

AFRICA RISK CONSULTING

South Africa Monthly Briefing July 2020

South Africa Summary 30 July 2020

President Cyril Ramaphosa (2018-present) extends the curfew and re-imposes a ban on the sale of alcohol as Covid-19 cases soar, bringing South Africa into the ten worst-hit coronavirus countries. Ramaphosa grants increased powers to the Special Investigations Unit as a legion of corruption cases emerge while his spokesperson resigns after newspapers publish allegations against her husband. Despite apparent fissures in the ruling African National Congress (ANC), the party agrees to finance minister Tito Mboweni's deal with the International Monetary Fund (IMF). The IMF deal marks a shift in power within the ruling party away from control by the ageing ANC exile returnees and a resurgence of the influence of the group that led South Africa's internal anti-apartheid activity.

Ramaphosa gets tough as Covid-19 cases soar

Despite the government's highly praised early actions to lock down at a national level to avert the spread of **Covid-19**, coronavirus has accelerated. **South Africa** now has in excess of 300,000 positive cases, taking it above the **United Kingdom** to become the world's ninth worst-hit nation in terms of caseload and the worst in **Africa**. In response, President **Cyril Ramaphosa** (2018-present) addressed the nation on 23 July, calling out South Africans for their reckless behaviour that has led to this renewed surge, and warned about increased hospitalisation. He reintroduced an alcohol ban and a night-time curfew.

The Covid-19 crisis and measures such as Ramaphosa's renewed alcohol ban and the long-standing cigarette ban have increased the severe hit to the economy, while critics say they have had little impact on the spread of the virus.

*"[Cooperative governance and traditional affairs minister] **Nkosazana Dlamini Zuma** has insisted on continuing the cigarette ban although as a policy it has failed on all fronts. It has failed to stop smoking. People are buying smuggled cigarettes and the treasury is losing R35m (\$2m) a month. A [University of Cape Town] UCT study published has shown that 95% of smokers are still smoking and that smokers are sharing cigarettes, which risks spreading the virus. But it is Dlamini-Zuma's failure. And Ramaphosa is aware of that."*¹

This, together with the response to the coronavirus pandemic, has again shown the fissures in the ruling **African National Party (ANC)** and Ramaphosa's personal weakness in trying to build consensus around critical decisions – even in a crisis. Dlamini-Zuma's support of the cigarette ban has granted open season to the illicit cigarette trade that grew to prominence under the presidency of her ex-husband, **Jacob Zuma** (2009-2018), raising questions about the motivation for her support for this ban. Informed ARC sources allege that the proceeds of this trade also funds the opposition **Economic Freedom Fighters (EFF)**. Factionalism in the ANC is such that a cabinet member would rather the country lose billions in revenue than support a fellow cabinet minister – in this case, the finance minister's agenda.

*"The security minister, **Bheki Cele**, has declared that he would like the ban on alcohol sales to remain because of the impact it has had in reducing crime – despite that it is costing the alcohol and advertising industries millions and an estimated 10,000 or more job losses."*²

¹ ARC source, analyst, Johannesburg

² ARC source, analyst, Johannesburg

The other main political event is seen in the ANC's success in getting the party to accept an **International Monetary Fund (IMF)** soft loan (see below) despite initial opposition. Finance minister **Tito Mboweni** has repeatedly said this would be the course of action that the government would take. The gravity of the coronavirus-led economic crisis – which the treasury, IMF and independent economists say will result in a contraction of at least 7% of GDP – has resulted in internal opposition to the prospect of an IMF deal melting away.

South African Institute of International Affairs deputy chairman and prominent South Africa political analyst **Moeletsi Mbeki**, however, has a different take. He claims that the shift in influence in the ruling party is now complete. Power in the ANC has swung from the exile group (i.e. Zuma's faction) to the post-apartheid group (i.e. President Ramaphosa's faction). Referring to the **United Democratic Front (UDF)**, an internal, umbrella organisation comprising unions and civil society groups that led the domestic fight against apartheid, Mbeki said *"The UDF people now rule."* He said that with the burial on 29 July of the last of the **Rivonia** trialists, **Andrew Mlangeni** – a contemporary of Nelson Mandela and one of the giants of the anti-apartheid struggle, the dream of a socialist/**Soviet/Scandinavian** future went with him.

