

AFRICA RISK CONSULTING

Country briefing – South Africa

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1 Summary

South African Reserve Bank (SARB) governor Gill Marcus resigns, leaving an uncertain economic future. The economy struggles as the current account deficit widens to 6.2%, the SARB revises 2014 growth down to 1.5% and the rand falls to a seven month low against the dollar. President Jacob Zuma (2009-present) comes under fire for personally organising a \$10 billion deal for nuclear power stations with Russian premier Vladimir Putin. Zuma and the ruling African National Congress (ANC) face public scrutiny for corruption as the so-called 'spy tapes' detailing corruption charges against Zuma are released to the opposition Democratic Alliance. A separate arbitration hearing for fixer Ajay Sooklal has provided the first sworn testimony linking Jacob Zuma to bribes paid by French arms company Thales in the late 1990s. The Marikana Commission of Inquiry accuses platinum miner Lonmin of tax avoidance as anti-corporate sentiment grows. For the second year running crime has increased. Statistics for 2013/2014 show an increase in murder and aggravated robbery.

1.1 Gill Marcus resigns leaving an uncertain economic future

Gill Marcus announced that she did not intend to stand for another term as governor of the **South African Reserve Bank (SARB)** on 18 September.¹ The surprise announcement, made in response to a question at a press conference, shook the markets and sent the rand to a seven month low against the dollar (see below).

Marcus is seen as a steady hand that has helped to guide South Africa through the turbulent economic period of recession from 2009-2014. A noted economist, she was part of former president **Thabo Mbeki's** (1999-2008) economic "dream team" as deputy finance minister under **Trevor Manuel**, alongside **Pravin Gordhan** as head of the **South African Revenue Service (SARS)**. Gordhan later recommended Marcus to president **Jacob Zuma** (2009-present) for the SARB job. Together they implemented the **Growth Employment and Redistribution (GEAR)** economic scheme that powered

¹ Mail and Guardian, 18 Sep 2014

South Africa's growth through the 1990s and early 2000s.² Marcus is popular both within the ruling **African National Congress (ANC)**, due to her **South African Communist Party (SACP)** and anti-apartheid credentials, and with the financial services sector – as chair of **Absa** she guided the bank through a crisis that nearly destroyed its parent **Barclays**. She is largely seen as politically neutral, a considerable feat in South Africa, and will be a tough act to follow.³

While Marcus' resignation has not been greeted with surprise in the media, most of whom point to her age (65) to explain why she would not want a second term, the lack of an announcement of a successor is a surprise.⁴ This shows poor planning by the Zuma administration as previously successors have been announced up to two years in advance to avoid market anxiety. It is likely that one of her deputies will be appointed: **Daniel Mminele**, **Lesetja Kganyago**, or **Francois Groepe**. The current media favourite is Kganyago whose background as head of the treasury (2004-2011) gives him political cachet.⁵

*"[There are] two very able deputies in Mminele and Kgnyago...if either of them gets [the job of governor] I would be happy...Groepe was a strange choice and keeps an extraordinary low profile...[I] hope he does not get it. He seems totally out of his depth. Any appointment from outside the Bank will be viewed poorly."*⁶

Marcus' successor will have to deal with a poor economic outlook for South Africa. Reports for the second quarter (Q2) of 2014 show a weakened currency, low growth estimates and an increasing current account deficit. The rand fell against a strong **United States (US)** dollar to a low of R11.194 to the dollar on 24 September. This is the second lowest rate since the rand was R11.395 in January. Over the past year the rand has declined by 13.1% against the dollar. The recent decline is partly a result of a strong dollar, but other currencies have declined less across the same period: the **Brazilian** reale has declined 6.9% and the **Indonesian** rupiah fell 6.3%.⁷

Ongoing labour disputes in the first six months of the year, stubbornly low growth and high unemployment have hit the South African economy. This has kept growth rates down – the SARB revised them down to 1.5% for 2014 in September⁸ – and the currency weak. The SARB has kept the repo rate⁹ high at 5.75% in order to protect government capital.¹⁰ The government's current account deficit rose to 6.2% of GDP in Q2 of 2014. Economists at the treasury had predicted a 5.45% gap but

² Business Day, 22 Sep 2014

³ Source, senior fund manager, Johannesburg

⁴ Business Day, 22 Sep 2014

⁵ Independent Online, 27 Sep 2014

⁶ Source, senior fund manager, Johannesburg

⁷ FT, 27 Sep 2014

⁸ Reuters, 18 Sep 2014

⁹ The repo rate is the rate at which the central bank of a country lends money to commercial banks in the event of a shortfall of funds.

