

## AFRICA RISK CONSULTING

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*Speculation builds over potential successors to Jacob Zuma (2009-present) at the 54<sup>th</sup> African National Congress annual meeting in 2017. Current frontrunners are deputy president Cyril Ramaphosa and African Union (AU) chair Nkosazana Dlamini-Zuma. The economy contracts 1.3% across the second quarter of the 2015 and the rand falls to a new low of R14/\$ in August. The government hopes that the commissioning of the first unit of the Medupi power plant will ease pressure on the economy. The government, mining companies and unions agree a new framework for the mining industry after crisis talks across August. Measures include making platinum a reserve metal, selling – not closing – underperforming mining assets, and possible reform of labour regulations.*

#### Speculation grows over Zuma's 2017 succession

Speculation is growing over the successor to President **Jacob Zuma** (2009-present) who will step aside as leader of the ruling **African National Congress (ANC)** at its 54<sup>th</sup> annual national meeting in 2017. Zuma is unable to stand for a third term. While the meeting is still two years away, senior figures are already positioning themselves to make a bid for the position of ANC president. The incumbent controls the national presidency for as long as the ANC holds power. The ANC leader has also, so far, been the ANC's candidate for upcoming general elections. The faction that wins the ANC presidency in 2017 will effectively control Zuma's legislation, turning him into a 'lame duck' president until the next general election in 2019.

Attention has focused on deputy president **Cyril Ramaphosa** who now fields questions from reporters on the issue at most press conferences he gives.<sup>1</sup> He reportedly struck a deal with Zuma to succeed him as president in 2017 in return for Ramaphosa's support to oust former president **Thabo Mbeki** (1999-2008) in 2007. However, this does not act as a guarantee of succession.

*"Zuma did what he needed to get rid of Mbeki...he will fight to make sure Ramaphosa doesn't get in ... he [Zuma] is a political animal and should not be underestimated."*<sup>2</sup>

Former Mbeki allies and 'centrists' within the ANC have remained critics of Zuma since he became party president in 2007. This group has rallied round Ramaphosa as a more centrist, pro-business voice within the ANC. However, Ramaphosa is an inclusive voice – he spoke of the necessity of advancing the *"national democratic revolution (NDR)"*<sup>3</sup> to the **South African Communist Party (SACP)** at a meeting on 15 August.<sup>4</sup> The centrists lead this faction but it includes disaffected figures from the unions and left of the ANC. His camp reportedly prefers current speaker, and Zuma ally, **Baleka Mbete** for deputy president; ANC chairperson and **Free State** province premier **Ace Magashule** for national chairperson and **Jessie Duarte** to remain deputy secretary general.<sup>5</sup>

Ramaphosa has the support of ANC **Gauteng** province premier **David Makhura** and his majority in the ANC Gauteng congress. Makhura has established himself as an anti-Zuma voice since he defeated

<sup>1</sup> Business Day, 11, 17, 20, 26 Aug 2015.

<sup>2</sup> Source, ANC delegate, Western Cape

<sup>3</sup> Daily Maverick, 15 Aug 2015.

<sup>4</sup> Daily Maverick, 15 Aug 2015.

<sup>5</sup> Business Day, 28 Jun 2015.

Zuma's preferred candidate for head of the provincial ANC in 2014.<sup>6</sup> Makhura has managed to deliver on many of his election promises in his first year of office – in contrast to the successive undelivered promises of the national ANC government.

Other public figures have started to voice open support for Ramaphosa. Gauteng provincial **National Union of Mineworkers (NUM)** leader **Mpho Phakedi** endorsed his candidacy in June.<sup>7</sup> Former presidential spokesperson **Mac Maharaj** also gave his tacit support to Ramaphosa in an interview in July.<sup>8</sup>

There are a number of figures positioning to take over the more leftist wing of the ANC. They are also fighting for control of **Kwa-Zulu Natal (KZN)**, the ANC's largest and Zuma's native province. The main candidate is **African Union (AU)** chair and Zuma's former wife, **Nkosazana Dlamini-Zuma**.<sup>9</sup> She would continue KZN's dominance within the ANC, although she does not have their united support. Dlamini-Zuma is a seasoned politician: she was health minister under Mandela, foreign affairs minister for 10 years under Mbeki, and home affairs minister under Zuma's first administration. She stepped down to assume the chair of the AU in 2012.<sup>10</sup> However, she had a poor reputation as a minister:

*"Dlamini-Zuma was a lacklustre minister at best, she ran a mediocre health campaign in the 1990s, allowed Mbeki to sideline the foreign affairs ministry for a decade, and introduced few new programmes at home affairs."<sup>11</sup>*

Dlamini-Zuma has some support within the ANC's KZN contingent, as well as the executive committee of the **Eastern Cape** province. She also has the support the **ANC Women's League**. Its newly elected president, **Bathabile Dlamini**, called for Dlamini-Zuma to be the next president on her first day in office on 9 August.<sup>12</sup> Former president **Angie Motshhega** declared support for Dlamini Zuma earlier in 2015.<sup>13</sup> Her supporters are reportedly courting Mantashe with the job of deputy president.<sup>14</sup> ANC treasurer general **Zweli Mkhize** remains a potential ANC secretary general.

ANC loyalist and presidency minister **Jeff Radebe**, who is close to Zuma, is also mentioned as a potential challenger. He is close to Zuma but has fewer supporters within the KZN ANC than Dlamini-Zuma.<sup>15</sup> However, he will probably have the tacit backing of Zuma himself. The president could use supporters of this third faction as a swing vote between Ramaphosa and Dlamini-Zuma to ensure his continued influence beyond December 2017.

## Economy contracts in Q2 2015

South Africa's economy contracted for the first time since the five-month long platinum strike in early 2014. The **South African Reserve Bank (SARB)** released statistics on 25 August showing that the economy contracted by 1.3% across the second quarter of 2015.<sup>16</sup> The annualised measure of growth translates into year-on-year growth of 1.2%.<sup>17</sup> The national treasury is targeting growth of 5% in 2015, a goal that now seems unattainable. President Zuma appealed to businesses and to unions to prioritise growth over either seeking profit margins or negotiating wage hikes on 31 August.<sup>18</sup>

<sup>6</sup> City Press, 11 May 2014

<sup>7</sup> Mail and Guardian, 11 Aug 2015.

<sup>8</sup> Financial Times, 21 Jul 2015.

<sup>9</sup> The Citizen, 11 Jul 2015.

<sup>10</sup> AU profile, 2015

<sup>11</sup> Source, political analyst, Johannesburg

<sup>12</sup> Mail and Guardian, 9 Aug 2015.

<sup>13</sup> Rand Daily Mail, 10 Apr 2015.

<sup>14</sup> Mail & Guardian, 17 Apr 2015.

<sup>15</sup> The Citizen, 9 Jun 2015.

<sup>16</sup> Moneyweb, 25 Aug 2015.

<sup>17</sup> Moneyweb, 25 Aug 2015.

<sup>18</sup> Business Day, 31 Aug 2015.

A number of factors are behind the contraction. The mining sector is in global downturn due to a lack of demand for mineral products. In South Africa ongoing power outages have severely constrained supply as well as demand.<sup>19</sup> Mining companies have also had to manage complex wage negotiations with unions (see below). A continuing drought from March has reduced agricultural output across southern Africa.<sup>20</sup> The **South African Reserve Bank (SARB)** increased interest rates in July in order to avoid large increases in inflation (see *ARC Briefing South Africa July 2015*). These have already affected spending meaning that retail revenue growth, while up year-on-year in June at 3.2%, is still below the levels it reached in 2009.<sup>21</sup>

The economy is also under pressure from a weak currency. The rand fell to \$14 to the **United States (US)** dollar, its lowest value in 14 years, on 21 August.<sup>22</sup> Despite a diversified economy the rand is caught in a currency storm that a downturn in demand for commodities and the slowdown of growth in **China** have caused. The rand fell 1.5% during the course of trading that day as traders sold off reserves of commodity reliant currencies.<sup>23</sup> This affected currencies across Africa and around the world that rely on commodities as a source of revenue.<sup>24</sup> The rand, however, has depreciated against the dollar across 2015 falling 21% overall from 11.55 to the dollar in January.<sup>25</sup>

Observers do not believe that the country is likely to enter a recession:

*"For the economy to contract again in the second quarter would be unlikely...the SARB would have to raise interest rates again."*<sup>26</sup>

However, others believe that another shock to the economy could trigger one:

*"It only takes the wage negotiations in the coal or gold sector to go awry to push the economy into contraction for a second time."*<sup>27</sup>

