

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing April 2015

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#### South Africa Summary 29 April 2015

*Violence against foreign nationals in Durban and Johannesburg leaves thousands displaced and seven dead. The government brings the situation under control at the end of April after five weeks of violence and destruction of property. The violence has damaged South Africa's political standing with other African nations, especially Nigeria which withdrew its ambassador. The government estimates the cost of the violence to trade in the billions of rand. South African Revenue Service (SARS) commissioner Tom Moyane's investigations into so-called 'covert units' lead to many senior staff resigning. The finance ministry pays consultants to review SARS. Public enterprises minister Lynne Brown appoints Transnet CEO Brian Molefe as the new Eskom CEO. Molefe's record is good but Eskom presents chronic problems: municipalities owe \$740m in fees and a National Union of Metalworkers of South Africa (Numsa) dispute delays Medupi power plant's progress further.*

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#### Xenophobic violence damages South Africa's international standing

Attacks on foreign nationals and businesses in **Durban (Kwa-Zulu Natal)** and **Johannesburg (Gauteng)** have displaced thousands and left at least seven people dead.<sup>1</sup> The violence has continued throughout April. Political, religious and traditional leaders have worked together to stop it. However, it has led to a backlash from other African countries whose nationals the South African rioters targeted.

The violence started in late March in Durban's suburbs where attacks took place for three weeks before spreading to Johannesburg on 12 April. In Durban, over 1,000 foreign nationals, mainly from **Mozambique** and **Zimbabwe** and other **Southern African Development Community (SADC)** countries, but also from **Somalia**, **Bangladesh** and **Pakistan**, fled their homes and are being housed in police protected camps.<sup>2</sup> **Alexandra** in Johannesburg has been the site of the worst violence in the city.<sup>3</sup> President **Jacob Zuma** (2007-present) gave the **South Africa Police Service (SAPS)** special powers to act in the affected areas on 15 April.<sup>4</sup> Defence minister **Nosiviwe Mapisa-Nqakula** deployed the **South African National Defence Force (SANDF)** to Johannesburg and some areas of Kwa-Zulu Natal to combat ongoing violence on 21 April.<sup>5</sup> The army has not entered the townships since apartheid governments deployed them when police were unable to quell anti-apartheid violence. Parliament suspended its business to focus on calming the violence on 24 April. Senior political and community figures led marches of thousands of people through Johannesburg and Durban calling for an end to the attacks on 25 and 26 April. On 28 April the government said it had got the violence under control.<sup>6</sup>

*"Once it got going the government response was effective....why can't it be so organised and effective with our other problems?"<sup>7</sup>*

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<sup>1</sup> Business Day, 14 Apr 2015

<sup>2</sup> Mail and Guardian, 15 Apr 2015

<sup>3</sup> Mail and Guardian, 21 Apr 2015

<sup>4</sup> Business Day, 14 Apr 2015

<sup>5</sup> Mail and Guardian, 21 Apr 2015

<sup>6</sup> City Press, 29 Apr 2015

<sup>7</sup> Source: journalist, Johannesburg

The violence has damaged South Africa's standing with other African nations. The governments of **Nigeria**, Mozambique, **Malawi**, **Zambia** and Zimbabwe all condemned the attacks. Nigeria withdrew its ambassador to South Africa on 25 April.<sup>8</sup> Protestors held anti South-African demonstrations in Zimbabwe; demonstrators blockaded the Mozambique border crossing and threw rocks at goods vehicles crossing the border.<sup>9</sup> South-African oil firm **Sasol** withdrew 340 staff from their **Maputo** (Mozambique) office fearing reprisal attacks.<sup>10</sup> South Africa is preparing reports for the **African Union** and **United Nations** on its response to the violence in an effort to start rebuilding relations.<sup>11</sup>

The attacks have an economic cost, damaging relations with key trading partners. The Nigerian parliament debated introducing regulations placing barriers to South African businesses entering the country. Protestors in Malawi, Zambia and Mozambique have called for a boycott of South African products. South Africa exports \$21 billion of products to sub-Saharan Africa a year, an industry that supports 160,000 jobs. Deputy trade and industry minister **Mzwandile Masina** said on 22 April that the country had lost "*billions of rands in export foreign revenues*" since the violence started.<sup>12</sup> Businesses with pan-African operations are concerned about the potential fallout from the violence:

*"We are concerned about the security of our stores across the continent, our African businesses drive our growth and if that was compromised it would have serious implications."*<sup>13</sup>

