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President Jacob Zuma (1999-present) reshuffles the cabinet, unexpectedly firing Blade Nzimande, the secretary general of the South African Community Party (SACP), as higher education minister. Zuma moves state security minister David Mahlobo to the energy portfolio, allegedly to push through a nuclear power deal with Russia. Finance minister Malusi Gigaba bails out state-owned enterprise (SOE) South African Airways (SAA) with 3 billion rand (R) (\$220m). Zweli Mkhize emerges as a viable third candidate for the presidency of the ruling ANC, splitting support for both Cyril Ramaphosa and Nkosazana Dlamini-Zuma.

Zuma reshuffles cabinet

President **Jacob Zuma** (1999-present) reshuffled his cabinet unexpectedly on 17 October, firing **Blade Nzimande**, the secretary general of the **South African Community Party (SACP)**, as higher education minister.¹ Nzimande and the SACP are pressuring Zuma to resign over his alleged role in helping the **Gupta** family gain allegedly illicit public sector contracts.² The SACP is part of the ruling tripartite, or revolutionary, alliance with the ruling **African National Congress (ANC)** and the **Congress of South African Trade Unions (Cosatu)** and is threatening to dissolve it if Zuma remains in power.³ Nzimande has been an increasingly vocal critic of Zuma since 2014 and has recently addressed rallies calling for the president to resign.⁴ The SACP described the removal of Nzimande from the cabinet as “*a factional removal [and] a clear declaration of war [by Zuma]*”.⁵ However, it later put out a statement saying it would not withdraw other ministers from the cabinet in protest and would remain to govern in the best interests of **South Africans**.⁶ Other SACP ministers include minister in the presidency, **Jeff Radebe**; agriculture minister, **Senzeni Zokwana**; and trade and industry minister, **Rob Davies**.⁷

“The SACP has blinked, Zuma called their bluff by firing Nzimande and forced them to show that they won’t leave government alone.”⁸

Zuma replaced Nzimande with **Hlengiwe Mkhize**, formerly the home affairs minister, where other MPs criticised her decision to fire the department’s director general, **Mkuseli Apleni**.⁹ Mkhize has refused to reveal her reason for firing Apleni to parliament, although he alleges it was for refusing to help her son settle a legal dispute with the department.¹⁰ Zuma moved **Ayanda Dlodlo** to be the new home affairs minister from her post as communications minister.¹¹ Zuma moved **Mmamaloko Kubayi** from energy minister to communications minister.¹² This has laid the grounds for another key

¹ Business Day, 17 Oct 2017.

² Daily Maverick, 17 Oct 2017.

³ Source, South Africa analyst, United Kingdom

⁴ Daily Maverick, 17 Oct 2017.

⁵ Daily Maverick, 17 Oct 2017.

⁶ Daily Maverick, 17 Oct 2017.

⁷ Source, South Africa analyst, United Kingdom

⁸ Source, journalist, Johannesburg

⁹ Times, 17 Oct 2017.

¹⁰ Times, 17 Oct 2017.

¹¹ Business Day, 17 Oct 2017.

¹² Business Day, 17 Oct 2017.

move of Zuma ally **David Mahlobo** from state security minister to energy minister.¹³ Zuma has reportedly charged Mahlobo with bringing the controversial nuclear energy deal to South Africa.¹⁴ Mahlobo is close to Zuma, who has defended Mahlobo against two attempts by the ANC's **National Executive Committee** to fire him over his ties to the Gupta family.¹⁵ Mahlobo travelled with Zuma to **Russia** where Zuma allegedly agreed a \$73 billion nuclear power deal with President **Vladimir Putin** (2000-2008, 2012-present) in 2014 (see *ARC Briefing South Africa April 2014*).¹⁶ The Zuma administration has tried for the past four years to realise the nuclear deal that sources in the ANC describe as "*Zuma's retirement package*".¹⁷ However, the **Western Cape High Court** set aside the agreement with Russia in April and Kubayi opted not to appeal.¹⁸ Analysts now believe that Mahlobo will push a new nuclear deal through the energy ministry.¹⁹ Local media reported on 22 October that Zuma met a team of high ranking Russian officials days before the unexpected reshuffle.²⁰ Zuma appointed relatively unknown ANC MP **Bongani Thomas Bongo** as the new state security minister.²¹ Bongo is reportedly close to Zuma ally and **Mpumalanga Province** premier **David Mabuza**.²² He has not served in a national or provincial leadership role before, following a familiar pattern of Zuma appointing loyal but inexperienced outsiders to strategic ministries.²³