The continuing power crisis is placing long-term downward pressure on growth. However, the situation may improve slightly. The first unit of the **Medupi** coal-fired power plant entered full commercial operation on 23 August.<sup>28</sup> This will take some pressure off the national grid, but will not fill the supply deficit of 2,000MW. Medupi, which was scheduled for completion in 2013, is state-owned power utility **Eskom's** hope to end the power crisis that has continued since late 2013. The first unit adds 749MW to the national grid. Eskom CEO **Brian Molefe** told the press at the opening of the unit that this would allow Eskom to reduce load shedding across the country. Medupi's full capacity is 4,000MW but it will not reach completion until 2019.<sup>29</sup> The unit has operated partially since 2 March but has regularly run below capacity and is frequently turned off for maintenance. Medupi's sister plant **Kusile**, another 4,000MW coal-fired plant, will not be completed until 2021.<sup>30</sup>

### **Mining industry, unions and government agree jobs framework**

Mineral resources minister **Ngoaka Ramathodi** met mining companies and trade unions for crisis talks throughout August. The meeting produced a framework agreement on 24 August for the government to help the mining industry achieve long-term sustainability with minimum job losses.<sup>31</sup>

<sup>19</sup> Business Day, 26 Aug 2015.

<sup>20</sup> Business Day, 26 Aug 2015.

<sup>21</sup> Moneyweb, 25 Aug 2015.

<sup>22</sup> Business Day, 21 Aug 2015.

<sup>23</sup> Business Day, 21 Aug 2015.

<sup>24</sup> Business Day, 21 Aug 2015.

<sup>25</sup> XE.com

<sup>26</sup> Source, economist, Johannesburg

<sup>27</sup> Source, economic policy specialist, Pretoria

<sup>28</sup> Daily Maverick, 24 Aug 2015.

<sup>29</sup> Daily Maverick, 24 Aug 2015.

<sup>30</sup> Business Day, 27 Aug 2015.

<sup>31</sup> Business Day, 24 Aug 2015.

According to the agreement:

- The government will promote platinum as a reserve metal, like gold, in order to safeguard its value. The government is considering creating a platinum “*Mandela coin*” to market the metal in a similar way to the gold **Kruger Rand**. It will also promote the use of platinum battery cells.<sup>32</sup>
- Mining companies have agreed in principle to increase their resilience to fluctuations in the commodities cycle, a long-standing ANC criticism of their performance.
- The government will explore “*fiscal instruments*” to help mines that are struggling financially.
- Unions and mining companies agreed to “*not unreasonably withhold the extension of the consultation period as per the **Labour Relations Act***” to limit costly strike action or major retrenchments.<sup>33</sup>
- Mining companies will work to sell off distressed assets rather than closing them down; they will also offer preferential hiring to retrenched workers on new or expanding assets.<sup>34</sup>
- The government will consider the streamlining of labour regulations and health and safety regulations that miners argue cause costly stoppages at mines.<sup>35</sup>

The departments of mining and labour, mining companies and most unions are reportedly satisfied with the compromises they reached in the discussions. However the **Association of Mineworkers and Construction Union (AMCU)**, which was at the heart of the five-month platinum strike in 2014, has asked for more time to take the deal to its members. AMCU president **Joseph Mathunjwa** wanted a complete halt to all retrenchments until mining companies fully adhered to all social and labour plans in the **Minerals and Petroleum Resources Development Act (MPRDA)**.<sup>36</sup> If the AMCU signs up to the agreement, the document will govern the complex relationship between miners, unions and the government in the future.

The proposals have been relatively well received:

*“These are broad proposals relating to some very specific problems...however the ANC’s willingness to talk to our clients in a reasoned way and to help manage relations with unions is a very positive step.”<sup>37</sup>*

Government sources said that the intention to review labour regulations was serious:

*“We [the government] know that mining is an important industry for South Africa...these talks were open and honest about problems. We will work with the department of labour to make regulations clearer to help the industry grow.”<sup>38</sup>*

However, some within the mining industry believe that companies have the bad end of the deal.

*“This reads like a government shopping list...companies have to sell of underperforming assets probably at a reduced cost, not lay off workers and somehow reduce their exposure to the price of the single commodity they produce...the ANC won’t be able to meaningfully reform labour regulations so long as they remain in government with Cosatu (the **Congress of South African Trade Unions**).”<sup>39</sup>*

The government called the meeting after wage talks between companies and unions in the gold and coal sectors collapsed. Wage talks between the gold mining sector and the three main unions representing its 94,000 employees drew to a close on 18 August.<sup>40</sup> The mining companies, South Africa-based **Sibanye Gold**, **Harmony Gold**, and **Anglogold Ashanti**, reached an agreement with just

<sup>32</sup> Business Day, 24 Aug 2015.