**Zulu king Goodwill Zwelithini** allegedly sparked the violence with comments he made on 20 March that all foreign nationals should "*pack up their belongings and return to their countries*". Zwelithini accused foreign nationals of being "*lice*" and "*dirty[ing] our streets*".<sup>14</sup> Zwelithini claims that his comments were taken out of context and he was in fact addressing the issue of border security. Senior **African National Congress (ANC)** figures including police minister **Nathi Nhleko** support his position.<sup>15</sup> SAPS major-general **Charl Annandale** conducted a report into the violence that found that a labour dispute over the employment of foreign nationals at a store in **Isipingo**, a Durban suburb, sparked the violence. The report pointed to underlying social tensions, the poor economic conditions, ineffective local government migrant controls, and the media hype for the spread of the violence. The perception that foreign workers 'steal' jobs from South Africans because they are willing, or are forced, to work for less is a particular problem. The report did not mention Zwelithini's comments.<sup>16</sup>

Debates in parliament have also touched on the number of illegal migrants in the country as a cause of the violence. South African introduced protectionist legislation, including new visa restrictions, in April 2014, to try to reduce the number of foreign nationals coming to South Africa. President Zuma asked in his Freedom Day address why the migrants were not in their own countries, laying some of the responsibility at the feet of South Africa's neighbours.<sup>17</sup>

*"The government is always quick to blame external forces for South Africa's problems... migrants from all over Africa live and work here and they easily become the target of desperate people's anger."*<sup>18</sup>

Many small business owners are not of South African origin and have been the target of aggression in the past at times of high unemployment and low growth.<sup>19</sup> In January this year a number of foreign owned stores were attacked in **Soweto**, Johannesburg (see *ARC South Africa Briefing January 2015*). In

<sup>8</sup> Daily Maverick, 27 Apr 2015

<sup>9</sup> Business Day, 22 Apr 2015

<sup>10</sup> Mail and Guardian, 23 Apr 2015

<sup>11</sup> Daily Maverick, 28 Apr 2015

<sup>12</sup> Mail and Guardian, 26 Apr 2015

<sup>13</sup> Source: senior employee, South African pan-African company

<sup>14</sup> Daily Maverick, 15 Apr 2015

<sup>15</sup> Eyewitness news, 28 Apr 2015

<sup>16</sup> Daily Maverick, 29 Apr 2015

<sup>17</sup> AFP, 28 Apr 2015

<sup>18</sup> Source: NGO director, Pretoria

<sup>19</sup> News24, 13 Apr 2015

2008 an outbreak of xenophobic violence left 62 people dead and thousands displaced. The 2008 violence came as South Africa's economy began to fall into the 2009 slump. In the wake of the current violence 1,600 Malawians have taken voluntary repatriation deals. More foreign nationals are expected to follow, fearing further attacks to come.<sup>20</sup>

### Government spending on SARS restructuring despite no actual problems

The **South African Revenue Service (SARS)** has been the subject of a series of internal and external investigations since November 2014. The commissioner, **Tom Moyane**, whom Jacob Zuma appointed in September 2014, has led an investigation into three investigative units he labels 'covert units' leading to the suspension of two senior staff members. This has led to advocate **Muzi Sikhakhane** undertaking a second investigation and Moyane commissioning **KPMG** to do a third. Finance Minister **Nhlanhla Nene** established a special advisory board to SARS in February 2015. Retired judge **Frank Kroon** chairs the board, which reports to him on a daily basis.

Moyane first raised the so-called 'covert units' in SARS in December 2014 when he accused deputy commissioner **Ivan Pillay** and strategy and planning executive **Pieter Richer** of running the units secretly within SARS. Moyane claimed they had spied on political figures, including President Zuma. An employment tribunal found that the suspensions were invalid and ordered SARS to reinstate Pillay and Richer in December and January 2015; however, they remain suspended.<sup>21</sup> The initial Sikhakhane investigation concluded that the units had been set up illegally but found no evidence of illegal activity. Kroon's advisory board also found that SARS had no legal basis to set up covert investigation units, that they were a waste of money and that the matter should be handed over to the SAPS for further investigation.<sup>22</sup> However, former SARS spokesman **Adrian Lackay**, who resigned on 24 March 2015, claims that then commissioner (now municipalities minister) **Pravin Gordhan** set up the units, with full public and parliamentary knowledge, in 2007.<sup>23</sup>

