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President Jacob Zuma (2009-present) is the subject of continued scrutiny from the media and other members of the ruling African National Congress (ANC) over his relationship with the Gupta family. The ANC's National Executive Committee (NEC) and public protector Thuli Madonsela both start investigations into the relationship. Major banking groups have announced disinvestment across March in response to South Africa's poor operating conditions. FirstRand will move more business offshore, Barclays will disinvest in Absa, and Old Mutual will split, leaving its Africa businesses based in South Africa. State statistics agency Statistics South Africa (SSA) announced on 23 March that consumer price index inflation spiked to 7% in March, its highest level since 2009. This is due to the weak value of the rand and the region wide drought requiring South Africa to import 3.8m tonnes of grain.

State Capture scandal puts pressure on Zuma and the Guptas

President **Jacob Zuma** (2009-present) is the subject of continued scrutiny by the media and other members of the ruling **African National Congress (ANC)** over his relationship with the **Gupta** family. The extent to which the Guptas and their business associates, including Zuma's son, **Duduzane Zuma**, have 'captured' the state is now coming to light. **India**-born brothers **Ajay Gupta**, **Atul Gupta** and **Rajesh 'Tony' Gupta** came to South Africa in 1993 and made their fortune through IT company **Sahara Computers**, of which Zuma's daughter **Duduzile Zuma** was a director.¹ They have assets in air travel, energy, and technology across Africa. Their media companies **The New Age** and **ANN7** both have lucrative government contracts, and are fierce supporters of the president.² They have benefitted from state contracts in **Free State Province** and **Kwa-Zulu Natal** under the Zuma administrations.³ They stand to benefit from Zuma's proposed nuclear deal, as through **Oakbay Resources and Energy** they own the only dedicated uranium mine in the country.⁴ According to a senior commentator:

"The Guptas are like another branch of the ANC."⁵

The **ANC National Executive Committee (NEC)** announced an investigation into this alleged 'state capture' at a meeting on 19 March.⁶ ANC chair **Gwede Mantashe** told the media the NEC had resolved to investigate the allegations that the Guptas had offered deputy finance minister **Mcebisi Jonas** the job of finance minister in December 2015 on condition that he follow their instructions.⁷ Jonas released a public statement on 16 March confirming that a member of the Gupta family offered him the job prior to the president firing former finance minister **Nhlanhla Nene** on 9 December.⁸ The NEC will investigate similar accusations that ANC MP **Vytjie Mentor**, and former **Government Communication and Information System** director **Themba Maseko** as well as other officials have

¹ Business Day, 17 Mar 2016.

² Business Day, 17 Mar 2016.

³ Daily Maverick, 19 Dec 2015.

⁴ Daily Maverick, 19 Dec 2015.

⁵ Senior media source, Johannesburg

⁶ Daily Maverick, 22 Mar 2016.

⁷ Business Day, 20 Mar 2016.

⁸ Business Day, 16 Mar 2016.

made.⁹ Both Zuma and the Gupta family have released statements saying that they welcome the investigation as a chance to clear their names.¹⁰

Public protector **Thuli Madonsela** confirmed on 24 March that her office would also be investigating the Guptas' involvement in the state.¹¹ Opposition parties the **Democratic Alliance (DA)** and the **Economic Freedom Fighters (EFF)** submitted a request to her office to do so.¹² A **Constitutional Court** ruling recently found that Madonsela's rulings are legally enforceable (see *ARC Briefing South Africa January 2016*). **Zwelinzima Vavi**, who is organising a new labour congress outside of the **Congress of South African Trade Unions (COSATU)**, told the media that he was going to testify to the public protector about a meeting involving Zuma, Duduzane Zuma, a member of the Gupta family, and the president of **Equatorial Guinea, Teodoro Obiang** (1979- present).¹³ Media outlets are reporting that other ANC figures are preparing to come forward to give evidence to both the NEC and Madonsela.¹⁴

Zuma has managed to prevent a full-scale judicial inquiry into his relationship with the Gupta family.¹⁵ He will be part of the NEC's 'top 6' who will be in charge of the investigation, despite his role at the heart of it.¹⁶ The entire process will be extra-judicial and take place behind closed doors. However, an investigation involving the top 6 is unprecedented, even if Zuma will be present.¹⁷ He will be less able to affect a public protector investigation, but Madonsela's term ends this year and the president may be able to drag the investigation into her replacement's mandate. The president appoints the public protector.¹⁸

*"Jacob Zuma's enemies are circling, now it is only the people he owns who are backing him, and they have no constituency in the ANC...they will have to use mechanisms outside the party to ensure he stays in power. When he faces the party in 2017 he will have to answer to us."*¹⁹

