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Jacob Zuma (2009-2018) resigns as president of South Africa after the African National Congress (ANC) national executive committee (NEC) recalls him. South African Police Service (SAPS) officials raid the offices of the Free State Provincial government for documents in the office of the premier and agriculture department relating to the Estina dairy project. State-owned enterprise Eskom's new acting CEO, Phakamani Hadebe, presents the company's much-delayed financial results, prompting United States-based ratings agency, Fitch Ratings Inc, to downgrade its long-term bonds to junk debt or 'BB-'. Richard's Bay Coal Terminal (RBCT) announces that coal exports increased to a record high of 76.47 million tonnes in 2017, up from 72.6 million tonnes in 2016.

Jacob Zuma resigns as president of South Africa

Jacob Zuma (2009-2018) resigned as president of **South Africa** late on 14 February.¹ Zuma's resignation came the same day the ruling **African National Congress (ANC)** national executive committee (NEC) recalled Zuma.² The recall technically meant that Zuma, as an ANC member, should resign as president to follow the wishes of the party, as former President **Thabo Mbeki** (1999-2008) did in 2008, although the ANC has no legal power to remove the president and Zuma could have chosen to try to delay his resignation. However, national assembly speaker **Baleka Mbete** rescheduled the opposition **Economic Freedom Fighter's (EFF)** motion of no-confidence to 15 February, forcing Zuma's hand to resign or likely be removed by parliament.³ Deputy-president and ANC president **Cyril Ramaphosa** becomes interim president until the national assembly elects a new president. Zuma's resignation comes after weeks of negotiations and political maneuvering to remove him peacefully, which finally culminated in the ANC recall on 14 February.

ANC secretary-general and reported Zuma ally **Ace Magashule** had announced earlier on 14 February that Zuma would be recalled and that Ramaphosa would give the state of the nation address on an undisclosed date prior to Zuma's resignation.⁴ The NEC had met on 12 February for a 13-hour long meeting to decide Zuma's fate. Ramaphosa and Magashule reportedly visited Zuma at 11pm to give him an ultimatum to resign or face a recall.⁵ Zuma reportedly refused to resign, which forced the ANC to recall him.⁶ According to NEC sources, Zuma was still asking "what he did wrong."⁷ Magashule noted in his announcement that the NEC is recalling Zuma because there cannot be two centres of power – one in **Luthuli House** (ANC headquarters) and one in the **Union buildings** (executive branch) – and noted that it was not because Zuma had done anything wrong.⁸ Zuma reportedly wished to remain as president for three months to preside over another **African Union (AU)** meeting and the **BRICS**⁹ summit, scheduled for July in South Africa.¹⁰ Magashule had stated in his announcement that the ANC

¹ News24, 15 Feb 2018.

² News24, 13 Feb 2018.

³ EWN, 14 Feb 2018.

⁴ News24, 13 Feb 2018.

⁵ News24, 13 Feb 2018.

⁶ News24, 13 Feb 2018.

⁷ News24, 13 Feb 2018.

⁸ News24, 13 Feb 2018.

⁹ Brazil, Russia, India, China, and South Africa

¹⁰ News24, 13 Feb 2018.

would still support Zuma and, thus, a vote of no confidence was likely to fail,¹¹ but the ANC NEC appears to have changed its mind on this issue, forcing Zuma to resign. ANC NEC members may have been unhappy with Zuma's interview with the **South African Broadcasting Corporation (SABC)** on 14 February after the announcement of his recall. In the interview, Zuma stated that he had not wished to recall Mbeki in 2008, which EFF leader and former **ANC Youth League** president **Julius Malema** disputed.

*"He never opposed it, he actively supported it and mobilised all of us to support the removal of Mbeki. [Cyril Ramaphosa] opposed it and **Gwede Mantashe** argued that instead of removing Mbeki, let's call early elections.... He [is] talking rubbish, [Cyril Ramaphosa] is the one who opposed it. Zuma told me that we should remove Mbeki because he can't work with him."¹²*

Zuma maintained that he had done nothing wrong, that ANC officials could not give examples of what he had done wrong,¹³ and that he was a victim in the process.¹⁴ While Ramaphosa denied meeting with Zuma after the interview, it is likely that Zuma's intransigence pushed many ANC members to agree with a vote of no-confidence, sealing Zuma's fate.

