

## AFRICA RISK CONSULTING

### South Africa Monthly Briefing January 2023

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#### South Africa Summary 24 January 2023

*South Africa's energy crisis deteriorates, leading to consecutive days of Stage 6 loadshedding. In response, President Cyril Ramaphosa (2018-present) cancels his attendance at the World Economic Forum (WEF) in Switzerland. Public anger over loadshedding is exacerbated when the National Energy Regulator of South Africa (Nersa) approves a major electricity tariff increase. Regardless, it is clear loadshedding will persist throughout the year. The African National Congress (ANC) holds its Free State provincial conference during which Ramaphosa's preferred candidates are elected. The first trial related to state capture corruption begins at the Bloemfontein High Court (Free State). The case involves alleged fraud and corruption related to the awarding of a feasibility study by the Free State provincial government to a company connected to the controversial Gupta family. President Ramaphosa signs two new bills into law in order to strengthen South Africa's financial law enforcement in an effort to avoid the country from being greylisted by the Financial Action Task Force (FATF).*

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#### Loadshedding crisis dominates the start of 2023

South Africa's persistent energy crisis worsened at the start of the year. Thus far, every day of 2023 has been impacted by loadshedding, including the implementation of Stage 6 loadshedding once again on 11 January.<sup>1</sup> This was due to state-owned power utility **Eskom** facing severe capacity constraints after seven units tripped on 10 January. These disruptions occurred during a period when Eskom is particularly vulnerable to capacity constraints. Eskom is currently performing life-extending upgrades at the **Koeberg** nuclear power plant north of **Cape Town (Western Cape)**, meaning that the country's most reliable and efficient power plant is operating at 50% capacity.<sup>2</sup> Eskom will be permanently short 900MW of generating capacity – almost the equivalent of a stage of loadshedding – for the remainder of 2023.

The implementation of persistent Stage 6 loadshedding led to a widespread outcry, which forced President **Cyril Ramaphosa** (2018-present) to cancel his planned trip to **Davos (Switzerland)** to attend the **World Economic Forum (WEF)**.<sup>3</sup> This public anger was amplified by the fact that the **National Energy Regulator of South Africa (Nersa)**, on 12 January, authorised an 18.65% electricity tariff increase to come into effect on 1 April and a 12.74% increase for the 2024/2025 financial year.<sup>4</sup> Eskom had initially requested a 32% tariff increase for this year, claiming it desperately needs this sharp tariff increase to remain a going financial concern. The price increase will help Eskom pay off its substantial R400 billion (\$23.2 billion) debt and fund its ongoing reform programme. The increase in tariffs will also help reduce demand and bring some relief to the grid.

The sharp increase in electricity prices will hit South African citizens and businesses hard. It will also be a major driver of inflation in the coming months as it will increase the input costs for nearly every stage of the supply chain from producer to retailer and represent an 18.65% increase of a fundamental household expense.

The prospect of rising inflation has increased expectations that the **South African Reserve Bank (SARB)** (central bank) will increase interest rates in the coming weeks. SARB governor **Lesetja**

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<sup>1</sup> EWN, 11 Jan 2023.

<sup>2</sup> Cape Talk, 8 Dec 2022.

<sup>3</sup> EWN 16 Jan 2023.

<sup>4</sup> News24, 12 Jan 2023

**Kganyago** further fuelled this expectation when he commented on 17 January that he believes that there was room for additional interest rates hikes to target inflation.<sup>5</sup> The SARB has set an inflation target band of between 3% and 6%; inflation is currently around 7.5%.

The prospect of persistent loadshedding is having a negative impact on the economy. **Statistics South Africa (StatsSA)** announced on 17 January that the country's mining output declined by 9% year-on-year between November 2021 and November 2022.<sup>6</sup> This was predominantly due to disruptions caused by loadshedding. This has likely worsened in December and January due to the deteriorating energy situation. Similarly, there is a strong possibility that recent gains in the manufacturing sector will also reverse. The most recent edition of the **Absa Purchasing Managers' Index (PMI)** revealed that the PMI rose for a third straight month in December to reach 53.1 points.<sup>7</sup> This indicates positive sentiment and growth in the manufacturing sector; however, the latest edition of the PMI does not include the effects of the Stage 6 loadshedding in December and January. As such, the next edition of the PMI will likely reflect a negative turn in sentiment.

