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South Africa Summary 20 December 2022

President Cyril Ramaphosa (2018-present) is re-elected as the leader of the ruling African National Congress (ANC) at the party's elective conference on 19 December, narrowly defeating former health minister Zweli Mkhize. The overall results of the election are a boost to Ramaphosa's political fortunes as the ANC's senior leadership is now dominated by his allies. Ramaphosa's re-election indicates his successful navigation of the political scandal spurred by the Section 89 Panel's release of its report on 30 November on the theft of foreign currency from Ramaphosa's Phala Phala game farm in 2020. Statistics South Africa indicates the economy only grew by 1.6% in the third quarter and continues to face severe economic headwinds, adding pressure on Ramaphosa to improve his economic governance. This growth is insufficient in helping address the country's persistently high unemployment levels. Ongoing countrywide electricity load shedding exacerbates the economic situation and is further complicated by Eskom CEO Andre de Ruyter announcing his resignation on 14 December from the power utility after losing the necessary political support needed to implement changes. Loadshedding will continue to dominate developments in the coming year with the 2024 general election becoming more pertinent in the second half of 2023.

Ramaphosa re-elected as ANC leader despite Phala Phala scandal

President **Cyril Ramaphosa** (2018-present) was re-elected as the leader of the ruling **African National Congress (ANC)**'s national elective conference on 19 December, narrowly defeating former health minister **Zweli Mkhize** in the party presidency election by only 579 votes.¹ Despite this close-run election, the overall results of the election are a boost to Ramaphosa's political fortunes as the ANC's senior leadership (the Top 7) will now be dominated by his allies. The election results for the Top 7 positions were as follows:

- President – Cyril Ramaphosa;
- Deputy president - **Paul Mashatile**;
- Chairperson – **Gwede Mantashe**;
- Treasurer-general – **Gwen Ramokgopa**;
- Secretary-general – **Fikile Mbalula**;
- First deputy secretary-general – **Nomvula Mokonyane**;
- Second deputy secretary-general – **Moropene Ramokgopa**.²

Mantashe, Mbalula, Gwen Ramokgopa and Moropene Ramokgopa are considered to be close allies of Ramaphosa. Mokonyane is the only member of the Top 7 to be viewed as openly averse to Ramaphosa, but her influence will be reduced due to the conference decision on 17 December to create an additional deputy secretary-general position.³ The election of Moropene Ramokgopa as the second deputy secretary-general will enable Mbalula and Ramaphosa to sideline Mokonyane if she continues her opposition to the president.

The election of so many of Ramaphosa's allies to the Top 7 has strengthened the president politically within the ruling party. This marks a notable reversal of fate compared to the start of December when his political future was in doubt and speculation was rife on whether or not he would even finish the

¹ EWN, 19 Dec 2022

² EWN, 19 Dec 2022

³ The South African, 18 Dec 2022

year as president. The Section 89 panel, which was formed to investigate allegations of wrongdoing related to Ramaphosa's handling of a 2020 break-in at his **Phala Phala** farm, fuelled this speculation after releasing its report on 30 November.⁴ The panel found in its report that Ramaphosa has a case to answer for.

Arthur Fraser, former director general of the **State Security Agency (SSA)**, told the public in July that thieves had broken into Ramaphosa's Phala Phala farmhouse in 2020 and stolen over \$580,000 in cash which had been hidden in a couch on the property. These revelations raised questions over why the money was there, why it had not been declared and deposited into a bank in line with **South African** foreign exchange laws, and why the crime had not been reported.⁵ Ramaphosa has claimed that the money was the proceeds of a cattle sale. Fraser alleged that Ramaphosa's security detail had launched an illegal operation to track down the thieves, however, it should be noted that Fraser is a controversial figure who has been credibly accused of operating an illegal parallel spy network during his time at the SSA and identified by the **State Capture Commission** as being key to criminality and embezzlement at the SSA. Fraser is also a known ally of former president **Jacob Zuma** (2009-2018) and openly hostile to Ramaphosa.

The opposition **African Transformation Movement (ATM)** party filed an impeachment application triggering the formation of the aforementioned panel under Section 89 of the Constitution. The panel – which was led by former chief justice **Sandile Ngcobo** – was tasked with finding whether or not there was 'substantive evidence' of wrongdoing by Ramaphosa. This point is key as the panel did not find this but rather made a *prima facie* finding which has a much lower evidentiary threshold.

