

AFRICA RISK CONSULTING

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South Africa Summary 29 January 2021

South Africa reels from the impact of a new deadly variant of the Covid-19 virus with excess death statistics showing three times as many deaths as official figures. A level three lockdown remains in place, which has reduced official infection rates. The government vaccination programme will launch in early February and aims to vaccinate 67% of the population by the year's end. The funeral of a popular minister rendered an African National Congress (ANC) national executive committee strategy session sombre and uneventful. Government priorities for 2021 are to beat Covid-19 and launch an economic recovery – but one based on state interventionism, which has left economists and business uninspired. President Cyril Ramaphosa (2018-present) presses ahead with his governance agenda, notably to root out corruption in the ANC at municipal level before local elections in August. A law banning foreign financing of political parties comes into force on 1 April. The Constitutional Court has ordered former President Jacob Zuma (2009-2018) to appear before the Zondo Commission of Inquiry into State Capture and to answer questions on his role. Witness testimony outlining Zuma's alleged role in diverting state security services and funds to further his personal political aims electrifies the commission ahead of the Constitutional Court decision. An International Monetary Fund (IMF) virtual mission urges the government to end funding state-owned enterprises and to take tough action to address Eskom and power outages.

South Africa reels under Covid variant ...

South Africa is reeling from the impact of a new variant of the **Covid-19 virus** – the so-called **501Y.V2** strain. Scientists report that the new strain is up to 50% more contagious than older versions and may be more deadly.¹ This version first emerged in the **Mandela Bay** area of the **Eastern Cape** province in October and has quickly come to dominate in South Africa. It has now spread to other **African** countries, notably **Botswana, Ghana, Kenya, Zambia, Mozambique** and the **Indian Ocean Islands**.²

The death of a highly popular minister from the ruling **African National Congress (ANC)** has underlined the severity of Covid-19's second wave. President **Cyril Ramaphosa** (2018-present) announced on 21 January that minister in the presidency **Jackson Mthembu** had passed away from Covid-19 complications. Mthembu had tested positive for Covid-19 ten days earlier when he sought help at **Tshwane** military hospital for abdominal pain.³ The news of Mthembu's death and a dramatic air-ambulance helicopter crash the same day that claimed the lives of several health workers sparked public outpouring of grief.

The strong public response may point to higher levels of mortality from Covid-19 than reported in government health department official statistics.⁴ These put the total number of deaths from Covid-19 at 40,874. However, the **Medical Research Council (MRC)**, which began monitoring excess natural deaths in May 2020 at the beginning of the Covid-19 outbreak, reports a sharp acceleration in excess deaths in January 2021. The MRC's latest report says excess deaths rose to an all-time high in the

¹ University of KwaZulu-Natal, Fred Hutchinson Cancer Research Center reported in Financial Times, 6 January 2021

² Business Day, 28 Jan 2021

³ CNN, 21 Jan 2021

⁴ Former statistics South Africa economist, government health department web site

week of 16 January of 16,093. This is triple the number of natural deaths normally seen at this time of year. The MRC reports 112,280 excess natural deaths since May 2020, again triple the official figure.

Meanwhile, South Africa remains in a level-three lockdown since 29 December, which introduces a curfew, restricts internal travel, encourages people to work from home, bans all public gatherings except funerals, and prohibits the sale and distribution of alcohol. According to the health department's official figures⁵ the total number of Covid-19 cases identified in South Africa's nine provinces is 1,437,798 as of 28 January, as shown in the table below.

Province	Total cases for 28 January 2021	Percentage total
Eastern Cape	191327	13,3
Free State	75306	5,2
Gauteng	385706	26,8
KwaZulu-Natal	310076	21,6
Limpopo	56691	3,9
Mpumalanga	63130	4,4
North West	56134	3,9
Northern Cape	31599	2,2
Western Cape	267829	18,6
Unknown	0	0,0
Total	1437798	100,0

Vaccination race is on ...

