is a Zuma man. Having spoken to both sides, my sense is they are all warriors and will fight to the last drop. Nothing has value unless you fight for it.”*

## 1.6 View on the elections

Despite this, the ANC will win a majority in the 2014 election although ANC’s share of the vote is likely to fall and compound the decline that Zuma’s first election brought in 2009 (65.9%) - the first decline since the 1994 election (62.65%), 1999 (66.35%) 2004 (69.69%).

*“Rumours have the ANC falling at every turn. Internal polling puts them at below 60%, with Zuma’s ratings lower – in the low 40s. If that is true, he is an election liability.”<sup>21</sup>*

The opposition remains weak although the ANC will face new challengers in **Agang** and **Economic Freedom Fighters (EFF)** (see *ARC South Africa November 2013 Briefing*) and determined campaigning by the largest opposition party, the **Democratic Alliance**. An unknown factor is how the so-called “born frees” - the generation of voters born after 1994 - and first time voters will vote. In November, approximately one million first time voters registered during the **Independent Electoral Commission’s (IEC)** registration drive.<sup>22</sup> First time voters are a minority considering that 17.6m votes were cast in 2009 but are perceived as less susceptible to ideology or anti-Apartheid rhetoric. The polls will show whether the ANC can appeal to a generation that has only known the ANC in government and not as freedom fighters. The IEC holds a second registration drive in February 2014. Former **World Bank** director **Mamphela Ramphele’s** Agang and the controversial former **ANC Youth League (ANCYL)** leader **Julius Malema’s** EFF lack the organisational structure to win a

<sup>20</sup> Moneyweb.co.za, 14 Aug 2013; M&G.co.za, 26 Nov 2013

<sup>21</sup> National newspaper editor with strong ANC links

<sup>22</sup> ‘About 1m new voters register ahead of 2014 polls says IEC’, BDLive, 12 November 2013



substantial share of the vote. There is inadequate polling data this far ahead of the election but estimates range for Agang getting between 1%-3% and the EFF winning 4%-7%.<sup>23</sup>

## 1.7 A nation at 20

South Africa as a nation is dramatically transformed from 1994. Its liberal constitution ended capital punishment, establishes gender equality and allows same-sex marriage. It has a free judiciary, a vibrant open media and has held credible elections every five years. Over 16m people receive social welfare and 85% of households are electrified.<sup>24</sup> Using a multidimensional definition of poverty (which includes income, health care, nutrition, education and household assets), the number of people living in poverty fell from 14.5m in 1993 to 4m in 2010.<sup>25</sup>

*“On the spectrum of political power between dictatorship and democracy, South Africa is along the line of a robust democracy which is good progress over 20 years. It is an emerging nation with a common founder that united everyone. People feel incredibly patriotic towards founder and flag, which is very good for political stability and for dealing with the country’s imbalances – rich versus poor. There is a strong democratic impetus from society.”<sup>26</sup>*

Despite these successes, problems persist. The number of unemployed was 5.6m in 2011 up from 4.7m in 1994. Most unemployed are youth (71%), due in part to poor education standards and a rigid formal economy. In total 98% of children attend school but receive poor quality education. A 2011 assessment found that 29% of grade four pupils were completely illiterate and only half of all students finish high school.<sup>27</sup>

Although the black middle class has grown quickly, 85% of black South Africans are still considered poor (earning less than R1400 [\$140] a month).<sup>28</sup> South Africa has the world’s largest HIV/Aids treatment programme with 2m patients receiving antiretroviral medicine<sup>29</sup> but the prevalence of HIV has increased from 4% in 1994 to 16% in 2013.<sup>30</sup>

Crime, in particular violent crime against women and children, is a pervasive malignant force across race and class lines. On average there were 45 murders a day in 2012/2013, an increase from 43 in

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<sup>23</sup> City Press; Washington Post

<sup>24</sup> ‘20 years of freedom’, Goldman Sachs, November 2013

<sup>25</sup> ‘What happened to multidimensional poverty in South Africa between 1993 and 2010?’, Arden Finn, Murray Leibbrandt and Ingrid Woolard, SALDRU, 2013

<sup>26</sup> Senior ANC-supporting business person, former advisor in the presidency;