IMF approves \$4.3 billion loan

The IMF on 27 July approved South Africa's first ever request for emergency aid, granting the country a R70 billion (\$4.3 billion) loan to address the Covid-19 pandemic.³ The loan does not come with formal conditions, unlike conventional IMF loans, but the finance ministry and the **South African Reserve Bank (SARB)** (central bank) made voluntary commitments in a letter of intent to support the loan – promises that government has failed to deliver many times before.

South Africa's financial problems have gone from bad to worse during the pandemic. Gross domestic product (GDP) fell 2% in Q1 2020 and tax revenue is expected to fall by R304 billion (\$18.11 billion) to R1,099 billion (\$65.47 billion) for the current financial year.⁴ The IMF loan, which will be released under its **Rapid Financing Instrument (RFI)**, is intended to help plug this fiscal gap. The IMF said:

"The RFI will help fill the urgent BOP [balance of payments] needs originating from the fiscal pressures posed by the pandemic, limit regional spillovers, and catalyse additional financing from other international financial institutions. It will complement the authorities' strong policy response to the crisis and their planned post-covid-19 fiscal consolidation and reforms to promote growth that benefits all South Africans. The authorities have committed to manage the IMF's emergency financial assistance with full transparency and accountability."⁵

The IMF has a checkered history in **Africa**, where the lender of last resort has now provided Covid-19 financial assistance to 33 countries with a combined value of over \$15 billion.⁶ Accusations are generally about loan conditionality and being used as a neo-colonial tool. For example, the IMF in December 2018 agreed to provide a \$1.24 billion loan to the **Angolan** government so long as it strengthened its public finance management legislation – effectively seizing the nation-state's sovereignty, so critics argued. These concerns are held by some senior officials in the ANC and its alliance partners.

However, the IMF's Covid-19 financial assistance does not have the same rules. Emergency loans that are aimed at the virus and health interventions come without the usual conditions that have concerned past borrowers. IMF senior resident representative in South Africa **Montfort Mlachila** has noted this.

"The government is entirely free to use it as it sees fit. Obviously, we would like the government to use it for appropriate purposes, including in the direct fight against covid-19 in terms of the

³ IMF, 27 Jul 2020

⁴ South African fiscal year: 1 Mar 2019-29 Feb 2020

⁵ IMF, 27 Jul 2020

⁶ 'Covid-19 Financial Assistance and Debt Service Relief', IMF (last accessed (30 Jul 2020))

health interventions as well as other economic measures to reduce the impact of covid-19 on people's livelihoods and to preserve jobs.”⁷

But finance minister Tito Mboweni and central bank governor **Lesetja Kganyago** made several voluntary commitments to the IMF in their signed letter of intent.⁸ Mboweni and Kganyago committed to “transparently monitor” and to “report all use of emergency funds,” to introduce a “debt ceiling”, which will set a self-imposed limitation on how much the government can borrow in the future, as well as commitments to broader economic reform, such as “job-rich growth”, “fiscal consolidation” and “debt stabilisation”.⁹

While Mboweni and Kganyago are proponents of such reforms, the ANC’s recent history of failing to deliver on such promises coupled with ideological infighting within the party (see *ARC Briefing South Africa June 2020*) raises questions over whether the claims made in the letter of intent will come to fruition.

Fight against corruption grinds on

President Cyril Ramaphosa in his 23 July televised address committed to using the state’s security and prosecution resources to probe allegations relating to the misuse of Covid-19 relief funds, following increasing allegations of nepotism, corruption and price gouging. Ramaphosa said the government will crack down on corruption linked to its coronavirus response and ordered a probe into the misuse of public funds.

Ramaphosa announced increased powers and funding for the **Special Investigations Unit (SIU)** after preliminary investigations found evidence of:

- fraudulent welfare benefit claims;
- overpricing of goods and services;
- violation of emergency procurement regulations;
- collusion between officials and service providers;
- abuse of food parcel distribution; and,
- the creation of fake non-profit organisations to access relief funding.¹⁰

Notably, Ramaphosa empowered the SIU to investigate all allegations of corruption in emergency funds. He said that the R2.2 billion (\$131m) reported to be under investigation is just the tip of the iceberg. Ramaphosa said 36 cases are already being investigated and that since the start of the lockdown, the competition commission has investigated 800 complaints of excessive pricing and claimed back around R16m (\$1m).