The ANC government has made access to Covid-19 its "*highest priority*". It expects to launch its vaccine rollout in the first week of February and aims to vaccinate 67% of the population by the end of 2021.⁶ As elsewhere in the world, there will be a phased rollout of the vaccine, starting with 1.25 million healthcare workers. Phase 1 will focus on frontline healthcare workers, then essential workers (whose identity is undefined but are assumed to be people keeping the bones of the economy going). Phase 2 will focus on 60-year-olds, vulnerable adults, prisoners and those with co-morbidities. Phase 3 will vaccinate 22 million adults to ensure herd immunity. All those vaccinated will receive a vaccination card.

Private sector organisations and commentators have criticised government's decision to take charge of sourcing, procuring and distributing the vaccine for both the public and the private sector and to oversee the rollout of the vaccine. Media commentators question the government's ability to immunise two-thirds of the population when it has yet to secure the 80 million doses this would require. Further, private sector organisations have criticised the government's reluctance to discuss the rollout with private sector organisations and for relying on the **World Health Organisation-coordinated COVAX Facility**, which they claim means South Africa will pay three times as much for the vaccine. The government insists its vaccination programme is on track to launch in the first week of February. Health minister **Zweli Mkhize** expected to receive 1 million vaccine doses in January and 500,000 doses in February of **British-Swedish** pharmaceutical company **AstraZeneca's** vaccine.

⁵ www.sacoronavirus.co.za

⁶ Government web site: <https://sacoronavirus.co.za>

NEC tackles economic recovery and corruption

The way out of the Covid-19 pandemic and South Africa's economic recovery were the focus of the ANC's **National Executive Committee (NEC) lekgotla**⁷, held virtually from 20-25 January. The death of Jackson Mthembu, Ramaphosa's long-standing colleague and close ally, interrupted and cast a pall over the meeting. Ramaphosa's failure to impose an NEC decision dating back to August 2020 that any ANC office holder facing corruption charges should step down from that office until cleared of corruption charges, disappointed seasoned observers. ANC secretary-general **Ace Magashule** – who returns to court in February to answer charges of corruption – has refused to quit his post, threatening to use employment law against the party if it forces him to quit.

Nevertheless, Ramaphosa has continued his battle to improve broader political governance and the ANC's internal governance with two important steps. First, as municipal elections approach and may be held in August 2021, Ramaphosa promulgated the **Political Party Funding Act**, which comes into law on 1 April. The legislation demands transparency from political parties and their donors in terms of funding, and seeks to eradicate corruption and improve accountability in government. While anti-corruption campaigners point out loopholes – notably that the law allows for anonymous donations – one critical component is a ban on international financing of elections. It also introduces a **Democracy Fund**, which would allow donors to fund all parties. The **Independent Electoral Commission (IEC)** would manage the fund, which would distribute the money to all parties according to a pre-agreed formula. Speaking to the media, **Corruption Watch SA** head **David Lewis** welcomed the move:

*"It's a step in the right direction. It bans foreign funding outright but allows for anonymous donations... eventually people will link funding to voting. All three of the big political parties opposed it and the ANC rammed it through at lightening pace."*⁸

Secondly, the NEC resolved to submit all ANC current and prospective municipal councillors to a selection process in which they will be asked to account for any allegations of corruption or maladministration. ARC sources have reported that corruption at municipal level is endemic and ANC corruption proliferated under the presidency of **Jacob Zuma** (2009-2018). Local businesses would make corrupt payments to key ANC selection officials to a local councillor. Payback was to win government contracts. Ramaphosa pressed home his objective to end lawlessness, whether in maladministration or corruption, or in municipal protesters destroying services or obstructing service delivery in the municipalities. The NEC re-affirmed its commitment to support the **Zondo Commission of Inquiry into Allegations of State Capture (Zondo Commission)** and to restoring capacity to South Africa's main law enforcement and investigation agencies.

