

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing August 2020

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#### South Africa Summary 27 August 2020

**President Cyril Ramaphosa (2018-present) publicly berates the ruling African National Congress (ANC) party for systemic corruption. Ramaphosa often faces criticism for not doing enough to fight corruption and the culture of impunity within the ANC, but these accusations miss the nuance of his strategy. A new South Africa-based Standard Bank report reveals that 82% of high net worth individuals in South Africa consider the political environment a significant threat to the preservation of their assets. Global credit bureau Experian's South Africa unit experiences a major data breach, one of the largest in South Africa's history, highlighting the increasing risk of cybercrime to businesses and individuals amid a digital revolution in response to the coronavirus pandemic.**

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#### Ramaphosa's anti-corruption strategy

President **Cyril Ramaphosa** (2018-present) has publicly drawn attention to deep-rooted corruption within the ruling **African National Congress (ANC)** party, revealing some of the challenges he faces in tackling systemic corruption in **South Africa**. Ramaphosa is often accused of not doing enough to fight corruption and the culture of impunity within the ANC; there is widespread belief amongst **South Africans** that his government lacks any real will or capacity to deal with the issue.

This criticism misses the nuance of Ramaphosa's strategy on corruption. Internal division, principally from a strong pro-**Jacob Zuma** (2009-2018) faction, impedes action and reform from within the ANC. One analyst claims the modern ANC is no longer functioning as a policy-making body but is run "*below the surface*" by "*tenderpreneurs*".<sup>1</sup> The reform needed to resolve the ANC's systemic corruption problem must come from the outside.<sup>2</sup>

Ramaphosa also appears to recognise this. As independent news outlet **Daily Maverick's** associate editor, **Ferial Haffajee**, one of **Africa's** most formidable journalists, said on **Africa Risk Consulting's** podcast, **The ARC Insider**, on 27 August, Ramaphosa has his "*ear to the ground*" in understanding public anger about state corruption.<sup>3</sup> Haffajee said the public has witnessed "*naked corruption*" during the national crisis and state officials have acted with "*no shame*", saying "*that is just the way business is done in the ANC.*"<sup>4</sup> Haffajee concludes by saying:

*"To my mind, it is so entrenched that I'm not sure that the ANC is the party that is able to take us into a different kind of future."*<sup>5</sup>

At the helm of the party, Ramaphosa has not shied away from publicly condemning the deep-rooted problem. On 23 August, he wrote a letter to ANC members saying the party needs to face the reality that its leaders stand accused of corruption – and that the party itself is "*accused number one*".<sup>6</sup> Ramaphosa said that the corruption involves private sector companies and individuals, including civil

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<sup>1</sup> Peter Attard Montalto quoted in Business Tech, 23 Aug 2020

<sup>2</sup> ARC's South Africa analyst

<sup>3</sup> 'Episode 15', The ARC Insider, 27 Aug 2020

<sup>4</sup> 'Episode 15', The ARC Insider, 27 Aug 2020

<sup>5</sup> 'Episode 15', The ARC Insider, 27 Aug 2020

<sup>6</sup> '@Cyril Ramaphosa', Twitter, 23 Aug 2020

servants, but noted that corruption is deeply rooted within both the party and the government. Such comments, however, lead many commentators to say that the president is “*all talk and no action*”.<sup>7</sup>

The ANC has launched a party-wide investigation into corruption allegations, requiring all provincial branches and leaders to draw up lists of every person accused of, or facing charges of, wrongdoing. This internal investigation is likely to be drawn out and ineffective, if the **Judicial Commission of Inquiry into Allegations of State Capture** (commonly known as the **State Capture** inquiry) is anything to go by.<sup>8</sup>

However, Ramaphosa has principally been mounting the attack against corrupt actors within the ANC from outside the party in recent months and has beefed up the powers and funding of state investigation and judiciary bodies. On 23 July he announced the creation of a centre to investigate **Covid-19**-related corruption (see *ARC Briefing South Africa July 2020*). 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 **Special Investigations Unit (SIU)**. Most recently, a directive issued by Ramaphosa on 5 August resulted in the **Office of the Chief Procurement Officer** on 26 August publishing the names of all companies that have won **coronavirus**-related government contracts – the first list of its kind in **Africa**.<sup>9</sup> The list provides crucial transparency and accountability in the coronavirus public procurement and tender process.