¹⁰ Reuters, 18 Sep 2014

low exports of gold and platinum and a continued downturn in commodities prices have hit South Africa's export performance.¹¹

*"This has not been a good month for the economy: the increase in the current account deficit and revised growth estimates show that the bump we expected from the end of the [platinum] strikes in exports hasn't happened."*¹²

There is some medium term promise for the economy. The treasury marketed a \$500m *sukuk* (Islamic bond) in September. The sale was four times subscribed with an order book of \$2.2 billion for the 5.75 year product that was priced at a coupon rate of 3.9%.¹³ Over 50% of the orders came from the **Middle East** which is positive news for the government as it has been trying to establish South Africa as a **sub-Saharan** hub for Islamic finance.¹⁴ In further good news, minister for public enterprises **Lynne Brown** announced that the long delayed **Medupi** power plant will come online by 24 December and that it is estimated to add 0.375% to GDP in the increased business it enables.¹⁵

Long term destabilising factors such as labour disputes, poor standards of education, and an infrastructure deficit will continue to hold the economy back. These problems have been compounded by growing corruption and economic mismanagement under the Zuma government that will make the road to recovery longer and harder.

1.2 Corruption past and present plagues Zuma and the ANC

South Africa's crisis of governance continues, placing further pressure on Zuma and the ruling ANC. Jacob Zuma negotiated a \$10 billion nuclear deal in one-on-one negotiations with **Russian** president **Vladimir Putin** (2000-2008, 2012-present) during the **BRICS**¹⁶ summit in July and a secret visit to Russia in August. Neither parliament, the ANC national executive committee, nor the energy minister **Tina Joematt-Petterson** were included in the negotiations.¹⁷ Russian state nuclear developer **Rosatom** announced that it had signed the deal with the South African government on 23 September. The company said the agreement was to develop 9.6 gigawatts (GW) of nuclear capacity by 2030.¹⁸ South African officials, including deputy energy minister **Thembisile Majola** later said that Rosatom had made the announcement without their prior knowledge.¹⁹ It then emerged that Zuma had personally negotiated the deal and had ordered loyalist minister Joemat-Petterson to sign the deal on the margins of the **International Atomic Energy** conference in **Vienna**, which she did.²⁰

¹¹ Reuters, 9 Sep 2014

¹² Source, analyst in a major bank, Johannesburg

¹³ FT, 18 Sep 2014

¹⁴ FT, 18 Sep 2014

¹⁵ Reuters, 16 Sep 2015

¹⁶ The BRICS nations are: Brazil, Russia, India, China and South Africa

¹⁷ amaBhungane, 26 Sep 2014

¹⁸ Mail and Guardian 23 Sep 2014

¹⁹ Reuters, 23 Sep 2014

²⁰ amaBhungane, 26 Sep 2014

The announcement drew criticism from commentators in the press and opposition figures. They argued that South Africa could not afford to spend \$10 billion on the Rosatom deal which would divert resources from shorter term solutions to the energy crisis.²¹ South Africa has a pre-existing nuclear energy programme which seeks to develop 9.6GW of power by 2030 at an overall cost of \$36-\$89 billion. However South African officials said in December 2013 that the programme was to be put on the back burner due to cost in favour of developing coal and gas power plants.²²

Zuma's personal negotiation of the Rosatom deal raises concerns over political governance. The ANC is working to limit the damage by downplaying the significance of the deal with Russia but the fact remains that the deal was signed without oversight from the legislature or even the executive.²³

*"In this deal it isn't the actions of the Russians that are worrying, it's Jacob Zuma who has acted like a dictator...signing away \$10 billion without the knowledge or support of his party or parliament."*²⁴

Zuma, his allies and his enemies in the ANC have all been implicated in lapses of good governance that have taken place over the past fifteen years. These scandals have not faded from public view but continue to resurface as new evidence comes to light.