The question is whether the pandemic will give Ramaphosa the political cover he needs to deal with the economic crisis that the government’s response to Covid-19 has caused and be able to address the country’s still rampant corruption. The extent of the corruption battle on Ramaphosa’s hands was apparent when his spokesperson was forced to resign after newspaper reports tied her husband to irregularities regarding the purchase of **Personal Protection Equipment (PPE)** for the department of health.¹¹ Meanwhile, the scale of the economic hit to the country demonstrates that the government needs to claw back every cent from corrupt tenders. Little progress has been made in recovering the near R1.8 trillion (\$100 billion) or one third of South Africa’s GDP¹² that was lost to corruption during Zuma’s presidency.

⁷ Bloomberg, 28 Jul 2020

⁸ Business Tech, 28 Jul 2020

⁹ Daily Maverick, 28 Jul 2020; Business Day, 28 Jul 2020

¹⁰ ARC media source, Johannesburg

¹¹ Bloomberg 27 Jul 2020.

¹² The ARC Insider, 30 Jul 2020

Whether or not Ramaphosa's recent turn to the anti-corruption fight is to entice multilateral loan providers, the outcome will strengthen South Africa's dilapidated investigative and judicial apparatus – and maybe even speed up prosecution against those involved in corruption during Zuma's administration.

President Ramaphosa signed a proclamation authorising the SIU to investigate any unlawful or improper conduct in the procurement process during the state of disaster in any state institution. The **National Treasury** relaxed rules around procurement during the coronavirus pandemic because of the emergency situation. The president also announced the creation of a centre that will investigate Covid-related corruption. The centre will bring together the **Financial Intelligence Centre**, the **Independent Police Investigative Directorate**, the **National Prosecuting Authority (NPA)**, the **Hawks, Crime Intelligence** and the **SAPS Detective Service**, the **South African Revenue Service**, the **State Security Agency** and the SIU.

In another major stride towards improving the country's judicial system to fight corruption, Ramaphosa on 28 July signed into force new regulations allowing law enforcement agencies, such as the NPA, to access and use evidence from the **Zondo Commission**.¹³ Effectively, members of the Hawks are now able to tap into the work done by the Zondo commission. UCT law faculty lecturer **Pierre De Vos** said the arrangement could assist the NPA's Investigative Directorate to pursue important corruption cases.¹⁴ However, he also warned that if the unit becomes "*relatively successful and successfully prosecutes some high-profile politicians,*" it is likely to lead to attacks against it by political and business elite.¹⁵

Ultimately, De Vos argues that changes to the Zondo commission regulations are "*unlikely to stem the tide of corruption*" which he argues has "*seemingly become the raison d'être for the implementation of most government programmes.*"¹⁶

¹³ Business Day, 28 Jul 2020

¹⁴ Daily Maverick, 30 Jul 2020

¹⁵ Daily Maverick, 30 Jul 2020

¹⁶ Daily Maverick, 30 Jul 2020

Planner

15-17 Sep 2020 **(South Africa) South African Reserve Bank** (central bank) MPC Meeting;
 17-19 Nov 2020 **(South Africa) South African Reserve Bank** (central bank) MPC Meeting;
 2021 **(South Africa)** Municipal elections;
 2024 **(South Africa)** General election.