Zuma has avoided causing major disruption with this latest reshuffle. Analysts in South Africa had speculated that he would appoint **Nkosazana Dlamini-Zuma**, his former wife and contender for ANC president, to the cabinet. However, Zuma has taken a more considered approach, weakening the SACP and focusing on pushing his nuclear deal through while he still can. This is another demonstration of Zuma's political abilities that make his continued control of the ANC a reasonable possibility despite the ongoing scandals that implicate him in state capture and widespread abuse of office. The SACP will wait until the outcome of December's *lekgotla* to determine whether or not they exit the alliance with the ANC. There are rumours that if Dlamini-Zuma wins, her primary opponent, deputy president **Cyril Ramaphosa**, may seek to form a new political party with the backing of the SACP. However, the SACP has no electoral force of its own and risks fading away if it leaves the ANC. In the reshuffle itself, the moving of Mahlobo is a clear indicator of the president's intent. Mahlobo has acted as a key Zuma aide while running South Africa's security apparatus and will now use the ties he retains there to try to push the nuclear deal through. It seems highly unlikely that this could happen before the *lekgotla* so may be an indication of Zuma's confidence that he can retain enough control of the ANC to pursue the nuclear deal into 2018.

Gigaba bails out SAA

Finance minister **Malusi Gigaba** provided state-owned enterprise (SOE) **South African Airways (SAA)** with a 3 billion rand (R) (\$220m) bailout on 29 September.²⁴ The bailout will help SAA meet its debt payment obligations, as the loans from commercial lenders including **United States (US)**-based **Citibank** are taken out against government guarantees. Failing to meet the repayment deadline of 30 September would not only have led to SAA going into liquidation, but would also have led to a cross-default call-in of other loans worth R16 billion (\$1.17 billion) against government guarantees extended to other SOEs including power utility **Eskom**.²⁵ The SAA bail-out does not begin to address the debt burden of SAA, which has R19.1 billion (\$1.4 billion) in debt liabilities taken out against

¹³ Business Day, 17 Oct 2017.

¹⁴ Daily Maverick, 17 Oct 2017.

¹⁵ Daily Maverick, 17 Oct 2017.

¹⁶ Daily Maverick, 17 Oct 2017.

¹⁷ Source, ANC official, Pretoria

¹⁸ EWN, 26 Apr 2017.

¹⁹ Source, political analyst, Cape Town

²⁰ Times, 22 Oct 2017.

²¹ EWN, www.ewn.co.za, 18 Oct 2017.

²² EWN, www.ewn.co.za, 18 Oct 2017.

²³ EWN, www.ewn.co.za, 18 Oct 2017.

²⁴ EWN, www.ewn.co.za, 3 Oct 2017.

²⁵ Daily Maverick, 29 Sep 2017.

government guarantees since 2010.²⁶ The next debt repayments of R6.8 billion (\$499m) are due to Citibank and South African banks including **Standard Chartered**; Gigaba is expected to announce how to finance the payments at his Medium Term Budget Statement (MTBS) on 25 October.²⁷ Gigaba, however, now faces accusations from the parliamentary accounts committee that he did not follow due process in releasing the funds.²⁸ Gigaba invoked Section 16 of the Public Finance Management Act (PFMA) that allows the finance minister to release funds of an “*exceptional nature, which...cannot be postponed.*”²⁹ This is the second time he has done this since June 2017 to bail out SAA.³⁰ Public finance committee chairman, and ANC member of parliament (MP), **Yunus Carrim** questioned treasury director-general **Dondo Mogajane** on 3 October on whether the decision was truly in the public interest.³¹ The committee commissioned an inquiry into the legality of the bail-out, that reported back on 15 October that the bail-out might not be fully compliant with the law.³² The report states that Gigaba made a strong case why the expenditure was urgent and necessary, but that the finance minister knew about the expenditure long enough in advance to go through the proper channels to act.³³ The committee referred the matter to the auditor general.³⁴

