

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing June 2023

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#### South Africa Summary 23 June 2023

*international relations minister Naledi Pandor on 29 May grants Russian president Vladimir Putin (2012-present) immunity from arrest during the upcoming 22 to 24 August Brazil, Russia, India, China, South Africa (BRICS) summit. It is unclear if this will be sufficient as under International Criminal Court (ICC) law any arrest warrants the ICC issues supersede immunities laws. The scenario leaves South Africa in a foreign policy dilemma. Adding to this pressure, United States lawmakers ask on 9 June for the annual Africa Growth and Opportunity Act (AGOA) forum to be moved from South Africa to another African country due to South Africa's perceived pro-Russian foreign policy. International Monetary Fund (IMF) warns on 6 June that South Africa needs to dramatically cut its public expenditure and pare down its debt. National Assembly passes the National Health Insurance (NHI) bill on 13 June. However, budgetary strain is the leading reason why the NHI will likely never be implemented in its current form. The Published Declarations Report, published on 31 May, again reveals who the major funders of the political parties are.*

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#### South Africa desperately seeking way out of foreign policy dilemma

South Africa's **Russia** policy has continued to remain central to political and diplomatic developments over the past month. The department of international relations and cooperation (DIRCO) revealed on 29 May that international relations minister **Naledi Pandor** had granted Russian president **Vladimir Putin** (2012-present) immunity from arrest during the upcoming 22 to 24 August **Brazil, Russia, India, China, South Africa (BRICS)** summit.<sup>1</sup> Pandor did this by gazetting a notice officially recognising the summit and its attendees under the **Diplomatic Immunities and Privileges Act 2001**.<sup>2</sup>

This was revealed ahead of the BRICS foreign ministers meeting in **Cape Town** on 1 June. Pandor issued this notice to ensure Putin and his entourage that they would not be arrested should they attend the summit in August. Minister in the presidency **Khumbudzo Ntshavheni** reiterated this position on 8 June. Putin – and other senior Russian officials – are wanted by the **International Criminal Court (ICC)** for war crimes committed during Russia's war on **Ukraine**.

However, it is unclear if this would be sufficient as under the ICC law ratified by South Africa, any arrest warrants the ICC issues supersede immunities laws. As such, South Africa is aware that should Putin arrive the state could be ordered by the courts to carry out the ICC warrant, prompting the government to seek a means out of this awkward diplomatic position. Reports on 1 June indicate that South Africa is considering asking **China** to host the BRICS summit instead as China is not a member of the ICC.<sup>3</sup> This would resolve the immediate issue but would mark a major step down by South Africa and a loss of reputation within the BRICS bloc.

Furthermore, moving the summit to China would not mend the impact South Africa's Russia policy has had on its other important diplomatic and trade relationship. Diplomatic tensions with the **United States (US)** are currently heightened as the US believes South Africa is disingenuous in its claim it is non-aligned on the Ukraine war (*see ARC Briefing South Africa May 2023*). These tensions were again highlighted by a letter from senior US legislators to US President **Joe Biden** (2021-present) on 9 June

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<sup>1</sup> Daily Maverick, 29 May 2023

<sup>2</sup> Government Gazette, 29 May 2023

<sup>3</sup> Daily Maverick, 1 Jun 2023

calling for this year's **Africa Growth and Opportunity Act (AGOA)** forum to be moved from South Africa to another African country over South Africa's perceived pro-Russian foreign policy.<sup>4</sup>

This call for the AGOA summit to be moved should be deeply alarming to South Africa's government. It indicates that influential figures within the US legislature are distrustful of South Africa and want to reduce its importance as a US partner. Importantly, AGOA is authorised by the US Congress and these legislators will be essential in deciding whether South Africa remains an AGOA beneficiary. AGOA is worth at least R60 billion (\$3.21 billion) to South Africa's economy and is considered essential to the survival of key industries such as the automotive manufacturing sector.