The so-called "spy tapes" have been released to the opposition **Democratic Alliance (DA)** and the **National Prosecuting Authority (NPA)**. They were instrumental in the decision of acting director of public prosecutions (DPP) **Mokotedi Mpshe** to drop corruption charges against Zuma in 2009 (see *ARC South Africa August 2014 Briefing*). The NPA said after reviewing the tapes that it considered them to have been obtained illegally and implicated former intelligence minister **Ronnie Kasrils** in their recording.²⁵ The **Sunday Times** newspaper acquired the transcripts on 28 September and reported that Kasrils was the "mastermind" behind the charges on Zuma.²⁶ Kasrils, although appointed by Thabo Mbeki and not an ally of Zuma, did not authorise the recording of the tapes.²⁷ The charges originated in the **Schabir Shaik** lawsuit that was triggered automatically by a corruption investigation in **Switzerland** (see below).²⁸ Deputy head of public prosecutions and head of the **Directorate of Special Operations** (aka the **Scorpions**) anti-corruption unit **Leonard McCarthy** considered personally charging Zuma with corruption.²⁹ He talked to ex- director of public prosecutions **Bulelani Ngcuka** and minister of justice **Brigitte Mabandla** about doing so on the eve

²¹ Business Day, 25 Sep 2014

²² Reuters, 23 Sep 2014

²³ Business Day, 25 Sep 2014

²⁴ Source, journalist, Johannesburg

²⁵ Business Day, 8 Sep 2014

²⁶ Sunday Times, 28 Sep 2014

²⁷ Senior political source, South Africa

²⁸ Senior political source, South Africa

²⁹ Sunday Times, 28 Sep 2014

of the 2007 ANC congress.³⁰ At the time Ngcuka was a private citizen and McCarthy was not involved in the case being built against Zuma.³¹ McCarthy had a good record at the NPA and is now the integrity vice-president of the **World Bank**, a position which requires significant vetting for evidence of corruption.³²

In the run up to Jacob Zuma's presidential campaign, Zuma's lawyers **Kemp J Kemp** and **Michael Hulley** presented the tapes as evidence of a political plot being carried out against Zuma. The Times reports that the tapes show that Kemp and Hulley met with acting DPP Mpshe and persuaded him that they would deconstruct the state's case leading to "chaos" and "war" afterwards and a loss of confidence in the criminal justice system.³³ The Times also reports that Mpshe believed that Thabo Mbeki was a key player in bringing the charges against Zuma and could not bring a case keeping Mbeki and McCarthy out of it.³⁴ What these accounts clearly show is the level of political interference across the criminal justice system, an issue that has continued under Zuma's two administrations:³⁵

*"The DA are jumping on the tapes to try and get Zuma convicted for corruption...but the story [the tapes] tell is one of deeper failings of the legal system, the ANC and even the supposedly independent Scorpions unit... the politicisation of this story is going to avoid the real issues once more."*³⁶

Zuma's corruption case may be re-opened with information from another source. **Ajay Sooklal** a lawyer and fixer for **French** arms company **Thales** claimed during an arbitration hearing over back pay that he bribed Zuma and other senior ANC officials to secure business for Thales' South African subsidiary **Thint** in the late 1990s.³⁷ According to the arbitration transcripts:

- Sooklal paid \$50,000 a year in bribes to Jacob Zuma from 2000 in order to secure political protection on future arms deals;
- Thales bankrolled flights for Sooklal and Zuma to fly around the world to find witnesses who could get the corruption charges against Zuma dropped;
- Thales gave ANC treasurer **Mendi Msimang** a cheque for \$1.2m in April 2006 to be paid from a secret **Dubai** account into an "ANC-aligned trust" shortly before the company was due to stand trial for corruption with Zuma; and
- Former French president **Jacques Chirac** was involved in lobbying the South African government to get the corruption charges dropped.³⁸

