

AFRICA RISK CONSULTING

South Africa Monthly Briefing November 2016

South Africa Summary 25 November 2016

Senior members of the ruling African National Congress (ANC) and the opposition pressure President Jacob Zuma (2009-present) to tackle corruption or step down. Zuma's credibility is damaged after the National Prosecuting Authority of South Africa (NPA) drops charges of corruption against finance minister Pravin Gordhan. The public protector publishes a report into so-called 'state capture', implicating Zuma in widespread corrupt activities by the Gupta family. Chief justice Mogoeng Mogoeng will chair a judicial committee to investigate, but Zuma appears unperturbed by the threat of prison. The Congress of South African Trade Unions (Cosatu) backs deputy president Cyril Ramaphosa for ANC president in 2017. Brian Molefe, CEO of state-owned power utility Eskom, resigns after the 'state capture' report reveals a close relationship with Ajay Gupta. Ramaphosa attempts to pass a R3,500 (\$253) per month living wage, facing opposition from the unions and businesses. Ratings' agency Standard & Poor's says it will downgrade the country's debt rating in December if it does not see short-term improvements.

Zuma comes under pressure after State Capture report publication

President **Jacob Zuma** (2009-present) is under increasing pressure to either tackle corruption in his administration or step down. Senior figures within the ruling **African National Congress (ANC)** and in the opposition **Democratic Alliance (DA)** and **Economic Freedom Fighters (EFF)** are all calling for the president's resignation. The calls follow the release of a report on state capture – the term for the undue influence the **Gupta** family exerts over **South Africa's** political institutions – and after the **National Prosecuting Authority of South Africa (NPA)** withdrew charges against finance minister **Pravin Gordhan**.

Many of the moves against Zuma are carried out in the public eye. A group of veteran ANC political figures met President Zuma and other current executives to urge them to change political track on 21 November.¹ A group representing 101 veteran figures of the liberation movement presented a document to the president entitled "For the sake of our future", which sets out the failings that have occurred during his tenure.² Former president **Thabo Mbeki** (1999-2007) presented the document, which was released to the public shortly after the meeting.³ It is strongly worded, claiming that:

"The leadership of the ANC as a collective has failed the people of South Africa. It has presided over the downward spiral of the organisation and given rise to widespread national anxiety by defending, among other things, the personal interests of some leaders at the expense of the public good and the credibility of the organisation."⁴

Zuma attended ANC rallies in **KwaZulu-Natal** and **Mpumalanga** provinces on the 19 and 20 November where he publicly criticised the veterans and internal divisions within the ANC.⁵ However, the meeting that took place around the document was reportedly tense but civil. Local media report that a source who was in the room described the president engaging with the issues raised and committing to a further meeting.⁶

¹ Business Day, 21 Nov 2016.

² Daily Maverick, 21 Nov 2016.

³ Daily Maverick, 21 Nov 2016.

⁴ 'For the sake of our future' in Daily Maverick, 21 Nov 2016.

⁵ Business Day, 20 Nov 2016.

⁶ Daily Maverick, 21 Nov 2016.

Two recent events that badly damaged Zuma's credibility have added weight to the report. The NPA announced that it would withdraw all charges of corruption against Gordhan on 31 October, two days before the case was due to go before the courts.⁷ National Director of Public Prosecutions (NDPP) **Shaun Abrahams** stated that Gordhan did not have any intention to act unlawfully by approving a bonus for **South African Revenue Service (SARS)** former deputy director **Ivan Pillay**.⁸ The markets reacted immediately, with the rand strengthening 2% against the **United States (US)** dollar that morning, and rand denominated bond yields fell from 8.1% to 7.9%.⁹ Abrahams, who is close to Zuma, is also facing opposition calls to resign.¹⁰

The **North Gauteng High Court** ordered public protector **Busisiwe Mkhwebane** to publish her predecessor's report on the relationship between President Zuma and the Gupta family – so-called 'state capture' – on 2 November.¹¹ Zuma and cooperative governance minister **Des van Rooyen** went to court to stop former public protector **Thuli Madonsela** from publishing the report on 28 October (see *ARC Briefing South Africa October 2016*).¹² The report found that the Gupta family had influenced the president's policies and appointments for their personal business gain on multiple occasions.¹³ Madonsela found that Zuma may have violated the **Executive Ethics Code**, the **Prevention of Corrupt Activities Act** and may have failed to comply with section 195 of the constitution.¹⁴ She recommended that chief justice **Mogoeng Mogoeng** establish an enquiry into the president within 30 days of the report's publication, with adequate funding from the treasury and substantial powers to collect evidence. It should report its findings within 180 days.¹⁵

Zuma appears to have no intention of backing down, telling the media: *"I am not afraid of going to jail, I have been there before."*¹⁶ He also has many backers within the ANC. ANC secretary general **Gwede Mantashe** told the media on 3 November that he welcomed the report but that Zuma could only step down if his conscience told him to do so.¹⁷ Later that day, ANC spokesperson **Zizi Kodwa** said the party had full confidence in Zuma.¹⁸ However, many figures who signed the document are members of the ANC's **National Executive Committee (NEC)** that can recall Zuma as president.¹⁹ Senior political sources are concerned that the meetings with the veterans will become another political process leading to no change:

*"Zuma knows the best way to kill the protest by the veterans is to make a committee and a process within the ANC, he will drag this out for months until everyone has forgotten about it and then pick off the opposition one by one offering them money or attacking them in the media."*²⁰

Where Zuma may have to watch his back is with the unions. The **Congress of South African Trade Unions (Cosatu)** formally backed deputy president **Cyril Ramaphosa** to succeed Zuma as ANC president in 2017 on 25 November.²¹ Cosatu forms part of the ruling **Revolutionary/Tripartite Alliance** with the ANC and the **South African Communist Party (SACP)**. The SACP is already publicly calling for Zuma to resign, and Cosatu's support of Ramaphosa arrays them against the president and any chosen successor. Within Cosatu there are unions that are strongly critical of the president. The **National Education, Health and Allied Workers Union (Nehawu)** on 2 November

⁷ Business Day, 31 Oct 2016.

⁸ Business Day, 31 Oct 2016.

⁹ Moneyweb, 31 Oct 2016.

¹⁰ Business Day, 31 Oct 2016.

¹¹ Business Day, 2 Nov 2016.

¹² Business Day, 2 Nov 2016.

¹³ Daily Maverick, 3 Nov 2016.

¹⁴ Daily Maverick, 3 Nov 2016.

¹⁵ Daily Maverick, 3 Nov 2016.

¹⁶ Zuma in Business Day, 7 Nov 2016.

¹⁷ Business Day, 7 Nov 2016.

¹⁸ Business Day, 3 Nov 2016.

¹⁹ Daily Maverick, 21 Nov 2016.

²⁰ Source, former minister, Johannesburg

²¹ Business Day, 25 Nov 2016.

called for Zuma to step down immediately and for Ramaphosa to replace him.²² Nehawu is the largest affiliate of Cosatu. The **South African Democratic Teachers Union**, the **National Union of Mineworkers** and the **Police and Prisons Civil Rights Union** all followed suit and backed the vote in favour of Ramaphosa on 25 November.²³

Molefe steps down from Eskom due to state capture links

Brian Molefe resigned as CEO of state-owned power utility **Eskom** on 11 November following the revelation that he had regular contact, while at Eskom, with the influential Gupta family, which has an alleged non-transparent business relationship with President Zuma.²⁴ Molefe's is the most senior resignation following the publication of the so-called 'state capture' report. The media has alleged he had ties to the Gupta family for years, but his strong track record at the head of the **Public Investment Corporation (PIC)** and state transport company **Transnet** earned him a positive reputation nonetheless.²⁵ Molefe told the media that he will leave his position at Eskom on 1 January 2017 "in the interests of good governance".²⁶ According to a source who knows Molefe:

*"It is such a shame, he is a competent guy who has done so much good for this country. When did he think it would be okay to sell himself out to the Guptas? It undoes his life's work and tarnishes his legacy."*²⁷

The state capture report showed that Molefe and **Ajay Gupta** had 58 phone calls between August 2015 and March 2016, and that Molefe visited the Gupta's home in **Saxonwold** (Gauteng Province), 19 times in the same period.²⁸ Molefe said that the report made no formal findings, only observations, and that the allegations were based on "part-facts or simply unfounded".²⁹ He claims that he was visiting a *shebeen* (an informal or unlicensed bar) in the area.³⁰ During this period, Eskom froze **Switzerland-based Glencore Resources** subsidiary **Optimum Colliery** into administration by refusing to re-negotiate a 1990s agreement to purchase coal at \$1/tonne (the current market price is \$45/tonne).³¹ Gupta-owned **Oakbay Resources** bought out Optimum, and Eskom re-negotiated the contract as soon as the purchase was completed.³² A source who worked at the mine at the time commented:

*"The state deliberately stole the mine, using Eskom to force us [Glencore] out, and gave it to the Guptas for pennies on the dollar."*³³

The report mentioned that nine board members of Eskom all had direct ties to the Gupta family. **Mark Pamensky**, who is a director of Oakbay Resources and Eskom, tendered his resignation on 16 November.³⁴ No other board members have resigned at time of writing.

New minimum wage proposals overshadowed by threat of downgrade

Deputy president Ramaphosa announced that the government proposes to introduce a national minimum wage of R3,500 (\$253) per month.³⁵ Currently over 47% of workers live on less than the

²² Rand Daily Mail, 2 Nov 2016.

²³ Rand Daily Mail, 2 Nov 2016.

²⁴ Mail & Guardian, 11 Nov 2016.

²⁵ Daily Maverick, 12 Nov 2016.

²⁶ Mail & Guardian, 11 Nov 2016.

²⁷ Source, businessman and personal acquaintance of Molefe, Johannesburg

²⁸ Mail & Guardian, 11 Nov 2016.