ConCourt insists Zuma appear

The slow restoration of accountability advanced considerably when on 28 January the **Constitutional Court of South Africa** ordered former president Jacob Zuma to appear before the Zondo Commission. The constitutional court judgement insisted Zuma comply with the commission's summons. Furthermore, the judgement stated that Zuma does not have the right to remain silent but does have the right to privilege against self-incrimination.

The judgement coincides with explosive testimony before the Zondo Commission outlining how Zuma perverted the functioning of the **State Security Agency (SSA)** for his personal ends. The SSA's constitutional function is *"to provide the government with intelligence on domestic and foreign threats"*. Yet the Zondo Commission heard testimony from former safety and security minister **Sydney Mufamadi** (1994-1999) on how Jacob Zuma corrupted its normal functioning. According to evidence gathered in a separate Mufumadi-led inquiry into state security, Zuma created an operating unit, part of which reported directly to Zuma outside the normal SSA reporting structures. Zuma also used the

⁷ In South African English, a lekgotla is a meeting called by government to discuss strategy planning. The term is still a loan word from Setswana, again meaning court.

⁸ Business Day TV, 26 Jan 2021

SSA to select, train and arm operatives from his region, **KwaZulu-Natal**, as a close personal protection unit, which is unlawful. The **South African Police Service (SAPS)** is charged with presidential protection. Mufumadi recounted how Jacob Zuma used the SSA to attempt to bribe judges to influence colleagues perceived as unfavourable to him, and to control and influence media organisations to report positively about the president. Zuma's ministerial appointees, **Syabonga Cwele**, **David Mahlobo** and **Bongani Bongo**, all aided and abetted this perversion. Mufumadi described "*project commitment*" that involved providing Zuma with R2.5m (\$167,000) per month drawn from the state security fund, an amount that was increased to R4.5m (\$300,000) per month in the next financial year (2016-2017). While the commission heard there was no evidence to prove that Zuma actually received the money, David Mahlobo signed for it. SSA's special operations unit reportedly funded a news agency, **African News Agency (ANA)**, and made payments to other newspaper groups to report favourably on Zuma.

Zuma also faces a criminal trial linked to a notorious arms deal in the 1990s and has been accused of using stalling tactics to avoid having to answer questions at the commission. This, too, has been brought closer after the **Pietermaritzburg High Court** (KwaZulu-Natal) dismissed an application from **French** arms firm **Thales** to challenge racketeering charges in the arms deal fraud and corruption case in which the company is co-accused alongside Zuma.

ANC policy priorities for 2021

President Ramaphosa summarised at the NEC meeting the key elements of the ANC's policy priorities for the remainder of 2021, which ARC economist sources described as "*disappointing*". A future economic summit will look at Covid-19 and the worsening poverty it has caused. While Ramaphosa set defeating Covid-19, strengthening the health system and creating jobs as the most important objectives at the heart of the policy agenda, there was little in ANC priorities to address the dire fiscal environment. The main policy tenets include:

- Procurement of new sources of energy in renewable, emergency power embedding generation by local government;
- Interventions in infrastructure, "localisation" (assumed to be beneficiation), industrialisation and expansion of energy generation;
- Moving forward with land expropriation without compensation;
- Land redistribution to focus on agricultural transformation, improvements in food security and granting security of tenure of land – especially to women;
- Women also feature in a new drive to push pay for equal work Income relief;
- Extend and make more accessible the R500 billion (\$334m) relief fund for small business to assist the 2 million people who have lost their jobs;
- Public procurement bill finalised urgently in 2021: set asides for small business to support economic growth and localisation and a renewed emphasis on BEE ownership and management.

IMF is in town – virtually...