President **Cyril Ramaphosa** (2018-present) is particularly alarmed by these developments. It was reported on 6 June that the president would dispatch senior envoys to **G7** countries to soothe tensions and "*explain*" South Africa's foreign policy position. Ramaphosa is also likely hoping that his leading role in the recent **African Peace Initiative Mission** to Russia and Ukraine would have re-iterated its non-alignment stance.<sup>5</sup> The mission included the leaders and officials from South Africa, **Zambia, Comoros, the Republic of Congo, Egypt, Senegal and Uganda.**

However, rather than highlight the benefits of South Africa's non-aligned position, the trip instead illustrated South Africa's decline in international regard. The trip began poorly after the majority of South Africa's delegation, including the majority of Ramaphosa's security detail and a media entourage, was not allowed off the plane in **Warsaw (Poland)** by authorities.<sup>6</sup> Polish officials claim that South Africa failed to declare the type and number of weapons on board, but South Africa denies this with **Wally Rhoode**, head of the **Presidential Protection Service (PPS)** claiming that Poland acted out of prejudice. Furthermore, neither Ukraine nor Russia appeared particularly interested in the mission's proposed peace plan - Russia did not even cease its attacks on **Kyiv** (Ukraine) during Ramaphosa's visit as the city was struck by Russian munitions on 16 June.<sup>7</sup> This, more than anything, illustrates the lack of reciprocity in South Africa's Russia policy.

### IMF warns of economic headwinds as South Africa avoids technical recession

The **International Monetary Fund (IMF)** warned on 6 June that South Africa is facing "*mounting economic and social challenges*" after concluding its **Article IV** consultation on 22 May.<sup>8</sup> Among the key challenges the IMF identified were sluggish economic growth, high inflation rates, a rising debt-to-GDP rate, and load shedding. Worryingly, the IMF only expects South Africa's economy to grow by 0.1% of GDP in 2023 which is insufficient to address the country's high rate of unemployment. Over the medium term, the IMF is only forecasting an average economic growth of 1.5%. Such tepid economic growth was further highlighted by **Statistics South Africa (StatsSA)** reporting that the country only recorded GDP growth of 0.4% in Q1 of 2023 (January-March). This means that South Africa avoided a technical recession which is two consecutive periods of negative economic growth.<sup>9</sup> Despite Ntshavheni's assertions that this 0.4% growth should be applauded, at best it represents stagnant economic growth. The country is experiencing a recession in a real sense. Stagnant growth combined with high inflation and currency depreciation means that South Africa's economy and per-capita wealth is declining.

However, in a promising development, South Africa's consumer price inflation (CPI) slowed to 6.3% measured year-on-year in May from 6.8% in April.<sup>10</sup> This brings the country within touching distance of the **South African Reserve Bank's (SARB)** (central bank) target band of between 3% and 6%. This decline in CPI may be sufficient to discourage SARB's **Monetary Policy Committee (MPC)** from implementing any further interest rate hikes. The MPC last increased the repo rate by 50 basis points

<sup>4</sup> Daily Maverick, 13 Jun 2023

<sup>5</sup> Presidency, 15 Jun 2023

<sup>6</sup> News24, 16 Jun 2023

<sup>7</sup> Euronews, 16 Jun 2023

<sup>8</sup> IMF, 6 Jun 2023

<sup>9</sup> Business Tech, 6 Jun 2023

<sup>10</sup> Daily Maverick, 21 Jun 2023

to 8.25% on 25 May.<sup>11</sup> Such high-interest rates actively discourage consumer spending and investment, hindering much-needed economic growth. The next MPC meeting is in July and if the CPI's current trajectory holds, the MPC should elect to leave interest rates as they are.

As it stands, South Africa is set to experience a period of sluggish economic growth and the government does not appear to have the political appetite to force through the needed economic reforms. Notably, the IMF's central recommendation is that the government consolidates public finances by dramatically reducing public expenditure – by as much as 3% of GDP – to stabilise and reduce the country's debt burden and enable increased economic agility.<sup>12</sup> Such a drastic proposal is a non-starter just over a year out from a general election. Any such reductions would require major cuts to social spending and the public sector wage bill. It is more likely that the government will take the inverse action and seek to bolster such spending in the hopes of winning more voters in 2024.

### National Health Insurance bill advances but remains unattainable

The **National Assembly** passed the much-touted **National Health Insurance (NHI)** on 13 June, pushed through by the ruling **African National Congress's (ANC)** majority, but the country's overburdened budget is arguably the clearest reason why it will never be implemented in its current form.<sup>13</sup> The NHI bill envisions providing health insurance for all citizens and eventually limiting medical aid companies to only covering procedures and medicines not paid for by the NHI. This would be a programme unprecedented in scale, as no modern economy has such a ban on medical aids. The bill has not been passed to the upper legislative house, the **National Council of Provinces (NCOP)**, to be considered.