³⁰ Mail and Guardian

³¹ Senior political source, South Africa

³² World Bank profile, 2014

³³ Sunday Times, 28 Sep 2014

³⁴ Sunday Times, 28 Sep 2014

³⁵ Senior political source, South Africa

³⁶ Source, think tank research director, Johannesburg

³⁷ Mail and Guardian, 29 Sep 2014

³⁸ Sunday Times, 28 Sep 2014

The **Durban High Court** sentenced Zuma's financial adviser Schabir Shaik to fifteen years imprisonment in 2005 for corruption charges that were linked to a contract for Thales to supply frigates to the South African navy. The NPA tried to prosecute Zuma for corruption but dropped the charges in 2009 (see above). The Sooklal transcripts are the first sworn testimony to implicate Zuma in bribery.³⁹ The **Seriti Commission** is investigating Thales, alongside other arms companies, for corruption in the procurement process for arms deals. The commission has said that the transcripts could be considered as evidence.⁴⁰

1.3 Lonmin accused of tax avoidance as public sentiment turns against miners

The **Marikana Commission of Inquiry** into the fatal shooting of 34 striking miners at **Lonmin Mines** in August 2012 has found evidence of tax avoidance by the platinum miner. Lonmin paid marketing fees to its **Bermuda** registered subsidiary **Western Sales Bermuda** that marketed its platinum from 2008-2012.⁴¹ In total Lonmin sent R2.3 billion (\$203m) in fees through the Bermuda entity in the four year period. It then back-dated tax records to show that the payments had in fact been sent to its **London** parent company.⁴²

While the activity is not illegal and the South African Revenue Service has not announced any inquiry into Lonmin, the revelation has provoked further anger against the mining company that was involved in both the Marikana shooting and the five month platinum strike earlier in 2014. There has been a considerable public backlash against the companies involved in the platinum strike since **Anglo-American Platinum (Amplats)** announced the sale of its South African platinum shafts following a board resolution in July.⁴³ **AngloGold Ashanti** provoked further public anger after it attempted to spin off its international assets into a separate company based in London to get \$2.3m of debt relief from the SARB.⁴⁴ Shareholders revolted and forced the company to issue a retraction less than a week after AngloGold announced the plan.⁴⁵

*"Corporate accountability is a big topic right now, people look at the Farham [Marikana] inquiry and see that Lonmin isn't going to have any consequences. The fact that they have evaded taxes and that Amplats is selling up has increased anti-corporate sentiment."*⁴⁶

³⁹ Mail and Guardian, 29 Sep 2014

⁴⁰ Sunday Times, 28 Sep 2014

⁴¹ Mail and Guardian, 19 Sep 2014

⁴² Mail and Guardian, 19 Sep 2014

⁴³ Source, journalist, Johannesburg

⁴⁴ Business Day, 15 Sep 2014

⁴⁵ Business Day, 15 Sep 2014

⁴⁶ Source, journalist, Johannesburg

1.4 New crime statistics show second year of key crime increases

The **South African Police Service (SAPS)** released the 2013-2014 crime statistics on 19 September.⁴⁷ Although the total numbers of recorded crime dropped, continuing a steady downward trend since 2002, crime in South Africa is high and, 20 years after the end apartheid, the country remains one of the most violent places outside of a war zone. The 2013/2014 statistics show slowing of the overall crime rate which has been steadily decreasing since 2002, and a second year where the rate of murder and aggravated robbery increased.

*“The 2012/2013 statistics showed an increase in key areas of crime that has continued in 2013/2014. If these trends continue then South Africa could be looking at an overall increase in a few years’ time.”*⁴⁸

Increasing crime statistics are bad for business. Investors are less likely to invest in less stable countries and a rising crime rate could deter much needed investment.⁴⁹ South Africa is already an unpopular choice for businessmen with families, and this will continue until crime rates come down. Increased attacks on businesses will not only deter investment but will also damage South Africa’s struggling small and medium enterprises.

