

## AFRICA RISK CONSULTING

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#### South Africa Summary 24 April 2017

*President Jacob Zuma (2009-present) sacks finance minister Pravin Gordhan and other critics in a cabinet reshuffle that leads senior figures in the ruling African National Congress (ANC) to publicly call for Zuma's resignation. Zuma replaces Gordhan with interior minister Malusi Gigaba. Tens of thousands of people protest against the decision under the #ZumaMustFall banner across April. Opposition party the United Democratic Movement (UDM) files a petition in the Constitutional Court to hold a no-confidence vote in Zuma by secret ballot. Gigaba attempts to mitigate the damage of Zuma's reshuffle to the economy after Standard & Poor's and Fitch both downgrade South Africa's credit ratings to junk status. The International Monetary Fund (IMF) forecasts growth of 0.8% for 2017.*

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#### Jacob Zuma fires Gordhan in cabinet reshuffle

President **Jacob Zuma** (2009-present) sacked finance minister **Pravin Gordhan** and other critics in a cabinet reshuffle that has led senior figures in the ruling **African National Congress (ANC)** to publicly call for Zuma's resignation.<sup>1</sup> Zuma has moved to oust his critics from government and retake full control of **South Africa's** finances; likely prompted by growing opposition to him within the ANC due to multiple allegations of corrupt practices and ties to the **Gupta** family (see *ARC Briefing South Africa October 2016-February 2017*). Zuma announced a wide-ranging cabinet reshuffle at midnight on 30 March, about which, in an unprecedented move, he did not consult the ANC's national executive committee (NEC) beforehand.<sup>2</sup> Zuma removed Gordhan and replaced him with home affairs minister and Zuma loyalist **Malusi Gigaba**.<sup>3</sup> Zuma initially justified the decision with an alleged intelligence report that claimed Gordhan was using an investment roadshow to undermine South Africa. He later retracted the claim and cited irreconcilable differences as a reason for the decision.<sup>4</sup> Zuma replaced 24 ministers and junior ministers in the reshuffle, including outspoken critics such as **Derek Hanekom**.<sup>5</sup> He did not remove loyalists of questionable competence, such as public works minister **Bathabile Dlamini**, who is under pressure for endangering South Africa's social security system.<sup>6</sup>

*"The outrage is real, but this day was coming for a long time and everybody knew it – especially Gordhan."*<sup>7</sup>

The reshuffle ended Zuma's and Gordhan's 15-month long struggle for control of South Africa's spending. Gordhan has frustrated Zuma's efforts to embark on a highly costly nuclear energy development programme, which a senior ANC source described as Zuma's "*personal pension fund*".<sup>8</sup> Gordhan has also refused to intervene in commercial banks closing the accounts of the Gupta family, who are widely reported as Zuma's primary funders and orchestrators of the removal of previous

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<sup>1</sup> Business Day, 5 Apr 2017.

<sup>2</sup> Business Day, 30 Mar 2017.

<sup>3</sup> Business Day, 30 Mar 2017.

<sup>4</sup> Business Day, 5 Apr 2017.

<sup>5</sup> EWN, 1 Apr 2017.

<sup>6</sup> EWN, 1 Apr 2017.

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

<sup>8</sup> Source, ANC official, Pretoria

finance minister **Nhlanhla Nene** in December 2015.<sup>9</sup> Gigaba is a staunch Zuma loyalist who served as home affairs minister from 2014 to 2017 and, prior to that, as public works minister from 2009 to 2014.<sup>10</sup> In his time as public works minister, a senior business source described Gigaba requesting a major kickback for a public tender:

*“Gigaba said that we could not win the contract unless we gave a portion of equity to a company of his choosing, and paid them a consultancy fee.”<sup>11</sup>*

In his first press conference as finance minister on 31 March, Gigaba defended his Masters’ degree in social policy as qualification for the position. He then stated he intended to use the R500 billion (\$37 billion) public works budget to fund programmes that Gordhan would not.<sup>12</sup>

*“Gigaba is a Zuma man, he will do everything he is told and will raid from the state treasury to fund whatever Zuma and the Gupta’s desire.”<sup>13</sup>*