Zuma may also have resigned after the **Hawks**, South Africa's police investigative unit, raided the **Gupta** family's home in **Saxonwold** on 14 February, where they arrested one of the Gupta brothers as well as four Gupta associates.¹⁵ Political analyst **Mzukisi Qobo** said the raid was a message "...*simply to say, the law enforcement will be unleashed on you.*"¹⁶

Opposition parties, including the EFF and the **Democratic Alliance (DA)**, have asked that parliament be dissolved and new elections held following Zuma's resignation.¹⁷ Malema said Zuma's resignation is "*not a transition*":

"It's a swapping. From one corrupt to another. It's now their time to eat. It's just factionalism. Parliament must be dissolved after a motion of no confidence debate. We don't want Zuma. We don't want Cyril. We don't want the ANC. Dissolve parliament. Fresh elections."¹⁸

Magashule faces corruption charges as Ramaphosa removes Zuma allies

Outgoing **Free State Province** premier Ace Magashule, who delivered the announcement of Zuma's recall, is also under investigation for corruption. **South African Police Service (SAPS)** officials raided the offices of the Free State Provincial government on 26 January for documents in the premier's office and agriculture department relating to the **Estina** dairy project.¹⁹ The raid is part of a continuing crackdown on corruption, seemingly targeting officials allied to Zuma. Magashule has been implicated in the scandal.²⁰ The Estina dairy project allegedly received public money that was meant to benefit the local community, but was instead funnelled to bank accounts of supporters of Zuma, including **Atul Gupta**.²¹ Magashule's son, **Tshepiso 'Gift' Magashule**, previously worked for Gupta companies.²² Magashule, a Zuma ally, said on 26 January that he supported the investigations and that,

¹¹ News24, 13 Feb 2018.

¹² EWN, 14 Feb 2018.

¹³ Huffington Post, 14 Feb 2018.

¹⁴ Daily Maverick, 14 Feb 2018.

¹⁵ Sowetan Live, 14 Feb 2018.

¹⁶ Sowetan Live, 14 Feb 2018.

¹⁷ ENCA, 12 Feb 2018.

¹⁸ ENCA, 12 Feb 2018.

¹⁹ Reuters, 26 Jan 2018.

²⁰ Reuters, 26 Jan 2018.

²¹ Reuters, 26 Jan 2018.

²² Mail & Guardian, 26 Jan 2018.

*“...wherever there is corruption, the law must take its course... We will treat the **Vrede** dairy in that way.”²³*

Magashule had called on 26 January for Zuma to be able to complete his term, but it now appears that the NEC convinced him that Zuma had to go. Magashule compared the removal of Zuma with his own ascendancy to the Free State premiership, stating that he

*“...[doesn’t] want to talk as an individual now that the matter is before us as officials, but there is only one centre [of power] and that centre is the ANC. When I became chairperson in the Free State, **Beatrice Marshoff** was the premier. Marshoff finished her term. There were comrades who were in a rush for me to take over, we were left with two and a half years, but were advised: ‘Don’t be in a rush, let Marshoff finish her term. If you take this term you are not going to create a legacy. You inherit something in-between.’”²⁴*

Magashule may end up as another of the many Zuma allies Ramaphosa has removed since winning the ANC election in December. Ramaphosa’s list of dismissals includes Criminal Intelligence officer **Morris ‘Captain KGB’ Tshabalala**, on 29 January for allegedly defrauding the crime intelligence secret service account.²⁵ South African police minister **Fikile Mbalula** removed Zuma ally **Richard Mdluli** as Criminal Investigation divisional commissioner on 17 January (see *ARC Briefing South Africa January 2018*).²⁶ The government has also made widespread changes at state-owned power company, **Eskom**, which has been viewed as a tool to enrich Zuma and his allies (see *ARC Briefing South Africa January 2018*).²⁷

Fitch Ratings downgrades Eskom’s bond to ‘junk’ status

State-owned enterprise **Eskom’s** new acting CEO, **Phakamani Hadebe**, presented the company’s much-delayed financial results on 30 January, prompting United States-based ratings agency, **Fitch Ratings Inc**, to downgrade its long-term bonds to junk debt or ‘BB-’.²⁸ The finance minister, **Malusi Gigaba**, had earlier exacerbated Eskom’s crisis when he confirmed the state could not fund Eskom further.²⁹ A new board and its quick actions to restore governance may mitigate further downgrades.

Both Fitch and ratings agency **Moody’s** now rate Eskom bonds as ‘highly speculative’ which will increase Eskom’s borrowing costs on a planned R20 billion (\$1.6 billion) bond to meet its February debt obligations.³⁰³¹ Eskom’s finances show a decline in all financial metrics year-on-year: sales revenue fell 2% to R95.5 billion (\$7.9 billion), net profit-after-tax fell 34% to R6.3 billion (\$527m), while net finance costs increased by 53% to R10 billion (\$836m).³²

Eskom’s new chair, **Jabu Mabuza**, announced new corporate governance measures on 1 February. He gave staff with business contracts with Eskom ten days’ notice.³³ The board suspended former CEO **Sean Maritz** and former head of generation **Matshela Koko** on allegations of impropriety.³⁴

Hadebe said he is confident that *“Eskom can turn the corner. If we can deal with key challenges, Eskom will be in [a] totally different league.”*³⁵ The board confirmed that Eskom cannot afford the R1 trillion

²³ Reuters, 26 Jan 2018.