The treasury argues that it has attached conditions to the financing that make it more than a free handout of money.³⁵ Mogajane told the media that one of the conditions was the appointment of **Vuyani Jarana** as a new CEO on 1 November.³⁶ Jarana comes to SAA from telecoms company **Vodacom** where he was CEO of the business division.³⁷ Gigaba also announced the appointment of six new board members of SAA on 19 November, including a new chair to replace **Dudu Myeni**.³⁸ Myeni, whom the media alleges was Zuma’s mistress, was a leading factor in years of mismanagement at SAA, firing CEOs and other board members who objected to her agenda and allowing the airline to fall into its current financial situation.³⁹ The cabinet appointed **Johannes Bhekumuzi Magwaza** as the new chair of SAA, Magwaza is the founder and CEO of private equity house **Nkunzi Investment Holdings** which specialises in business rescue.⁴⁰ Creditors of SAA told the media that they had applied significant pressure to the finance ministry to replace the board and appoint a chief restructuring officer, which SAA promised to hire on 5 October.⁴¹

Over the past two and a half years, SAA has required multiple bail-outs from the state and has accrued debt of over \$1 billion. This is the time that Myeni served as chair of the airline. While it was already in a poor financial situation before Zuma appointed her in January 2015, its finances have rapidly declined over this period. It has taken a cliff edge that threatens the fiscal stability of South Africa to force the hand of the Zuma administration. The new CEO and board will have little time to effect any meaningful change before the debt repayments come due again in mid-2018. Gigaba’s MBTS will give some indications on how the government intends to support SAA and is likely to recommend further bail-outs. The contentious question will be where that money comes from.

²⁶ Daily Maverick, 29 Sep 2017.

²⁷ Daily Maverick, 29 Sep 2017.

²⁸ EWN, 3 Oct 2017.

²⁹ Daily Maverick, 29 Sep 2017.

³⁰ Daily Maverick, 29 Sep 2017.

³¹ EWN, 3 Oct 2017.

³² EWN, 15 Oct 2017.

³³ EWN, 15 Oct 2017.

³⁴ EWN, 15 Oct 2017.

³⁵ City Press, 15 Oct 2017.

³⁶ City Press, 15 Oct 2017.

³⁷ BizNews, 1 Sep 2017.

³⁸ Fin24, 14 Oct 2017.

³⁹ Fin24, 14 Oct 2017.

⁴⁰ Fin24, 14 Oct 2017.

⁴¹ Bloomberg, 4 Oct 2017.

Zweli Mkhize emerges as third candidate to lead the ANC

Zweli Mkhize has emerged as a third candidate for the presidency of the ruling ANC according to comments made by **Bantu Holomisa**, the leader of the opposition **United Democratic Movement (UDM)**, on 10 October.⁴² The race to succeed President Zuma as head of the ANC, which decides national level policies, is the most important upcoming decision in the politics of South Africa. Mkhize, the treasurer of the ANC and a former confidant of Zuma, will compete against deputy president Ramaphosa and ANC MP, former chair of the **African Union (AU)** and Zuma's first wife Dlamini-Zuma.⁴³ Holomisa's comments echo reports in the South African media that Mkhize has had considerable success in campaigning amongst ANC provincial bodies.⁴⁴ He has reportedly won support in **KwaZulu Natal (KZN)**, **Eastern Cape** and **Mpumalanga** provinces.⁴⁵ Mpumalanga premier and regional ANC chair **David Mabuza** has reportedly distanced himself from Dlamini-Zuma and is lobbying for Mkhize as a "unity candidate".⁴⁶

*"Mkhize is another great survivor in the ANC, he was a backer of Zuma against [former president] **Thabo Mbeki** [1999-2007] but has managed to avoid getting caught up in Zuma's scandals and has his own quite independent networks of influence."*⁴⁷

Delegates from provincial ANC structures make up the 4,000-person electorate that elects the next ANC president at the party's *lekgotla* in December. Mpumalanga is the second largest province in terms of delegates and its unilateral support for Mkhize could give him a real chance of success.⁴⁸ Holomisa alleges that Mkhize is the favourite candidate of Zuma, with Dlamini-Zuma a decoy to distract Ramaphosa's attention.⁴⁹ However, Mkhize has distanced himself considerably from Zuma since the 2014 election, and was instrumental in preventing him from appointing outsider **Des van Rooyen** as finance minister in December 2015.⁵⁰ Mkhize also reportedly has support from the business community who view him as a level-headed pragmatist.⁵¹