Lackay claims that Moyane oversees a culture of intimidation at SARS where he has forced out any opposition. Since Moyane's appointment, along with Pillay, Richer and Lackay, enforcement head **Johann van Loggerenberg**, anticorruption head **Clifford Collings**, chief operations officer **Barry Hore**, modernisation and strategy officer **Jerome Frey**, special adviser **Yolisa Pikie**, and deputy spokesperson **Marika Muller** have all resigned. **Gene Ravele**, the chief tax officer, tendered his resignation but Moyane persuaded him to stay on.<sup>24</sup> The resignations will cost SARS considerable amounts of money. Pillay and Richer are both fighting SARS in court over their suspensions. Other senior members of staff have received substantial pay-outs accompanying their resignation.<sup>25</sup> According to sources within SARS employee, morale is low:

*"All mid-level employees are keeping their heads down as the senior management get pushed out one by one....it is very unwise to speak against the commissioner or the investigations."*<sup>26</sup>

Kroon's special advisory board has a mandate to look into SARS's operations, personnel, budget and technology, and long-term strategy. It has hired **Bain**, a management consultancy firm which can charge upwards of \$100,000 per week, to look into how SARS could be modernised.<sup>27</sup> This is an expensive set of measures for a government under financial pressure to take, and SARS has no problems doing its primary job of collecting revenue:

<sup>20</sup> Mail and Guardian, 28 Apr 2015

<sup>21</sup> City News, 15 Jan 2015

<sup>22</sup> Business Day, 29 Apr 2015

<sup>23</sup> Politics web, 24 Mar 2015

<sup>24</sup> Business Day, 29 Apr 2015

<sup>25</sup> Politics web, 24 Mar 2015

<sup>26</sup> Source: SARS, Pretoria

<sup>27</sup> Business Day, 29 Apr 2015

*"SARS has continued to provide the government with an excellent revenue collection service... the only danger to its operations is the resignation of senior experienced staff."*<sup>28</sup>

Bain are working on a new 'vision statement' for SARS. The board has also hired **United States** consultants **Gartner** to look into updated SARS technological revenue collection systems.<sup>29</sup>

*"...the real waste of money is the consultants they [the special board] have hired, they will cost ten times what the investigative units cost."*<sup>30</sup>

### **Brown appoints Transnet's Brian Molefe as Eskom CEO**

Public enterprises minister **Lynne Brown** appointed **Brian Molefe** as the new acting CEO of state power utility **Eskom** on 18 April. At the time of the announcement Molefe was the CEO of state transport company **Transnet**, one of the few state-owned enterprises (SOEs) that is not in major financial trouble. Molefe was in the post from 2011 and has managed to improve transport services over that period. He will have his work cut out for him at Eskom which faces power generation problems, in-fighting at board level, and accusations of political interference that go as high as President Zuma.<sup>31</sup>

*"Molefe is a good guy, if anyone could turn Eskom around it is him... he has the right political cachet and a good track record.... he manages to keep stakeholders onside and make tough business calls."*<sup>32</sup>

Molefe's appointment follows the resignation of **Zola Tsotsi** as chairman following his suspension of then CEO **Tshediso Matona**. When announcing Molefe's appointment, Brown said that she wanted an Eskom CEO who would stay at the utility for the long term, and said that President Zuma, deputy president **Cyril Ramaphosa** and the boards of Eskom and Transnet had approved his appointment. Molefe's appointment led to the yields on Eskom's \$1.25 billion debt declining from 6.65% to 6.62% from 18-19 April. They were 6.63% at time of writing.

Molefe has, since his appointment, regularly addressed the media on the state of Eskom's operations. He assured the press that Eskom's financial situation was not as bad as reported and the company was in no danger of going bankrupt.<sup>33</sup> He has gone on a public relations offensive attacking the 60 municipal authorities that owe Eskom \$740m. Molefe has proposed that Eskom cut out the municipal authorities and supply South Africans with electricity directly. This has prompted outcry from sector experts and local government officials. However, he has backing from the Treasury that has threatened to not transfer money to municipalities that have failed to Eskom's fees. Nine municipalities have signed up to payment plans but 53% of them are in severe financial trouble themselves and/or are owed electricity payments from public institutions such as hospitals and schools.<sup>34</sup>

*"You can't lean on a broken system because it will collapse... the government will have to raise more money itself to buy Eskom out of trouble. If it cuts off municipalities there will be more public service riots."*<sup>35</sup>