The revelation of the Gupta's interference in politics has precipitated public declarations against the Guptas, many of which attack Zuma as well. Mantashe described the president as "*not untouchable*".²⁰ The ANC's ruling partner in the tripartite alliance, the **South African Communist Party**, has also lashed out against the president, describing him as "*contaminated*"²¹ through his relationship with the Guptas.²² Former commanders of the ANC's military wing, **Umkhonto we Sizwe (UwS)**, wrote a memo to veterans on 28 March attacking the Guptas and criticising Zuma's decision to fire Nene.²³ They also voiced support for finance minister **Pravin Gordhan** and his allies within the ANC.²⁴ Former **South African National Defence Force (SANDF)** commander and communication minister General **Siphiwe Nyanda** is reportedly acting as spokesperson for the group.²⁵ Other signatories

⁹ Business Day, 20 Mar 2016.

¹⁰ Daily Maverick, 22 Mar 2016.

¹¹ Rand Daily Mail, 24 Mar 2016.

¹² Rand Daily Mail, 24 Mar 2016.

¹³ Sunday Times, 27 Mar 2016.

¹⁴ Daily Maverick, 29 Mar 2016.

¹⁵ Daily Maverick, 22 Mar 2016.

¹⁶ Daily Maverick, 22 Mar 2016.

¹⁷ Daily Maverick, 22 Mar 2016.

¹⁸ Daily Maverick, 22 Mar 2016.

¹⁹ Source, ANC delegate, Johannesburg

²⁰ Mantashe in Business Day, 20 Mar 2016.

²¹ SACP press release, 21 Mar 2016.

²² SACP press release, 21 Mar 2016.

²³ UwS memo, 28 Mar 2016.

²⁴ UwS memo, 28 Mar 2016.

²⁵ UwS memo, 28 Mar 2016.

include four ambassadors and two former heads of the **National Intelligence Agency** and former Zuma ally **Moe Shaik**.²⁶ The memo ends:

*"We are of the view, that for the sake of the ANC and the country a dignified exit should be negotiated with Comrade J Zuma."*²⁷

An array of ANC elders has now publicly criticised Zuma including former presidents **Kgalema Motlanthe** (2008-2009) and **Thabo Mbeki** (1999-2008). Analysts argue that their opinion carries significant weight:

*"No one is going to be able to turn this into one of those 'what did you do in the Struggle' pissing contests, because those that win those contests have already picked their side...their voices still matter."*²⁸

Local media uncovered in late February that two advisers to **David van Rooyen**, whom Zuma appointed as finance minister on 9 December but reassigned on 11 December, **Mohamed Bobat** and **Ian Whitely**, were former Gupta employees.²⁹ The media allege that Bobat and Whitely attempted to take control of the treasury and only a walkout of the entire senior staff of the ministry prevented them from doing so.³⁰ Opposition politicians and ANC elders have publicly called for Zuma to distance himself from the Guptas. The Gupta family have described all the allegations as *"totally false"*.³¹

South Africa's banks disinvest to adapt to poor market conditions

South Africa's major banking groups have announced disinvestment across March as South Africa's poor operating conditions begin to take effect. South Africa-based banking group **FirstRand** announced on 9 March that it would expand its **United Kingdom (UK)** business due to poor domestic market conditions.³² South Africa's financial difficulties have prompted fears that major financial firms could focus on investing internationally, a form of capital flight. According to local sources in the sector, FirstRand's move, if successful, could set a trend:

*"It is clearly not a favourable time to move into a strong currency, let alone the pound, as the rand is so weak...but with the pound at its strongest in seven years against the rand and the terrible [economic] situation ...if it goes well then other banks could follow suit."*³³

FirstRand owns South Africa-based **First National Bank**, **Rand Merchant Bank**, **Wesbank** and **Ashburton**. In the UK it owns vehicle asset finance company **MotoNovo Finance**, which specialises in loans to individuals.³⁴ Group CEO **Johan Burger** told the media on 8 March that the group will expand its instalment finance business in the UK through MotoNovo and move part of its deposit taking franchise to the **Channel Islands**.³⁵ Burger was keen to emphasise that this was not capital flight, and that FirstRand were focusing on their UK operations in order to generate foreign capital to support the business.³⁶ FirstRand will then use the foreign currency earnings to support its business

²⁶ The following signed the memo: Brig Gen **Damian de Lange**, **Mongezi India**, Amb **Mzuvukile Maqethuka**, **Mavuso Msimang**, **Jabu Moleketi**, **Sindiso Mfenyana**, **Bob Mhlanga**, **Dipuo Mvelase**, Amb **George Nene**, Amb **Welile Nhlapo**, **Greg Ntha**, Gen **Nhlanhla Ngwenya**, **James Ngculu**, **Gibson Njenje**, Brig Gen **Ngqose**, Dr. **Ayanda Ntsaluba**, **Zukile Nomvete**, Commissioner **George Rasegatla**, **Johnny Sexwale**, Brig gen **Sejake**, **Ka Shabangu**, Amb **Moe Shaik**, **Sipho Twala**, **Mike Thusi** Dr. **Snuki Zikalala**.