Notably, the **National Treasury** has not provided a cost estimate for the bill but conservative speculation estimates that the NHI would cost the taxpayers between R300 billion (\$16.26 billion) and R460 billion (\$24.94 billion).<sup>14</sup> This is currently unfeasible for the National Treasury to implement and raising the requisite taxes would risk a tax revolt and capital flight from the country. Cognisant of this, the department of health has stated that the NHI would be gradually implemented over several years and only once the programme is fully implemented would the restrictions on private medical aids come into effect.<sup>15</sup>

The ruling ANC has pushed through the NHI to have a substantive legislative win to point to in the 2024 general election. The bill will likely pass the NCOP as the ruling party has a majority in that chamber as well, however, the bill is likely to be subject to numerous legal and constitutional challenges in the coming months and years which will delay its implementation and likely force amendments to the law. The National Treasury – under its current leadership – will also fight the rushed implementation of the NHI as that essential department is preoccupied with the country's large debt burden which is currently estimated to be around 70% of GDP.

### Fourth quarter political party funding report released

The **Independent Electoral Commission (IEC)** released the political party funding report for the fourth quarter (Q4) of the 2022/2023 financial year on 31 May.<sup>16</sup> This latest **Published Declarations Report** was once again noteworthy for which companies and individuals are funding South Africa's political parties. The ANC declared a R1.5m (\$81, 089) monetary donation from the **Ichikowitz Family Foundation** which is controlled by **Ivor Ichikowitz**, the executive chairman of aerospace and defence company **Paramount Group**. Inexplicably, Ichikowitz was a member of Ramaphosa's entourage when he travelled to Ukraine and Russia as part of the aforementioned African Peace Initiative Mission, despite the strange optics of bringing an arms manufacturer as part of an effort to

<sup>11</sup> EWN, 25 May 2023

<sup>12</sup> IMF, 6 Jun 2023

<sup>13</sup> Business Day, 13 June 2023

<sup>14</sup> Daily Investor, 22 Jun 2023

<sup>15</sup> News24, 9 May 2023

<sup>16</sup> IEC, 31 May

initiate peace talks.<sup>17</sup> Ichikowitz's presence in Ramaphosa's entourage along with his foundation's donation to the ANC has raised questions over the exact relationship between Paramount Group and the ruling party and whether or not ANC donors are being granted preferential treatment, even if it undermines the stated objective of the government.

Another notable inclusion in the latest report was online gambling magnate **Martin Moshal** who donated R3.5m (\$189,258) to **ActionSA**. Moshal has emerged as a major supporter of liberal-centrist opposition parties in the country having now donated a total of R7m to ActionSA and R15m (\$812,220) to the official opposition party, the **Democratic Alliance**, in the 2022/2023 financial year. He is now among the **Oppenheimer** family's **Jessica Slack Jell** and **Victoria Freudenheim**, and **Capitec Bank** co-founder **Michiel le Roux** as the largest financial backers of the opposition in South Africa. These latest filings were particularly noticeable as ActionSA declared the most donations with R3.7m (\$200,151) compared to the ANC's R1.5m (\$81,089) and the DA's R259,103 (\$14,016). As such, **Herman Mashaba's** party is clearly illustrating a sustained capacity to raise funds, something which will be essential ahead of the 2024 general election.

However, it was the DA who declared the most donations in the 2022/2023 financial year with R54.47m (\$2.95 million), while the ANC declared R41m (\$2.21m), and ActionSA a total of R26.46m (\$1.43m). The only other two parties to declare donations in the past year were the **Economic Freedom Fighters (EFF)** with R352,600 (\$19,074) and the **Patriotic Alliance (PA)** with R247,000 (\$13,361). These figures should be analysed through the heavy caveat that the report only reflects donations over R100,000 and is based on the parties' own declarations. The final IEC audited report will be more revealing and provide greater insight into party finances.

All the country's political parties are expected to significantly increase their fundraising efforts in the coming months as they seek to build their respective war chests ahead of the 2024 general election. The upcoming election is expected to be the most closely contested in the democratic era. This need for increased funds is the main motivator behind the ANC's calls to amend the political party funding act to allow for higher thresholds both on the size of donations which must be declared and on how much an individual donor may commit in a year, which currently sits at R15m (\$812,220).<sup>18</sup>

## Planner

23-24 Aug 2023 **Johannesburg (South Africa)** South Africa to host the 15<sup>th</sup> **Brazil, Russia, India, China, South Africa (BRICS)** summit;  
2024 **(South Africa)** General election;