But Ramaphosa has a mountain to climb. Corruption has risen considerably during the pandemic, and seemingly emboldened politicians who seek to benefit from the culture of corruption. Three undisclosed sources at an ANC **National Executive Committee** meeting told news outlet **Bloomberg** on 4 August that attendees rebuffed Ramaphosa’s proposal to investigate allegedly tainted state contracts for health equipment and instead chose Zuma-affiliated secretary general **Ace Magashule**’s suggestion that the ANC integrity commission handle the matter.<sup>10</sup>

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 (see *ARC Briefing South Africa July 2020*). A more recent example is the promotion of former **eThekweni** mayor **Zandile Gumede** to the **KwaZulu-Natal** provincial legislature, despite his arrest on charges of fraud and corruption linked to R420m (\$25m) worth of state contracts.<sup>11</sup>

### Political environment worries the wealthy

South Africa-based financial services group **Standard Bank** and research firm **Intellidex** released their inaugural **African Wealth Report** on 12 August, which revealed that 82% of high net worth individual (HNWI) respondents in South Africa consider the political environment a significant threat to the preservation of their assets.<sup>12</sup> South Africa ranked worse than other countries involved in the study (**Ghana** 67%, **Nigeria** 64%, **Kenya** 55% and **Mauritius** 31%).<sup>13</sup> The findings point to the devastating effect that years of political mismanagement have had on business confidence in South Africa, which has given Africa’s less industrialised, fast-rising economies a comparative advantage.

Although South Africa’s political environment is stable – the ANC has been the dominant ruling party since the end of Apartheid and the election of former president **Nelson Mandela** (1994-1999) – mismanagement, widespread corruption and division within the party in recent years have stifled business.

<sup>7</sup> For instance, see South African Chamber of Commerce and Industry quoted in Business Tech, 23 Aug 2020

<sup>8</sup> ARC’s South Africa analyst

<sup>9</sup> Business Tech, 26 Aug 2020

<sup>10</sup> Bloomberg, 4 Aug 2020

<sup>11</sup> eNCA, 19 Aug 2020

<sup>12</sup> Intellidex, 12 Aug 2020

<sup>13</sup> Intellidex, 12 Aug 2020

Standard Bank economist **Simon Freemantle** said in the report that the role political stability plays in deepening economic and social progress is beyond debate.<sup>14</sup>

*“The absence of political calm – a reality which still besets many African economies-- has the ability to fundamentally constrain economic growth and institutional reform, deter investment and compound already pressing welfare and humanitarian challenges. Conversely, prolonged periods of relative stability allow nascent economic and social gains to take root and begin to meaningfully compound.”<sup>15</sup>*

Standard Bank’s study entailed interviews with 265 respondents from five key markets (Ghana, Kenya, Mauritius, Nigeria and South Africa), and revealed a number of other interesting points about risks and opportunities in the South African economy. A major worry for South African respondents was stock market volatility, which 68% of respondents marked as a concern. South Africa’s stock exchange, the **Johannesburg Stock Exchange (JSE)** – Africa’s biggest and most liquid market for shares – is nevertheless a favoured investment destination for wealthy Africans. The JSE reported a positive semester for the first half of 2020, a 22% increase in total revenues, despite the macro-economic challenges caused by the global covid-19 pandemic.<sup>16</sup>

Similarly, South African respondents were particularly concerned about taxes on the wealthy, with 60% citing it as a major worry. Comparatively, only 36% of Nigerians and Kenyans cited it as a worry and only 13% of Mauritians and Ghanaians. While finance minister **Tito Mboweni** did not directly announce any major tax increases in his supplementary budget speech on 26 June, the national treasury’s supplementary budget shows that the country will face future tax increases to meet major revenue shortfalls and ballooning debt.<sup>17</sup> Mboweni said taxes will be increased by R5 billion (\$300m) next year and R10 billion (\$600m) in 2021. Details about the tax proposals will be announced in February 2021.

According to Standard Bank’s study, the top industries where South African HNWI create their wealth are as follows:

- Manufacturing (18%);
- Real estate (17%);
- Technology (15%);
- Financial services (11%)

Most of the wealth of HNWI in South Africa was invested in equities, whereas in the other countries much of the wealth was invested in assets such as residential, commercial or agricultural properties, businesses and other tangible assets.