Despite Ramaphosa's decision to cancel his trip to Davos and hold several emergency meetings with the **National Energy Crisis Committee (NECOM)**, few tangible short-term solutions have been announced. In fact, NECOM and Ramaphosa have largely just doubled down on the July 2022 **Energy Action Plan**.<sup>8</sup> This plan was widely lauded when it was announced last year; however, most of the reforms and actions in this plan address loadshedding as a long-term threat – which it is – but do little to address the immediate challenge. For instance, the move to liberalise the energy market and allow for unlimited embedded renewable generation and storage will create a more sustainable and reliable energy sector in the long term. However, these new projects are taking time to develop and bring online. Notably, there are more than 9,000MW worth of generation projects currently in the development pipeline – enough to cover nine stages of loadshedding.<sup>9</sup> This includes both private and public projects.

The most promising new proposal is the introduction of so-called day-ahead trading. This will enable Eskom to procure any excess power from independent power producers (IPPs) for the following day.<sup>10</sup> This will allow it to be more responsive to energy demand and grid constraints. It will also ensure that any excess power can be sent into the grid. Previously this excess generation was being wasted due to the rigid nature of Eskom's procurement contracts with these IPPs. Such day-ahead trading will lay the foundation for a true energy exchange in the country.

The lack of imminent solutions was highlighted when Eskom chair **Mpho Makwana** commented on 22 January that Stage 2 and 3 loadshedding will likely be a consistent reality for the next two years. Under the current trajectory, it will take that long for the country's Energy Availability Factor (EAF) to reach a stable average of over 75%. This is believed to be the minimum level to ensure that loadshedding is no longer a possibility.

Loadshedding and its deleterious economic effects will be a permanent reality for the foreseeable future and there is a strong possibility that 2023 will be the worst year of loadshedding yet, beating 2022 which recorded over 3,200 hours of lost power impacting over 200 individual days.

### **ANC finally holds Free State elective conference...**

The ruling **African National Congress (ANC)** held its **Free State** provincial conference on 21 and 22 January during which it elected permanent provincial office bearers.<sup>11</sup> The results of the provincial conference have bolstered Ramaphosa's position atop the party as his supporters won all five senior provincial positions. The former convener of the interim provincial commission (IPC), **Mxolisi**

<sup>5</sup> CNBC Africa, 17 Jan 2023

<sup>6</sup> M&G, 17 Jan 2023

<sup>7</sup> BER, 6 Jan 2023.

<sup>8</sup> Engineering News, 23 Jan 2023.

<sup>9</sup> EWN, 21 Jan 2023

<sup>10</sup> News24, 23 Jan 2023

<sup>11</sup> News24, 21 Jan 2023

**Dukwana**, was elected as the new provincial party chairperson, defeating Free State premier **Sisi Ntombela**. Dukwana's slate not only secured all five of the provincial officer roles but also dominated the provincial executive committee (PEC).

These results mark a rapid decline in influence for former ANC secretary-general **Ace Magashule**. Prior to being elected as ANC secretary-general in 2017, Magashule had served as the party's Free State chairperson for almost 20 years. Magashule was the dominant political force in the province throughout this period. However, his preferred candidate, Ntombela, was unable to get elected to the PEC. Magashule's influence within the party has collapsed since he was suspended as secretary-general in 2021 after being charged with fraud, corruption and money laundering relating to suspicious contracts awarded during his time as provincial premier (2009-2018).

Dukwana's election potentially marks the start of a new era in Free State politics. However, the new chairperson faces an uphill battle in unifying the ANC in the province. The ANC in the Free State is a prime example of the factional divides which rive the party. In fact, the party structures in the province were governed by the IPC after the **Supreme Court of Appeal** ruled the 2018 elective conference null and void. Dukwana is likely to soon replace Ntombela as provincial premier in order to avoid two centres of power in the province. In this role, he is likely to increase the provincial government's cooperation with law enforcement agencies, which are investigating cases of state capture-related corruption in the province.

The results of the provincial conference have strengthened Ramaphosa's control over the ANC, leaving only the ANC's **KwaZulu-Natal** leadership as the major powerful element opposed to his leadership.

