

## From hope to despair... and back again

"South Africa is a country where you hope on Monday and despair on Tuesday," Alan Paton said in 1985. That was still true in August 2016.

The elections at the beginning of August inspired some "Monday hope". They were a resounding success: overwhelmingly peaceful, well organised, real change affected, results accepted by the losers. These successes were all the more impressive for the dire predictions that preceded them: there would be violence, it would not be free and fair, losers would not accept the result...none of that materialised.

In the three metros where the ANC lost control, power passed to the newcomers. Some ANC councillors, now in opposition, tried to behave like the EFF and disrupt proceedings, but that went nowhere. New councils were constituted, mayors and speakers elected, and power shifted.

The financial markets looked at this and cheered. That most sensitive barometer of politics and economics, the ten-year bond rate, moved from a high of 9.48% in May to a low of 8.46% on Friday 19 August. 102 points is a massive decline and very positive for the economy. In November 2015, before Nenegate, the rate hovered at around 8.3% - so 8.4% after the elections was almost at pre-Nenegate levels.

### "Despair on Tuesday"

Then on Tuesday evening 23 August reports erupted that the Hawks were going after Finance Minister Pravin Gordhan once again. The long rate shot up to 9.02% - obliterating in one day half of the progress of the previous three months.

Apart from the bond market's (and the currency market's) disapproval, there was also enormous pushback from civil society. Min Gordhan stared down the Hawks, and by Friday 26 August it was clear that the tide had turned. The long rate declined to 8.95%. The mood improved further during the following two weeks and on Friday 9 September the rate closed at 8.75%. That was still some 30 points higher than after the elections.

### Third attack

This was the third attack on the Treasury since December 2015.

The first was the dismissal of Mr Nene in December 2015; the second was the 27 questions sent by the Hawks to Minister Gordhan just before the February budget in 2016; and the third was this August summons to appear before the Hawks. The August summons is all the more incomprehensible, given that Hawks chief Lt-genl Ntlemenza wrote to Min Gordhan's lawyers on 20 May: "...the minister is not a suspect in this investigation...".

Two golden threads run through these three attacks. Firstly, they constitute attempts to gain more control over Treasury. Secondly, the enormous pushback from society at large thwarted all three. When the news of the summons to the Hawks broke on the evening of 23 August, I texted a friend: "This one will be settled by open society forces." So it was.

### Why?

Many analysts (e.g. Richard Calland, Financial Times, 9 September 2016) claim that these attacks are for nefarious reasons which boil down to Mr Zuma wanting to get his hands on Treasury. This has become the dominant narrative and it hangs around Mr Zuma like an albatross. He is unlikely to shake it.

There is perhaps also a second reason: Mr Zuma and some colleagues want to manage budgets the way Mr PW Botha used to, i.e. with wide discretion for the Executive. This thing that one has to plan expenses, budget, stick to expenditure targets ... that is really too constraining.

The classic example from Mr Botha's tenure was his unilateral announcement in 1988, whilst his Finance Minister was out of the country at an IMF meeting (of all ironies!), of an out-of-budget salary increase for civil servants. At the time the country was heading for local government elections and Mr Botha's party was facing losses. The bill came to R4 billion – a massive amount in 1988. Asked on TV where the money would come from, Mr Botha famously replied that the Minister of Finance would attend to that when he was back in the country.

Three decades later in 2015 Mr Zuma said on the side-lines in Davos that nuclear agreements had been signed and "The Finance Minister, once he speaks, he must be able to say, 'Here is the money for the programmes the President talked about'...(my underlining)." Want to spot a difference?

The fight around Treasury is thus also a battle of different world-views. Transparent, credible budgets; firm control on spending via strict procedures in the Public Finance Management Act; spending not because the President wants it but because it was agreed through democratic process...these very modern and best-practice arrangements developed by Treasury do not sit well with politicians in the traditional mould – be they White Afrikaans or Black Zulu.

### Where to now?

Mr Zuma's term in office runs until about May 2019, 33 months from now. Could there be a fourth attack on the Treasury over the next 33 months? Yes. Would there once again be a massive push-back from what I like to call open society forces? Yes, definitely.

So it will be backward and forward, a push and push-back for the next 33 months.

### New kid on the block

In this battle of world-views a new institution, the obscure Office of the Chief Procurement Officer, is playing an unintended but critical role. It is a product of recommendations of the National Development Plan and was established in 2012/13. Kenneth Brown became the first CPO in the second half of 2013 – a mere three years ago.

The Office is having an impact already by doing simple but effective things like standardising plans and specifications for building schools, resulting in the cost of school buildings coming down and over-payment being curtailed. A Central Supplier Database of approved suppliers has been developed and since September 2015 all procurement must be done through them. Procurement audit teams have been put in place.

The Office focuses on the millions of little purchases that make up the bulk of public procurement. A million saved here, a million saved there and soon you talk real money. Their target is to save R25 billion per year by 2019, about 5% of the State's procurement spend. That should be achievable.

In the February budget this year Minister Gordhan announced that the Office would extend its activities to procurement by State-Owned Enterprises and that all contracts above R10 million would be reviewed to ensure value for money. That review started in June, and it led to the investigation of contracts at SAA and Eskom. The rest, as the saying goes, is history.

A critical turning point was when the Chief Procurement Officer went public saying Eskom was lying about some Gupta coal contracts and not being helpful in the investigation. Eskom lashed back, but soon capitulated and supplied the documents the Office wanted. Watch this space.

## So What?

- The good progress of the elections was undone by the third attack on Treasury. Long rates that had been drifting downward to levels they had reached before Nenegate shot back up.
- The clash around Treasury is in no small way about different world-views on modern treasury management. This tension will remain for the rest of Mr Zuma's term in office and there will be a constant push and push-back.
- A strong new institution has emerged in the form of the Office of the Chief Procurement Officer. Its successes and purposeful action will help tilt the balance in the clash of different world-views.
- The establishment of the Office proves that some critical NDP recommendations are being implemented (the subject of a separate newsletter).
- To paraphrase Alan Paton, the consistent attacks on the Treasury are a source of despair, the decisive thwarting of those attacks by civil society, a source of hope. Roll on next week.