²⁷ UwS memo, 28 Mar 2016.

²⁸ Source, political analyst, Pretoria

²⁹ BizNews, 28 Feb 2016.

³⁰ BizNews, 28 Feb 2016.

³¹ Business Day, 16 Mar 2016.

³² Business Day, 9 Mar 2016.

³³ Source, analyst for a major bank, Johannesburg

³⁴ Business Day, 9 Mar 2016.

³⁵ Business Day, 9 Mar 2016.

³⁶ Moneyweb, 9 Mar 2016.

expansion plans in South Africa and across the rest of the continent.³⁷ FirstRand's bad debt levels rose 2% in the second half of 2015.³⁸

As well as South Africa-based banks expanding to the rest of the world, internationally owned banks are divesting of their South African assets. UK-based **Barclays Plc** announced on 1 March that it would sell down its 62.3% stake in **Barclays Africa (Absa)** over the next three years.³⁹ The move follows Barclays' poor results in 2015 but has the potential to destabilise Absa, a key company on the **Johannesburg Stock Exchange (JSE)**. Barclays Plc chief executive **Jes Staley** justified the decision saying that the bank would refocus on its key UK and **United States (US)** markets and that it was over-exposed to Absa where it took 100% of the risk but only received 62% of the profits.⁴⁰ However, underlying the disinvestment is a decline in confidence in South Africa. Barclays bought a 56.4% stake in 2005 for \$4.3 billion at a time when confidence in South Africa was high.⁴¹ The group may struggle to make a good return on the investment in the current climate; the decision is more about limiting risk than reward.

Absa is a pan-African bank with over \$70 billion in assets and employs 41,000 people across 12 countries. Its largest operations are in South Africa, **Kenya, Ghana, Tanzania, Mozambique and Uganda**.⁴² The treasury and the **South African Reserve Bank (SARB)** released a joint statement on 2 March.⁴³ In it they said that they would monitor the transaction carefully to make sure it did not have an adverse effect on South Africa's financial markets.⁴⁴

Long-term analysts of South Africa point to the current political circumstances as a reason for the disinvestment:

"We are in the midst of the biggest disinvestment since the sanctions, this is Zuma's legacy. Big global companies born in South Africa are moving out – first the mining houses and now the banks, and international businesses, like Barclays, have lost confidence in the market."⁴⁵

However, some financial services groups are viewing splits as a way to drive growth within South Africa. **London**-listed financial services group **Old Mutual** announced on 11 March that it would split into four entities. The group is trying to drive growth in both its Africa and global businesses by re-basing its local operations in South Africa. The group, which values itself at \$12 billion, will split into South Africa-based bank **Nedbank**, an Africa-wide insurance business, a US-based asset management business, and the UK-based wealth management business.⁴⁶ Old Mutual CEO **Bruce Hemphill** orchestrated the split due to the lack of clarity over the group's dual roles as an emerging and developed markets business.⁴⁷ The announcement is also a significant vote of confidence in South Africa's economic and political stability.⁴⁸ Local analysts say that this will have a political pay off but comes with economic risks:

"Old Mutual will gain goodwill from the government for rebasing its African businesses here, but will no longer be in a position to absorb shocks from further problems with the rand."⁴⁹

³⁷ Moneyweb, 9 Mar 2016.

³⁸ Moneyweb, 9 Mar 2016.

³⁹ FT, 1 Mar 2016.

⁴⁰ FT, 1 Mar 2016.

⁴¹ Business Day, 12 May 2005.

⁴² FT, 1 Mar 2016.

⁴³ Business Day, 2 Mar 2016.

⁴⁴ Business Day, 2 Mar 2016.

⁴⁵ Source, long-term SA analyst, London

⁴⁶ FT, 11 Mar 2016.

⁴⁷ FT, 11 Mar 2016.

⁴⁸ FT, 11 Mar 2016.