### ... as first state capture trial commences

The first state capture corruption case to make it to trial notably involves a suspect tender by the Free State provincial government. The trial of the eight people accused of fraud and corruption related to a project feasibility study awarded to **Nulane Investments** formally began at the **Free State High Court** on 23 January.<sup>12</sup> Nulane Investments was paid R24.9m (\$1.7m) to perform the feasibility study that ultimately led to the creation of the controversial R280m (\$16.2m) **Vrede Dairy Project** – which is itself at the centre of a major state capture investigation and impending trial. This project was meant to benefit rural farmers in the province but allegedly just funnelled state funds to companies associated with the politically connected **Gupta** brothers. Notably, **Atul** and **Rajesh Gupta** have also been charged in relation to the Nulane Investments case and are currently detained in the **United Arab Emirates (UAE)** fighting extradition to South Africa.<sup>13</sup>

The eight accused in the Nulane Investments trial include two former department heads from the Free State **Department of Agricultural and Rural Development** as well as well-known associates of the controversial Gupta family, **Iqbal Sharma** and **Ronica Ragavan**.<sup>14</sup> Sharma is also central to the state capture investigations into corruption at **Transnet** as well as the Vrede Dairy case itself. Ragavan is also facing charges for allegedly looting R107m (\$6.2m) from rehabilitation funds at the Gupta-owned **Optimum** and **Koornfontein** coal mines (**Mpumalanga Province**).<sup>15</sup>

The start of the trial is a major step as it marks an important point in the prosecution of those who were involved in state capture corruption. It is also expected to illustrate the strength of the **National Prosecuting Authority's (NPA)** case against the Guptas. The prosecution will reveal how effectively the NPA is building its prosecutions in state capture cases. The NPA has long indicated that the reason it has taken so long to take action and prosecute state capture corruption cases is the need to ensure that their cases are strong enough to ensure convictions. The upcoming trial will reveal the truth behind these statements.

<sup>12</sup> Daily Maverick, 23 Jan 2023

<sup>13</sup> News24, 8 Jun 2022

<sup>14</sup> Daily Maverick, 23 Jan 2023

<sup>15</sup> News24, 25 May 2022

The South African public has been clamouring for the prosecution and conviction of those accused of state capture for several years. These calls intensified during the **Commission of Inquiry into State Capture** where the extent of this criminality was revealed. If this trial results in the conviction and imprisonment of senior former government officials and high-profile figures such as Sharma and Ragavan, it will go a long way to alleviating public anger and rebuilding public faith in the NPA.

### **Anti-money laundering bills signed into law**

President Ramaphosa signed two new bills into law on 29 December, aiming to strengthen South Africa's financial law enforcement. These laws are the **Protection of Constitutional Democracy against Terrorist and Related Activities Amendment Act** and the **General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act**.<sup>16</sup> The legislation is a major part of the government's efforts to avoid the country from being greylisted by the France-headquartered **Financial Action Task Force (FATF)**. In 2019, the FATF raised concerns that South Africa's laws and regulations combatting money laundering and terrorist financing were insufficient. The organisation found that South Africa was partially compliant or noncompliant with 20 of the FATF's 40 recommendations and lacking in all 11 of the necessary measures to combat money laundering.<sup>17</sup>

Despite the FATF first raising these concerns in 2019, the government only submitted the first of its new bills intended to address this matter to parliament in August 2022. The FATF is set to adjudicate whether or not to greylist South Africa when it next meets in February. The government is hoping that the passing of the two bills will be sufficient to at least delay being greylisted.

Greylisting would have serious implications for South Africa's financial sector. South African banks would be faced with higher charges in managing banking relationships and relationships with infrastructure providers such as payment systems. This would increase operational challenges for South African businesses and investors. International institutional investors, who are prohibited by their risk policies from engaging with grey-listed countries, may be forced to divest from the South African financial sector.<sup>18</sup>

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<sup>16</sup> BusinessLive, 30 Dec 2022

<sup>17</sup> News24, 12 Oct 2022

<sup>18</sup> BLSA, 12 Oct 2022

## Planner

9 Feb 2023 **Cape Town (South Africa)** State of the Nation Address;  
 Feb 2023 **Cape Town (South Africa)** Annual Budget Speech;  
 2024 **(South Africa)** General election;

## Chronology

23 Jan 2023 **Bloemfontein (South Africa)**. *Daily Maverick*. The first state capture-related trial begins in the **Free State High Court**, involving those accused of fraud and corruption related to a R24.9m (\$1.4m) feasibility study that the **Free State** government contracted **Gupta-connected Nulane Investments** to conduct;

23 Jan 2023 **Pretoria (South Africa)** *News24*. **Office of the Public Protector** announces that it has concluded its investigation into matters surrounding the break-in at President **Cyril Ramaphosa's Phala Phala** farm and the subsequent response;

23 Jan 2023 **Pretoria (South Africa)** *Daily Maverick*. International relations minister **Naledi Pandor** meets with her **Russian** counterpart, **Sergey Lavrov**, in **Pretoria** and defends South Africa's decision to host naval exercises with Russia in February;