In the 2013/2014 period:

- Murder increased by 3.5% to 32.2 murders per 100,000 people, or 47 murders per day. According to the **United Nations (UN)** the average global murder rate in 2013 was 6.2/100,000 people, and the average for Africa was 12.3/100,000. South Africa has the highest recorded murder rate in Africa and is among the highest in the world.⁵⁰
- Sexual offences decreased by 6.9% to 118.2/100,000. However, South Africa still has the highest rate of rape in the world with a total of 46,000 rapes reported in 2013/2014, and the **Medical Research Council** estimates that only 1 in 9 are reported to the police, leaving the real scale of the problem unreported.⁵¹
- Aggravated robbery increased by 11.2%, This sharp upturn is concerning as it represents a loss in the gains made over the previous years. Business robbery (one of its subcategories) increased by 13.7% and is now 461% higher than in 2004/2005.

⁴⁷ Business Day, 19 Sep 2014

⁴⁸ Source, think-tank research director, Johannesburg

⁴⁹ Source, analyst in a major bank, Johannesburg

⁵⁰ UN World Homicide Report 2013

⁵¹ ISS crime stats breakdown, 22 Sep 2014



Crime	Increase/Decrease
Aggravated robbery	up 11.2%
Murder	up 3.5%
Attempted murder	up 2.3%
Business burglary	up 0.1%
Residential burglary	up 0.6%
Common robbery	down 0.7%
Assault with intent to inflict GBH	down 2.5%
Sexual assault	down 6.9%
Commercial crime (inc. corruption)	down 13.6% ⁵²

Police minister **Nkosinathi Nhleko** called for a national dialogue on combatting national crime when presenting the statistics to parliament and the implementation of the **National Development Plan (NDP)** recommendations for the police force.⁵³ However, the core of the NDP suggestions are better police/community relations, an area in which the SAPS does not excel. With the Marikana commission still ongoing and police put-downs of living standard protests still fresh in the minds of many of the most crime-ridden communities, the SAPS will have considerable work to do to build public trust.⁵⁴

2 Implications

South Africa's economy is stuck in a rut. It lacks the impetus that investment and exports normally provide to boost growth and to compete against stronger international currencies like the dollar. Gill Marcus' successor will have to deal with all of this and with a government that has so far proved unable to tackle the structural problems underlying this malaise. There has been little progress on poor infrastructure and an adverse investment climate amid damaging labour disputes and increasing corruption. Where progress is being made, such as the Medupi plant, it is not enough to turn the economy around. It will take both serious reforms and more favourable global conditions to boost growth again.

Jacob Zuma's Russian deal is an example of a misuse of presidential powers and official impunity. While there is no evidence of corruption per se, the scope for it within a deal which has so far been arranged with no oversight at all is significant. There is also the concern that if Zuma is happy to act

⁵² ISS crime stats breakdown, 22 Sep 2014

⁵³ Business Day 19 Sep 2014

⁵⁴ Source, think-tank research director, Johannesburg

on behalf of the nation internationally he may try to do so increasingly at home. This may not yet happen as the evidence seems to be mounting towards a corruption case against him. The spy tapes and the Sooklal testimony will both increase pressure to re-open some form of corruption investigation. The tapes reveal that governance problems and political interference in the legal system were not limited to Zuma and his allies. The DA are fighting to get the corruption case into Zuma re-opened, but if they succeed there may be a wider range of ANC figures subject to scrutiny than they originally intended. If the South African prosecution system was not already discredited by the ongoing corruption affair, it certainly is now.

While Zuma and the ANC may face the courtroom, the court of public opinion is increasingly set against mining companies. Lonmin and Amplats are falling easily into the narrative of irresponsible companies that are out to exploit South Africa and South Africans for the greatest possible profit. This may fuel support for the leftist politics of the minority **Economic Freedom Fighters (EFF)** and for more radical union action. Both of these groups pose a threat to the country's economic recovery. Mining companies are failing to communicate any mitigating circumstances to the South African media and will suffer further public relations damage because of this.

The new crime statistics point to a worrying trend – if the drop in crime does continue to slow in the coming years then the current policing measures have reached the limit of their effectiveness. Radical changes to policing, such as those outlined in the NDC, will be necessary to lower the crime rates further and to catch criminals who can evade the current police tactics. In the meantime, there is a chance that increased crime rates will damage South Africa's economic recovery as it increases the operational risk for business in the country.