⁴⁹ Source, analyst for a major bank, Johannesburg

Inflation surges to 7% in March as drought raises food prices

State statistics agency **Statistics South Africa (SSA)** announced on 23 March that consumer price index inflation spiked to 7% in March, its highest level since 2009.⁵⁰ Consumers will now feel the impact of the weak value of the rand and the region-wide drought which is driving up the price of food.⁵¹ Inflation increased 0.8% from 6.2% in February. The increase is 0.2% more than estimates by economists and the SARB.⁵² Food inflation from grains is at 8.2% and is driving the overall increase.⁵³ The rand has fallen 9.1% against the dollar over the past six months, although it had strengthened to 15.4/\$ at time of writing, the same level as at the beginning of 2016.⁵⁴ The rate of inflation is outside the SARB's target range of 3-6%.⁵⁵ According to SARB governor **Lesetja Kganyago**:

*"Food price pressures, driven by the drought and the depreciated exchange rate, have intensified by more than previously forecast and remain a significant upside risk to inflation."*⁵⁶

The SARB is trying to mitigate this by raising interest rates. It raised the repo rate (the rate at which it lends money to banks) by 25 basis points to 7% on 17 March.⁵⁷ The SARB hopes tightening monetary policy will encourage saving and reduce spending, bringing inflation down. It is the second increase this year after a 50 basis points rise in January.⁵⁸ Kganyago told the media that the bank felt it needed to get prices under control before addressing the possible economic slowdown that high interest rates can cause.⁵⁹ The SARB predicts gross domestic product (GDP) growth of 0.8% in 2016.⁶⁰

However, the impact of the drought is only just beginning to exert downward economic pressure. South Africans consume 11.25m tonnes of meal per annum, which 34,000 domestic farmers produce.⁶¹ The 2015 crop was 9.9m tonnes and the **National Crop Estimate Committee** projects the 2016 crop will be 7.4m tonnes – a 33% decrease leaving a 3.82m tonne shortfall.⁶² Farmers will also have no excess to sow fields for the 2017 harvest or to use as animal feed, which will reduce the 2017 harvest even further.⁶³ Private companies will import the shortfall but it will raise the price of grain across 2016 and 2017.⁶⁴ This is especially the case where the rand is weak:

*"The drought will continue to be the driving force behind inflation...monetary policy levers will have a limited impact because people cannot reduce their spending on staples (like grain) by much...the exchange rate will determine the value of imports."*⁶⁵

Implications

The net around Jacob Zuma is drawing tighter. Former allies and enemies alike are airing their grievances at him and the Guptas in the media. Some commentators believe the biggest revelations are yet to come as the ANC does not want to lose too much ground in the provincial elections which take place from May to August this year. Zuma is in a bind: if he lets the ANC prosecute the Guptas, or worse, fails to prevent a public protector ruling, he loses his source of funding and patronage. However, the Guptas would have little incentive not to retaliate, airing yet more of Zuma's secrets in

⁵⁰ Moneyweb, 23 Mar 2016.

⁵¹ Moneyweb, 23 Mar 2016.

⁵² Moneyweb, 23 Mar 2016.

⁵³ Moneyweb, 23 Mar 2016.

⁵⁴ XE.com

⁵⁵ Reuters, 17 Mar 2016.

⁵⁶ Kganyago in Reuters, 17 Mar 2016.

⁵⁷ Reuters, 17 Mar 2016.

⁵⁸ Reuters, 17 Mar 2016.

⁵⁹ Reuters, 17 Mar 2016.

⁶⁰ Reuters, 17 Mar 2016.

⁶¹ Daily Maverick, 8 Mar 2016.

⁶² Daily Maverick, 8 Mar 2016.

⁶³ Daily Maverick, 8 Mar 2016.

⁶⁴ Daily Maverick, 8 Mar 2016.

⁶⁵ Source, economist, Cape Town



public. He is drawing his circle around him of younger ministers – such as mining minister **Mosebenzi Zwane** and state security minister **David Mahlobo** – all of whom rely on Zuma for survival. They may have little influence in the ANC but they control the state security apparatus – South Africa’s short term political future is likely to involve a damaging and public fightback.

The banks claim they are looking to the global markets to ensure profitability. FirstRand is moving into a stronger currency position, Barclays is reacting to larger market pressures, and Old Mutual is retargeting its businesses globally. However, the common factor is that none are looking to South Africa for growth – the domestic financial situation is poor and it serves as a (relatively) stable operating base and little else. They find opportunities for growth across the rest of the continent. However, the current political situation and looming possibility of a ratings’ downgrade may impact their creditworthiness. FirstRand has put assets in the UK to mitigate this and Old Mutual has separated its African businesses, limiting damage to the rest of the group. Only Absa now finds itself becoming wholly South African, as the chances of a downgrade and subsequent recession slowly increase.

Relatively low inflation has given South African consumers space to breathe despite the low growth of the economy. However the drought will change this. The government is downplaying the impact of the poor harvest as it will not directly drain money from the public purse. If the drought continues into this harvest season it may have to step in directly to prevent a national disaster.



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