<sup>27</sup> ‘Assessment results don’t make sense’, M&G, 5 December 2013; ‘The failing standard of basic education in South Africa’, Africa Institute, March 2012

<sup>28</sup> ‘20 years of freedom’, Goldman Sachs, November 2013

<sup>29</sup> ‘Aids drug rollout boosts South Africa life expectancy’, Reuters, 29 November 2013

<sup>30</sup> ‘20 years of freedom’, Goldman Sachs, November 2013

2011/2012<sup>31</sup>. South Africa's murder rate is four and a half times higher than the global average of 6.9 per 100 000 people.<sup>32</sup>

South Africa's political system lends itself to a lack of accountability in delivering service to its people. Citizens vote for parties, which in turn nominate office bearers and parliamentarians at national, provincial and local level. This provides a buffer to politicians against citizens holding them to account and creates a source of ongoing frustration. This frustration manifests itself as 'service delivery protests'. The protests are a frequent occurrence across South Africa but have the highest prevalence in urban and peri-urban areas. In the first eight months of 2012 (the most recent data available) there were 226 protests or an average of 28 a month.<sup>33</sup> The most common grievances are lack of access to housing and land, and the provision of electricity and water.<sup>34</sup>

*"The root of South Africa's problem is democracy without accountability. People have a vote but no means to hold the government accountable. It is a factor in corruption. It is a factor in the continuing service delivery protests."*<sup>35</sup>

## 1.8 Growth and change in 20 years

The most significant transformation under ANC rule is the economy. Gross domestic product (GDP) is 2.5 times bigger in 2013 (\$400 billion) than it was in 1994.<sup>36</sup> The economy grew at an average of 3.6% between 1994 and 2007. Gross gold and foreign reserves stood at \$3 billion in 1994 and have grown in 2013 to \$50 billion.

The ANC's early liberal economic policies propelled South African companies onto the global market to become global corporations. Several of them are among the biggest names in their sectors:

**SABMiller** is the second largest brewer by volume; **MTN** is a global mobile telecommunications company; and life insurer **Old Mutual** ranks 346<sup>th</sup> on the **Global Fortune 500** list in 2013.

South Africa has become an important stepping-stone for international investors looking at the rest of Africa. The Johannesburg Stock Exchange constitutes 80% of the market capitalisation of the continent - more than South Africa's GDP. South African companies were the first to recognise the rest of Africa's growth potential and now dominate the African market:

<sup>31</sup> 'Phiyega: Crime in SA under control', EWN.co.za, 19 September 2013

<sup>32</sup> 'Crime stats: Where murders happen in South Africa', M&G, 19 September 2013

<sup>33</sup> Multi-level government initiative - barometer

<sup>34</sup> Multi-level government initiative - barometer

<sup>35</sup> Business newspaper editor

<sup>36</sup> '20 years of freedom', Goldman Sachs, November 2013

*“All my business in **Ghana** is with people who have offices in Johannesburg. Previously you could do that in **London**. Now Johannesburg is the place. Africa is big news – a big source of revenue for SA companies. Banking and telecoms in Africa are mature and profitable.”<sup>37</sup>*

## 1.9 Finance minister loosens grip on austerity

Many of the gains were made in the first two iterations of ANC rule and have been placed at risk under Zuma. Policy uncertainty, land rights, tax, labour militancy and unrest have undermined mining as a foreign investment vehicle and as a contributor to GDP. The 2013 **Fraser Institute** survey of mining jurisdictions ranked South Africa a low 64 out of 94 countries.<sup>38</sup> Two mass employers, mining and manufacturing, have retreated significantly in the last two decades. In 2013 mining accounts for 5.5% of GDP (9.4% in 1994) and manufacturing is 17.2% of GDP (18.7% in 1994).<sup>39</sup> The mining sector is responsible for 50% of South Africa’s export revenue, but is vulnerable to exchange rate fluctuations and the vagaries of the global commodity prices.<sup>40</sup> It is also prone to turbulence and labour unrest. Wages in the mining sector grew 11% in the past decade even while production fell 4% in the same period.<sup>41</sup>

The risk that international rating agencies will again downgrade South Africa increased when finance minister **Pravin Gordhan**’s rolled back public sector cost-cutting initiatives aimed at trimming the government spending on travel and entertainment (in excess of \$20m in 2012-2013).<sup>42</sup> Of greater concern for the economy is speculation that the widely respected Gordhan will leave politics in April 2014. This could leave the door open to finance minister candidates with a more populist agenda which risks closing the door on the fiscal discipline that has underpinned South Africa’s post-1994 growth.