²⁴ Mail & Guardian, 26 Jan 2018.

²⁵ Times Live, 29 Jan 2018.

²⁶ Mail & Guardian, 18 Jan 2018.

²⁷ Fin24, 20 Jan 2018.

²⁸ Daily Maverick, 2 Feb 2018.

²⁹ EWN, 18 Jan 2018.

³⁰ Engineering News, 1 Feb 2018.

³¹ Business Day, 1 Feb 2018.

³² Daily Maverick, 2 Feb 2018.

³³ ESI Africa, 2 Feb 2018.

³⁴ Daily Maverick, 2 Feb 2018.

³⁵ Fin24, 30 Jan 2018.

rand (\$83 billion) nuclear energy deal that the ousted Eskom board and Zuma's ANC proposed.³⁶ Eskom plans to offer a debt-to-equity conversion to the **Industrial Development Corp (IDC)**, the **Development Bank of Southern Africa (DBSA)** and the **Public Investment Corp (PIC)**³⁷ to return to the domestic bond market in April, and to international markets in the second half of 2018, if it can obtain a clean audit by then.³⁸

However, domestic banks have little appetite for Eskom debt. **Jones Gondo**, a credit research analyst at **Nedbank Group**, said investors won't be tempted yet by Eskom debt:

*"Bond investors initially stopped supporting Eskom's funding package because of governance issues and qualified audits."*³⁹

That said, the yield on Eskom's bond, due in April 2026, is still relatively high, jumping 17 basis points on 30 January to 9.66%,⁴⁰ and is backed by government guarantees, which may attract investors willing to take the risk.

Cape Town faces credit downgrade due to water crisis

Cape Town (Western Cape Province) faces a credit downgrade due to its continuing water crisis, which would undermine municipal government's already poor finances.⁴¹ Moody's said the negative credit outlook was due to falling revenue due to dwindling water usage and increased spending on managing the crisis and water supply projects.⁴² Cape Town's last bond was issued in July 2017 and is rated Baa3, the lowest investment level and on par with South Africa's sovereign rating.⁴³ National opposition DA leader **Mmusi Maimane** requested a meeting with Ramaphosa on 29 January to discuss options to manage the water crisis.⁴⁴ The DA governs the Western Cape Province.

Richard's Bay Coal Terminal increases coal exports to record numbers in 2017

Richard's Bay Coal Terminal (RBCT) stated on 26 January that coal exports increased to a record high of 76.47 million tonnes in 2017, up from 72.6 million tonnes in 2016.⁴⁵ The increased coal exports are likely to continue as the R1.3 billion (\$108m) equipment upgrade is completed early in 2018, even though global consumption of coal has declined.⁴⁶ Coal exports are a larger earner of foreign currency for South Africa than gold.⁴⁷ The RBCT aimed to export 77 million tonnes in 2017 and was able to come close to this goal despite numerous port closures during poor weather.⁴⁸ According to RBCT chairperson **Nosipho Siwisa-Damasane**, the terminal *"lost 38 days in 2017 to weather which actually caused a queue at some point at the coal terminal."*⁴⁹

The increase in exports was due to the increased demand from **Asia**, which had an 81.6% share of all RBCT exports in 2017, up from 75% in 2016.⁵⁰ India, **Pakistan** and **South Korea** were the main buyers of the coal in Asia.⁵¹ Europe accounted for 10% of exports and **Africa** close to 8%, while **South**

³⁶ News24, 5 Nov 2017.

³⁷ Engineering News, 1 Feb 2018.

³⁸ Biznews, 1 Feb 2018.

³⁹ Bloomberg, 31 Jan 2018.

⁴⁰ Moneyweb, 31 Jan 2018.

⁴¹ Moneyweb, 29 Jan 2018.

⁴² Moneyweb, 29 Jan 2018.

⁴³ Moneyweb, 29 Jan 2018.

⁴⁴ News24, 29 Jan 2018.

⁴⁵ Reuters, 26 Jan 2018.

⁴⁶ The Guardian, 18 Dec 2017.

⁴⁷ Business Day, 29 Jan 2018.

⁴⁸ Reuters, 26 Jan 2018.

⁴⁹ Reuters, 26 Jan 2018.

⁵⁰ Reuters, 26 Jan 2018.

⁵¹ Business Day, 26 Jan 2018.