There was little in Ramaphosa's summary recognising the need to address with urgency the country's parlous fiscal position, caused in large part by failing state-owned enterprises. However, the virtual **International Monetary Fund (IMF)** mission visit was unwaveringly direct. A series of virtual meetings were held from 15-26 January to discuss economic developments and outlook, and concluded that Covid-19 has exacerbated existing political and economic trends, notably "*South Africa's growth and fiscal vulnerabilities*".

While the fund endorsed the government's need to prioritise alleviation of the on-going pandemic, it also highlighted as priority the need to reign in the large fiscal deficit, to contain the state wage bill,

and “to avoid subsidies and transfers to inefficient state owned enterprises (SOEs).” While the ANC talked of interventions in infrastructure (road building) to absorb unemployment, the IMF reiterated that to restore growth in the economy, and create jobs, the ANC would need to “advance reforms” that address state-owned energy utility **Eskom** and other SOEs, improve competition and governance, and increase labour market flexibility.

The IMF singled out Eskom for particular attention, stating bluntly:

“Recurring power outages in the midst of a deep recession underscore the need for bold action to redefine Eskom’s business model so that it becomes self-sustaining. In the absence of fundamental reforms, Eskom’s problems will continue to weigh on public finances and constrain economic growth prospects.”

Record foreign trade surplus in 2020

Failure to address the fiscal position raises fears that South Africa will default on its debt obligations although most economist feel this is unlikely. Adding to the acute deterioration of the fiscal picture is a slump in tourism following the global suspension of air travel and the slump in domestic tourism, due to the anti-Covid19 lockdown in place since December. Lockdown and a ban on alcohol sales have hit restaurants, wine farms and small breweries as well as the major breweries. Tourism – domestic and international – is a major employer and its suffering is contributing to the nearly 2 million newly unemployed to which Ramaphosa referred in his post-lekgotla address.

Despite this apparent gloom, there are some good signs. South Africa posted a record foreign trade surplus as renewed demand from **China** and other **Asian** economies gave a significant boost to commodity prices. A South African business source said,

“Fortunately, we have kept the mines running and so we can expect mining to become a big contributor to government revenues during the year.”⁹

Moreover, good winter and summer rains have strengthened agricultural production and are signs that the economy has an underlying strength and ability to recover robustly.

Planner

2-3 Feb 2021 **(South Africa)** Virtual Mining Indaba;
 23-25 Mar 2021 **Pretoria (South Africa) South African Reserve Bank (SARB)** (central bank) MPC meeting;
 30-31 Mar 2021 (South Africa) **Virtual Investment Programme**;
 May 2021 **(South Africa)** Municipal elections;
 18-20 May 2021 **Pretoria (South Africa) SARB** MPC meeting;
 20-22 Jul 2021 **Pretoria (South Africa) SARB** MPC meeting;
 21-23 Sep 2021 **Pretoria (South Africa) SARB** MPC meeting;
 16-18 Nov 2021 **Pretoria (South Africa) SARB** MPC meeting;
 2021 **(South Africa)** Municipal elections (TBA);
 7-10 Feb 2022 **Cape Town (South Africa) Investing in African Mining Indaba**
 2024 **(South Africa)** General election.

⁹ ARC Source, South Africa-based fund manager

Chronology

28 Jan 2021 **Johannesburg (South Africa)** *Reuters*. **National Energy Regulator of South Africa (Nersa)** has awarded state power utility **Eskom** R6 billion (\$393.72m) of allowable revenue;

28 Jan 2021 **Johannesburg (South Africa)** *Reuters*. The **Constitutional Court** orders former President **Jacob Zuma** to appear before a commission investigating corruption allegations against him;

27 Jan 2021 **Cape Town (South Africa)** *Reuters*. **South African** government gives fast track approval to **AstraZeneca's Covid-19** vaccine for emergency use;

26 Jan 2021 **Pretoria (South Africa)** *Daily Maverick*. South African government announces R1.2 billion (\$79.4m) **Tourism Equity Fund** to revive the tourism industry;