The reshuffle, however, has had wide ranging consequences for Zuma. Senior ANC figures have openly criticised Zuma in an unprecedented public manner. Deputy president and presidential hopeful **Cyril Ramaphosa**, ANC treasurer and former Zuma ally **Zweli Mkhize**, ANC secretary general **Gwede Mantashe**, former presidents **Kgalema Motlanthe** (2007-2009) and **Thabo Mbeki** (1999-2007), and Gordhan himself all called for Zuma to step down in the first week of April.<sup>14</sup> The fact that Zuma decided the cabinet list outside of the ANC caused a major rift in the NEC – the party’s most senior governing body.<sup>15</sup> Zuma has managed to restore his control over the ANC through a meeting of the larger national working committee (NWC) on 5 April.<sup>16</sup> After the meeting Mantashe told the press that the statements against Zuma were *“mistake[s], that will not happen again”*.<sup>17</sup> However, this has not stopped Zuma’s opponents within the ANC speaking out against him. Ramaphosa now regularly attacks the president in public – most recently on 24 April at a lecture in **Uitenhage (Eastern Cape Province)** where he accused Zuma of firing Gordhan for refusing to follow the instructions of the Gupta family, and called for a commission of inquiry into the president.<sup>18</sup>

Businesses and business agencies, including **Business Leadership South Africa**, **Business Unity South Africa**, the **Black Business Council** and numerous trade bodies all criticised Zuma’s decision to remove Gordhan.<sup>19</sup> They are joined by the unions, including ANC tripartite alliance partner in government the **Congress of South African Trade Unions (COSATU)**, which called on the president to resign on 31 March.<sup>20</sup>

It is now open warfare between supporters and opponents of the president in the ANC. Zuma and his allies are making no pretense of their efforts to remove their opponents from positions of power. ANC veterans are lining up behind Ramaphosa to attack the president. The ANC is now entangled in an internal struggle that will last at least until the *legkotla* in December when either Ramaphosa or **Nkosazana Dlamini-Zuma** is likely to replace Zuma as president of the ANC. Zuma and his allies must also prepare for the consequences of a Ramaphosa victory which could lead to a loss of influence, and its associated financial gains. Programmes such as the nuclear deal, most likely with the backing of **Russia**, and a series of deals between state-owned enterprises (SOEs) and Gupta-controlled companies are likely to take place in quick succession.

<sup>9</sup> FT, 1 Apr 2017.

<sup>10</sup> Mail and Guardian, 1 Apr 2017.

<sup>11</sup> Source, MD of a major enterprise, Johannesburg

<sup>12</sup> Mail and Guardian, 1 Apr 2017.

<sup>13</sup> Source, newspaper editor, Johannesburg

<sup>14</sup> Business Day, 5 Apr 2017.

<sup>15</sup> Business Day, 5 Apr 2017.

<sup>16</sup> Business Day, 5 Apr 2017.

<sup>17</sup> Business Day, 5 Apr 2017.

<sup>18</sup> Business Day, 24 Apr 2017.

<sup>19</sup> Business Day, 5 Apr 2017.

<sup>20</sup> Mail and Guardian, 31 Mar 2017.

### ...leading to #ZumaMustFall protests and no confidence vote

Zuma's cabinet reshuffle has led to mass protests calling for his resignation and opposition parties arranging a vote of confidence in the national assembly.<sup>21</sup> The pressure has not moved Zuma's stance and poses little threat to his position. However, opposition parties are attempting to make the no confidence vote a secret ballot through a case at the **Constitutional Court**.

Protests started on 2 April, three days after Zuma's reshuffle, with several hundred people occupying **Church Square** in legislative capital **Pretoria (Gauteng Province)**.<sup>22</sup> The first major protest took place on 7 April in economic capital Johannesburg (Gauteng Province) and Pretoria, where over 10,000 people turned out under the **#ZumaMustFall** banner.<sup>23</sup> Seven opposition parties, including the **Democratic Alliance (DA)** and **Economic Freedom Fighters (EFF)** marched on the government in Pretoria, the legislature in **Cape Town (Western Cape Province)**, and the **ANC Union Buildings** headquarters in Johannesburg on 12 April, Zuma's birthday.<sup>24</sup> Journalists reported tens of thousands of participants as part of this national day of action, known as **#ZumaMustFall**, although the ANC disputes these figures.<sup>25</sup> Opposition leaders including DA leader **Mmusi Maimane** and EFF leader **Julius Malema** addressed the crowd.<sup>26</sup> The ANC's governing allies, the **South African Communist Party (SACP)** and Cosatu, both of which have called on Zuma to step down (see *ARC Briefing South Africa February 2017*), also backed the protests.<sup>27</sup> Zuma, on 12 April, celebrated his 75<sup>th</sup> birthday in **Kliptown** (Gauteng Province), with his allies within the ANC, and away from the protests.<sup>28</sup> He used the occasion to attack the protestors as allied with so-called "*white majority capital*" comparing them to the former apartheid regime.<sup>29</sup>