The panel's finding, regardless of this overstep, ignited the political tensions which were already brewing ahead of the ANC's elective conference. Ramaphosa's opponents became emboldened and openly criticised Ramaphosa, calling for his resignation.⁶ Ramaphosa himself appeared to be blindsided by this finding and reports emerged on 2 December that he had offered to tender his resignation.⁷ However, Ramaphosa's allies – notably Mantashe – reportedly convinced the president against this course of action and it became clear that he would oppose the report and take it on review arguing that the panel had overstepped its mandate. This was backed by several leading scholars who argued that the panel's report was weak and had overstepped its mandate and failed to fully ventilate all aspects of the matter, including the reliability of Fraser as an actor in the matter.⁸

However, Ramaphosa will not need to take the report on review as the ANC closed ranks, and voted in the National Assembly on 13 December against adopting the report, effectively killing any future impeachment hearing.⁹ This successful defence in parliament was due to Mantashe, Mashatile, and ANC chief whip **Pemmy Majodina** corralling the ANC's parliamentary caucus to support Ramaphosa in addition to the ANC's general resistance to parliamentary oversight of the party and its leaders.

Regardless, Ramaphosa entered the elective conference on 15 December in a weakened position (albeit still the frontrunner) while Mkhize was viewed as being an ascendant, despite being the subject of a major corruption scandal. Mkhize was allegedly involved in awarding an R150m (\$8.6m) tender to a communications firm called **Digital Vibes** run by his former assistant from which Mkhize's family members benefited.¹⁰

Yet despite the weight of the Phala Phala scandal and the reports that he was willing to resign, Ramaphosa was re-elected as were most of his preferred candidates for the Top 7. This has placed the president in arguably his strongest position since he was first elected in 2017. Ramaphosa has greater support within the party leadership, notably, through Mbalula as secretary-general and through Gwen

⁴ Parliament, 30 Nov 2022.

⁵ Times, 19 Dec 2022

⁶ EWN, 13 Dec 2022

⁷ M&G, 2 Dec 2022

⁸ 702, 6 Dec 2022

⁹ News24, 13 Dec 2022

¹⁰ News24, 19 Dec 2022.

Ramokgopa as treasurer-general he has control over the ANC's operational and financial arms. In addition, Ramaphosa no longer needs to be concerned about being re-elected as party leader and thus is not beholden to maintaining the disparate interests and factions within the ANC. This provides Ramaphosa with an ideal opportunity to reshuffle his cabinet removing critics and opponents such as cooperative governance and traditional affairs minister **Nkosazana Dlamini Zuma** and tourism minister **Lindiwe Sisulu**, both of which have called for his resignation. Ramaphosa will also need to shuffle as Mbalula can no longer serve as transport minister as the secretary-general position is a permanent one. This will enable Ramaphosa to appoint more of his preferred candidates and take. Importantly, Ramaphosa needs to reshuffle his cabinet anyway. Furthermore, there will be pressure within the party to replace deputy president **David Mabuza** with Mashatile as Mabuza is no longer the party's deputy president.

Mashatile's ascendancy is another major development from the elective conference. His election as party deputy president has firmly placed him as the frontrunner to succeed Ramaphosa as party president in 2027.

The elective conference also highlighted yet again that the ANC remains a deeply divided organisation. The results confirm that Ramaphosa had little success unifying the party during his first term, and the rhetoric ahead of during this elective conference indicates that this is unlikely in the near future. This leaves the party's newly elected leadership with a stark choice: either move aggressively to stamp their authority on the party by alienating, silencing, and even expelling their opponents or allow the ANC to continue on its current path of ripping itself apart via factional infighting until it eventually collapses or loses power.

Among key issues facing Ramaphosa - now that the distraction of re-election as party president has passed - is bolstering South Africa's economic recovery. According to

The economy records sluggish growth

Statistics South Africa (StatsSA) published its third quarter (Q3) data on 6 December indicating that the economy grew by 1.6% in Q3 of 2022 following a contraction of 0.7% in Q2.¹¹ The growth means that the country's economy has finally exceeded its pre-pandemic levels, but, it should be noted that it does not mean that the economy has recovered. Underscoring this is the unemployment rate in Q3 which only decreased by 1% from 33.9% in Q2 to 32.9% in Q3.¹² The expanded definition of unemployment - which includes discouraged job seekers - is estimated to be around 43.1%.¹³ It is estimated that the country needs sustained economic growth of at least 5% to make a dent in the high unemployment levels.¹⁴ As such, economic growth of 1.6% can be viewed as stagnant at best.

These sustained economic growth levels are also unlikely to be achieved in the foreseeable future as the country faces macroeconomic headwinds which will likely continue to constrain growth. South Africa is currently experiencing consumer price inflation of 7.4% year-on-year, driven by a variety of factors including the effects of **Russia's** war on **Ukraine** on food and fuel prices, and ongoing supply chain disruptions.¹⁵ The **South African Reserve Bank (SARB)** (central bank), in an effort to contain inflation, has rapidly increased interest rates in the past year and on 24 November, SARB's Monetary Policy Committee (MPC) increased the repo rate by 75 basis points to 7%.¹⁶ This combination of high inflation and high-interest rates is having the effect of suppressing consumer spending and investment which, in turn, will discourage meaningful economic growth.