25 Jan 2021 **Johannesburg (South Africa)** *Business Insider*. **South African** travellers are currently banned from entering several countries, including the **United States**, the **United Kingdom** and the **United Arab Emirates** since the **501Y.V2** variant was named in December 2020;

25 Jan 2021 **Johannesburg (South Africa)** *Business Tech*. Official data shows in excess of 106,000 deaths were reported in South Africa in the period between 3 May 2020 and 16 January 2021, indicating that fatalities caused by the **Covid-19** pandemic could be much higher than recorded;

22 Jan 2021 **Pietermaritzburg (South Africa)** *Daily Maverick*. The **Pietermaritzburg High Court** dismisses an application from **French** arms firm **Thales** to challenge racketeering charges in the arms deal fraud and corruption case in which the company is co-accused alongside former president **Jacob Zuma**.

21 Jan 2021 **Johannesburg (South Africa)** *News24*. Minister in the presidency **Jackson Mthembu** dies from complications related to **Covid-19**;

21 Jan 2021 **Johannesburg (South Africa)** *Daily Maverick*. Senior health ministry official reveals South Africa will pay \$5.25 per dose for 1.5 million shots of **AstraZeneca's COVID-19** vaccine from the **Serum Institute of India** while the **African Union**, including South Africa, paid \$3 a dose for the vaccine under another arrangement;

20 Jan 2021 **Pretoria (South Africa)** *Daily Maverick*. **Statistics South Africa** says consumer inflation averaged 3.3% in 2020, the lowest since 2004.

20 Jan 2021 **(West Africa)** *Business Day*. **South Africa**-based mobile operator **MTN** and insurer **Momentum Metropolitan Holdings** plan to launch a microinsurance joint venture in **Côte d'Ivoire** and **Nigeria** as they seek to capitalise on **African** countries with low insurance penetration;

19 Jan 2021 **Pretoria (South Africa)** *Daily Maverick*. **Statistics South Africa** reveals mining production in South Africa fell by 11.6% year-on-year in November.

11 Jan 2021 **Johannesburg (South Africa)** *Business Day*. President **Cyril Ramaphosa** announces the closure of 20 land border posts until 15 February and tightens restriction measures to curb the spread of **Covid-19**;

11 Jan 2021 **Harare (Zimbabwe)** *New Zimbabwe*. Ruling **Zanu-PF** party spokesperson **Tafadzwa Mugwadi** threatens to reveal "a bombshell" regarding a recent visit by a **South Africa** ruling **ANC** party delegation to **Zimbabwe**, which is allegedly about South Africa's President **Cyril Ramaphosa** secretly funding Zimbabwe opposition leader **Nelson Chamisa**;

10 Jan 2021 **Johannesburg (South Africa)** *Business Tech*. Government is set to make an announcement on national **Covid-19**-induced lockdown restrictions this week, as Covid-19

cases surge across the country;

7 Jan 2021 **Johannesburg (South Africa)** *Business Day*. Health minister **Zweli Mkhize** says **South Africa** will be receiving one million **coronavirus** vaccine doses in January and 500,000 doses in February;

4 Jan 2021 **Johannesburg (South Africa)** *Bloomberg*. South Africa-based large businesses say they are "seriously considering" a request by the government to help fund the acquisition of **Covid-19** vaccines as the disease curbs activity in the continent's most-industrialised economy;

4 Jan 2021 **Harare (Zimbabwe)** *News24*. **South African** authorities arrest three suspected smugglers at **O.R. Tambo International Airport in Johannesburg** after finding 73.5 kilograms of gold bars worth about R66m (\$4.5m) in their hand luggage; the men were en route from **Madagascar to Dubai via Ethiopia**;

28 Dec 2020 **Johannesburg (South Africa)** *Business Day*. President **Cyril Ramaphosa** announces tougher new **coronavirus** restrictions, a day after South Africa records more than one million **Covid-19** cases;

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