Mkhize's position is hard to fathom. He has made no secret of his desire to run for ANC president and has also publicly criticised Zuma over state capture. However, both Zuma and Mkhize are canny enough to see that a renewed alliance could allow Zuma to continue to wield power while Mkhize improves business confidence and lays the foundations for economic recovery. As KZN premier from 2009 to 2013, Mkhize has the relevant experience to govern. He also had a reputation for competence as the provincial health minister in KZN from 1994 to 2004. In both these positions he was in close contact with Zuma who worked to broker agreements with the **Inkatha Freedom Party (IFP)** in KZN in the 1990s and then supported Mkhize's election to the premiership as ANC president in 2009. Both Dlamini-Zuma and Ramaphosa have reportedly offered the deputy presidency job to Mkhize in order to coopt his support for their respective campaigns. With the support of Mpumalanga, Mkhize would be in a position to play the role of kingmaker if he came third.

⁴² Daily Maverick, 10 Oct 2017.

⁴³ Daily Maverick, 10 Oct 2017.

⁴⁴ Daily Maverick, 10 Oct 2017.

⁴⁵ Daily Maverick, 10 Oct 2017.

⁴⁶ Daily Maverick 10 Oct 2017.

⁴⁷ Source, journalist, Johannesburg

⁴⁸ Daily Maverick 11 Oct 2017.

⁴⁹ Daily Maverick 10 Oct 2017.

⁵⁰ Daily Maverick 11 Oct 2017.

⁵¹ Daily Maverick 11 Oct 2017.

Planner

May 2019: Next presidential election

17 Dec 2017: ANC *lekgotla* to determine the new president of the party.

30 Nov 2017: Deadline for Jacob Zuma to deliver his submissions to the National Prosecuting Authority on the 783 charges of corruption against him.

25 Oct 2017: Malusi Gigaba gives his first Medium Term Budget Statement.

Chronology

20 Oct 2017 **Johannesburg (South Africa)** *Reuters*. The **National Prosecuting Authority** gives President **Jacob Zuma** until 30 November to complete and deliver his submissions in relation to 783 corruption charges made against him;

19 Oct 2017 **(South Africa)** *Financial Times*. **United Kingdom** chancellor of the exchequer **Philip Hammond** contacts the **Financial Conduct Authority**, the **Serious Fraud Office** and **National Crime Agency** to probe possible ties between **HSBC** and **Standard Chartered** and the **Gupta** family;

19 Oct 2017 **Johannesburg (South Africa)** *Business Day*. The treasury appoints **Johannes Bhekumuzi Magwaza** new chairperson of state-owned **South African Airways**, replacing **Dudu Myeni**;

17 Oct 2017 **Pretoria (South Africa)** *Business Day*. Zuma reshuffles his government cabinet, appointing **David Mahlobo** energy minister, **Mmamaloko Kubayi** communications minister, **Bongani Thomas Bongo** state security minister, and **Ayanda Dlodlo** home affairs minister;

10 Oct 2017 **Johannesburg (South Africa)** *Bloomberg*. **McKinsey & Co** says it will repay \$73m in consulting fees to state-owned **Eskom Holdings SOC Ltd**, but only if a court finds that Eskom acted illegally when making the payments;

9 Oct 2017 **Johannesburg (South Africa)** *Bloomberg*. **Sasol Ltd** abandons plans to sell R13 billion (\$950m) of shares to meet debt obligations;

6 Oct 2017 **Johannesburg (South Africa)** *Financial Times*. Finance minister **Malusi Gigaba** orders a probe into claims of irregularities at state-owned pension fund manager, the **Public Investment Corp**;

5 Oct 2017 **Johannesburg (South Africa)** *ESI Africa*. **Exxaro Resources Ltd** signs a 10-year coal export transportation deal with state-owned **Transnet SOC Ltd** for transportation of 7.8 million tonnes of coal;

3 Oct 2017 **Pretoria (South Africa)** *Business Day*. CEO of the **Independent Regulatory Board for Auditors**, **Bernard Agulhas**, says that he met with **KPMG** executives and that the investigation into the firm's conduct in dealing with **Gupta** family-owned companies will continue;

2 Oct 2017 **Johannesburg (South Africa)** *Financial Times*. **South African Reserve Bank** (central bank) governor **Lesetja Kganyago** warns that **KPMG** must do more to salvage its reputation;

29 Sep 2017 **Pretoria (South Africa)** *Business Day*. Finance minister **Malusi Gigaba** approves a R3 billion (\$220m) bail out for state-owned **South African Airways**;

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