The power situation shows no signs of getting better and load shedding is now a daily occurrence. Eskom's generation capacity reached record lows on 16 April with 50% of plants offline due to diesel shortages and ongoing maintenance problems which continued through the latter half of the month. Eskom has also clashed with the **National Union of Metalworkers of South Africa (Numsa)** over

<sup>28</sup> Source: department of trade and industry, Pretoria

<sup>29</sup> Business Day, 29 Apr 2015

<sup>30</sup> Source: businessman with ANC connections, Johannesburg

<sup>31</sup> Eyewitness news, 18 Apr 2015

<sup>32</sup> Source: businessman with ANC connections, Johannesburg

<sup>33</sup> Business Day, 21 Apr 2015

<sup>34</sup> Financial Mail, 9 Apr 2015

<sup>35</sup> Source: business journalist, Johannesburg

dismissals of 100 workers at the **Medupi** power plant site for illegally striking. Eskom locked the workers out of the site on 2 April.<sup>36</sup> It agreed to rehire some of the workers and let them back into the site. The dispute continues. Numsa president **Irvin Jim** is now demanding a seat on Eskom's board to end the dispute.<sup>37</sup>

## Implications

As the country's internal problems become all consuming, South Africa has lost its place as the big brother of African politics. The president, traditional leader, and government's ambiguity towards the grubby, racist violence cost the country its reputation as the arbiter of peace agreements and pan-African integration. South Africa's anti-foreign violence erupted in the same month that Nigeria celebrated groundbreaking elections, deepening democracy and the emergence of a president with the moral stature to cement its role as the new pan-African power.

A combination of a poorly managed economy and increasingly dangerous anti-foreign political rhetoric has fostered xenophobic sentiment. The culture of blame that runs through domestic politics validates attacking other people to solve one's problems. The government response, when it came, was united and effective. However the reputation damage among other governments has already been done.

Nigeria's new government will reconcile with South Africa in the coming weeks (the withdrawal of the ambassador was probably a tactical move to replace him) but will hold the incident over the Zuma administration for some time. The potential damage to business is greater. South African businesses – with few prospects at home – are expanding across the continent. South Africa's economic position can recover and continue to grow so long as the government's damage control holds up.

Tom Moyane, Jacob Zuma's choice of tax commissioner, has spent his first seven months in office eliminating senior members of staff, despite SARS' reputation as a world-class revenue service. Civil servants have visited from across the globe to learn from the success of its revenue collection schemes. SARS is one of South Africa's best run public entities which the members of the Zuma administration appear intent on weakening, raising the question who will benefit from a weakening of the last effective state-run investigative unit?

Nhlanhla Nene's response has been to form a panel to hire expensive consultants to address an entirely separate set of problems. The allegedly 'covert units' existed within SARS. Their purpose was to investigate individuals who were suspected of committing tax fraud. It is unlikely that nobody within government knew of their existence when the former finance minister set them up. Moyane's investigations appear to be more an expensive way of eliminating rivals than an attempt to make the SARS better run. If the mechanisms which have made SARS so efficient in the past are dismantled, the country will be worse off.

The job of Eskom CEO is perhaps the hardest in the country. Brian Molefe has a good track record first at the state pension investment company, PIB, and subsequently at Transnet. But Transnet faced neither the financial shortfall nor the public and political pressure that Eskom does to bring electricity supply back into balance with demand. Energy sector sources report a risk that Eskom's distribution is unable to face a catastrophic incident and risks nationwide shut down. In the first ten days of his appointment it is unlikely that Molefe has all of the details necessary to formulate a plan to turn Eskom around. However he has admitted to parliament that Medupi is further behind schedule than previously thought and is putting pressure on the government to increase financing to Eskom by publicly attacking indebted municipalities. The treasury can't let the municipalities go bankrupt or else they will face more public service protests, something the government has been working hard to avoid. Brown has said she wants someone who will stick with Eskom for the long run and it is unlikely that she would let Molefe step down even if he wanted to. The greater the difficulties that Molefe

<sup>36</sup> News 24, 8 Apr 2015

<sup>37</sup> Business Day, 24 Apr 2015

faces, the greater is the likelihood that he will restore Eskom to its previous trajectory and call for greater private sector involvement. This, the best-case scenario, presents a considerable opportunity to international infrastructure investors.

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### About Africa Risk Consulting:

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