23 Jan 2023 **Pretoria (South Africa)**. *News24*. The **Pretoria High Court** begins hearing the petition of the opposition **Democratic Alliance (DA)** to declare the ruling **African National Congress' (ANC)** policy of cadre deployment illegal;

21 Jan 2023 **Bloemfontein (South Africa)** *News24*. Ruling **African National Congress (ANC)** holds its **Free State** provincial elective conference;

19 Jan 2023 **Pretoria (South Africa)** *M&G*. The opposition **Democratic Alliance (DA)** confirms that it has filed papers with the **High Court** to oppose the proposed 18.65% electricity tariff increase;

19 Jan 2023 **Johannesburg (South Africa)** *EWN*. **Johannesburg High Court** postpones former president **Jacob Zuma's** application to privately prosecute President **Cyril Ramaphosa** until 26 May;

18 Jan 2023 **Durban (South Africa)** *News24*. The **Inkatha Freedom Party (IFP)** announces plans to stage a march protesting loadshedding on 3 February;

17 Jan 2023 **Davos (Switzerland)** *CNBC Africa*. In an interview on the sidelines of the **World Economic Forum (WEF)**, **South African Reserve Bank (SARB)** (central bank) governor **Lesetja Kganyago** states that he believes there is room for further interest rate increases to combat inflation;

16 Jan 2023 **Johannesburg (South Africa)** *EWN*. President **Cyril Ramaphosa** cancels his planes trip to the **World Economic Forum** in **Davos (Switzerland)** to personally address the ongoing loadshedding crisis;

14 Jan 2023 **Johannesburg (South Africa)** *EWN*. Opposition **Democratic Alliance** announces plans to stage a march to the **African National Congress (ANC)** headquarters, **Luthuli House**, in Johannesburg on 25 January to protest loadshedding;

13 Jan 2023 **Johannesburg (South Africa)** *Daily Maverick*. Minor opposition party **Economic Freedom Fighters (EFF)** files papers with the **Constitutional Court** challenging Parliament's vote to not adopt the **Phala Phala** panel's findings;

12 Jan 2023 **Durban (South Africa)** *News24*. **National Energy Regulator of South Africa (Nersa)** approves an 18.65% increase in electricity tariffs, effective from 1 April;

11 Jan 2023 **Washington D.C. (United States)** *Daily Maverick*. In its annual **Global Economic Prospects** report, the **World Bank** revises its economic growth forecast for **South Africa** in 2023 down to 1.4% from 1.5% of GDP;

8 Jan 2023 **Johannesburg (South Africa)** *Daily Maverick*. Health officials confirm the presence of the **Covid-19 Omicron** subvariant **XBB.1.5** in South Africa, which is considered highly contagious and has been nicknamed by foreign media as the “*Kraken*” variant;

8 Jan 2023 **Mangaung (South Africa)** *News24*. Ruling **African National Congress (ANC)** holds its 111<sup>th</sup>-anniversary commemorations;

7 Jan 2023 **Johannesburg (South Africa)** *News24*. Outgoing state-owned energy utility **Eskom** CEO **Andre de Ruyter** reveals he survived an apparent assassination attempt involving cyanide on 13 December;

6 Jan 2023 **Johannesburg (South Africa)** *BER*. The **Bureau for Economic Research (BER)** releases the **Absa Purchasing Managers’ Index (PMI)** revealing that the PMI rose for a third straight month in December to reach 53.1 points, indicating ongoing growth in the manufacturing sector;

1 Jan 2023 **Pretoria (South Africa)** *News24*. Visa-free travel for **Kenyan** nationals to South Africa comes into effect;

29 Dec 2022 **Johannesburg (South Africa)** *Business Standard*. **India**-based fast-moving consumer goods company **Tata Consumer Products Ltd (TCPL)** acquires a 23.3% stake in **South Africa**-based **Joekels Tea Packers** for \$5.2m;

28 Dec 2022 **Johannesburg (South Africa)** *IOL*. **Fikile Mbalula**, secretary general of the ruling **African National Congress (ANC)**, announces that President **Cyril Ramaphosa** is considering a cabinet reshuffle in 2023;

28 Dec 2022 **Johannesburg (South Africa)** *News24*. Former president **Jacob Zuma** plans to oppose President **Cyril Ramaphosa**’s urgent application to interdict against Zuma’s private prosecution;

28 Dec 2022 **Johannesburg (South Africa)** *Reuters*. **South African Revenue Service (SARS)** reports a trade surplus of \$471m in November recovering from a \$314.1m deficit in October;

### About Africa Risk Consulting:

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