America accounted for the balance.⁵² RBCT CEO **Alan Waller** expects exports to reach 77 million tonnes in 2018.⁵³ The terminal has capacity to export 91 million tonnes per year.⁵⁴

Planner

May 2019: Next presidential election
 July 2018: South Africa hosts the BRICS summit
 March 2018: Gupta brothers expected to appear at Eskom inquiry
 21 Feb 2018: Finance minister to deliver 2018/2019 budget

Chronology

14 Feb 2018 **(South Africa)** *Sowetan Live*. President **Jacob Zuma** (2009-2018) resigns;

14 Feb 2018 **(South Africa)** *News24*. South Africa's investigative unit, the **Hawks**, raids the **Gupta** home in **Saxonwold**, arresting a Gupta brother and four associates;

14 Feb 2018 **(South Africa)** *News24*. The **African National Congress'** national executive committee announces that it is recalling Zuma;

14 Feb 2018 **(South Africa)** *M&G*. National assembly speaker, **Baleka Mbete**, reschedules vote of no confidence for 15 February;

12 Feb 2018 **(South Africa)** *News24*. ANC NEC meets for a marathon session to discuss the presidential transition, sending **Cyril Ramaphosa** and **Ace Magashule** to request Zuma to resign, but Zuma refuses;

5 Feb 2018 **Johannesburg (South Africa)** *News24*. ANC national working committee members are summoned to ANC headquarters, **Luthuli House**, in an indication that Zuma refuses to step down voluntarily;

4 Feb 2018 **Johannesburg (South Africa)** *Reuters*. African National Congress officials meet with President Jacob Zuma to discuss a transition to ANC president, Cyril Ramaphosa;

2 Feb 2018 **Welkom (South Africa)** *The Citizen*. **Sibanye-Stillwater** mining companies confirms that 955 mine workers were stuck underground after a power cut;

2 Feb 2018 **Cape Town (South Africa)** *Reuters*. Speaker Baleka Mbete agrees to a request from the **Economic Freedom Fighters** for a motion of no confidence in President Jacob Zuma to be held on 22 February;

31 Jan 2018 **(South Africa)** *The South African*. Cyril Ramaphosa's bodyguard is allegedly highjacked;

31 Jan 2018 **(South Africa)** *IOL*. **Fitch** downgrades state-owned power utility **Eskom's** credit rating to junk status;

31 Jan 2018 **(South Africa)** *ENCA*. **Steinhoff** reports its former CEO, **Markus Jooste**, to the Hawks police unit over suspected corruption;

31 Jan 2018 **(South Africa)** *Times Live*. Former **Eskom** executive, **Matshela Koko**, is suspended permanently due to unspecified charges against him;

31 Jan 2018 **(South Africa)** *Times Live*. Eskom's former CIO, **Sean Martiz**, is placed on

⁵² Business Day, 26 Jan 2018.

⁵³ Business Day, 26 Jan 2018.

⁵⁴ Business Day, 26 Jan 2018.

permanent suspension pending an investigation into allegations of impropriety;

30 Jan 2018 **(South Africa)** *Fin24*. Chair of the committee on public enterprises, **Zukiswa Rantho**, states that the Gupta's are scheduled to appear before the Eskom inquiry on 6 March;

30 Jan 2018 **(South Africa)** *ENCA*. Former **PRASA** CEO, **Lucky Montana**, appears before the Eskom parliamentary inquiry into state capture;

30 Jan 2018 **Addis Ababa (Ethiopia)** *CNBC Africa*. Zuma returns to South Africa from the **African Union** summit;

30 Jan 2018 **(South Africa)** *CNBC Africa*. Eskom acting CFO, **Calib Cassim**, announces that Eskom cannot afford a nuclear power station expansion;

30 Jan 2018 **(South Africa)** *Moneyweb*. Eskom releases its interim results, showing losses in all major areas;

30 Jan 2018 **(South Africa)** *Moneyweb*. Research group, **Viceroy**, claims that **Capitec Bank** is a 'loan shark' and its loan book is massively overstated, resulting in a drop in Capitec shares;

29 Jan 2018 **Cape Town (South Africa)** *Times Live*. Moody's reports that Cape Town's credit rating may be downgraded to junk status due to water crisis;

29 Jan 2018 **Cape Town (South Africa)** *News24*. **Democratic Alliance** leader, **Mmusi Maimane**, requests meeting with ANC president, Cyril Ramaphosa, to discuss joint plan to tackle the water shortage in Cape Town;

29 Jan 2018 **Johannesburg (South Africa)** *Fin24*. **Anglo American** sells its **New Largo** coal project to BBBEE-companies, **Seriti Resources**, **Coalzar** and the **Industrial Development Corporation** as it begins to exit South African coal;

26 Jan 2018 **Bloemfontein (South Africa)** *News24*. Police raid **Free State** provincial government offices, looking for documents relating to the **Estina** dairy farm scandal;