Chronology

27 Jul 2020 **Johannesburg (South Africa) Business Day. International Monetary Fund** approves **South Africa's** first ever request for emergency aid, granting the country a \$4.3 billion loan towards mitigating the social and economic effects of the **Covid-19** pandemic;

27 Jul 2020 **Johannesburg (South Africa) Business Day.** President's spokesperson **Khusela Diko** takes leave of absence over allegations about her husband's involvement in a **Covid-19** tender in **Gauteng** province;

23 Jul 2020 **Johannesburg (South Africa) Business Day.** President **Cyril Ramaphosa** signs proclamation giving the **Special Investigating Unit** powers to probe any allegations relating to the misuse of **Covid-19** relief funds, following increasing allegations about violations of emergency procurement funds;

22 Jul 2020 **Johannesburg (South Africa) EWN.** **African Development Bank** approves a roughly R5 billion (\$300m) loan to the **South African** government to help it fight the **Covid-19** pandemic and support its budget;

22 Jul 2020 **Johannesburg (South Africa) News24.** **South African Medical Research Council and Centre for Actuarial Research** find 'huge discrepancy' between reported number of **Covid-19** fatalities and excess deaths, raising concern about the accuracy of reported Covid-19 deaths;

17 Jul 2020 **Johannesburg (South Africa) Creamer Media's Mining Weekly.** **South Africa**-based **Standard Bank** confirms it will contribute \$485m in debt finance to the \$20 billion **Mozambique** LNG project;

16 Jul 2020 **Johannesburg (South Africa) Moneyweb.** Finance minister **Tito Mboweni** and public enterprises minister **Pravin Gordhan** sign a \$10.3 billion funding mobilisation plan to restructure flag carrier **South African Airways**;

15 Jul 2020 **Johannesburg (South Africa) Cape Talk.** **National Treasury** director general **Dondo Mogajane** says negotiations have been completed with the **International Monetary Fund** for a \$4.2 billion **Covid-19** emergency loan, which he says the country will receive by the end of July;

14 Jul 2020 **Johannesburg (South Africa) Times Live.** **South Africa** records a surge in new **Covid-19** cases, with around 300,000 positive cases, taking it above the **United Kingdom** to become the world's ninth worst-hit nation in terms of caseload and the worst in **Africa**;

12 Jul 2020 **Johannesburg (South Africa) Business Day.** President **Cyril Ramaphosa** calls out **South Africans** for "reckless" behaviour and announces the reintroduction of an alcohol ban and a nighttime curfew, and warns about surging hospitalisations;

9 Jul 2020 **Johannesburg (South Africa) Business Day.** Ruling **African National Congress** party set to publish its final draft of a discussion document on the post-**Covid-19** economy at midday on 10 July – with further details expected on how it plans to finance the infrastructure-led recovery;

9 Jul 2020 **Johannesburg (South Africa) Business Day.** **Financial Sector Conduct Authority**

sides with businesses against insurers refusing to pay out on claims caused by losses resulting from the **coronavirus** pandemic, saying it will take action against short-term insurers that continue to reject claims;

5 Jul 2020 **Johannesburg (South Africa)** *Creamer Media's Mining Weekly*. Petrochemicals giant **Sasol** says it has opted to give up its licence to explore for gas off the **Mozambique** coast;

2 Jul 2020 **Johannesburg (South Africa)** *News24*. President **Cyril Ramaphosa** announces the extension of the deployment of 20,000 soldiers, down from 76,000, until 30 September to help enforce **Covid-19** restrictions;

1 Jul 2020 **Johannesburg (South Africa)** *Bloomberg*. **South African Reserve Bank** (central bank) forecasts the economy to contract more than 30% in Q2 2020 when restrictions to curb the spread of the **coronavirus** shuttered almost all activity for five weeks;

30 Jun 2020 **Johannesburg (South Africa)** *Business Tech*. **Stats SA** says GDP declined by 2% in Q1, marking the third successive quarter of decline, following drops of 0.6% in Q3 2019 and 1.4% in Q4 2019;

27 Jun 2020 **Accra (Ghana)** *Reuters*. **South Africa**-based **MTN**'s unit in **Ghana** says it will challenge in court moves by national telecommunications regulator **National Communications Authority** aimed at exposing it to greater competition;

24 Jun 2020 **Johannesburg (South Africa)** *Daily Maverick*. Finance minister **Tito Mboweni** delivers the **Supplementary Budget Review** to parliament, saying debt levels will surge during 2020 as the economy contracts 7.2%;

20 Jun 2020 **Johannesburg (South Africa)** *Business Tech*. **New Development Bank** board – formerly the **BRICS Bank** – approves a \$1 billion **Emergency Assistance Program Loan** to **South Africa**.

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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