## Chronology

22 Jun 2023 **Pretoria (South Africa)** *News24*. Police arrest Chief director of communications for the health department **Popo Majo** on charges of corruption for allegedly receiving kickbacks for a communications tender awarded to controversial firm **Digital Vibes**;  
21 Jun 2023 **Cape Town (South Africa)** *ENCA*. Officials confirm that at least two people have died, and thousands displaced thus far in flooding in the **Western Cape** that is also estimated to have caused as much as R1 billion (\$54.49m) in damage;  
21 Jun 2023 **Cape Town (South Africa)** *Daily Maverick*. A rival bidder files a petition to prevent the **Western Cape** government from awarding a R282m (\$15.11m) security tender to security firm **Royal Security** alleging major irregularities in the tender process;  
21 Jun 2023 **Johannesburg (South Africa)** *EWN*. Ruling **African National Congress (ANC)** announces that it will approach the supreme court of appeal to overturn a high court ruling ordering it to hand over the minutes of the party's deployment committee;

<sup>17</sup> News24, 21 Jun 2023

<sup>18</sup> News24, 11 Jun 2023

20 Jun 2023 **Johannesburg (South Africa)** *Reuters*. South Africa, the **Netherlands**, and **Denmark** launch a new \$1 billion green hydrogen fund aimed at kickstarting the industry in South Africa;

19 Jun 2023 **Johannesburg (South Africa)** *EWN*. The **Financial Sector Conduct Authority** confirms it is investigating allegations that Johannesburg mayor **Kabelo Gwamanda** previously operated a Ponzi scheme, leading to calls for a vote of no confidence in the mayor;

12 Jun 2023 **Johannesburg (South Africa)** *M&G*. Ruling **African National Congress (ANC)** expels its former secretary-general **Ace Magashule** following the recommendation of the party's national disciplinary committee on 31 May.

11 Jun 2023 **Johannesburg (South Africa)** *News24*. Former **African National Congress Woman's League (ANCWL)** chairperson **Bathabile Dlamini** – who led the organisation's executive before its 2022 disbandment - indicates her intent to contest the ANCWL's planned leadership election later this year;

9 Jun 2023 **Mangaung (South Africa)** *OFM*. The **Special Investigative Unit (SIU)** announces that it will investigate allegations of maladministration by the office of the premier of the **Free State**. This investigation will cover the period between January 2018 and June 2023, and this cover the tenures of former premiers **Ace Magashule** and **Sisi Ntombela**;

9 Jun 2023 **Johannesburg (South Africa)** *News24*. **One South Africa (OSA)** opposition party announces that it has filed papers with the constitutional court challenging the recent **Electoral Amendment Act**, marking the second challenge to the new electoral system's constitutionality;

7 Jun 2023 **Pietermaritzburg (South Africa)** *Daily Maverick*. The **KwaZulu Natal (KZN)** high court in Pietermaritzburg dismisses former president **Jacob Zuma's** private prosecution of journalist **Karyn Maughan** and **National Prosecuting Authority (NPA)** prosecutor **Billy Downer**;

7 Jun 2023 **Pretoria (South Africa)** *News24*. Home affairs department extends the **Zimbabwean Exemption Permit (ZEP)** programme until 31 December. The programme, under which more than 178,000 Zimbabwean nationals reside in South Africa, had initially been scheduled to expire on 30 June;

7 Jun 2023 **Cape Town (South Africa)** *Daily Maverick*. The parliamentary inquiry into suspended public protector **Busisiwe Mkhwebane** resumes amid allegations by Mkhwebane that politicians had attempted to extort her to make the inquiry "go away";

6 Jun 2023 **Pretoria (South Africa)** *Africa News*. President **Cyril Ramaphosa** hosts **Portuguese** president **Marcelo Rebelo de Sousa** for a state visit;

1 Jun 2023 **Pretoria (South Africa)** *News24*. Auditor-general **Tsakani Maluleke** releases her annual audit report on the country's municipalities which finds that only 38 out of the 257 municipalities received clean audits in 2022, a decline from 41 in the previous year;

31 May 2023 **Johannesburg (South Africa)** *Daily Maverick*. **Gauteng** high court issues another writ of attachment for the ruling **African Nation Congress'** assets after the party failed to pay R150m (\$8.03m) of unpaid debt to small media materials firm **Ezulweni Investments**;

30 May 2023 **Kimberley (South Africa)** *TimesLive*. Former **African Nation Congress Northern Cape** provincial chairperson **John Block** is re-arrested and charged with corruption related to a R51m (\$2.73m) alleged tender fraud related to his tenure as the province's council member for transport and public works. Block is currently serving a 15-year prison sentence for a separate charge of fraud, corruption, and money laundering.

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