²⁹ Mail & Guardian, 11 Nov 2016.

³⁰ Mail & Guardian, 11 Nov 2016.

³¹ Financial Mail, 14 Nov 2016.

³² Financial Mail, 14 Nov 2016.

³³ Source, former Optimum manager, South Africa

³⁴ Rand Daily Mail, 16 Nov 2016.

³⁵ EZN, 20 Nov 2016.

proposed wage.³⁶ However, the move is controversial. Voices from within the labour movements and from the left wing of the political spectrum believe the level is too low. The **Federation of Unions of South Africa (Fedusa)** labour congress said it would not accept any minimum wage lower than R4,500 (\$320) per month.³⁷ The opposition EFF said that the wage “favours business at the expense of workers”.³⁸ Cosatu put the \$320 level to parliament in 2014, and the EFF argues that the government should adjust the wage for two years’ inflation to R5,000 (\$355).³⁹ However, the government is trying to balance the need to reduce poverty with constrained public finances to implement it.⁴⁰ Economic commentators also argue that South Africa cannot afford the minimum wage, as high unemployment figures and poor government finances mean that the need to pay people more will result in job losses.⁴¹

“A government is in a position to introduce a minimum wage when the private sector is growing or when it has the money to create public sector jobs. Currently growth is at 0.3% [of gross domestic product (GDP)] and the government is on the brink of a sovereign debt crisis. This will put people out of a job.”⁴²

South Africa’s foreign and domestic denominated debt has stood at one notch above junk for several years, making debt crisis a near constant threat. Ratings agencies have given the country considerable leeway to introduce reforms to improve the economy. International ratings agency **Standard & Poor’s (S&P)** told the media on 3 November that there was a high chance it would downgrade South Africa’s sovereign credit ratings on 2 December.⁴³ S&P associate director **Gardner Ruskie** told the media that S&P needed to see more progress on economic reforms if it is to hold the rating steady next month.⁴⁴ Treasury budget officer **Michael Sachs** said that if S&P did downgrade South Africa, it would come at a high cost to state-owned enterprise (SOEs) particularly with regard to their debt refinancing, which may result in SOE downgrades as well.⁴⁵

“S&P has run out of patience – Gordhan has made persuasive arguments that downgrading the economy will lead to a crash, and this is not the role of the agencies. However, S&P’s professional credibility is on the line – they cannot hold back from action unless the country meets their requirements.”⁴⁶

Implications

The journey to find a palatable exit strategy for Zuma continues. The chance of him winning a third term as ANC president in 2017 is limited, and the new leader could significantly limit his influence. The level of the Guptas’ interference in the state is greater than previously anticipated. It is reasonable to assume that their level of influence over Zuma is considerable as well. The president needs to find a way to leave office without facing the consequences of the multiple charges of fraud against him. If the Gupta family withdraws its backing, then funds to support the patronage networks that keep him secure will run dry. The ANC veterans are unlikely to shift Zuma – who will bog the process down in endless bureaucracy. However, the judicial review of the state capture report poses a real threat as Mogeong has resisted Zuma’s efforts to disarm him in the past. Ramaphosa at this point looks like Zuma’s best hope of leaving office peacefully. His tactical silence during many of the scandals to hit the Zuma administration in the last few months appears to show that he is happy to operate quietly for the sake of unity and stability. Ramaphosa could win Zuma’s backing for 2017 if he presents the

³⁶ EZN, 20 Nov 2016

³⁷ Mail and Guardian 21 Nov 2016.

³⁸ Mail and Guardian, 21 Nov 2016.

³⁹ Times, 22 Nov 2016.

⁴⁰ EZN, 20 Nov 2016.

⁴¹ Times, 22 Nov 2016.

⁴² Source, developmental economist, Durban

⁴³ Business Day, 3 Nov 2016.

⁴⁴ Business Day, 3 Nov 2016.

⁴⁵ Rand Daily Mail, 4 Nov 2016.

⁴⁶ Source, developmental economist, Durban

president with a way out of power that does not end in a jail sentence. However, with a year to go until the *lekgotla* there is still everything to play for.

Molefe has an excellent record for turning around South Africa's SOEs. He was in the process of lifting Eskom out of years of poor performance. His resignation shows how effective the Gupta family was at capturing key people within the state. Under their influence he allowed Eskom to facilitate an effective expropriation of Optimum Colliery. However, unless Eskom finds an equally competent CEO, his departure in January could put Eskom on a downward trend towards more severe power cuts.

The minimum wage is an example of the tension between the economic and social demands on the government. The economy is not strong enough to sustain a widespread increase in wages. However, public anger at poor working conditions is high. The ANC has promised both to introduce a minimum wage and to increase growth. Clearly, raising the proposed wage would put further pressure on the economy. However, it is politically untenable to pull out of the policy. It is also an initiative that potential presidential contender Ramaphosa is leading. The country, and international observers, will be watching to see if he can appease both the unions and business.

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