## 2 Implications

South Africa has transformed itself in 20 years from an Apartheid-state to a vibrant democracy. It has the constitutional framework and institutions necessary for stability and on which to build a prosperous future. Thanks to strong institutions, the 2014 elections will take place as planned and peacefully. Mandela’s death has prompted national introspection and generated widespread criticism of the ruling party in the run up to a general election.

<sup>37</sup> Senior South African businessman

<sup>38</sup> Quoted in ‘The mining sector faces labour and legislative challenges’, EIU, 6 December 2013

<sup>39</sup> ‘20 years of freedom’, Goldman Sachs, November 2013

<sup>40</sup> ‘The mining sector faces labour and legislative challenges’, EIU, 6 December 2013

<sup>41</sup> ‘20 years of freedom’, Goldman Sachs, November 2013

<sup>42</sup> DA, National Assembly Statement, 22 December 2013

The short to medium term outlook depends on whether the ANC can change from the party of liberation to an efficient party of government. The ANC is divided at cabinet and NEC level, and is at odds with its revolutionary allies in the tripartite alliance. Party divisions and its internal electoral processes mean the party is unlikely to be able to respond effectively to popular discontent with Zuma.

The party has ten years to renew so the next two leaders are a critical choice for the ANC's future. In a decade most voters will have been born after 1994. They will have no issue with South Africa's history and will judge only on government performance. Ramaphosa and Mkhize may have emerged as potential popular favourites but they are unlikely to come to power because of the KZN pro-Zuma faction inside and outside the formal ANC structures. If the ANC forces an unpopular leader on an unpopular party they will move into opposition - but not in 2014.

This time around the ANC will employ a mixture of tactics – offering carrots (raising social grants and increasing public sector employment for instance) while wielding sticks (a more militant police force to quell the ubiquitous service delivery protests and strikes). The ANC leadership will probably try to depersonalise the election campaign and after the election may appoint Ramaphosa as head of government business leaving Zuma in a more ceremonial head of state role.

The opposition's weakness and limited reach means that Zuma's unpopularity is unlikely to translate into sufficient votes to oust the party or pave the way for government by a coalition of opponents or a new party. Union activism will focus more on winning worker representation as Numsa and Amcu battle to take the NUM's share of COSATU members. Neither union is likely to have the structure or reach to challenge the ANC in 2014 if they move to form a political party. None of the parties speaks for the 7m unemployed, which presents any new socialist party with an immediate potential core constituency.<sup>43</sup> There is little evidence to support speculation that Amcu will join forces with Malema's EFF ahead of elections. However, collectively the opposition and disaffected union members will eat into the ANC's majority in parliament and in provincial governments.

It is unlikely that the ANC will transform into a party of efficient government in 2014. This will be even less likely if Zuma retains executive power and if Gordhan steps down and undermines macro-economic stability further. The prospects of improvements in the world economy may defer any rating agency's downgrade of South Africa, but it remains a risk. Continued macroeconomic slippage,

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<sup>43</sup> Includes the unemployed and those that have stopped looking for work.



patronage appointments over competence, policy drift, continued state sector profligacy and government corruption will characterise a further term with Zuma as executive president - all of which deter foreign and domestic investment. South African companies will use the hiatus of a further weak government to invest in the rest of Africa at the expense of the domestic economy and jobs. Furthermore, it is unlikely that a divided, unaccountable and unpopular ANC will be able to take the necessary decisions that address housing, land, electricity and water<sup>44</sup> that are at the root of urban unrest. Without courageous leaders willing to chart a bold dynamic socio-economic trajectory, South Africa's prosperity will decline in the next presidential term. It has the constitutional and institutional frameworks but requires the leadership to invest in the people.

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<sup>44</sup> Multi-level government initiative - barometer