This outlook is unlikely to improve soon as inflationary pressure is expected to remain consistent or potentially even worsen, as China's decision to end its zero-Covid-19 strategy may drive global

¹¹ StatsSA, 6 Dec 2022

¹² EWN, 29 Nov 2022

¹³ StatsSA, 29 Nov 2022

¹⁴ Bloomberg, 2 Nov 2022

¹⁵ EWN, 14 Dec 2022

¹⁶ SARB, 24 Nov 2022

demand-pull inflation as the world's second-largest economy gains steam once more. This will lead to the MPC increasing interest rates further in its efforts to get inflation to within the target band of between 3% and 6%. This will further suppress much-needed domestic investment

Eskom CEO resigns as power crisis deepens

Eskom CEO **Andre de Ruyter** announced on 14 December that he has resigned, further complicating persistent power cuts that reached Stage 6 on 7 December, needing to reduce the current demand (load) by 6,000 megawatts (MW) which typically equates to approximately eight to ten hours of power outages a day.¹⁷ This was necessitated by multiple breakdowns at several power plants as well as the utility experiencing diesel shortages due to the current elevated fuel costs.¹⁸

De Ruyter had been under prolonged pressure due to the continuing woes at the state power utility which were exacerbated by the clear breakdown in relations between himself and ANC chairperson Mantashe who is also the mineral resources and energy minister. The tension between the two is rooted in Mantashe's opposition to de Ruyter's strategy of increasing South Africa's renewable energy supplies and decreasing the country's dependence on coal.

De Ruyter's position became untenable after Mantashe accused Eskom – and by extension de Ruyter – of wanting to overthrow the government after Stage 6 load shedding was introduced yet again.¹⁹ Mantashe has launched verbal attacks on Eskom's leadership in the past, however, this time neither Ramaphosa, public enterprises minister **Pravin Gordhan**, nor the Eskom board came to de Ruyter's defence making it evident that he no longer had the requisite political support to continue as Eskom CEO.

De Ruyter has agreed to remain in place until March 2023 to assist with the transition to a new CEO and limit disruption at the utility. However, the fact that he is leaving means this will be a lame-duck period and no long-term decision will be taken. In addition to these worries, Eskom's Chief Operating Officer (COO) **Jan Oberholzer** is set to retire in 2023 placing pressure on the board to find to qualified and competent replacements by then or risk the uncertainty that comes with acting appointments.²⁰ If no replacement is found for de Ruyter by the end of March 2023, Eskom chairperson **Mpho Makwana** will likely step in as the acting CEO.

The board will find replacing de Ruyter a difficult task as the job at Eskom's helm is an exceedingly difficult and politically charged one and as such finding candidates of the requisite experience and quality who are willing to accept the conditions of the position will be a serious challenge.

While this search is underway, Eskom remains a major threat to the country's economic security. **South African National Defence Force (SANDF)** troops were deployed to **Majuba, Camden, Grootvlei** and **Tutuka** power stations on 17 December to help stabilise the utility and address the serious security challenges at power plants. These troops included both infantry and engineering personnel intended to bolster security and engineering capabilities at these plants.²¹

The use of the SANDF underscores the government's desperation to address theft and criminality at these plants as well plug engineering gaps. However, SANDF forces are not trained for such police work or power plant engineering and their presence can only be a stop-gap measure at best

Eskom and elections to dominate 2023

The ongoing power supply crisis and Eskom's continued challenges will continue to dominate economic concerns in 2023. This crisis is the most significant economic threat to the country and the utility does not expect load shedding to end as a persistent possibility until the end of 2023 at the

¹⁷ EWN, 7 Dec 22

¹⁸ News24, 14 Dec 2022

¹⁹ News24, 14 Dec 2022

²⁰ News24, 14 Dec 2022

²¹ M&G, 18 Dec 2022

earliest. The search and appointment of a new CEO and COO at the utility will also dominate developments as these candidates will need to be thoroughly scrutinised due to the historic role politically connected and corrupt individuals in these positions played in creating the current situation.

The crisis will also continue to fuel private sector investment in private embedded power generation. The longer load shedding remains a threat the more private enterprises and households will implement their own solutions. The government estimated in November that there are over 100 planned embedded generation projects with a total combined capacity of 9,000MW.²² This is likely a significant undercount as it does not include private households and smaller businesses disconnecting from the grid or partially supplementing grid power with installed solar panels. This trend is expected to accelerate in 2023 as the country continues to struggle to ensure energy security and new global carbon emission laws come into effect.