*"I think everyone who protested knew that they were not going to oust Zuma then and there, but there is a feeling of real anger and injustice at his actions. At the very least it should be a message to the ANC about the voters they could lose in the next elections."*<sup>30</sup>

Zuma also faces a vote of no confidence in parliament, his eighth since taking office.<sup>31</sup> The ANC holds a 63% majority in parliament with 242 out of 400 seats, and has seen off previous votes by imposing a three-line whip on MPs to back Zuma.<sup>32</sup> The ANC's national working committee (NWC) has already instructed all MPs to back Zuma regardless of their feelings towards the president, at a meeting on 5 April.<sup>33</sup> However, senior ANC figures are mobilising against Zuma, with Mbeki and Motlanthe urging ANC MPs to vote against the president.<sup>34</sup> Opposition party the **United Democratic Movement (UDM)** filed a case at the Constitutional Court on 11 April to make the vote by secret ballot, effectively freeing up ANC MPs to vote against Zuma.<sup>35</sup> The DA originally scheduled the vote for 18 April, but withdrew it after the court could only reply on 19 April.<sup>36</sup> The EFF and the **Inkatha Freedom Party (IFP)** have also joined the UDM application to the court to make the ballot secret, and will then call a vote.<sup>37</sup> Even if the court rules for a secret ballot, parliament may choose to ignore the ruling as Section 57 of the

<sup>21</sup> Business Day, 12 Apr 2017.

<sup>22</sup> Rand Daily Mail, 2 Apr 2017.

<sup>23</sup> Business Day, 12 Apr 2017.

<sup>24</sup> Business Day, 12 Apr 2017.

<sup>25</sup> Business Day, 12 Apr 2017.

<sup>26</sup> Business Day, 12 Apr 2017.

<sup>27</sup> Business Day, 12 Apr 2017.

<sup>28</sup> Business Day, 12 Apr 2017.

<sup>29</sup> Business Day, 12 Apr 2017.

<sup>30</sup> Source, newspaper editor, Johannesburg

<sup>31</sup> Daily Maverick, 12 Apr 2017.

<sup>32</sup> Daily Maverick, 12 Apr 2017.

<sup>33</sup> Daily Maverick, 12 Apr 2017.

<sup>34</sup> Rand Daily Mail, 11 Apr 2017.

<sup>35</sup> Daily Maverick, 12 Apr 2017.

<sup>36</sup> Daily Maverick, 12 Apr 2017.

<sup>37</sup> Business Day, 22 Apr 2017.

constitution states that parliament must vote to determine its own business.<sup>38</sup> The court may rule that parliament can hold a secret ballot for the vote, but cannot bind it to do so.<sup>39</sup> Speaker of parliament, and staunch Zuma ally, **Baleka Mbete** filed a motion to this effect in the Court on 22 April in an effort to get the case thrown out.<sup>40</sup> At time of writing the court is still hearing arguments, and it may take several weeks to reach a decision.<sup>41</sup>

Zuma's tenacity as a political survivor is one of his defining traits. It will take an enormous effort combining both public and political pressure for him to step down. Even if the Constitutional Court grants the UDM motion to have the vote by secret ballot, and it is by no means certain that it will or even should, the ANC is still likely to win the vote. Zuma controls the security ministries, and will not hesitate to use them to intimidate those ANC MP's whose loyalty he cannot buy. Zuma's background in intelligence has prepared him well to take advantage of disruptive situations. There is no guarantee that continued pressure for the rest of his term will result in his either changing his policies or stepping down. However, both the protests and the court case are drawing the opposition closer together to work against a common enemy. This could turn into effective political organising and mobilisation in 2019, which could be a real threat to the ANC.

### Gigaba attempts to mitigate economic damage

Gigaba is attempting to mitigate the damage that Zuma's reshuffle and his appointment have done to the South African economy. Zuma's allies have repeatedly insisted that market confidence does little but hold back South African economic transformation, however the new finance minister is attempting to prevent further downgrades of credit ratings to junk status. The economic impact of the reshuffle was immediate. The rand fell from R12.30/\$, its strongest position in two years, to R13.70/\$ overnight.<sup>42</sup> The currency position has improved to R12.93/\$ at time of writing, primarily due to poor performance by the **United States (US)** currency.<sup>43</sup> Ratings' agency **Standard & Poor's (S&P)** immediately reassessed South Africa's economy and downgraded the country's sovereign and internationally denominated debt to non-investment grade BB+ from investment grade BBB- on 4 April.<sup>44</sup> S&P pointed to the reshuffle as the direct reason for the downgrade:

*"In our opinion, the executive changes initiated by president Zuma have put at risk financial growth outcomes...The negative outlook reflects our view that political risks will remain elevated this year, and that policy shifts are likely..."<sup>45</sup>*

Fellow ratings' agency **Fitch Ratings** followed suit on 7 April, also citing the political changes as a reason for the move from BBB- to BB+.<sup>46</sup> It also cited concerns that Gigaba's appointment would lead to a damaging change in economic policy direction.<sup>47</sup> The finance ministry is worried that downgrades by all three will result in a major loss of investment. Gigaba told investors at an event in parliament on 13 April that he and his team would demonstrate their commitment to fiscal discipline and consolidation.<sup>48</sup> Gigaba flew to the US on 20 April to meet representatives of **Moody's** to persuade them not to downgrade their sovereign credit rating.<sup>49</sup> However, there are concerns that Gigaba plans to enact widespread nationalisation policies after appointing **Christopher Malikane** his chief economic adviser on 9 April.<sup>50</sup> Malikane is a Marxist academic who proposes the nationalisation of

<sup>38</sup> Daily Maverick, 12 Apr 2017.

<sup>39</sup> Daily Maverick, 12 Apr 2017.

<sup>40</sup> Business Day, 22 Apr 2017.

<sup>41</sup> Business Day, 22 Apr 2017.

<sup>42</sup> XE.com

<sup>43</sup> XE.com

<sup>44</sup> S&P press release, 4 Apr 2017.

<sup>45</sup> S&P press release, 4 Apr 2017.

<sup>46</sup> Fitch press release, 7 Apr 2017.

<sup>47</sup> Fitch press release, 7 Apr 2017.

<sup>48</sup> Rand Daily Mail, 13 Apr 2017.

<sup>49</sup> Rand Daily Mail, 13 Apr 2017.

<sup>50</sup> Business Day, 18 Apr 2017.

banks, mines, insurance companies, major manufacturers, the **South African Reserve Bank (SARB)** (central bank), and land that remains in white ownership.<sup>51</sup> The media report that Moody's is likely to downgrade South Africa despite Gigaba's visit and will announce their decision within 30 to 90 days of 24 April.<sup>52</sup>

*"I almost find the thought of Malusi Gigaba attempting to explain to highly qualified economists how policies he has yet to form will have no negative impact on the economy funny."<sup>53</sup>*

The downgrades and the threat of a radical shift in economic policy come at time when the South African economy is in a vulnerable position. The **International Monetary Fund (IMF)** on 18 April forecast GDP growth of less than 1% for South Africa in 2017.<sup>54</sup> The IMF forecast that growth will increase moderately in 2017 from 0.3% in 2016 to 0.8% across this year.<sup>55</sup> The primary driver for this will be increases in commodity prices backing a moderate turn around in the mining sector.<sup>56</sup> The end of the region-wide drought of 2015-2016 and the return to stability of electricity supply will support the modest increase.<sup>57</sup> The modest increase is well below the global average of growth, which the IMF puts at 3.5%, up from 3.4% in 2016.<sup>58</sup> The IMF issued a warning that if the government did not implement urgent reforms to the labour markets in order to encourage new firms to enter the market, the economy will stagnate.<sup>59</sup> It believes that unemployment, which remains high, will hold the economy back until the government finds a way to improve job creation.<sup>60</sup>

Gigaba is currently focused on the ratings' downgrades. However, South Africa holds 90% of its debt in rand and the S&P and Fitch downgrades only affect its international credit rating. The primary damage will be to confidence, although international investors hold 35% of South Africa's debt, which could lead to some outflows. Gigaba is trying to persuade the international financial community, who were staunch supporters of Gordhan, that he will be able to lead the economy responsibly out of its current poor situation. It is highly unlikely that he will succeed. However, responsible management of the current financial situation would improve his standing. Gordhan brought the economy to a better position than in 2015 or 2014 and Gigaba could continue this work. However, Zuma's need to secure his political and financial future is likely to lead to radical changes in policy that will pose a further threat to South Africa's economic future.

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<sup>51</sup> Business Day, 18 Apr 2017.

<sup>52</sup> Business Day, 23 Apr 2017

<sup>53</sup> Source, financial journalist, Johannesburg

<sup>54</sup> Business Day, 18 Apr 2017.

<sup>55</sup> Business Day, 18 Apr 2017.

<sup>56</sup> Business Day, 18 Apr 2017.

<sup>57</sup> Business Day, 18 Apr 2017.

<sup>58</sup> Business Day, 18 Apr 2017.

<sup>59</sup> Business Day, 18 Apr 2017.

<sup>60</sup> Business Day, 18 Apr 2017.

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### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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