<sup>33</sup> Business Day, 24 Aug 2015.

<sup>34</sup> Business Day, 24 Aug 2015.

<sup>35</sup> Business Day, 24 Aug 2015

<sup>36</sup> Mail and Guardian, 26 Aug 2015.

<sup>37</sup> Source, mining lawyer, Johannesburg

<sup>38</sup> Source, department of mineral resources, Pretoria

<sup>39</sup> Source, mining executive, Johannesburg

<sup>40</sup> Mail and Guardian, 19 Aug 2015.

one of three unions around the table. The **Solidarity** union, which represents skilled workers (8% of the workforce), accepted an agreement of wage increases at 6% at Sibanye and AngloGold Ashanti, and 4.8% at Harmony.<sup>41</sup> However, the other two unions around the table rejected the offer. The National Union of Mineworkers (NUM) declared a formal dispute on 13 August, walking away from the talks. The AMCU walked out of talks on 9 August.<sup>42</sup> The latter two unions, which represent 92% of the workforce, have gone to the **Commission for Conciliation, Mediation, and Arbitration (CCMA)** to resolve their dispute with producers.<sup>43</sup> The coal industry also engaged in collective bargaining with the NUM, the largest union in the sector. The NUM rejected a pay deal from **Exxaro**, **Switzerland-based Glencore** and **London-listed Anglo-American** for a 6.5% increase from the 2015/2016 year.<sup>44</sup> Union members want a guarantee of R3,000 (\$230) per month for lower job categories.<sup>45</sup>

## Implications

Ramaphosa's accession is far from certain. His long history in the ANC could count against him as delegates tire of 21 years of in-fighting. Zuma's growing unpopularity could also taint him. Zuma has placed him in charge of complex policy problems: ending South Africa's power deficit and rescuing highly indebted SOEs. Business figures hoped his appointment as deputy president would help get the economy back on track; however, it has continued to deteriorate. He has also faced considerable negative press over his position on the board of mining company **Lonmin**, which owned the mine at which the **Marikana** massacre occurred. The **Farlam Commission's** report into Marikana exonerated Ramaphosa of any legal blame, but his reputation has taken a permanent knock.

Concerns over Dlamini-Zuma's performance as a minister are less important than her age and anti-apartheid pedigree – untainted in the eyes of the ANC left.<sup>46</sup> It is difficult to pin down her politics as they have largely reflected the presidents under which she served. However, she represents a greater continuity with the Zuma administration as she lacks the political fortitude to undertake any of the reforms needed to get the country back on track. This serves current vested interests within the ANC well.

The economy's contraction in Q2 2015 is the consequence of long-term economic mismanagement combined with short-term drops in the value of commodities. The commodities market will continue to fluctuate – as long as South Africa seeks to benefit from its mineral resources the country will always be exposed. It is the long running economic issues that have reduced its economic resilience to market fluctuations. The first unit of Medupi coming on line is the first small step in a long road to recovery. It will be at least two years until Eskom restores regular power supply. In this environment the government has to work hard to stimulate growth in the private sector, as it lacks the funds to create wealth and jobs through public sector employment alone. Zuma's pleas to companies and the unions are not enough – only action on regulations to make the country more business friendly will give concrete results.

The agreement between mining companies, unions and the government is significant because it shows a changing relationship between the ANC and mining companies. The normal course of action is for the ANC to publicly criticise mining companies for seeking profits and cutting jobs and then trying to intervene when this results in industrial action. Many of the points on the framework agreement are wishful thinking – companies have been unable to sell many underperforming assets, and the ANC cannot reform undertake major labour reforms without risking key parts of its voting base. However, if closed door and honest meetings between the government, companies and unions become the new norm then the industry may face less disruption in the future.

<sup>41</sup> Mail and Guardian, 19 Aug 2015.

<sup>42</sup> Business Day, 28 Jul 2015.

<sup>43</sup> Mail and Guardian, 19 Aug 2015.

<sup>44</sup> Business Day, 12 Aug 2015.

<sup>45</sup> Business Day, 12 Aug 2015.

<sup>46</sup> Rand Daily Mail, 10 Apr 2015.

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### About Africa Risk Consulting:

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