The report also found that personal safety and security was another common concern for wealthy Africans, however, South Africans ranked “*surprisingly*” well in this regard, with safety and security a concern for only 48% of the South Africa HNWI surveyed. Nigerian HNWI were more concerned about safety and security (78%), while 61% of Kenyan respondents, 58% of Ghanaian respondents and 36% of Mauritian HNWI were concerned about safety and security.<sup>18</sup> Most respondents from other countries placed it first or second on their list of concerns.

### Rising risk of cybercrime

The South African unit of global credit bureau **Experian** announced on 19 August that it had experienced a major data breach in which it handed over the personal information of approximately

<sup>14</sup> Intellidex, 12 Aug 2020

<sup>15</sup> Simon Freemantle quoted in Intellidex, 12 Aug 2020

<sup>16</sup> Moneyweb, 6 Aug 2020

<sup>17</sup> Business Insider, 24 Jul 2020

<sup>18</sup> Intellidex, 12 Aug 2020

24 million individuals and 800,000 companies to a suspected fraudster.<sup>19</sup> As large parts of the economy have been forced to digitalise due to the coronavirus pandemic, the risk of cybercrime to businesses and individuals will increase considerably.

Three major South African commercial banks – Standard Bank, **Absa** and **FNB** – informed their customers that they could be victims of the incident. Experian has said the suspect had been identified and the data deleted. Experian said the breach was of personal information, and not sensitive banking information. Experian has assured customers of the three banks that the investigations do not indicate that any misappropriated data has been used for fraudulent purposes.

As FNB executive **Christoph Nieuwoudt** has noted, the main impact of the personal information breach is likely to be reputational damages for the banks, with customers likely to be more cautious about using digital banking services.<sup>20</sup> Nieuwoudt said it is unlikely that fraud will be committed using the stolen information.<sup>21</sup>

The data breach will push legislators and businesses to strengthen digital security. Legislation is currently ill-prepared for modern cybercrime. However, on 1 July, a few weeks before the breach, the **National Council of Provinces**, passed the **Cybercrimes Bill**, which now awaits President Ramaphosa's assent. The bill aims to strengthen the powers to investigate cybercrimes and imposes obligations on electronic communications service providers and financial institutions to assist in the investigation of cybercrimes.

An **INTERPOL** report on online organised crime in Africa released on 14 August showed how digitalisation is transforming almost every major crime area across the continent.<sup>22</sup> South Africa experienced the third-highest number of cybercrime victims in the world last year with about R2.2 billion (\$130m) in losses.<sup>23</sup>

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<sup>19</sup> Business Tech, 20 Aug 2020

<sup>20</sup> Business Day, 21 Aug 2020

<sup>21</sup> Business Day, 21 Aug 2020

<sup>22</sup> INTERPOL, 14 Aug 2020

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

26 Aug 2020 **Johannesburg (South Africa) Business Tech. Office of the Chief Procurement Officer** publishes names of all companies that won **coronavirus**-related government contracts in a bid to crack down on corruption, the first country in **Africa** to do so;

24 Aug 2020 **Johannesburg (South Africa) Business Day**. President **Cyril Ramaphosa** reprimands finance minister **Tito Mboweni** over comments he made on social media about the dismissal of **Zambia's** central bank governor, **Denny Kalyalya**, without explanation;

24 Aug 2020 **Gaborone (Botswana) Business Day**. Prosecutors accuse **South African** authorities of deliberately withholding crucial evidence they require to prosecute a money laundering case that implicates South African mining magnate **Bridgette Motsepe-Radebe** and former **Botswanan** president **Ian Khama**;

23 Aug 2020 **Johannesburg (South Africa) Business Tech**. President **Cyril Ramaphosa** says in a letter to members of the ruling **African National Congress** party that it needs to face the reality that its leaders stand accused of corruption – and that the party itself is “accused number one”;

23 Aug 2020 **Johannesburg (South Africa) Sunday Times**. Former **South African National Defence Force** chief and communications minister **Siphiwe Nyanda** is nominated as ambassador to **Mozambique**;

22 Aug 2020 **Johannesburg (South Africa) Reuters**. Department of energy says **South Africa** has issued a request for proposals to procure 2,000 megawatts of emergency power, a step needed to help plug a severe energy shortage;

20 Aug 2020 **Johannesburg (South Africa) Business Tech**. **South Africa's** major banking groups, **Standard Bank**, **Absa** and **FNB**, respond to a major data breach at credit bureau **Experian**, where the personal details of as many as 24 million South Africans were exposed to a third party;