The other main trend anticipated in 2023 is the build-up to the 2024 general election. The next election is expected to take place between April and June 2024 meaning the second half of 2023 will be dominated by political parties fundraising and positioning themselves ahead of this election. This is expected to be especially intense in **Gauteng** and **KwaZulu-Natal** provinces where opposition parties believe they might be able to oust the ANC from power after the ruling party's share of the total vote fell below 50% in the 2021 local government elections. The tensions around this election build-up will be further complicated by the current uncertainty over the state of the planned electoral reform bill which has yet to be finalised after criticism of the initial bill resulted in it being sent for public comment once again.

The combination of load shedding and generally poor governance and service delivery will place pressure on the ANC in 2024. This will incentivise both the ANC and opposition parties to aggressively motivate their supporters and voters beginning in the latter half of 2023.

Planner

February 2023 **(South Africa)** State of the Nation Address (SONA)

February 2023 **(South Africa)** Annual Budget Speech

2024 **(South Africa)** General election

Chronology

16 Dec 2022 **Johannesburg (South Africa)**. *News24*. Ruling **African National Congress (ANC)** party's national elective conference begins at the **Johannesburg Expo Centre**;

15 Dec 2022 **Johannesburg (South Africa)**. *Daily Maverick*. **Jacob Zuma Foundation** announces it has implemented private prosecution proceedings against President **Cyril Ramaphosa**, however, a certificate of 'nolle prosequi' has been issued, which allows for private prosecution by an aggrieved individual, making the foundation incorrect in both fact and law;

14 Dec 2022 **Pretoria (South Africa)**. *EWN*. **Statistics South Africa (StatsSA)** announces that inflation eased to 7.4% in November down from 7.6% in October;

9 Dec 2022 **Cape Town (South Africa)**. *GroundUp*. Public sector unions stage a demonstration outside Parliament to demand a 10% wage increase;

9 Dec 2022 **Johannesburg (South Africa)** *Daily Maverick*. Lieutenant General **Dumisani Khumalo** is appointed as the new head of the **South African Police Force (SAPS)**'s **Crime Intelligence** unit;

²² Engineering News, 28 Nov 2022

9 Dec 2022 **Johannesburg (South Africa)** *Business Day*. Public enterprise minister **Pravin Gordhan** orders state utility **Eskom** to get the country out of "unacceptable" nationwide electricity outages, which were worsened last week, stating it has a devastating effect on households and livelihoods, investment, and the economic climate;

7 Dec **Cape Town (South Africa)**. *Daily Maverick*. A sanctioned **Russian** cargo vessel, the **Lady R**, docks at the **South African National Defence's** naval base in **Simons Town** and exchanges cargo. Officials refuse to comment on the incident;

5 Dec 2022 **Johannesburg (South Africa)** *Daily Maverick*. **Organisation Undoing Tax Abuse (OUTA)** lodges a criminal complaint against deputy president **David Mabuza** with the investigating directorate of the **National Prosecuting Authority (NPA)** alleging Mabuza's past involvement in organised crime in **Mpumalanga** province;

4 Dec 2022 **Johannesburg (South Africa)** *News24*. Coal tycoon **Frederick Lutzkie** files legal claims against controversial businessman **Zunaid Moti** over alleged fraud involving platinum venture **Kilken Platinum**;

1 Dec 2022. **Johannesburg (South Africa)**. *EWN*. Officials announce that the **Swiss** engineering company, **ABB**, has agreed to repay R2.5 billion (\$143.7m) it secured through suspect tenders from **Eskom**;

30 Nov 2022 **Cape Town (South Africa)**. *EWN*. National Assembly votes to pass the **Protection of Constitutional Democracy against Terrorist and Related Activities Bill**, a core part of South Africa's efforts to avoid being grey-listed by the international **Financial Action Task Force (FATF)**;

30 Nov 2022 **Johannesburg (South Africa)**. *News24*. **South African Communist Party (SACP)** and the ruling **African National Congress (ANC)** stage a demonstration protesting the decision to award parole to the late SACP leader **Chris Hani's** murderer **Janusz Walus**;

30 Nov 2022 **Pretoria (South Africa)**. *IEC*. The **Electoral Commission** releases the political party funding report for the second quarter (Q2) showing funding declarations in excess of R60m (\$3.44m);

29 Nov 2022 **Johannesburg (South Africa)** *Engineering News*. President **Cyril Ramaphosa** unveils a ZAR 300 billion (\$18m) green-hydrogen pipeline under the **Green Hydrogen National Programme** in a move to make **South Africa** the "destination of choice" for **Europe** and **Asia**;

25 Nov 2022 **Johannesburg (South Africa)** *Fitch*. **United States**-headquartered credit ratings agency, **Fitch Solutions**, affirms **South Africa's** long-term foreign-currency issuer default rating (IDR) at 'BB-' with a stable outlook;

About Africa Risk Consulting:

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