20 Aug 2020 **Johannesburg (South Africa) Fin24**. Political analyst **JP Landman** argues that President **Cyril Ramaphosa** has bolstered government institutions to put the state on a new trajectory to fight corruption, and that the ruling **ANC** party should follow suit;

20 Aug 2020 **Johannesburg (South Africa) Business Tech**. **National Education, Health and Allied Workers' Union**, **South Africa's** largest public sector union, says that it plans to strike between 24 and 27 August against government's refusal to increase public servants' salaries and a failure to offer adequate personal protective equipment against the **coronavirus**;

17 Aug 2020 **(Southern Africa) News24**. **Southern African Development Community** leaders meet virtually for 40<sup>th</sup> summit, in which they commit support to the **Mozambican** government over increasing terror attacks, however nothing is mentioned about reports on human rights violations in **Zimbabwe**;

16 Aug 2020 **Johannesburg (South Africa) Business Day**. President **Cyril Ramaphosa** announces **South Africa's** move to 'Alert Level 2', lifting the ban on alcohol and tobacco sales but keeping restrictions on international travel;

14 Aug 2020 **Johannesburg (South Africa)** *News24*. Police minister **Bheki Cele** says crime rates dropped by up to 40% between April and June, when the country was placed under strict stay-home restrictions aimed at limiting the spread of **coronavirus**;

7 Aug 2020 **Johannesburg (South Africa)** *EWN*. President **Cyril Ramaphosa** appoints former provincial and local government minister **Sydney Mufamadi** and former **National Assembly** head **Baleka Mbete** as special envoys to investigate what is happening in neighbouring **Zimbabwe** amid rising accusations of a government clampdown;

6 Aug 2020 **Johannesburg (South Africa)** *News24*. South Africa-based telecom giant **MTN, Africa's** largest mobile operator, announces it will pull out of the **Middle East** in the medium term to concentrate on its pan-**African** strategy;

6 Aug 2020 **Johannesburg (South Africa)** *News24*. President **Cyril Ramaphosa** appoints a government committee, headed by justice and correctional services minister **Ronald Lamola**, to investigate alleged corruption associated with the country's response to the **coronavirus** pandemic;

4 Aug 2020 **Johannesburg (South Africa)** *News24*. **South Africa's** former opposition **Democratic Alliance** leader and **One South Africa** founder **Mmusi Maimane** urges international relations minister **Naledi Pandor** to issue a démarche against **Zimbabwe's** ambassador to South Africa, **David Hamadziripi**, amid increasing calls for the **Southern African Development Community** and the **African Union** to condemn the Zimbabwean government;

4 Aug 2020 **Johannesburg (South Africa)** *Bloomberg*. Three undisclosed sources at an **ANC National Executive Committee** meeting say attendees rebuffed President **Cyril Ramaphosa's** proposal to investigate allegedly tainted state contracts for health equipment and chose secretary general **Ace Magashule's** suggestion that the ANC integrity commission handle the matter, showing Ramaphosa's tenuous control of the ruling party;

3 Aug 2020 **Johannesburg (South Africa)** *Business Day*. State utility firm **Eskom** and the **Special Investigating Unit** issue summons to recover R3.8 billion (\$222m) of "diverted funds" from its former executives, non-executive directors and the **Gupta** family;

3 Aug 2020 **Johannesburg (South Africa)** *Business Day*. **South African Breweries** says it has cancelled R2.5 billion (\$146m) of scheduled investments that were earmarked as part of its annual capital and infrastructure upgrade programme due to the alcohol ban;

3 Aug 2020 **Abuja (Nigeria)** *eNCA*. **South Africa-based Shoprite – Africa's** largest supermarket – says it plans to sell all or a majority stake in its **Nigerian** operations, after 15 years in the country;

30 Jul 2020 **Johannesburg (South Africa)** *Nasdaq*. **South Africa-based gold miner AngloGold Ashanti** says its CEO, **Kelvin Dushnisky**, will step down on 1 September, without giving a reason, and current CFO **Christine Ramon** has been appointed interim CEO;

30 Jul 2020 **Johannesburg (South Africa)** *Business Day*. Government slightly eases some lockdown restrictions that have severely hammered the tourism and hospitality sector, but the sector says the latest announcement is not enough to end the crisis in the sector;

### 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.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

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